

**University of Pennsylvania  
The Wharton School  
Department of Management**

***DRAFT SYLLABUS OF DECEMBER 15, 2007***

**MGMT 715** (Political Environment of the Multinational Firm)

**Spring 2008**

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MW 1:30pm&3:00pm in TBD  
Office Hours:  
MT11:00-12:00  
and by appointment

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**Objectives:**

This course examines the challenge multinational enterprises face in maximizing shareholder returns in international operations in which potential value creation is contingent upon support from political or social actors. Using the case method to examine instances of conflict and cooperation between multinational enterprises, host country governments, multilateral agencies and non-governmental actors in multiple regions and industries, we will develop a better understanding of best practices in external stakeholder relations. We will also discuss the international political and macro-economic consequences of multinational enterprises' choices regarding their external stakeholder relations strategies.

**Outline**

We begin with a brief introduction into the course and into the history of political and social risk management. Throughout the course, we rely largely on a case-based approach using the experiences of actual firms and governments drawn from the widest possible set of geographic regions. As we proceed through the analysis of these cases, we will incorporate in our discussions real time developments at the intersection of international relations and international strategy such as trade disputes, financial crises, acts of political or regulatory expropriation of assets or revenue streams, international coordination by governmental and non-governmental organizations for economic, political, military or social purposes. We will make use of custom software (GIST, Geopolitical Influence & Strategy Tool) developed by the AI West Learning Lab to identify likely political and social risks and to compare the efficacy of different means to influence the political and social environment.

Specific cases we consider begin in national policymaking institutions and then expand outwards to intergovernmental organizations and complex public-private-social partnerships.

*How should managers of AES-Telasi battle corruption, Russian influence and nonpayment in the electricity distribution market of the Republic of Georgia?*

*How should BRE-X proceed in the development of its Indonesian gold mine when threatened with de facto expropriation?*

*How can Echelon (US) influence the process of technical standard setting in the EU?*

*How can creditors maximize their returns on their investments in Thai Petrochemical? Does the intervention of multilateral agencies in support of bankruptcy reform help their interests?*

*How should IKEA respond to accusations regarding the use of child labor?*

*How should Gabriel Resources respond to local opposition to their development of a gold mine in Romania?*

One integrative case and a discussion of future scenarios and practical tools conclude the course

*Which US oil firm chose the right entry strategy for Russia?*

### **Assessment:**

#### **KEY DATES**

Monday, March 24 5:00pm – Sign-ups for Discussion Question Posts Open in eRoom

7am on date of classes for which you have signed up – Upload discussion question posts to your assignment submissions folder in eRoom

Monday, April 21 5:00pm – Post team paper outlines to team folders in eRoom

Thursday, May 8 Noon – Post final version of team papers to team paper folder

#### **CONTENT**

Regular attendance is required. Students who fail to regularly attend the class will not receive course credit. Assessment for regularly attending students will be based on individual preparation of:

- (1) overall class participation (30%)
- (2) answer the ***bold italicized*** discussion question from one case (20%)
- (3) team paper outline (1 X 5%)
- (4) team (**NO** team > 4 members) paper (1 X 45%)

Note that there is NO MIDTERM OR FINAL EXAM.

These six components are discussed in more detail below.

(1) I expect a high-level of interactive and integrative discussion in every class. Please come to class prepared to engage with your peers. To help you I have included discussion questions for each class. We will also employ small group discussions, debates, role play exercises and other activities. You are also encouraged to post in the Current Events of Interest to the Class folder in WebCafe and/or bring up real time political or strategic events of relevance to the class. I will also cold call students.

(2) You should address in 2-3 single-spaced pages the ***discussion question(s) in bold italics*** for a given class. You are free to discuss the questions with your classmates or peers but you must each write up your submissions independently. The post should not overly emphasize facts from the readings but rather draw upon relevant material in the readings to address the points highlighted below.

Your posts should

- a) Analyze the strengths and weaknesses of at least two feasible strategic options to improve upon the situation presented in the focal case reading
  - i. an understanding of the preferences of the key actors in the case and their intensity;
  - ii. the national or international decisionmaking structure that leads to the translation of these preferences into policy outcomes; and
  - iii. the likely reactions of key market and political actors to any strategic choice.
- b) Make a recommendation based on that analysis of what the firm/manager should do. Make sure that you help the reader understand the assumptions or weights that led you from your status quo scenario and your analysis of the strengths and weaknesses of options to this particular recommendation.
- c) Incorporate within your analysis a refutation of the alternative strategies
- d) Succinctly summarize the key takeaway of the case (i.e., what lessons can other firms facing similar challenges take from your analysis and recommendations?)

Both of your posts should be formatted as with 1" margins in a 12-point times new roman font. Your submissions should be received before 7am on the date of the case discussion. You must sign up on web café on a first come first serve basis after the second class for your case write-ups.

(3) Team paper outlines should highlight the key components of the paper's structure as detailed below in (4). More thorough outlines elicit more helpful feedback. It is insufficient to merely identify a topic in your outline. You need to provide me with meaningful guidance as to the substance of your paper.

(4) Teams consisting of NO MORE THAN FOUR students (preferably combining individuals from different majors) will identify a corporation that faced a dilemma relating to the management of external stakeholder relations (examples below) and draft a 15-20 page paper on the problem faced and strategy pursued by its management. In your team's own words, you will identify and discuss the nature of the conflict between the corporation, the host country governments and its constituents including any relevant multilateral agencies or non-governmental actors; provide detail on the specific conflict, assess the contending forces faced by the firm, detail the company's strategy (or strategic options) and assess the choices made (or make a recommendation). Papers should be written in a clear and concise manner and integrate material from multiple primary and secondary sources including local press accounts, company documents, local analysis, .... Text should be double-spaced with 1" margins in a 12-point times new roman font. Referemces, tables, charts and figures do not count towards the page limit but should be used only when they complement the text.

The six broad types of dilemmas typically examined by students are:

- 1) Responding to corruption in national politics
- 2) Mitigating political and regulatory risk in politically salient investments
- 3) Responding to an international trade or investment dispute or the formation/extension of a new free trade agreement
- 4) Responding to an international liquidity or solvency crisis;
- 5) Intellectual property protection, standards or other international legal issues
- 6) Human rights concerns or unilateral / multilateral sanctions; or other global values

Scenarios other than those described here may be pursued with the prior consent of the instructor.

Eight basic components should be found in the submitted 15-20 page paper. Page lengths described for each component are suggestions of a normal distribution across sections only and should not be considered binding if your topic merits relatively more/less detail in a given section. However, the complete paper must fall within the page limit and formatting requirements described above.

- 1) An unnumbered title page that identifies all team members and contains an executive summary
- 2) An introduction that identifies a specific company and a specific strategic choice that it faces in a specific policymaking environment that clearly involves a conflict between the corporation and a set of political and/or social actors (1 page);
- 3) An elaboration upon the conflict in a general context but with examples or emphasis upon the particular country and industry setting that you have chosen (2-3 pages);
- 4) A brief background on the company and context that you have chosen highlighting facts relevant to the case discussion (2-3 pages);
- 5) Analyze the strengths and weaknesses of at least two feasible strategic options to address that conflict drawing upon (4-6 pages)
  - i. an understanding of the preferences of the key actors in the case and their intensity;
  - ii. the national or international decisionmaking structure that leads to the translation of these preferences into policy outcomes; and
  - iii. the likely reactions of key market and political actors to any strategic choice.
  - iv. the incorporation of this information into scenarios constructed using the Geopolitical Influence and Strategy Tool (GIST) that compare alternative strategies to influence the current formal or informal policymaking structure and likely policy outcome (online with Figures incorporated in your manuscript);
- 6) Make a recommendation based on that analysis of what the firm/manager should do or have done. Make sure that you help the reader understand the assumptions or weights that led you from your status quo scenario and your analysis of the strengths and weaknesses of options to this particular recommendation. It should be clear to the reader of this section why you did not choose the second best strategic option. (1-2 pages).
- 7) Succinctly summarize the key takeaway of the case (i.e., what lessons can other firms facing similar challenges take from your analysis and recommendations?) (1 page)
- 8) A list of references that includes both secondary (newspaper or magazine) **AND** primary (company newsletter, press release, annual report, company internet site or conversations with individuals familiar with the corporate response to the strategic choice) sources. Please provide enough information so that a reader can easily find the reference.

Examples of exceptional papers will be provided on Wharton Web Café.

**PLEASE NOTE THAT ANY QUOTATIONS OF LONGER THAN A PHRASE MUST BE EXPLICITLY NOTED IN THE TEXT. INSUFFICIENT ATTRIBUTION TO EXTENDED QUOTATIONS FROM EXTERNAL SOURCES WILL RESULT IN FORMAL CHARGES OF PLAGIARISM TO THE OFFICE OF STUDENT CONDUCT.**

### **Feedback**

I encourage anyone with specific or general questions regarding the course structure, content or discussions to drop by during my office hours or by appointment or to contact me via email or phone. There will be a detailed mid-course evaluation whose results I will present in class. If desired, we can form a quality circle to anonymously gather additional feedback.

## 1. Course Introduction (March 17)

### Readings

#### *Background*

Is Foreign Infrastructure Investment Still Risky? (Lou Wells, Harvard Business Review, Sept-Oct. 1995, Reprint 95511)

Managing Risk in an Unstable World (Ian Bremmer, HBR OnPoint #1126)

How Managing Political Risk Improves Global Business Performance (PWC-Eurasia Report, 2007)

Assessing the Impact of Societal Issues (McKinsey Quarterly, November 2007)

Corporate Social Responsibility as Risk Management: A Model for Multinationals (Kytel, Beth and Ruggie, John, John F. Kennedy School of Government Corporate Social Responsibility Initiative Working Paper No. 10, March 2005)

### Discussion Questions

1. How important is political and social risk management to multinational strategy? As compared to what?
2. Is political and social risk management becoming more or less important? Why?
3. Try to describe the process that generates political or social risk?
4. How can firms identify the risk of a potential political or social risk that reduces their profitability or a potential political or social opportunity that increase their profitability?
5. How can firms insulate themselves from the impact of political and social risks and/or promote political and social opportunities?
6. What are the challenges to the implementation of such political and social influence strategies?
7. Identify a firm that in your opinion mismanaged politics or external stakeholder relations (or identify a class of political problems / external stakeholders with which you perceive firms to have difficulty.)
8. ***What tools from other Wharton courses (e.g., financial options, marketing, management, negotiations, legal studies, business and public policy, ...) OR your work experience / prior education would you currently use to answer the following questions regarding this firm's experiences:***
  - a. *What did the firm not understand?*
  - b. *What should the firm have done differently?*

## 2/3. Power Trip or Power Play: AES-Telasi (March 19-24)

### Readings

#### *Background*

Managing Political Risk and Opportunities (Witold J. Henisz and Bennet A. Zelner  
*draft manuscript under revision for resubmission to Harvard Business Review*)  
[TO BE DISTRIBUTED IN WEBCAFE]

#### *Case Discussion*

Power Trip or Power Play: AES-Telasi (A) (Witold J. Henisz and Bennet A. Zelner)

### Discussion Questions

1. Did AES-Telasi face substantial policy risks? Why?
2. Who were the key political and social actors for Michael Scholey in the Georgian environment? Who were his allies? Opponents?
3. Who were the key political and social actors for Michael Scholey in the international environment? Who were his allies? Opponents?
4. What strategy did AES adopt to deal with this divided political and social environment?
5. ***What were the shortcomings of the strategy of Michael Scholey towards the policy risks faced by AES-Telasi? What alternative strategy would you recommend that Ignacio Iribarren implement upon his arrival?***

**Sign-up for Discussion Questions Posts Opens in WebCafe Wednesday, March 24 at 5:00pm.**

#### **4. Political Power and Strategy I: Corruption in Indonesian Mining (March 26)**

##### Readings

###### *Background*

Corruption and Development (C. Gray & D. Kaufman, Finance & Development, 3/1/98, pp. 7-10)

###### *Case Discussion*

Busang: River of Gold (HBS Case 9-798-002)

##### Discussion Questions

1. How does corruption affect the development of the private sector?
2. How is corruption related to the structure of a nation's political institutions?
3. How is corruption related to informal norms within a country?
4. What are the "rules of the game" in Indonesia's mining sector at the time of the case? Has Bre-X played by the rules?
5. Has Bre-X developed relationships in Indonesia? Does it need to? How?
6. ***How should David Walsh respond to Minister Sudjana's announcement? What options are open to him and to Bre-X?***

#### **5. Political Power and Strategy II: The European Union and Standards (March 31)**

##### Readings

###### *Background*

European Monetary Union (HBS Case 9-799-131)

The Impact of U.S. Lobbying Practice on the European Business-Government Relationship  
(David Coen, California Management Review 41(4): 27-44; CMR Reprint 155)

###### *Case Discussion*

Echelon in Europe (Graduate School of Business, Stanford University Case P-22)

Browse the website [http://echelon.com/support/documentation/stories\\_papers.htm](http://echelon.com/support/documentation/stories_papers.htm)

### Discussion Questions

1. What are the goals or objectives of the European Union?
2. Describe initiatives by the European Union other than tariff and subsidy reductions that have the purpose of achieving these goals. Why are these important?
3. Should the EU be able to set standards that are binding upon individual nation-states? Why or why not?
4. How will the enlargement of the EU in 2004 influence the scope of EU authority? Why is it so contentious?
5. ***Should Echelon maintain its defensive blocking strategy? Why or why not? If not, how should it seek to influence the adoption of an open architecture policy at the EU level?***

### **6/7. International Regimes & Strategy: Conditionality and the East Asian Crisis (April 2-7)**

#### Readings

##### *Background*

The WTO Through The Lens of International Regime Theory (Erick Duchesne, Canadian Department of Foreign Affairs and International Trade, Trade Policy Research Working Paper #03, excerpt)

<http://www.dfait-maeci.gc.ca/eet/research/TPR-2004/TPR-2004-03-en.asp>

(accessed 12/5/06)

Can the IMF play Supercop? (James Smalhout, *Euromoney*, September, 1998, pp. 90-93)

Prevention is more complex than cure (James Smalhout, *Euromoney*, Sept. 2001, pp. 320-325)

Stinging Critiques of IMF, US Treasury (Chakravarthi Raghavan, Third World Network

<http://www.twinside.org.sg/title/sting.htm> Accessed 11/29/05)

##### *Case Discussion*

Thai Petrochemical Industry: Negotiating Debt after the East Asian Crisis (Witold Henisz and Aneesha Capur)

### Discussion Questions

1. Why do international regimes such as the WTO or IMF emerge?
2. Why do international regimes such as the WTO or IMF encounter such opposition?
3. Given this opposition, how can international regimes change domestic policy outcomes?
4. Who or what is to blame for the depth of the recessions/depressions in Thailand and the rest of East Asia?
5. How is reaction of the International Monetary Fund and the World Bank perceived by lenders, foreign investors, local entrepreneurs, local conglomerates, and local consumers?
6. Why is legal reform – particularly reform in the bankruptcy law – so important to international investors and the international financial institutions?
7. Are the bankruptcy reforms adopted by the Thai government sufficient? Why or why not?
8. ***Should creditors undertake a***
  - a. *Debt restructuring with Prachai and current TPI management as planner*
  - b. *Debt restructuring with an external planner—most likely, Effective Planner, the creditors' steering committee nominee after the disagreements with Prachai*
  - c. *strategic partnership with a local company to restructure and manage TPI*
  - d. *Sale of TPI*

***Why or on what would it depend?***

## 8/9. Limiting Political & Corporate Power through NGOs/Public Private Partnerships (April 9-14)

### Readings

#### *Background*

The Power of Activism: Assessing the Impact of NGOs on Global Business (California Management Review, 45(3):78-101; CMR Reprint 255)

Turning Gadflies into Allies (Michael Yaziji, Harvard Business Review, February 2004, R0402J)

The Political Economy of Child Labor and its Impacts on International Business (S.L. Bachman, Business Economics, July 2000, pp. 30-41)

#### *Case*

IKEA's Global Sourcing Challenge: Indian Rugs and Child Labor (A) (HBS Case 9-906-414)

### Discussion Questions

1. When are NGOs most able to impact multinational strategy? Why?
2. When are multinational corporations most able to cooperate with NGOs? Why?
3. What are the drivers of the use of child labor?
4. What are the risks involved for IKEA in its treatment of child labor issues?
5. How should IKEA respond to the accusations leveled against it?
6. ***How should IKEA manage its policies with regard to child labor?***
  - a. *What should they do independently? Why?*
  - b. *What should they do in concert with NGOs such as Rugmark? Why?*
  - c. *What should they do in concert with IGOs such as the ILO or UNICEF? Why?*

## 10/11. Is DAD (i.e., Decide Announce Defend) a Dead Strategy for Extractive Industries? (April 16-21)

### Readings

#### *Background*

Controlling Political Risks in Mining Operations (Control Risks Group)

#### *Case Discussion*

External Stakeholder Relations in the Land of Dracula (A) (Tim Gray and Witold Henisz)  
[TO BE DISTRIBUTED IN WEBCAFE]

### Discussion Questions

1. Is the Rosia Montana mine a financially viable investment project?
2. Does the Rosia Montana mine have political and social support? From whom?
3. ***Given the political, economic and social environment in Romania in the mid-1990s, did Gabriel Resources management teams follow a well-designed strategy for the exploitation of the mine? Why or why not?***

**Post team paper outlines to team folders in eRoom by Monday, April 21 at 5:00pm**



## **INTEGRATION & SYNTHESIS**

### **12. Strategy in the Russian Oil Industry (April 23)**

#### **Readings**

##### *Case Discussion*

White Nights and Polar Lights: Investing in the Russian Oil Industry (HBS Case, 9-795-022)

#### **Discussion Questions**

1. What are some of the relevant characteristics of the oil industry and, in particular, the oil industry in Russia that lead political and regulatory risk to pose such concerns to investors?
2. How does political and regulatory risk affect the entry strategy of foreign oil firms in Russia?
3. ***Evaluate the entry strategies of Phibro, Mobil and Conoco. Which one chose wisely? Why?***  
**[In-class debate on this question]**
4. How will the returns from the development of Russian oil likely be distributed in the long term? Why?

### **13. The Future, Stakeholder Engagement Tools & Course Wrap-up (April 24)**

#### **Readings**

Global Risks Report 2008 (World Economic Forum)

[TO BE DISTRIBUTED IN WEBCAFE]

Mastering Management (Stephen Kobrin, Financial Times, 3/15/96, p. 13)

Skim volumes 1, 2 and templates of Stakeholder Engagement Manual available at

<http://www.accountability21.net/publications.aspx?id=904>

#### **Discussion Questions**

1. Will the global economy continue to become more integrated? Who will be the winners / losers?
2. Will international political institutions keep pace / surge ahead / fall behind?
3. What are the implications of these two trends for multinational managers?
4. Based upon your review of the manuals and templates
  - a. What mistakes could managers in a case we discussed have avoided by implementing this process?
  - b. What additional insights did your team generate for your paper?
5. What are the barriers to implementation of this process?

**Deadline for Team Paper Submission (to Team Projects Folder): Noon Thursday, May 8 2008**