



SPRING 2012 SYLLABUS
DRAFT OF NOVEMBER 16, 2011

MGMT 715: Political and Social Environment of the Multinational Firm

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Objectives:

Successful practitioners of corporate diplomacy meld art and skill in engaging external stakeholders to advance their corporate interests. They craft international coalitions of stakeholders spanning politicians, regulators, bureaucrats, analysts, investors, lawyers, reporters, consumers and activists. They influence these stakeholders' opinions, perceptions, behaviors and decisions so as to secure a favorable policy outcome, collective decision or shift in group opinion that enhances their corporation's ability to generate a profit by satisfying a market demand. This course surveys the managerial, political economic, sociological and psychological foundations of corporate diplomacy as well as 12 case study examples of successful and failed implementation in order to develop an interdisciplinary framework for the play of global influence games. The insights gained can be applied to influence team decision-making and organizational politics as well as by individuals and organizations in lobbying, marketing, sales, political campaigns and corporate, national or multilateral projections of soft power.

Outline

We will begin with an introductory module that makes the case for Corporate Diplomacy and offers an overview of best practice. We will highlight the gap between these principles and practical tools that managers can apply to design and implement corporate diplomacy making reference to the experience of the electricity generation and distribution company AES's investment in the Republic of Georgia. Next we examine the six elements of Corporate DIPLOMACY: Due diligence on the stakeholder landscape in Indonesian mining and Russian activist fund management; Integration into strategic analysis and planning in Russian oil and African mining; Process that are perceived as fair and generate Learning in Thai bankruptcy and TBD; Openness in reporting and communications in Romanian gold mining and Mindsets in IKEA and in a Spanish hotelier. Format will include lecture, case discussion, small group discussions and report-backs, in-class debates and role-play exercises.

Assessment:

KEY DATES

By 6am on day of class with case discussion (i.e., classes 3-14), post a 8-10 sentence response to the focal question in Assessment Tool. You must complete 10 of these 12 assignments. There is a strictly enforced limit of 250 words per post.

Friday, February 24 9:00am – Post team paper outlines to team folders in eRoom

Friday, March 4 5:00pm – 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 (25%)
- (2) 8-10 sentence quick responses to the ***bold italicized*** discussion question for remaining 10 cases (30%)
- (3) team paper outline (5%)
- (4) team (**NO** team > 5 members) paper (1 X 40%)

Note that there is NO MIDTERM OR FINAL EXAM.

These four components are discussed in more detail below.

- (1) I expect a high-level of interactive and integrative discussion in every class. You are should carefully prepare for each class, contribute productively as well as listen carefully to others. The emphasis on case analysis and the large class size combine to make it crucial that preparation for and participation in class is of consistently high quality. Please consider the following guidelines for high quality class participation:

- Relevance: Are your comments clearly related to the case and to the comments of others?
- Advancement: Does your comment move the class discussion forward? Does it take the discussion farther or deeper than the previous comments?
- Fact-Based: Have you used specific data from the case, from conceptual or background readings, or from personal experience to support the assertions that you are making?
- Logical: Is your reasoning consistent and logical? Do you use economic concepts correctly?

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. I will also cold call students.

I will frequently post news clippings and multimedia that highlight real-time application of course concepts as “pages” on Canvas. You are encouraged to contribute new material or to respond to the material that I post and related questions. I will try to highlight some of the most relevant material and debates in class discussion.

A pattern of absences can result in LT/D/F grades for the course. Frequent but low quality participation and/or distracting behavior (e.g., use of internet or PDAs, side conversations, late entries, early departures, ...) hinders our progress and may also be penalized.

- (2) You should address in 8-10 sentences using no more than 250 words 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 emphasize facts from the readings but rather draw upon relevant material in the readings to address three points:

- How does the firm generate sustainable profits?
- How does the political environment impact this stream of returns?
- What should the firm do to protect/enhance its profits? WHY?

In order to effectively answer the third question, you need to have

- 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.

- (3) Team paper outlines should highlight the key components of the paper's structure as detailed below in (5). 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 FIVE students (preferably maximizing diversity in background, functional expertise, major, ...) 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. References, 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 Canvas.

Resources to aid you with your background research include

- Country-level
 - [World Economic Forum Global Competitiveness Report](#)
 - [Economist Intelligence Unit Country Reports](#)
 - World Bank
 - [Doing Business Guides](#)
 - [Business Environment](#)
 - [Investment Climate](#)
 - [Investing Across Borders](#)
 - [Enterprise Surveys](#)
 - [Private Sector Data](#)
 - [Governance Indicators](#)
 - United Nations
 - [Foreign Direct Investment Report](#)
 - [Investment Prospects](#)
 - [Transparency International Corruption Perceptions](#)
 - [Business Monitor International](#)
 - [CIA World Factbook](#)
 - [Heritage Institute Index of Economic Freedom](#)

- [IHS Global Insight](#)
- [ISI emerging markets](#)
- [Factiva](#)
- Industry- and Firm-level
 - [Business Monitor International](#)
 - [Euromonitor](#)
 - [Orbis \(includes Datamonitor\)](#)
 - [EBSCO Business Source Complete](#)
 - [ISI emerging markets](#)
 - [Factiva](#)
 - [PROMT](#)
 - [Proquest Annual Reports](#)

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. IF YOU HAVE ANY QUESTIONS ON POLICY, SEE http://gethelp.library.upenn.edu/PORT/documentation/plagiarism_policy.html

ABOUT THE INSTRUCTOR

Witold Henisz is the Deloitte & Touche Associate Professor of Management in honor of Russell E. Palmer former managing partner at The Wharton School, The University of Pennsylvania. He received his Ph.D. in Business and Public Policy from the Haas School of Business at University of California, Berkeley and previously received a M.A. in International Relations from the Johns Hopkins School of Advanced International Studies. His research examines the impact of political hazards on international investment strategy. He analyzes (1) the political and economic determinants of government attempts to redistribute investor returns to the broader polity; (2) the strategic responses by organizations to such pressure; and (3) the determinants of the success of individual organizations in withstanding such pressure including efforts to engage in corporate diplomacy to win the hearts and minds of external stakeholders. This research has been published in top-ranked journals in international business, management, international studies and sociology. He served as a Departmental Editor at *The Journal of International Business Studies* for over five years.

He is currently engaged in a National Science Foundation funded project examining stakeholder engagement strategies of gold mining companies in which he highlights the financial and operational returns to such engagement; the components of a successful stakeholder engagement strategy including country-level and temporal contingencies. In other projects, he is examining the rise and fall of neoliberalism, the lost opportunity to fulfill the promise of progressive management after the financial crisis, means to win the hearts and minds of internal stakeholders (e.g., partners and contractors) in infrastructure projects and the link between concentrations of economic and political power in impacting economic welfare. He is also writing a book entitled *Corporate Diplomacy: From First Contact to Relationship* which draws on parallels in the experiences of managers in natural resources, infrastructure, tourism, development and military counter-insurgency to outline best practice processes to design and implement stakeholder engagement strategies that enable these organizations to meet their diverse objectives.

Witold has won multiple teaching awards at the undergraduate and graduate levels for his elective courses that highlight the importance of integrating a deep understanding of political and social risk factors into

the design of an organization's global strategy. He has authored teaching cases on the experiences of AES Corporation in the Republic of Georgia, the management of the bankruptcy of Thai Petrochemical Industries and the development of the Rosia Montana gold mine in Romania. He also teaches sessions on Global Policy Risk for multiple open enrollment and custom Executive Education programs at the Wharton School. He is currently co-leading the redesign of the global required course in the Wharton curriculum.

Witold has served as a consultant for Royal Dutch Shell Petroleum, the World Bank, The Inter-American Development Bank, The Conference Board, Eurasia Group and the Department of Homeland Security. He previously worked for The International Monetary Fund. He is currently a principal in the political risk management consultancy PRIMA LLC and the risk management consultancy The Probity Group.

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. Conceptual Introduction (Thursday, January 12)

Discussion Questions

1. Identify a firm that in your opinion mismanaged its political and social environment to the detriment of its financial or operational performance in a foreign market (or identify a class of political problems with which firms have difficulty.)
2. ***What tools from your work experience, other Wharton courses (e.g., financial options, marketing, management, negotiations, legal studies, business and public policy, ...) OR from other college courses (e.g., international relations, development, political science, economics, an area studies course, communications), 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?*
3. ***Why can't investors and external stakeholders easily identify and implement strategies that make both shareholders and stakeholders better off?***

2. Conceptual Introduction (continued) and In-class Role Play Exercise. (Tuesday January 17)

Readings

Bernays, Edward. 1947. "The Engineering of Consent" *Annals of the American Academy of Political and Social Science* **250**:113-120.

Henisz, Witold J and Bennet A. Zelner (2010) "The Hidden Risks in Emerging Markets" *Harvard Business Review* April 88-95.

Allas, Tera and Nikos Georgiades (2001) "New Tools for Negotiators" *McKinsey Quarterly* 2001(2):86-97.

Davis, Rachel and Daniel M. Franks (2011) "The Costs of Conflict with Local Communities in the Extractive Industry."

Discussion Questions

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3-4. Introductory Case: Power Trip or Power Play in the Republic of Georgia (Th/T January 19/24)

Readings

Power Trip or Power Play: AES-Telasi (A) (Witold J. Henisz and Bennet A. Zelner)
Power Trip or Power Play: AES-Telasi (B) (Witold J. Henisz and Bennet A. Zelner) [TO BE DISTRIBUTED AFTER FIRST CLASS]

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 strengths and shortcomings of the strategy of Michael Scholey towards the policy risks faced by AES-Telasi in the (A) case?*
6. *[FOR 2nd Class] What were the strengths and shortcomings of the strategy of Michael Scholey towards the policy risks faced by AES-Telasi in the (B) case? What alternative strategy would you recommend that Ignacio Iribarren implement upon his arrival?*

5. Due Diligence: Corruption in Indonesian Mining (Thursday, January 26)

Readings

Background

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

Case Discussion

Busang: River of Gold (A) (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?*

6. Due Diligence: Activist Shareholding in Russia (Tuesday, January 31)

Readings

Background

Puffer, S. M. and D. J. McCarthy (2003). "The emergence of corporate governance in Russia." Journal of World Business **38**(4): 284-298.

Case

Dyck, Alexander "The Hermitage Fund: Media and Corporate Governance in Russia" *HBS Case 9-703-010*

Discussion Questions

1. What are the various ways in which managers in Russia extract value out of their companies disproportionate to their equity stakes? Which of these methods are peculiar to Russia?
2. What institutions and mechanisms normally constrain such behavior? Why are they absent in Russia?
3. What is Browder's strategy? How does it differ from traditional investing? Do you agree with Browder's contention that media attention limits corporate governance abuses in Russia? Elsewhere? How does the media effect governance?
4. ***If you were an investor in Hermitage in the summer of 2002, what would you advise Bill Browder to do? Should he refine or change his activist strategy?***

7. Integration: Strategy in the Russian Oil Industry (Thursday, February 2)

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?

8. Integration: Project Valuation at GOLDSTAR (Tuesday, February 7)

Readings

Background

FVTOOL User Guide (a resource for completing assignment. No need to read cover-to-cover)

Case Discussion

Goldstar: An FVTOOL Case Study

Discussion Questions

1. What is the shareholder value maximizing set of sustainability investments?
2. What are the critical assumptions that go into this calculation
 - a. that you feel are sufficiently justified or established?
 - b. that you feel require additional analysis or a stronger evidentiary base to justify?
3. What would you like to see added to the FVTOOL?
4. Could the FVTOOL or a variant thereof be or have been of use to you professionally? How?

9. Process/Learning: Negotiating Debt After the East Asian Crisis (Thursday, February 9)

Readings

Background

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)

The Insider (Joseph Stiglitz, The New Republic 4/17/2000

<http://www.tnr.com/article/politics/the-insider>

Case

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

Discussion Questions

1. *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? [In class Role Play Exercise]

10. Process/Learning: Participatory Stakeholder Engagement (Tuesday, February 14)

Readings

Background
TBD

Case Discussion
TBD

Discussion Questions
TBD

11-12. Openness: Rosia Montana (Th/T, February 16/21)

Readings

Background
Cattaneo, Ben (2009) The New Politics of Natural Resources

Case Discussion
Rosia Montana: Political and Social Risk Management in the Land of Dracula (A)
(Witold Henisz, Sinziana Popa and Tim Gray)
Rosia Montana: Political and Social Risk Management in the Land of Dracula (B)
(Witold Henisz, Sinziana Popa and Tim Gray) [TO BE DISTRIBUTED AFTER 1st CLASS]

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 in the (A) case? Why or why not?***
4. ***For 2nd Class: Was the strategy of the new management team led by Alan Hill as described in the (B) case well-designed? Why or why not?***

13. Mindsets at IKEA (Thursday, February 23)

Readings

Background

Hertel, S. (2010). "The Paradox of Partnership: Assessing New Forms of NGO Advocacy on Labor Rights." *Ethics & International Affairs* 24(2): 171-189.

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? **[Brief In class Role Play Exercise]**
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?
7. *Should IKEA sign on to Rugmark? How should they deal with Rangan?*

Post team paper outlines to team folders in eRoom by Friday, February 24 at 9:00am.

14. Course wrap-up (Tuesday, February 28)

Readings

Background

TBD

Case Discussion

Sol Melia (TBD)

Wrap-up

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

Discussion Questions

1. Which elements of Corporate DIPLOMACY has Sol Melia mastered?
2. Where does Sol Melia's plan seem to need the most additional structure or modification?

Deadline for Team Paper Submission (to Team Projects Folder): Friday, March 4 5pm