The Political and Social Environment of the Multinational Firm

MGMT 209: Fall 2013

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OVERVIEW

Managers of multinational corporations have to meld art and skill in engaging external stakeholders to advance their corporate interests. To be successful in foreign markets, they build relationships with and craft coalitions of stakeholders spanning politicians, regulators, local communities, domestic investors, lawyers, reporters, consumers, and activists. Many also get involved in efforts to develop the infrastructure of the countries where they operate or finance social programs meant to improve the education and healthcare services available to local communities. They do so in the hope of changing these various stakeholders’ opinions and decisions so as to secure a favorable policy outcome or to obtain a “social license” that enhances their corporation’s ability to generate a profit. This course takes a closer look at the challenges managers face when they play such political games as well as at the strategies they employ, both successful or unsuccessful, in different political and social environments. We will discuss the managerial, political, economic, sociological, and psychological foundations of corporate diplomacy as well as several case study examples. The goal of the course is to help students develop an interdisciplinary understanding of what it takes to overcome political and social risk in different environments around the world.

We will develop the foundations of the course through a review of relevant issues in international political economy, social networks, and social movements. For each literature, we will examine practical applications of the relevant tools. These include the experience of AES in transitioning Georgia, power giant Enel and oil companies in Russia, Dell’s negotiations over a new plant in Brazil, Newmont Gold in Fujimori’s Peru, Chiquita’s problems following changes in EU trade regulation, the WTO dispute between Bombardier and Embraer, Brazilian Vale’s response to President Lula’s request for a stronger focus on the domestic market, the development of a gold mine in Indonesia by Canadian mining company Bre-X, a Canadian gold mining company struggling with NGO opposition in Romania, Coca-Cola bottling company Swire’s efforts to re-organize its CSR strategies, Ikea’s treatment of accusations that it was complicit in the use of child labor in the fabrication of rugs and the development of a water distribution company in Tanzania.

In the last phase of the course, student teams will present projects that examine corporate diplomacy of a specific firm when facing a crucial decision point in a global influence game requiring a non-obvious strategic response. Presentations will highlight the pros and cons of at least two strategic options and how the firms reached their decisions. In the final classes, we survey industry best practice and just over the horizon methodologies for the design and implementation of corporate diplomacy before reflecting upon how these tools could help mitigate some of the most pressing risks faced by multinational corporations while unlocking new opportunities for these companies.
POLICIES

This one (1.0) credit unit full semester elective is designed for under/graduate students across the University of Pennsylvania with an interest in the interface between multinational corporations and the political and social arena within which they operate. The course is organized around a central phenomenon: international investors’ attempts to overcome political and social challenges that stand between market demand and shareholder profit. The course is consciously interdisciplinary in its design. There are no formal prerequisites but participants should be able to contribute some individual expertise from previous coursework, training, and work experience and will; at other times, rely heavily on their peers to summarize and introduce key concepts and perspectives from other disciplines, industries, or countries with which they may be less familiar.

The course is built around the assumption that as international investment involves individuals working in teams in multiple organizations from multiple countries motivated by some combination of self-interest, profit and public interest, an interdisciplinary perspective in which one genuinely integrates insights and tools from economics, political science, sociology, psychology, etc., will outperform more myopically focused corporations. While our focus will be on corporate diplomacy in global influence games, the insights gained should be generalizable to many additional contexts including team decision-making, organizational politics, lobbying, marketing, sales, political campaigns, and corporate, national, or multilateral projections of soft power.

The required reading list is heavy with a mix of conceptual background readings and case studies. Students will be expected to substantively participate in each class’s discussion (i.e., regular attendance with “fully present” participation in both conceptual and case discussion is required). Discussion should not merely recap the facts in a reading but generate insight, and synthesis, into links between concepts or paths forward for protagonists in a case. The sharing of relevant practical insights from professional or other international experiences is also encouraged.

KEY DATES

- Each class meeting Post Response (3-sent. By 9a on Canvas)
- Thursday, September 12, 5pm Sign-up for Case Memos post open on Canvas
- Friday, October 11, 9am Submit team project outline
- Monday, October 21 Assignment of team project presentation dates (in class)
- Wednesday, Nov. 18 Assignment of peer reviews for team presentations (end of class)
- Nov 20, 25, 27; Dec 2 Team project presentations (in class)
- Wednesday, Dec 4, 5pm Submit peer reviews
- Monday, Dec 16, 12am Submit final team project paper

REQUIREMENTS/ASSESSMENT

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 including submission of three sentence case reaction posts 20%
2. Answer the **bold italicized** discussion question from 2 or 3 different cases (2 * 15% or 3 * 10%) 30%
3. Team paper outline 5
4. In-class team presentation of your team paper draft 10
5. Team paper (Teams should ideally have 3 students; no more than 4) 30
6. Peer review of another team’s presentation 5

NB: NO MIDTERM OR FINAL EXAM for this class.
Requirements (cont.)

(1) **Class Participation (20%)** I expect a high-level of interactive and integrative discussion in every class. Please come to class prepared to engage with your peers. Use the case reaction post (a three sentence quick response to the **bold italicized** case discussion question) to help you organize your thoughts and prepare for the discussion. We will also employ small group discussions, debates, role play exercises, and other activities throughout the semester. You are also encouraged to post in the Current Events of Interest to the Class folder in Canvas and/or bring up real time political or strategic events of relevance to the class. I will also cold call students.

(2) **Case Memo (30%)** For two or three cases (signup on a first come first serve basis via Canvas), 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 simply emphasize facts from the readings but rather draw upon relevant material in the readings to address the points highlighted below.

In the first half of the course, posts may be more policy-oriented and focus on the drivers of observed imperfections in public policy outcomes. These posts should do **three** things:

a) Identify the ideal policymaking structure or process for the investor in the case,

b) Explain why, in this case, we do not observe such a structure or process, and,

c) Offer insights into the potential to improve the status quo, and address difficulties in doing so.

In the second half of the course, **and in your team papers**, the focus shifts to multinational actors operating in an imperfect policymaking structure. Your posts in the second half of the course should do **four** things:

a) Analyze the strengths and weaknesses of at least two feasible strategic options to improve upon the situation presented in the case. This analysis should give:
   i. An understanding of the preferences and the intensity of the key actors in the case,
   ii. The national or international decision-making 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/s.

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 an argument/s against alternative strategies,

d) Summarize, succinctly, the key “takeaway/s” of the case (i.e., what lessons might other firms facing similar challenges take from your analysis and recommendations?)

*Your posts should be 600-900 words long and be submitted before 9pm on the night before the case discussion. Sign up on Canvas for the cases you will write on.*

(3) **Team Paper Outlines (5%)** Team paper outlines should highlight the key components of the paper’s structure as detailed below in (6). 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.
Requirements (cont.)

(4) **Team Project Presentation (10%)** Each team will be asked to present their paper. Our time constraints will be tight, so *please think carefully* about the organization of the material, the links to topics covered in class and the “takeaway” from your case. Based on your presentation, you will receive written feedback from your peers [see (5) below] and from me regarding points that you should address or improve upon prior to submission of your final paper.

(5) **Presentation Review (5%)** After the completion of the last Team Presentation, each student will be randomly assigned a presentation on which they will write up a Review. This 300-600 word Review should accomplish **three** things:

- a) Briefly summarize the substance of the presentation (1 paragraph),
- b) Comment on strengths in the presentation (1-3),
- c) Provide some constructive critique, including *helpful suggestions*, for the Presenters (1-3 points).

*Please submit two copies of your Review; one for me, and one to the team to whom you are providing feedback. These reviews should be useful for making revisions to the team papers.*

(6) **Team Project Submission (30%)** Teams consisting of ideally **three**, but no more than four students—preferably those from different majors, nationalities, etc.—will identify a corporation that faced a dilemma relating to the management of corporate diplomacy (examples below), and then draft a 15-20 page (4500-6000w) paper on the problem faced, and the corporate strategy pursued by its management. Your team will…

- a) 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,
- b) Provide detail on the specific conflict and assess the contending forces faced by the firm; then,
- c) Detail the company’s strategy, or strategic options, and assess the choices made and or make a recommendation of your own.

*Papers should be written as clearly and concisely as possible, integrate material from multiple primary and secondary sources including local press accounts, company documents, local analysis, etc and should represent YOUR GROUP’S OWN WORK.*
TEAM PROJECT GUIDELINES

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

1) Mitigating political and regulatory risk in politically salient investments;
2) Addressing human rights, environmental or other social claims;
3) Managing a tumultuous political or economic period in a host country, e.g., economic or political transition;
4) Responding to an international trade or investment dispute;
5) Responding to an international liquidity or solvency crisis;
6) Enforcing or influencing the development of intellectual property protection, standards or other international legal issues

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

Your Team Project Submission should contain eight (8) basic components. The suggested page lengths below are suggestions from a normal distribution across past sections only and should not be considered binding if your topic merits relatively more or less detail in a given section. The complete paper, however, must fall within the prescribed page limits above and include the following sections:

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 and 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 that you have chosen (2-3pgs);
4) A brief background on the company and the context that highlights relevant facts to the case discussion (2-3pgs);
5) Analysis of strengths and weaknesses of at least two feasible strategic options to address the “Conflict” (4-6pgs);
   i. An understanding of the preferences of the key actors in the case and their intensity,
   ii. The national or international decision-making 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/s.
6) Recommendation/s based on the 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 why you did not choose the “second best” strategic option. (1-2pgs);
7) A succinct summary of the key takeaway of the case: i.e., what lessons can other firms facing similar challenges take from your analysis and recommendations? (1pg);
8) List of references that includes both secondary, e.g. newspapers, magazines, etc. and primary, i.e., company newsletters, press releases, annual reports, company internet sites, individual conversations, interviews, etc. sources.

*Please use a proper citation format. Also, ensure that quotations longer than a phrase must be explicitly noted in the text. Insufficient, or inaccurate attribution of quotes or otherwise improper citations will result in charges of plagiarism.
CLASS SCHEDULE

Section I: Introduction

August 28   Course Introduction
September 2  Labor Day – No Class

Sep 4   Power Trip or Power Play in the Republic of Georgia

Readings


*Case Discussion:* Henisz, Witold and Bennet Zelner. Power Trip or Power Play: AES-Telasi (A)

**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 for Scholey’s Successor, Ignacio Iribarren?*

Sep 9   Case Study — AES-Telasi (cont.)

Section II: Stakeholder Engagement and Influence

Sep 11   Investing in Foreign Markets: Enel in Russia

Readings


**Discussion Questions:**

1. Why was Enel hesitant to undertake a large-scale investment in Russia in 2003? What did it do instead?
2. What lessons did Enel learn from its first investments in Russia?
3. *What did Enel’s managers do to establish themselves as “good citizens” of Russia? What do you think of their strategy?*
Class Schedule (cont.)

Sep 16  Entry in Foreign Market: Strategy in the Russian Oil Industry

Reading

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 choose 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?

Sep 18  Corporate Governance and Shareholder Activism: Hermitage

Readings


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 affect 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?
Class Schedule (cont.)

Sep 23  The Power of Informal Ties: Busang in Indonesia

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?

Sep 25  Institutional Failure: Rule of Man vs. Rule of Law

Reading
Case: Newmont in Peru (Stanford Case IB-51)

Discussion Questions
1. Who was right: The Wall Street analyst approving of the Fujimori administration because it brought political stability and guaranteed the rules of the game, or the Polish newspaper editor worried that the institutions of a democracy were being trampled?
2. Aristotle warned against the rule of man. By reference to Fujimori’s Peru, what is wrong with the rule of man? What do you think would do a better job of generating economic growth – the rule of law or the rule of man? What exactly are the causal links between the rules of the game and economic growth?
3. What do you see to be the post-Fujimori future of Peru’s legal and political institutions? Will what Michnik called the “Montesinos virus” fade away after Fujimori and Montesinos leave power, or will the effects of the “virus” continue?
4. Do investors prefer the rule of one individual or the rule of law? Under what conditions and why?

Sep 30  Institutional Failure: Newmont in Peru (cont.)
Class Schedule (cont.)

October 2  The Power of Institutions: Decentralization and Investment Incentives

Readings

*Background:* Power to the States: Fiscal Wars for FDI in Brazil (HBS Case 9-701-079)

*Case Discussion:* Dell’s Dilemma in Brazil: Negotiations at the State Level (Thunderbird Case A03-03-0021)

Discussion Questions
1. What are the arguments in favor and against federalism?
2. *Do relations among Brazilian states and between its states and central government contribute to its development or its ‘development trap’? Why?*
3. What should Maxwell recommend to Michael Dell?

Oct 7  The Power of Institutions: Multinationals and Home-Country Governments

Reading

*Case:* Vale: Global Expansion in the Challenging World of Mining (HBS Case 9-710-054)

Discussion Questions

1. *With the 2010 presidential election on the horizon, how could Vale hedge against political risk at home?*
2. Was there any way to increase public support for the firm’s global expansion strategy, which was not always to the immediate advantage of Brazil?

Oct 9  Multinationals and International Regimes: Challenging Home Market-Subsidies

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)

*Case Discussion:* Bombardier: Canada vs. Brazil at the WTO (HBS Case 9-703-022)

Discussion Questions

1. If free trade is so good, why is it so hard to obtain and maintain?
2. Why do governments provide subsidies, tax concessions, credits, etc.?
3. Why do international regimes such as the WTO emerge?
4. Why do international regimes such as the WTO encounter such opposition?
5. Given this opposition, how can international regimes change domestic policy outcomes?
6. Make the legal case for the position of the Brazilian, or Canadian, governments at the WTO.
7. Beyond the legal basis for the dispute, make the argument from the perspective of Embraer, or Bombardier to the Brazilian, or Canadian, governments that your firm should receive subsidies.
8. *Why do managers at firms like Bombardier and Embraer support a strong WTO, i.e., one that restricts their government’s ability to subsidize them?*

Oct 10 – Oct 13  *** Fall Break ***
Oct 14 Multinationals and International Regimes: Trade Regulations

Reading
Case: Chiquita Brands International (HBS Case 9-797-015)

Discussion Questions
1. What role has politics played in the history of Chiquita Brands, and its predecessor, the United Fruit Company?
2. What role has protectionism played in the global banana market? Is this role defensible?
3. *What should Lindner do about the EU’s banana policy? How should Bob Dole respond to Lindner's request?*

Oct 16 Stakeholder Engagement (1)

Readings


Case Discussion: Rosia Montana: Political and Social Risk Management in the Land of Dracula (A) (Witold Henisz, Sinziana Dorobantu and Tim Gray)

Discussion Questions
1. Did the Rosia Montana mine have sufficient political, economic, and social support, locally, nationally? Which sort of support was most critical to the project’s success?
2. What might opponents have done to raise the profile of their concerns, and slow or stop the mine’s redevelopment?
3. *Given the political, economic, and social environment in Romania in the mid-1990s, which elements of Gabriel Resources’ strategy made sense? Which ones could have been improved? What, if anything, did the executives neglect?*

Oct 21 Stakeholder Engagement (2): Rosia Montana (cont.)

Readings


Case: Rosia (B), Material will be distributed in class at the end of October 21 session.

Discussion Questions
1. *If you were on Gabriel Resources management team, which elements of strategy would you emphasize?*
Class Schedule (cont.)

Oct 23  Stakeholder Engagement (2)

Readings

*Background:* Breaking Ground: Engaging Communities in Extractive and Infrastructure Projects (World Resource Institute)

*Case Discussion:* Corporate Responsibility & Community Engagement at the Tintaya Copper Mine (A)

Discussion Questions
1. What are the core elements of community engagement or consent processes?
2. *Do you believe that the application of these processes made a difference in the Tintaya mine? Why or why not?*
3. Are these processes applicable outside of extractives and infrastructure? Why or why not?
   If you believe that they are, be ready to provide a specific example in class.

Oct 28  Re-thinking and Implementing CSR Strategies

Reading

*Case:* Swire Beverages: Implementing CSR in China (HBS Case 9-410-021)

Discussion Questions
1. How should Swire brand its CSR efforts? What are the pros and cons of branding CSR initiatives under the Swire banner as opposed to the Coca-Cola banner?
2. *How strategic are Swire’s CSR activities? How could they be more strategic? How should the challenging NGO environment shape Swire’s CSR activities?*
3. Assess the CSR organizational structure at Swire. What are the pros and cons of creating a centralized structure like they did?

Oct 30  Public Private Partnerships (1)

Readings

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

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

Discussion Questions
1. What are the drivers for the use of child labor?
2. What are the risks involved for IKEA in its treatment of child labor issues?
3. How should IKEA respond to the accusations leveled against it?
4. *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?
Class Schedule (cont.)

Nov 4  Public Private Partnerships (2)

Readings

Background: Creating Sustainable Local Enterprise Networks (Wheeler David et. al, Sloan Management Review, 47(1):33-40)

Case Discussion: City Water Tanzania (A): Water Partnerships for Dar es Salaam (Oana Branzei and Kevin McKaque, Richard Ivey School of Business Case 9B07M025)

Discussion Questions

1. What makes public private partnership difficult to craft and sustain?
2. Should Minister Lowassa accept the IFC’s offer and seek a private operator with expertise and additional resources or should he encourage locally sponsored alternatives? Come to class ready to advocate for any of the followings positions:
   a. A public-private partnership,
   b. Independent operation (without international aid), and
   c. Status quo with improvements.

Nov 6  Social Entrepreneurship

Readings

Background: Creating Successful Business Models: Lessons from Social Entrepreneurship (John Elkington and Pamela Harrington, 2008)

A New Alliance for Global Change (Bill Drayton and Valeria Budinich, Sept, 2010)

Discussion Questions

1. What are the strengths of the social enterprise model? What about the limitations?
2. Identify a social enterprise in the world today. Discuss its promise, accomplishments, strengths and limitations. What would you change in their model?
Section III: The Global Business Environment

Nov 11  The State of the Global Economy

Readings (3)

Background: Globalization of the Economy in Joseph S. Nye, Jr. and John D. Donahue, Governance in a Globalizing World, Brookings Press (Jeffrey Frankel, 2000)


Nov 13  Conducting Business Abroad

Readings


Case Discussion: Grupo Bimbo. (Siegel, Jordan: HBS Case 9-707-521)

Nov 18  Reflections on Big Mistakes in Economic Policymaking

Readings (4)

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)

Discussion Questions

1. Who or what was to blame for the depth of the recessions/depressions in Thailand and the rest of East Asia?
2. How was reaction of the International Monetary Fund and the World Bank perceived by lenders, foreign investors, local entrepreneurs, local conglomerates, and local consumers?
3. What parallels exist between the East Asian crisis and the more recent global financial crisis?
4. How did the policy reactions to the two crises differ? Why?

1 Post questions (1-3) instead of your usual response to Canvas for classes Nov. 11 and 13.
Section IV: Presentations and Conclusions

Nov 20    Team Project Presentations
Nov 25    Team Project Presentations
Nov 27    Team Project Presentations
Dec 2     Team Project Presentations
Dec 4     Wrap-Up Case: Waste Concern

Readings

*Case: Waste Concern: Turning a Problem into a Resource (IESE Business School, ISE 176)*

Discussion Questions

1. What is the problem that Waste Concern faces?
2. How did Waste Concern create value?
3. How did it capture value and for whom?
4. *Which alternative would you recommend to Waste Concern and why?*

Dec 9     Course Wrap-Up

Readings (3)

Creating Shared Value: How to reinvent capitalism and unleash a wave of innovation and growth (Michael Porter and Mark Kramer, February 2011)

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