FALL 2013 SYLLABUS

-Draft Syllabus of August 3, 2013-

MGMT 715: Political and Social Environment of the Multinational Firm

Witold Jerzy Henisz
Deloitte & Touche Professor of Management
in Honor of Russell E. Palmer, former Managing Partner
Phone: 215-898-0788 OH: by appt.
Email : **henisz@wharton.upenn.edu** 3107 SH-DH

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 10 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 live case of sustainable palm oil and the historic experience of the electricity generation and distribution company AES's investment in an electricity distribution company in the Republic of Georgia. Next we examine the six elements of Corporate DIPLOMacy: Due diligence on the stakeholder landscape in Indonesian mining; Integration into strategic analysis and planning in African mining; Process that are perceived as fair in the operation of a Peruvian mine and generate Learning in the bankruptcy of a Thai conglomerate; Openness in reporting and communications in Romanian gold mining; and, finally, Mindsets in IKEA as they grapple with accusation of Indian child labor before returning to electricity distribution through private equity investor Abraaj Capital's investment in the Karachi Electricity Supply Company. 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., AES A, AES B, Busang, Ahafo, Tintaya, TPI, Rosia A, Rosia B, Ikea, Abraaj), post a 4-5 sentence response to the focal question in Assessment Tool. You must complete 5 of these 10 assignments INCLUDING AT LEAST ONE PER WEEKEND. There is a strictly enforced limit of 150 words per post.

Saturday, November 2 9:00am – Post team paper outlines to team folders in Canvas

Monday, November 11 9:00am – 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) 4-5 sentence quick responses to the ***bold italicized*** discussion question (25%)
(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 no more than 150 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 the focal (i.e., ***bold italicized***) question. In order to effectively answer that question, you typically 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.

Given the 150 word-limit, however, your answer should focus on the actions that the firm should take to protect or create additional value given the choice highlighted in the question.

(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. 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. [OPTIONAL] 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 J. Henisz is the Deloitte & Touche Professor of Management in Honor of Russell E. Palmer, former Managing Director 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 and social risks on international investment strategy including efforts by multinational corporations to engage in corporate diplomacy to win the hearts and minds of external stakeholders. In an ongoing National Science Foundation funded project he shows that markets value stakeholder engagement twice as much as the net present value of the gold ostensibly controlled by 19 publicly traded gold mining companies. He then assesses the contingencies that influence the choice of which stakeholder these firms should reach out to in order to positively influence valuation as well as how to best develop a cooperative relationship with that stakeholder. This research has been profiled for managers in *Harvard Business Review*, *Brunswick Review*, *Accountability.org*, *Motley Fool*, *TriplePundit*, *Investor Relations Web Report*, *The Public Affairs Council*, *The Penn Gazette* and *Knowledge@Wharton*. His research has been published in top-ranked journals in international business, management, international studies and sociology.

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 led the redesign of the global required course in the Wharton MBA curriculum.

Witold has served as a consultant for Anglo Gold Ashanti, Rio Tinto, Shell Corporation, Maritime Financial Group, The World Bank, The Inter-American Development Bank, The Rand Corporation, The Central Intelligence Agency, Computer Sciences Corporation (CSC), Science Applications International

Corporation (SAIC), Department Of Homeland Security, The Conference Board, Eurasia Group, Hynix Semiconductor, Willkie Farr & Gallagher LLP and Philippine Long Distance Telephone Company (PLDT). He previously worked for The International Monetary Fund. He is currently a principal in the political risk management consultancy PRIMA LLC.

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.

Conceptual Introduction (Friday, August 30)

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

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?

Introductory Case: Power Trip or Power Play in the Republic of Georgia (Friday/Saturday August 30-31)

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. ***How should Scholey adapt his strategy in the (A) case? Why?***

[FOR SATURDAY]

6. What did Scholey and AES-Telasi do differently in the (B) case?
    a. Do you agree with these changes? Why or why not?
    b. What reactions did these changes elicit? Were these intended or unintended? Explain.
7. What were the strengths and shortcomings of the strategy of Michael Scholey towards the policy risks faced by AES-Telasi in the (B) case?
8. ***What alternative strategy would you recommend that Ignacio Iribarren (Michael Scholey's successor) implement upon his arrival?***

Due Diligence: Corruption in Indonesian Mining (Saturday, August 31)

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?***

Integration: The Net Present Value of Sustainability (Friday, October 18)

Readings

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

Case Discussion
Henisz, Witold (2012) "Calculating the Net Present Value of Sustainability Initiatives at Newmont's Ahafo Mine in Ghana"

Discussion Questions
1. Why has the sustainability budget at Newmont and other major mining companies been increasing over the past decade?
2. Using what criteria (i.e., net present value or broader) should the decision be made as to what sustainability initiatives merit funding?
3. ***Which of the four initiatives should Newmont fund?***

a. What are the critical assumptions that go into this calculation that you feel are sufficiently justified or established?
b. that you feel require additional analysis or a stronger evidentiary base to justify?

4. What do you think the biggest benefit for an organization would be to the adoption and use of the FVTOOL? What are the most important inputs to realizing this potential gain?

Process: Participatory Stakeholder Engagement (Friday, October 18)

Readings

Background

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

"Social License to Operate," by Ian Thomson and Robert G. Boutilier, SME Mining Engineering Handbook, Chapter 17.2.

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.

Learning: Negotiating Debt After the East Asian Crisis (Saturday, October 19)

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.twnside.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 (A) (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***

Why or on what would it depend?

Openness: Rosia Montana (Saturday October 19 / Friday, November 1)

Readings

Background

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

Zorilla, Carlos (2009) "Protecting Your Community Against Mining Companies and Other Extractive Industries

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?***

For 2nd Class:

4. What did Alan Hill and his management team do differently in the (B) case?
    a. Do you agree with these changes? Why or why not?
    b. What reactions did these changes elicit? Were these intended or unintended? Explain.
5. ***How could Alan Hill's strategy as described in the (B) case be improved? Explain.***

Post team paper outlines to team folders in Canvas by Saturday, November 2 at 9:00am.

Mindsets at IKEA (Saturday, November 2)

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?***

Mindsets (continued) and Course wrap-up (Saturday, November 2)

Readings

Case Discussion
Abraaj Capital and the Karachi Electric Supply Company (HBS Case N9-812-019)

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

Discussion Questions

1. Consider the comparison between the performance of Karachi Electric Supply Company and AES-Telasi. To what do you attribute these differences?
2. Which elements of Corporate DIPLOMacy has Abraaj Capital deployed in its investment in Karachi Electric Supply Company? How did these help to improve performance?
3. What, if any, elements of the Corporate DIPLOMacy framework are still missing from Abraaj's strategy for KESC? How should they be incorporated?
4. Are there additional important drivers of the performance of Karachi Electric Supply Company?

Deadline for Team Paper Submission (to Team Projects Folder): Monday, November 11 9am