MGMT 715 – POLITICAL AND SOCIAL ENVIRONMENT OF THE MULTINATIONAL FIRM
Spring 2016 *(!!! Draft Syllabus of November 2015 !!!)*

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COURSE OBJECTIVES

How can you develop new products using biological resources (e.g., plants) located in areas that only local communities can access, when there is no legal framework for employing members of these communities and there are no collective production processes in place? How can you deliver your products when only road transportation is available but experienced truck drivers are succumbing to HIV&AIDS and they don't have access to healthcare? How can you sell your products when there is no retail infrastructure, capital is hard to come by and potential distributors have had no basic education? **This course will teach you to manage effectively in challenging political and social environments, specifically emerging markets** – places where the institutional infrastructure (access to capital, labor, talent and vertical intermediaries) is too weak to adequately support firms' development, but where opportunities to do business abound. The ability to engage diverse groups of stakeholders – not only customers and employees, suppliers and distributors, but also politicians, non-profit organizations, and local communities – is key to navigating these challenges. The class will provide students with an integrative perspective towards managing political and social risks through a combination of practical tools and the latest academic thinking on this topic. Students in this class will learn to exercise due diligence to insulate the firm from political risk, form coalitions to earn a social license to operate, and leverage partnerships with public and non-profit organizations to develop organizational capabilities. They will surface best practices from leading multinationals, domestic champions in emerging markets, world-renown non-profit and inter-governmental organizations, and cutting-edge public-private partnerships across South and Latin America, Africa, and Asia.

COURSE OUTLINE

We will begin with an introductory session that expands the environment of the firm beyond the boundaries set out in traditional strategy models (e.g., Porter's five forces), to encompass a broader range of social and political actors and issues that can affect its operations. Brazilian cosmetics firm Natura offers an introduction into the socio-political challenges we will explore during the course and the role of stakeholder mapping in addressing these challenges, through its development of a direct distribution channel and ecologically-sourced products.

The course will then be divided into three modules, each of which will introduce tools for dealing with a different set of socio-political challenges:

- Due Diligence and Political Risk
- Coalition Building and Social License to Operate
- Cross-Sector Partnerships and Capability Development

As we move from one module and set of challenges to the next, our focus will shift from protecting shareholder value towards creating value for the firm and a broader set of stakeholders simultaneously. This implies moving from short-term risk mitigation strategies to long-term investment perspectives. Accordingly, the depths of engagement that will be required from the firm will increase, and the tools we will cover will move from power and influence-based mechanisms (module 1), to communication and personal trust-building (module 2), to deep-seated changes in the structure and identity of the firm (module 3).

The format will include lecture, case discussion, in-class debates, Q&A with guest speakers and an integrative computer-based crisis management simulation custom-designed for this course.

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:

(1) Class participation and engagement, including participation in online polling (30%);

(2) Group project (self-selected teams of 3-6 members) whose grade constitutes 60% of the course grade but is divided into individual (30%) and group (30%) assignments as follows:

    a. Individual assignments: each team member completes ONE of the following, which counts for 30% of that team member's grade (if team of 5-6 people, two team members can submit separate analyses of different strategies for each component):
        i. A ~5-page + exhibits stakeholder and/or issue mapping assignment that compares two possible strategies.
        ii. A ~5-page + exhibits financial valuation or business case assignment that compares two possible strategies.
        iii. A ~5-page + exhibits discussion and analysis of implementation including personal trust-building and learning and/or openness and mindset elements for one or more strategies.
    b. Group evaluation (the team collectively submits each of the following which together count for 30% of each team member's course grade)
        i. A 3-5-page team paper proposal outlining the context and the strategic choices that will be the focus of your analysis (10%).
        ii. A final 20-25-page team paper submission that extends the prior submission by integrating the individual components and responding to feedback received (20% but can be distributed unevenly across team members based on the relative strength of their "component").

(3) Team (Randomly assigned teams of 4 members) simulation score (10%)

These components are discussed in more detail below:

(1) I expect a high-level of interactive and integrative discussion in every class. You 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 concepts correctly?

To help you prepare I have included discussion questions for each class and online polls related to the ***bold italicized discussion questions***. If you answer the poll, you may be called upon to justify your answer. We will also employ small group discussions, debates, role-play exercises and other activities. A lack of participation in polling, discussion and other in-class exercises can result in a score of 0 out of 30% for participation. 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 will also be penalized. A pattern of absences can result in LT/D/F grades for the course.

> (2) Teams consisting of NO MORE THAN SIX students (preferably maximizing diversity in background, functional expertise, major…) will identify a corporation facing a political and/or social challenge in its international operations (either across multiple countries or in a specific country – preferably an emerging market).

The group project will consist in developing a proposal for a new strategy to address this challenge, to be presented to top management. Students should adopt the perspective of managers in the firm's Corporate Social Responsibility or Public Relations department (or equivalent, depending on the firm chosen) and involve functional areas within the corporation that are affected by the challenge that has been identified and/or could be relevant to implementing the proposed solution. Examples include operations, human resources, marketing, new product development/ R&D, as well as finance and accounting. Teams can choose to represent only members of the CSR/PR department, who must consider whom to reach out to within the organization and how to engage them. Alternatively, each team member can role-play a different functional area within the organization, working alongside the CSR/PR manager responsible for bringing a cross-functional working group together to solve the challenge at hand.

a. Team paper outlines should highlight the key components of the paper's structure as detailed below in (b). 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.

b. Eight basic components should be found in the submitted 18-22-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.

   i. An unnumbered title page that identifies all team members and contains an executive summary which lays out the strategic problem, the root causes of this problem, how it affects different functional areas of the firm and the strategy you are recommending.

   ii. An introduction that identifies a specific company and a specific social and/or political challenge that it faces in one or more countries, that clearly involves a (potential) conflict with a set of external stakeholders (1-2 pages);

   iii. Use your choice of stakeholder or issue mapping tools (e.g., power X salience, Salience X SLO, power X salience X SLO, issue map, stakeholder network, issue network or stakeholder-issue network) to generate insight into the degree of stakeholder support for two or more strategic options. Stronger insight is typically provided by complementary visuals and textual analysis of the assumptions and data input that generated those visuals. (~5

pages);

    iv.   An assessment of the relative financial impact of these proposed strategies possibly including the use of the FVTOOL. This assessment should culminate in a specific actionable recommendation and an attempt to identify the key assumptions of contingencies that impact this recommendation. It should be clear to the reader under which conditions you would alter your recommendation. (~5 pages)

    v.   The discussion of key aspects of implementation of the recommended strategy (~5 pages) including:

        a.   Mechanisms to build interpersonal trust with external stakeholders;

        b.   Mechanisms to insure learning and adaptation;

        c.   Mechanisms to effectively communicate the goals, design and implementation of the initiative;

        d.   Mechanisms to insure internal organizational support for the initiative.

    vi.   Succinctly summarize the key takeaway of the case (i.e., what lessons can other firms facing similar challenges take from your analysis and recommendations?) (1-3 pages)

    vii.   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.

    viii.   A set of exhibits that complement your written analysis.

Text should be double-spaced with 1" margins in a 12-point times new roman font. References, and exhibits (i.e., tables, charts and figures) do not count towards the page limit but should be used only when they complement the text.

Examples of exceptional papers will be provided on Canvas. Please note that the course assignment evolves each year so past exemplars may not follow the structure above.

    (3) Each student will be randomly assigned to a 4-person team whose collective performance in the KEROVKA crisis management simulation, measured by the change in their company's share price as compared to peer teams, will constitute 10% of each team member's course grade.

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

- o Heritage Institute Index of Economic Freedom
- o IHS Global Insight
- o ISI emerging markets
- o Factiva
- Industry- and Firm-level
  - o Business Monitor International
  - o Euromonitor
  - o Orbis (includes Datamonitor)
  - o EBSCO Business Source Complete
  - o ISI emerging markets
  - o Factiva
  - o PROMT
  - o Proquest Annual Reports

ETHICS AND USE OF PRIOR MATERIALS

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**

CLASSROOM EXPECTATIONS – CONCERT RULES APPLY

- Class starts and ends on time
- Sit according to the seating chart
- Late entry or reentry only under exceptional circumstances
- Name tents displayed
- All phones, laptops and other electronic devices turned off

ABOUT THE INSTRUCTOR

Aline Gatignon is an Assistant Professor of Management at the Wharton School, The University of Pennsylvania. She received her Ph.D. in Strategy from INSEAD and previously received a M.A. in Development Economics from the Paris School of Political Science (Sciences Po).

Her research explains how firms can collaborate with public and non-profit sector organizations to create value in emerging markets. It connects individuals, the organizations they belong to and the institutional environments they operate in. The empirical settings that she studies are cosmetics and banking in Brazil and logistics and healthcare partnerships in Africa, Latin America and Asia.

Aline's research and pedagogical case studies on this topic have been recognized with several awards, including the Strategic Management Society Best PhD Paper Award and the European Foundation for Management Development case study competition award (multiple years running). She has led workshops on partnership management with multinational organizations such as TNT and inter-governmental organizations such as the United Nations World Food Program. She has also taught this topic in Executive Education programs for Brazilian CEOs and Executive MBA participants at INSEAD, as well as for undergraduates from the 'Ecole des Ponts' and doctoral students from Sorbonne University.

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. Students are also encouraged to sign up for lunches with the instructor.

SUMMARY OF CLASS SESSIONS

1. **Conceptual Introduction and Illustrative Case: Natura do Brasil**

Readings: to be distributed in class

Discussion Questions
1. How do a lack of basic education, access to capital, and inadequate regulations in Brazil affect Natura's ability to develop a direct sales channel and new products using ecologically sourced ingredients?
2. Who are the stakeholders that a) are affected by these challenges and b) can become allies for Natura in overcoming these challenges?

2-3. **Political Risk-Introduction: Power Trip or Power Play in the Republic of Georgia**

Readings

Background
Henisz, Witold (2014) "Due Diligence: Mapping and Analysis of Your Stakeholders"

Case
Power Trip or Power Play: AES-Telasi (A & B) (Witold J. Henisz and Bennet A. Zelner) [(B) CASE TO BE DISTRIBUTED AFTER CLASS 2]

Discussion Questions
[FOR 1st Class]
1. Did AES-Telasi face substantial policy risks? Why?
2. What strategy did AES adopt to deal with these risks?
3. *How should Scholey adapt his strategy in the (A) case? Why?*

[FOR 2nd Class]
4. What did Scholey and AES-Telasi do differently in the (B) case? Why?
5. What were the strengths and shortcomings of the strategy of Michael Scholey in the (B) case?
6. *What changes to Michael's strategy (if any) would you recommend that Ignacio Iribarren (Michael Scholey's successor) implement upon his arrival?*

4. **Due Diligence: Corruption in Indonesian Mining**

Readings

Case
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. Why is corruption so hard to combat (e.g., why don't stronger penalties for corruption typically make a difference)?
5. How much of an impact would raising public sector wages have?
6. 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?
7. Has Bre-X developed relationships in Indonesia? Does it need to? How?
8. How should David Walsh respond to Minister Sudjana's announcement? What options are open to him and to Bre-X?

5. Due Diligence: Environmental Activism in China (Thursday, September 24)

Readings

Background
Liu, Jianguo and Jared Diamond (2005) "China's Environment in a Globalizing World" Nature 435(30):1179-1186

Case
Lee, Jua, Erica Plambeck and Mario Shao, Ma Jun and the IPE: Using Information to Improve China's Environment (Stanford Case SI115)

Discussion Questions
1. What are the key accomplishments of Ma Jun and the IPE so far? What were the drivers of their success?
2. How can Ma Jun increase the impact of his non-profit organization? Will your proposal require Ma Jun to raise more funding and, if so, from whom and how?
3. What, if any, changes should Ma Jun advocate in China's legal and regulatory systems?

6. Participatory Stakeholder Engagement: the Tintaya Copper Mine

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
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 they matter? Why?
3. Do you believe that the application of these processes made a difference in the Tintaya mine? Why or why not?
4. 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.

7-8. Openness: Rosia Montana

Readings

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

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

Discussion Questions
[FOR 1st Class]
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. Imagine you are an NGO activist seeking to derail the project. Outline your strategy.

[FOR 2nd Class]
5. 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.
6. How could Alan Hill's strategy as described in the (B) case be improved? Explain.

9. Integration: The Net Present Value of Sustainability

Readings

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

Discussion Questions
1. Where do failures of corporate diplomacy show up on the P/L statement?
2. Why has the sustainability budget at Newmont and other major mining companies been increasing over the past decade?
3. Using what criteria (i.e., net present value or broader) should the decision be made as to what sustainability initiatives merit funding?
4. Which of the four initiatives should Newmont fund? What are the critical assumptions that go into this calculation that you feel
    a) are sufficiently justified or established?
    b) require additional analysis or a stronger evidentiary base to justify?
5. 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?

10-11. Employee Engagement and Organizational Learning: TNT and the United Nations World Food Program

<u>Readings</u>
Background
Michael E. Porter and Mark R. Kramer, 2006, Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility. Harvard Business Review

Cases

Luk Van Wassenhove and Ramina Samii, 2004. Moving The World: The TPG-WFP Partnership Learning How To Dance. INSEAD case study 704-042-1

Aline Gatignon and Luk Van Wassenhove, 2009. When the Music Changes, so does the Dance-the TNT/WFP partnership 'Moving the World' five years on, INSEAD case study 02/2010-5596

<u>Discussion Questions</u>
To be posted

12. Scaling Up Partnership Ecosystems: Paving the Road to Healthy Highways

<u>Readings</u>
Case
Gatignon, A. & Van Wassenhove, L.N., 2008. Paving the Road to Healthy Highways – A Partnership to Scale Up HIV/AIDS Clinics in Africa, INSEAD case study 07/2008-5523

<u>Discussion Questions</u>
In place of an online poll, please post questions to ask of our guest speaker, Luke Disney.

Luke Disney is the founding Executive Director of the North Star Alliance. He has 10 years of experience building international public-private partnerships. In 2006, he was asked by TNT and the World Food Programme to take the reins at North Star Alliance to develop the organization and expand its partner base. Prior to this, Luke worked on the ground-breaking TNT-WFP partnership focused on hunger relief. An accomplished speaker, Luke shares insights related to North Star's unique model at conferences and events around the world.

13-14. KEROVKA Crisis Management Simulation, Debrief & Course Wrap-up

<u>Readings</u>

Simulation
SG Energy Shale Gas Operation Kerovka, Tazakstan Briefing Document

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

Henisz, Witold J. (2014) "Why Firms Underinvest in Public Relations" *European Financial Review* August 20 http://www.europeanfinancialreview.com/?p=3039

Discussion Questions

Simulation

To be distributed after the simulation

Wrap-up

1. What are your most important takeaways from the course?

2. What lessons, frameworks or tools are you most likely to remember and use?

3. What lessons, frameworks or tools do you feel the course needs to incorporate or expand upon?