



MGMT 111: Multinational Management

Spring 2018

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OH: Wednesdays 2-4
and by appointment
2016 SH-DH

Course Description

MGMT 111 is the basic introductory course to international business and management. Its goal is to familiarize students with key aspects of the international political, economic and institutional environment in which firms operate. The course is considered a foundation for the Management Department's courses in Multinational Corporate Strategy (MGMT 205), Politics and the Multinational Corporation (MGMT 209), and Comparative Management (MGMT 234).

This course begins with an overview of the global landscape, and then covers different aspects of international trade before turning to foreign investment. Topics covered in international trade include trade practices, tariffs and non-tariff barriers, the World Trade Organization (WTO), regional trading blocs, and geography and trade.

The course then turns to the international financial architecture, focusing on exchange rate risk. The course concludes with an overview of the multinational firm, including a discussion of the reasons for why firms choose to do business globally through relocating instead of through trade. Internationalization as a justification for multinational activity is explored, as are the different ways to engage in global multinational strategies. Ethical dilemmas related to labor practices and bribery are also addressed.

While two thirds of this course is in a lecture format, there will be ten cases that allow students to synthesize the extensive materials on multinational management, international institutions, economic policies, and politics with a goal towards formulating multinational firm strategy. Cases will be drawn to reflect the diversity of global strategy challenges across different continents.

Cases will include both large and small globalized companies, such as Apple in China, and Lincoln Electric in India. The cases will cover a broad array of sectors.

Textbooks and Readings

All of the readings will be made available on Canvas. While there is no required textbook for the course, I assign several chapters from Keith Head's book, *Elements of Multinational Strategy*. I also assign several chapters from the tenth edition (2014) of Alan Shapiro's textbook, *Multinational Financial Management*.

Grading

Students will be graded on the basis of a midterm (20 %) and final project (30 %), as well as five case write-ups worth a total of 30 %. The remaining 20 % will be based on class participation in the cases and lectures. There is no forced curve in this class.

FINAL PROJECT

Students will pick a company contemplating engaging in international trade, foreign investment, or offshoring parts of the value chain. The team will describe the potential challenges and solutions in moving into global operations, which could consist of products that are goods or services. This could be a company new to trade, or a company that already engages in international activities but is thinking of moving into a new geographic area or product segment.

The team project should be carried out in **groups of 4**. You are free to choose your team members yourself. Part of the grade will depend on a within team evaluation of the contributions made by each member.

Your assignment is to use theories and concepts from the course to analyze and explain the activities of a given firm in a given country, vis-à-vis the firm's global strategy. Essentially, in this assignment, you will use an actual firm as the case material that allows you to demonstrate your understanding of and ability to apply course theories/concepts. The project can incorporate such topics as comparative and competitive advantage in a global context, tariffs and other barriers to trade, the advantages or disadvantages of regional agreements, engaging in foreign investment, international tax strategies, offshoring key components of the value chain, and global corporate social responsibility (CSR) dilemmas. This assignment requires you to prepare a report (25 pages in length) and a presentation summarizing its main themes and findings. For both, you should consider the drivers of the firm's recent relative performance as well as the sustainability of these drivers over time.

The choice about the relative weight to put on different issues, theories and concepts in explaining the firm's activities and its performance is yours. In evaluating your paper, I will look to see whether the theories/concepts you use are described accurately (i.e. substantively correct), applied appropriately (i.e. fit the context you describe), and most relevant to the situation (i.e. did you pick the theories/concepts that best illuminate the firm's situation). In choosing a focal firm, remember that you may not choose a firm highlighted in the cases from the course; and that the

firm must, to some degree, be global, i.e. involved in cross-border activities (not only serving a domestic market).

Please consider the following as possible topics to include in your report:

- Short history/overview of the focal firm, its strategy, and its management practices, including the influence of its home country's political, economic and social institutions;
- Short history / overview of the economic, political, legal or social context in the focal country and the focal firm's perceptions of their likely evolution over time, as it pertains to the evolution of the focal firm's strategy and management practices;
- Is this company considering a global expansion or contraction? Does it make sense for the company to expand globally at this time? Why or why not?
- What comparative or competitive advantage does this firm have on global markets? What is the ideal form of global sales—trade or foreign investment? If foreign investment is being contemplated or expanded, what is the right form of FDI?
- How important are regional agreements in either enhancing the firm's competitiveness or creating barriers that need to be overcome such as preferential tariffs for regional competitors?
- If the company were to expand globally beyond its current geographic scope, which regions make the most sense? (CAGE framework) Why?
- How much adaptation of product attributes or marketing does this company do as it moves across different geographies? Should it do more? Less?
- Global strategy (i.e., Aggregation, Adaptation or Arbitrage) of the firm in the focal market differentiating by product or function as appropriate, and including mode of entry and sequence of entry by which the firm entered the focal market where appropriate;
- Impact of different national employment laws, policies, institutions, and norms on the focal firm when it operates in different countries (Porter Diamond, Institutional Voids);

Here are some tips based on my experience:

- Don't forget that this is an exercise that must be graded. It is easy to get carried away with an interesting story and forget that this is also a way to test your knowledge of and ability to apply the course material.
- Remember to mention course concepts specifically, so I don't have to read your mind to figure out what concepts you are applying to your case. Drawing explicit links between the concepts you identify and the case material is the key. Don't just drop in the names of a few theories or concepts into the midst of a description. Show how they apply.
- Do not expect the reader to "crunch the numbers" that you display in your exhibits to see what is really happening; this is the difference between a case and a paper: you have to provide the data *and* the analysis.
- When facing a choice as to whether to narrow your paper to a more focused topic, recognize the benefits of this strategy in terms of richness, thoroughness and completeness but balance these benefits against the costs of reduced data availability and difficulty in legitimately speaking to the elements of the course.
- It may be useful to
 - Develop a comparative angle in the paper, i.e. compare your firm to another firm in the same country or your firm's operations in the focal country to those in

another country. Doing so, however, enhances the risk of spreading yourself too thin so be cognizant of this risk if you choose this approach.

- Compare and contrast how two or more different theories or frameworks can be applied to the same case. Be sure you make it clear to me why you chose those theories and which you felt provided more insight.

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

A one page proposal that describes the company you are planning to study, what aspects your analysis will focus on, and how you plan to gather data should be submitted on Canvas by **Tuesday 6th February**. You should then meet with me at the end of February to discuss your progress.

The write-up should be printed double-spaced, using 12-point Times New Roman Font. The maximum length is 25 pages not including Exhibits. Please include an Executive Summary and Word Count on a title page. You will have to be concise and make choices about what issues to discuss. I recommend that you begin work on the paper early, to avoid a last minute crunch. This is feasible because some corporate and national material is readily available and each class session will introduce new concepts that are potentially applicable. You will also do a presentation to the class at the end of the semester of your report's primary themes and conclusions.

About the Instructor

Ann E. Harrison is William H. Wurster Professor of Multinational Management and Professor of Business Economics and Public Policy at the Wharton School, University of Pennsylvania. Prior to joining Wharton, she taught students at the MBA, master's, PhD, and undergraduate levels at various other universities, including Columbia Business School, the University of California, Berkeley, the Kennedy School of Government at Harvard University, and the University of Paris.

Before joining the Wharton School, Professor Harrison spent two years in Washington D.C. as the Director of Development Policy at the World Bank. Prior to that, she served as the head of the research team at the World Bank on international trade and investment. Between 2001 and 2011, she was Professor of Agricultural and Resource Economics at the University of California, Berkeley. Professor Harrison received her PhD in Economics from Princeton University and graduated with highest distinction in Economics and History from the University of California, Berkeley.

Professor Harrison is a Research Associate at the National Bureau of Economic Research, a member of the United Nations Committee for Development Policy, and an affiliate of the International Growth Centre in London. She is on the editorial boards of the *Journal of Asian Economics*, the *Journal of Economic Literature*, *The World Bank Research Observer*, and serves on various advisory committees at the World Bank and elsewhere.

Her research is in the areas of emerging markets, multinational firms, international trade, productivity, and labor markets. Professor Harrison has published in the top journals in her areas of research. Her first book, *Globalization and Poverty*, was published by the University of Chicago Press. Her most recent book, *The Factory-Free Economy*, was published in 2017 by Oxford University Press and explores deindustrialization. She has lectured widely, including at most major US universities and in India, China, Latin America, Europe, the Philippines, and North Africa. Her most recent work evaluates the impact of anti-sweatshop campaigns and corporate social responsibility; the linkages between globalization of firms, worker wages and employment; the effectiveness of industrial policy; and determinants of productivity growth in China and India.

Class 1: An Introduction to Multinational Management

Readings

Thomas L. Friedman, "It's a Flat World, After All," *New York Times Magazine*, April 3, 2005.

Pankaj Ghemawat, *Redefining Global Strategy*, Chapter 1.

"Remember When Trump Said He Saved 1,100 Jobs at a Carrier Plant?", *Bloomberg Business Week*, March 29, 2017.

Discussion Questions

1. Friedman and Ghemawat have a very different world view regarding globalization. How do those different perspectives inform their vision of a firm's global strategy?
2. Why did Carrier consider relocating activity to Mexico? Why did the firm reconsider its decision?
3. If you were Carrier's CEO, what would you do about its Indianapolis plant?

Classes 2 and 3: What is Competitive Advantage?

Readings

Keith Head, *Elements of Multinational Strategy*, Chapters 2 and 3.

Michael Porter, *Competitive Advantage of Nations* (HBS 90211)

"How the US Lost out on iPhone Work", *New York Times*, January 21, 2012.

Discussion Questions

1. According to Porter, what are the deficiencies of classical theory?
2. How does Porter's concept of competitive advantage differ from Keith Head's definition of comparative advantage?
3. According to Porter, what are the determinants of competitive advantage?
4. What is the source of China's competitive advantage in producing the iPhone?

Class 4: Comparative and Absolute Advantage in practice

Readings

Swatch and the Global Watch Industry, Ivey School of Business 9A99M023.

Discussion Questions

1. What was Hayek's key vision to revive the Swiss watch industry?
2. What are Swatch's key competitive strengths?
3. Is the competitive landscape for watches flat?

Class 5: Trade Finance

Readings

Foley, C. Fritz, and Matthew Johnson. "[Belco Global Foods.](#)" Harvard Business School Case 211-033, October 2010.

"Exports and financial shocks: New evidence from Japan," Mary Amiti and David Weinstein, VoxEU, 23 December 2009.h

Discussion Questions

1. What are the instruments for financing trade, how do they work and what are the tradeoffs?

Class 6: Gravity and Trade: Using distance to understand trade

Readings

Head, Chapter 4, "Trade Costs".

Pankaj Ghemawat, "Differences Across Countries: The CAGE Distance Framework", Chapter 2 in *Redefining Global Strategy*, 2007.

Discussion Questions

1. What does the gravity model tell us is important for predicting trade?
2. How does Ghemawat's framework expand on economists' view of gravity and trade?
3. What are the strengths of the gravity approach? The weaknesses?

Class 7: Applying CAGE: the case of CEMEX

Readings

The Globalization of CEMEX, HBS 9-701-017

Discussion Questions

1. Why did CEMEX enter foreign markets primarily through foreign investment and not through international trade?
2. Did CEMEX expand geographically along the distance metrics outlined by CAGE?
3. What do you think of CEMEX's pace of expansion?
4. Would you have entered different national markets using the same entry modes as CEMEX? Why or why not?

Class 8: Trade Costs: Tariffs

Readings

"Us Border Tax Plan Risks Hitting Asia Growth", *Financial Times*, Jan. 16, 2017.

"Building Trade Walls", Keith Bradsher and Karl Russell, *The New York Times*, March 7, 2017.

Alan Auerbach, “The Case for a Border-Adjusted Tax”, *The New York Times*, March 6, 2017.

“How America’s Border-Adjusted Corporate Tax Would Work”, *The Economist*, February 13, 2017.

Discussion Questions

1. US Congress recently considered a border tax adjustment that would lead to taxes on imports but not on exports or domestically produced goods. Identify which types of companies would gain and lose from such a tax.
2. How would US consumers be affected by a border tax adjustment?

Class 9: Quotas and non-tariff barriers

Readings

Trade Tensions Mount (by Simon Evenett, Executive Summary Only)

“Dumping and tub-Thumping”, *The Economist*, 9 April 2016

“China Has a Plan to Be Nearly Self-Sufficient by 2025. Global Rivals Call It Unfair”, Keith Bradsher and Paul Mozur, *The New York Times*, March 8, 2017.

Class 10: Regional Trade Agreements and the WTO

Readings

“The World Trade Organization and the Future of Multilateralism”, Richard Baldwin, *Journal of Economic Perspectives*, Winter 2016.

“Global shifts give China president chance to steal limelight in Davos”, *Financial Times*, January 16, 2017.

“Why Obama’s key trade deal with Asia would actually be good for American workers,” David Autor, David Dorn, and Gordon Hanson, *Washington Post*, 12 March 2015.

“What is Lost by Burying the Trans-Pacific Partnership?”, Jackie Calmers, *The New York Times*, 11 November 2016.

Discussion Questions

1. Who is likely to support and oppose the TPP?
2. Do you think the TPP is a good idea? Why or why not?

Class 11: The truth about NAFTA

Readings

To Trade or not to Trade: NAFTA and the Prospects of Free Trade in the Americas: HBS 9-705-034

Discussion Questions

1. Based on the evidence presented in the case, did NAFTA result in a loss of jobs in the USA? What about in Mexico? Defend your answer.
2. What happened to trade between the 3 members post-NAFTA? Does this represent a welfare gain or a welfare loss or neither?
3. Why did the US, Mexico, and Canada sign the North American Free Trade Agreement? Which sectors would you expect to gain most from this agreement?
4. What opportunities and challenges did NAFTA create for North American firms already operating within the three countries of Mexico, the US, and Canada?
5. What opportunities and challenges did NAFTA create for companies based outside North America? What strategic responses should companies outside NAFTA adopt?

Class 12: Optimum Currency Areas: going beyond RTAs

Readings

“Optimum Currency Areas and the Euro”, Chapter 21 in *International Economics: Theory and Policy*, Paul Krugman and Maury Obstfeld, 2015.
“Why the U.K. Left the European Union,” *The Atlantic*, June 2016.

Discussion Questions

1. What is an optimum currency area? How does it differ from a regional trade agreement?
2. Do you believe that the euro partners qualify as an optimal currency area? Defend your answer.
3. Did Britain’s vote in June 2016 provide any support for or against your answer in (2)?

Class 13: MIDTERM

Class 14: Theories of FDI I (Horizontal versus vertical FDI)

Readings

“The Multinational Enterprise: An Overview of Theory and Empirical Findings,” Section 2.1 (Pages 23-39), Giorgio Barba Navaretti and Anthony J. Venables, *Multinational Firms in the Global Economy*, Princeton University Press, 2006.

“Why foreign investment still polarizes India”, Sonal S. Pandya, Monkey Cage, Washington Post, September 30, 2014.

Class 15: Theories of FDI II (Ray Vernon, Internalization and the intangible asset theory of FDI, and Technology Transfer)

Readings

R. Vernon, *Quarterly Journal of Economics*, 1966, “International Investment and International Trade in the Product Cycle”.

“Attracting High Technology Investment: Intel’s Costa Rican Plant”, Debora Spar, FIAS, April 1998.

“Intel outside”, *The Economist*, April 16 2014.

“Costa Rica: Life after Intel”, Rodrigo Aguilera, May 1, 2014.

Class 16: Management Theories of Global Strategy (Dunning’s OLI Paradigm; AAA)

Readings

“The Eclectic Paradigm of International Production: a Restatement and Some Possible Extensions”, *Journal of International Business Studies*, Spring 1988.

“Managing Differences: The Central Challenge of Global Strategy”, *Harvard Business Review*, P. Ghemawat, R0703C-PDF-ENG.

Class 17: Where to go? Entering Foreign Markets Part I

Reading

Grolsch: Growing globally (HBS)

Discussion Questions

1. What would Grolsch claim as its competitive advantages vis-à-vis its competitors?
2. When did they begin going global? Why did Grolsch expand internationally?
3. What market characteristics does Grolsch analyze when it enters foreign markets? What do you make of their framework to evaluate market entry?
4. Evaluate Grolsch’s performance in international markets

Class 18: How to go? Entering Foreign Markets Part II

Reading

Lincoln Electric (HBS 9-707-445)

Discussion Questions TBA

1. Put yourself in CEO Stropki’s shoes. Should Lincoln Electric expand into India?
2. In which countries is Lincoln Electric likely to be most/least successful? Why? How would this guide your choice about where the company should place its production facilities?
3. When Lincoln Electric goes abroad, what factors should determine how much it adapts its core incentive pay-for-performance management practices to local labor market norms? Should the company follow the adage “when in Rome, do as the Romans do” or should they replicate the system that drove success at home in Cleveland, Ohio?

Class 19: Optimizing MNC Taxation Part I

Readings

“International Taxation”, Chapter 12 in *Elements of Multinational Strategy*, Head.

“Subcommittee to Examine Offshore Profit Shifting and Tax Avoidance by Apple Inc.”, Senate Permanent Subcommittee on Investigations, May 20, 2013.

“Caterpillar Is Accused In a Report of Fraud”, *The New York Times*, March 8, 2017.

Class 20: Optimizing MNC Taxation Part II

Reading

Desai, Mihir A., James R. Hines, Jr, and Mark Veblen. "[Corporate Inversions: Stanley Works and the Lure of Tax Havens.](#)" Harvard Business School Case 203-008, September 2002.

Discussion Questions: TBA

Class 21: Exchange rates I: hedging against risk

Readings

Multinational Financial Management, Alan Shapiro, Tenth Edition, 2013, Chapters 8 and 9.

“Exposed!”, Chana Schoenberger, *The Wall Street Journal*, March 2, 2011.

“Devalued Yuan Set to Take Bite Out of Apple, Give Boost to Chinese Rivals”, Lorraine Luk and Eva Dou, *The Wall Street Journal*, 11 August 2015.

Class 22: Exchange rates II: passing through XR changes

Reading

Molto Delizioso: Pricing and Profits Following Brexit Devaluation, W17205-PDF-ENG, Ivey Publishing, 2017.

Discussion Questions: TBA

Class 23: Human Resource Management in a World of Varying Labor Laws

Readings

- “Spotting Institutional Voids in Emerging Markets”, Khanna and Palepu, 2005.
“In China, Human Costs are Built into an Ipad”, *New York Times*, Jan 25, 2012.
Apple in China, Wharton Case.

Discussion Questions

1. Should Apple be held accountable for poor labor conditions at factories it subcontracts from, including companies like FoxConn?
2. What should Apple do, if anything, to address institutional voids in Chinese labor markets? Do you have any recommendations for Apple’s CSR strategy going forward?

Class 24: Ethics and Multinational Firms

Readings

Corruption in Russia: IKEA's Expansion to the East (A), ES1691-PDF-ENG, 2016.

“The Road to Hell is Unpaved”, *The Economist*, December 19, 2002.

“Do Honest Corporations Stand a Chance?”, Mark Pieth and Radha Ivory, *Forbes*, January 22, 2009.

“Vast Mexico Bribery Case Hushed Up by Wal-Mart After Top-Level Struggle,” David Barstow, *New York Times*, April 21, 2012.

Discussion Questions TBA

Class 25: Preparation Time for Class Presentations (NO CLASS)

Class 26: Student Presentations

Class 27: Student Presentations

Class 28: Final Review and Wrap-Up