

**University of Pennsylvania  
The Wharton School  
Department of Management**

**SYLLABUS  
Thursday, January 6 2011**

**MGMT 715** (Political Environment of the Multinational Firm)

**Spring (Q3) 2011**

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ROOM: JMHH F65  
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3107 SH-DH

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**Objectives:**

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

**Outline**

We will begin with a module that offers an overview of the principles that link the political environment to global strategy as laid out by leading scholars and practitioners. 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 recent experience of the electricity generation and distribution company AES's investment in the Republic of Georgia. Next we consider how activist fund management and private equity/venture capital are transformed as they move into the Russian and Chinese institutional contexts. Subsequent cases examine the development of a gold mine in Indonesia by Canadian mining company Bre-X; Echelon's strategy for influencing standard setting for building automation in the European Union; the trade dispute between Brazilian aircraft manufacturer Embraer and its Canadian competitor Bombardier; creditors seeking to minimize the losses from their exposure to Thai Petrochemical after the East Asian crisis, a Canadian gold mining company struggling with NGO opposition in Romania and Ikea's treatment of accusations that it was complicit in the use of child labor in the fabrication of rugs. We close with an integrative case examining the Russian oil industry and a course wrap-up.

## Assessment:

### *KEY DATES*

Thursday, January 20 4:30pm – Sign-ups for Discussion Question Posts Open in eRoom

By 6am on day of class with case discussion (i.e., classes 4-8 & 10-14)

- For ONE class for which you have signed up, upload discussion question posts to your assignment submissions folder in eRoom
- All other dates, post a 3-5 sentence response to the focal question in Assessment Tool.

Friday, February 25 9:00am – Post team paper outlines to team folders in eRoom

Friday, March 4 5:00pm – Post final version of team papers to team paper folder

### *CONTENT*

Regular attendance is required. Students who fail to regularly attend the class will not receive course credit. Assessment for regularly attending students will be based on individual preparation of:

- (1) overall class participation (25%)
- (2) 2-3 page detailed response to the ***discussion question*** from one case (20%)
- (3) 3-5 sentence quick responses to the ***discussion question*** for remaining 5 cases (5%)
- (4) team paper outline (5%)
- (5) team (**NO** team > 5 members) paper (1 X 45%)

Note that there is NO MIDTERM OR FINAL EXAM.

These five components are discussed in more detail below.

(1) I expect a high-level of interactive and integrative discussion in every class. Please come to class prepared to engage with your peers. 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. You are also encouraged to post in the Current Events of Interest to the Class folder in WebCafe and/or bring up real time political or strategic events of relevance to the class. I will also cold call students.

(2) 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 overly emphasize facts from the readings but rather draw upon relevant material in the readings to address the points highlighted below.

Your posts should quickly address three questions: 1) How does the firm generate sustainable profits? 2) How does the political environment impact this stream of returns? And 3) What should the firm do to protect/enhance its profits? WHY? Your response to the third question should

- a) Analyze the strengths and weaknesses of at least two feasible strategic options to improve upon the situation presented in the focal case reading
  - 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.
- 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 (i.e., on what assumption or contingency does your recommendation most hinge).

- c) Incorporate within your analysis a refutation of the alternative strategies
- d) Succinctly summarize the key takeaway of the case (i.e., what lessons can other firms facing similar challenges take from your analysis and recommendations?)

Your posts should be formatted as with 1” margins in a 12-point times new roman font. Your submissions should be received before 6am on the date of the case discussion. You must sign up on web café on a first come first serve basis after the second class for your case write-ups.

For the remaining five case discussions, you should post a brief (3-5 sentence) response to the same question. These quick posts should succinctly identify

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

(4) 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.

(5) 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.

For more specific guidance on the structure of the paper see the Team Paper Guidelines on the next page

## **TEAM PAPER GUIDELINES**

Eight basic components should be found in the submitted 15-20 page paper. Page lengths described for each component are suggestions of a normal distribution across sections only and should not be considered binding if your topic merits relatively more/less detail in a given section. However, the complete paper must fall within the page limit and formatting requirements described above.

- 1) An unnumbered title page that identifies all team members and contains an executive summary
- 2) An introduction that identifies a specific company and a specific strategic choice that it faces in a specific policymaking environment that clearly involves a conflict between the corporation and a set of political and/or social actors (1 page);
- 3) An elaboration upon the conflict in a general context but with examples or emphasis upon the particular country and industry setting that you have chosen (2-3 pages);
- 4) A brief background on the company and context that you have chosen highlighting facts relevant to the case discussion (2-3 pages);
- 5) Analyze the strengths and weaknesses of at least two feasible strategic options to address that conflict drawing upon (4-6 pages)
  - i. an understanding of the preferences of the key actors in the case and their intensity;
  - ii. the national or international decisionmaking structure that leads to the translation of these preferences into policy outcomes; and
  - iii. the likely reactions of key market and political actors to any strategic choice.
  - iv. the incorporation of this information into scenarios constructed using the Geopolitical Influence and Strategy Tool (GIST) that compare alternative strategies to influence the current formal or informal policymaking structure and likely policy outcome (online with Figures incorporated in your manuscript);
- 6) Make a recommendation based on that analysis of what the firm/manager should do or have done. Make sure that you help the reader understand the assumptions or weights that led you from your status quo scenario and your analysis of the strengths and weaknesses of options to this particular recommendation. It should be clear to the reader of this section why you did not choose the second best strategic option. (1-2 pages).
- 7) Succinctly summarize the key takeaway of the case (i.e., what lessons can other firms facing similar challenges take from your analysis and recommendations?) (1 page)
- 8) A list of references that includes both secondary (newspaper or magazine) **AND** primary (company newsletter, press release, annual report, company internet site or conversations with individuals familiar with the corporate response to the strategic choice) sources. Please provide enough information so that a reader can easily find the reference.

Examples of exceptional papers will be provided on Wharton Web Café.

**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.**

## **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.

## INTRODUCTION

### 1. Conceptual Introduction (Thursday, January 13)

#### 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.

#### Discussion Questions

1. Can you just boil this down to a bilateral negotiation between a government and an investor?
2. Identify a firm that in your opinion mismanaged its political environment to the detriment of its global strategy (or identify a class of political problems with which firms have difficulty.)
3. ***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?*

### 2-3. Introductory Case: Power Trip or Power Play in the Republic of Georgia (T/Th January 18-20)

#### Readings

Power Trip or Power Play: AES-Telasi (A) (Witold J. Henisz and Bennet A. Zelner)

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

#### Discussion Questions

1. Did AES-Telasi face substantial policy risks? Why?
2. Who were the key political and social actors for Michael Scholey in the Georgian environment? Who were his allies? Opponents?
3. Who were the key political and social actors for Michael Scholey in the international environment? Who were his allies? Opponents?
4. What strategy did AES adopt to deal with this divided political and social environment?
5. ***What were the strengths and shortcomings of the strategy of Michael Scholey towards the policy risks faced by AES-Telasi in the (A) case?***
6. ***[FOR JANUARY 20] What were the strengths and shortcomings of the strategy of Michael Scholey towards the policy risks faced by AES-Telasi in the (B) case? What alternative strategy would you recommend that Ignacio Iribarren implement upon his arrival?***

**Sign-up for Discussion Questions Posts Opens in WebCafe Thursday, January 20 at 4:20pm.**

## NATIONAL POLITICAL GAMES

### **4. Adapting to the Local Institutions of Finance I: The Case of Activist Shareholding in Russia (Tuesday, January 25)**

#### Readings

##### *Background*

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

##### *Case*

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

#### Discussion Questions

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

### **5. Adapting to the Local Institutions of Finance II: The Case of Chinese Venture Capital (Thursday, January 27)**

#### Readings

##### *Background*

Ahlstrom, David, Garry D. Bruton and Kuang S. Yeh, (2007) "Venture Capital in China: Past, Present and Future" *Asia Pacific Journal of Management* 24:247-268.

##### *Case*

Abdelal, Rawi and David Lane, "Chrysanthemum and Dragon: JAFCO Asia in China" *HBS Case 9-706-012*

#### Discussion Questions

1. How do foreign venture capital and private equity investments differ from other foreign direct investments?
2. Is China ripe for foreign venture capital and private equity? From US investors? From European investors? From Japanese investors?
3. ***Will JAFCO Asia outperform other Western investors in China? Why or why not?***
4. Will JAFCO Asia and firms like it, ultimately improve the political relations between China and Japan?

## 6. Corruption in Indonesian Mining (Tuesday, February 1)

### 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?***

## INTERNATIONAL POLITICAL GAMES

## 7. The European Union and Standards (Thursday, February 3)

### Readings

#### *Background*

The Impact of U.S. Lobbying Practice on the European Business-Government Relationship (David Coen, California Management Review 41(4): 27-44; CMR Reprint 155)

#### *Case Discussion*

Echelon in Europe (Graduate School of Business, Stanford University Case P-22)

### Discussion Questions

1. What are the goals or objectives of the European Union?
2. Describe initiatives by the European Union other than tariff and subsidy reductions that have the purpose of achieving these goals. Why are these important?
3. Should the EU be able to set standards that are binding upon individual nation-states? Why or why not?
4. How will the enlargement of the EU in 2004 influence the scope of EU authority? Why is it so contentious?
5. ***Should Echelon maintain its defensive blocking strategy? Why or why not? If not, how should it seek to influence the adoption of an open architecture policy at the EU level?***

## 8. Limiting Political & Corporate Power through International Regimes (Tuesday, February 8)

### 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, ...?
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 (Canadian) government at the WTO.
7. Beyond the legal basis for the dispute, make the argument from the perspective of Embraer (Bombardier) to the Brazilian (Canadian) government 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)?***

## 9. Reflections on Big Mistakes in Economic Policymaking (Thursday, February 10)

### Readings

Can the IMF play Supercop? (James Smalhout, Euromoney, September, 1998, pp. 90-93)

Prevention is more complex than cure (James Smalhout, Euromoney, Sept. 2001, pp. 320-325)

Stinging Critiques of IMF, US Treasury (Chakravarthi Raghavan, Third World Network

<http://www.twinside.org.sg/title/sting.htm> Accessed 11/29/05)

The Insider (Joseph Stiglitz, The New Republic 4/17/2000 <http://www.tnr.com/article/politics/the-insider>)

How Did Economists Get it So Wrong (Paul Krugman, The New York Times Magazine 9/6/09

[http://www.nytimes.com/2009/09/06/magazine/06Economic-t.html?\\_r=1&em=&pagewanted=print](http://www.nytimes.com/2009/09/06/magazine/06Economic-t.html?_r=1&em=&pagewanted=print))

### 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?***

## 10 Negotiating Debt After the East Asian Crisis (Tuesday, February 15)

### Readings

#### *Case*

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

### Discussion Questions

1. *Should creditors undertake a*
  - a. *Debt restructuring with Prachai and current TPI management as planner*
  - b. *Debt restructuring with an external planner—most likely, Effective Planner, the creditors’ steering committee nominee after the disagreements with Prachai*
  - c. *strategic partnership with a local company to restructure and manage TPI*
  - d. *Sale of TPI*  
*Why or on what would it depend? [In class Role Play Exercise]*

## INTERNATIONAL POLITICAL AND SOCIAL GAMES

### 11-12. Is DAD (i.e., Decide Announce Defend) Dead? (Th/T, February 17/22)

### Readings

#### *Background*

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

#### *Case Discussion*

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

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

### Discussion Questions

1. Is the Rosia Montana mine a financially viable investment project?
2. Does the Rosia Montana mine have political and social support? From whom?
3. *Given the political, economic and social environment in Romania in the mid-1990s, did Gabriel Resources management teams follow a well-designed strategy for the exploitation of the mine in the (A) case? Why or why not?*
4. *For 2<sup>nd</sup> Class: Was the strategy of the new management team led by Alan Hill as described in the (B) case well-designed? Why or why not?*

### 13. Limiting Political & Corporate Power through NGOs/Public Private Partnerships (Thursday, February 24)

#### Readings

##### *Background*

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

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

##### *Case*

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

#### Discussion Questions

1. When are NGOs most able to impact multinational strategy? Why?
2. When are multinational corporations most able to cooperate with NGOs? Why?
3. What are the drivers of the use of child labor
4. What are the risks involved for IKEA in its treatment of child labor issues?
5. How should IKEA respond to the accusations leveled against it? **[Brief In class Role Play Exercise]**
6. How should IKEA manage its policies with regard to child labor?
  - a. What should they do independently? Why?
  - b. What should they do in concert with NGOs such as Rugmark? Why?
  - c. What should they do in concert with IGOs such as the ILO or UNICEF? Why?
7. ***Should IKEA sign on to Rugmark? How should they deal with Rangan?***

**Post team paper outlines to team folders in eRoom by Friday, February 25 at 9:00am**

### INTEGRATION & SYNTHESIS

### 14. Strategy in the Russian Oil Industry and course wrap-up (Tuesday, March 1)

#### Readings

##### *Case Discussion*

White Nights and Polar Lights: Investing in the Russian Oil Industry (HBS Case, 9-795-022)

##### *Wrap-up*

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

Skim Global Risks Report 2011 (World Economic Forum)

<http://www.weforum.org/en/media/publications/GlobalRiskReports/index.htm>

#### Discussion Questions

1. What are some of the relevant characteristics of the oil industry and, in particular, the oil industry in Russia that lead political and regulatory risk to pose such concerns to investors?
2. How does political and regulatory risk affect the entry strategy of foreign oil firms in Russia?
3. ***Evaluate the entry strategies of Phibro, Mobil and Conoco. Which one chose wisely? Why?***  
**[In-class debate on this question]**

4. How will the returns from the development of Russian oil likely be distributed in the long term? Why?
5. *For one specific global risk,*
  - a. *Identify specific reforms that could reduce the likelihood of this risk manifesting or reduce the severity of impact should it manifest*
  - b. *Identify specific impediments to the implementation of these reforms*
6. Will the global economy continue to become more integrated? Who will be the winners / losers?
7. Will international political institutions keep pace / surge ahead / fall behind?
8. What are the implications of these two trends for multinational managers?
9. What are the barriers to the implementation of better strategies to respond to and shape the political and social environment for business?

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