



MGMT 715.701: Political and Social Environment of the Multinational Firm

SPRING 2015

!DRAFT SYLLABUS OF 11/24/2014!

Witold Jerzy Henisz

Deloitte & Touche Professor of Management

in Honor of Russell E. Palmer, former Managing Partner

Phone: 215-898-0788

Email : henisz@wharton.upenn.edu

OH: by appt.

3107 SH-DH

Objectives:

Are you well prepared to manage or analyze business challenges and competitive threats in a variety of political and social environments? For example, what should you do to dissuade or counter an individual critic armed with a camera phone and a YouTube account? Or a decentralized grassroots organization that seemingly pops up overnight, appears to have no single leader or headquarters, and yet is quite successful in capturing media attention? Or a government official who because of a tight reelection campaign or an internal challenge from a populist general turns on you? Lone individuals, small activist groups and unexpected political shifts have done extensive damage to the reputations — and value — of multinationals in recent years. And yet most companies don't plan for, or even think about, investing in building the kinds of solid relationships with community leaders, governments, NGOs, and other key players that can help them avoid such crises and, when necessary, draw upon their reservoir of stakeholder capital to respond quickly and decisively when a challenge or threat emerges. This class provides an integrative perspective towards the management of these risks and opportunities. It highlights that better assessment of stakeholder opinion, understanding of how stakeholders impact firm value and of how to infuse stakeholder relationships with trust to unlock that value are increasingly critical elements of a firm's long-term success, particularly in emerging markets. Firms must also focus on continual improvement in their stakeholder engagement, reinforcing their actions with strategic communications and via organizational culture. The course will give students a combination of practical tools and the latest academic thinking in the emerging field of corporate diplomacy.

Outline

We will begin with an introductory module that makes the case for Corporate Diplomacy and offers an overview of best practice as well as the risks of failure. AES's investment in an electricity distribution company in the Republic of Georgia offers an introduction into the complex challenges we will explore.

Next we examine five of the six elements of Corporate DIPLOMACY:

- Due diligence on the stakeholder landscape for an Indonesian gold mining company, creditors in a Thai bankruptcy and in the consulting services of guest speaker, Steven Fox, CEO of Veracity
- Integration into strategic analysis and planning in a gold mine in Ghana;
- Personal trust building with skeptical stakeholders in Peruvian mining;
- Openness in reporting and communications in Romanian gold mining; and,
- Mindsets in IKEA as they grapple with accusation of Indian child labor and in the development of your careers in a conversation with guest speaker Christine Bader.

We then seek to integrate these tools

- First, by returning to electricity distribution through private equity investor Abraaj Capital's investment in the Karachi Electricity Supply Company.
- Second, by competing in teams in a computer-based crisis management simulation custom designed for this course.

The format will include lecture, case discussion, small group discussions and report-backs, in-class debates and role-play exercises as well as the integrative computer-based simulation.

Assessment

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

- (1) Class participation and engagement including participation in online polling (30%)
- (2) One novel 150 word example of a corporate diplomacy best practice (5%)
- (3) One Individual Stakeholder and/or Issue Map assignment **Due 3/14 9am** (10%)
- (4) Team (Self-selected teams of 6 or fewer members) Paper Assignment
 - (a) A 2-4 page team paper outline **Due 3/28 9am** (5%)
 - (b) A 20-25 page team paper **Due 4/11 5pm** (1 X 40%)
- (5) Team (Randomly assigned teams of 4 members) simulation score (10%)

These five 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 economic 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) I will frequently post news clippings and multimedia that highlight real-time application of course concepts to the LinkedIn Group "Corporate Diplomacy" or via @whenisz. At least once during the semester, you must post to Canvas one short (150 word) summary with external link(s) to a description of a best practice of Corporate Diplomacy. Examples would include the use of stakeholder mapping & analysis, measurement of the financial returns to stakeholder engagement, efforts to build personal relationships with external stakeholders, adaptive learning systems that

build trust with external stakeholders, effective communication strategies with external stakeholders and mindsets or organizational cultures that clearly prioritize long-term creation of value for shareholders and stakeholders. I will try to highlight some of the most relevant material, debates and tools in class discussion.

- (3) 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 make sense of an international business challenge that you are or have considered for your team paper assignment. The evaluation will be based on the extent to which your individually written write-up of no more than 500 words accompanied by no more than 3 graphs adds value or illuminates accompanying article(s) describing a Corporate Diplomacy challenge. I encourage you to use these assignments as inputs into your team's deliberations of which case to pursue.
- (4) Teams consisting of **NO MORE THAN SIX** 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.
 - 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. Nine basic components should be found in the submitted 20-25 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 which summarizes the strategic problem, the choices that you are analyzing, the choice that you are recommending and the key assumptions or factors leading to that recommendation.
 - 2) An introduction that identifies a specific company and a specific strategic choice that it faces that clearly involves a (potential) conflict with a set of external stakeholders (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. You should try to link your example to other similar conflicts in the same firm, industry or country. (3-5 pages);
 - 4) The development and analysis of a stakeholder map that highlights the identity and priority issues for the key stakeholders involved culminating in the identification of 2-4 strategic options for the company. These options typically include initiatives that address specific issues in partnership with specific stakeholders (5-6 pages);
 - 5) An assessment of the relative efficacy of these proposed strategies. This analysis can include
 - a) Comparison of the financial costs and benefits using the FVTOOL or other techniques.
 - b) Comparison of the impact on the overall level of stakeholder support using GIST or other techniques.

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. (5-6 pages)

- 6) The discussion of key aspects of implementation of the recommended strategy including (5-6 pages).
 - 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
- 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.
- 9) 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.

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 hazards on international investment strategy including efforts by multinational corporations to engage in corporate diplomacy to win the hearts and minds of external stakeholders. In a National Science Foundation funded project he showed 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 assessed 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. He draws upon these insights as well as examples from large scale construction management, sustainable tourism, development and military counterinsurgency in his (April 2014) book *Corporate Diplomacy: Building Reputations and Relationships with External Stakeholders*. His earlier work analyzed (1) the political and economic determinants of government attempts to redistribute investor returns to the broader polity; (2) the strategic responses by organizations to such pressure; and (3) the determinants of the success of individual organizations in withstanding such pressure. His research has been published in top-ranked journals in international business, management, international studies and sociology . 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 European Financial Review*, *Network for Business Sustainability*, *The Penn Gazette* and *Knowledge@Wharton*. He served as a Departmental Editor at *The Journal of International Business Studies* and *Studies* and now serves as an Associate Editor at *Strategic Management Journal*. In 2014, he was inducted as a Fellow of the Academy of International Business.

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, the development of the Rosia Montana gold mine in Romania and the financial valuation of sustainability initiatives at Newmont's Ahafo mine in Ghana. He also teaches sessions on Corporate Diplomacy for multiple open enrollment and custom Executive Education programs at the Wharton School including serving as Academic Director for a [3.5 day open enrollment program on the topic](#).

Witold has served as a consultant for AngloGold 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.

1A. Conceptual Introduction (Friday, February 27)

Readings

Browne, John and Robin Nuttal (2013) “Beyond Corporate Social Responsibility: Integrated External Engagement” *McKinsey Quarterly*
Dyer, David, Robin Nuttal and Ellora-Julie Parekh WG’05 (2013) “External Affairs at a Crossroads” *McKinsey Global Survey Results*
Deloitte (2014) “Reputation@Risk”

Discussion Questions

1. Identify a firm that in your opinion mismanaged its external engagement 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 OR college courses, 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?
 - c. Which function of the firm failed its mission?
 - d. Why didn’t they change course?

1B. Introductory Case: Power Trip or Power Play in the Republic of Georgia (Friday, February 27)

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)

Discussion Questions

1. Did AES-Telasi face substantial policy risks? Why?
2. Who were the traditional key political allies and opponents of AES in their overseas operations? What issues did they care about? How important was AES’s success to them?
3. Who were the key political and social allies and opponents of AES-Telasi? What issues did they care about? How important was AES’s success to them?
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?***
6. What did Scholey and AES-Telasi do differently in the (B) case? Why?
7. What were the strengths and shortcomings of the strategy of Michael Scholey in the (B) case?
8. ***What changes to Michael’s strategy(if any) would you recommend that Ignacio Iribarren (Michael Scholey’s successor) implement upon his arrival?***

2A. Due Diligence: Corruption in Indonesian Mining (Saturday, February 28)

Readings

Background

Corruption and Development (C. Gray & D. Kaufman, *Finance & Development*, 3/1/98, pp. 7-10)
McLeod Ross H. (2011) "Institutionalized Public Sector Corruption" in Edward Aspinal and Gerry van Klinken (eds.) *The State and Illegality in Indonesia*, pp. 45-63.

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. 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?***

2B. Due Diligence: Stakeholder Mapping in a Thai Bankruptcy (Saturday, February 28)

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*)
The Insider (Joseph Stiglitz, *The New Republic* 4/17/2000)

Case

Henisz, Witold Thai Petrochemical Industry: Negotiating Debt after the East Asian Crisis (A)

Discussion Questions

- 1) Identify the key stakeholders in the bankruptcy of Thai Petrochemical
- 2) Identify the key issues that are a priority or concern for each stakeholder
- 3) Identify the relative power of each stakeholder and overall importance of each issue
- 4) Identify the relationships between stakeholders that will influence their reactions to any proposals made on behalf of international creditors
- 5) ***Based upon your analysis, 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?

3A. Integration: The Net Present Value of Sustainability (Friday, March 13)

Readings

Background

Davis, Rachel and Daniel M. Franks et. al. (2014) “Conflict Translated Environmental and Social Risk into Business Costs” *Proceedings of the National Academy of Sciences* **111**(21):7576-7581.

Case Discussion

Henisz, Witold (2012) “Calculating the Net Present Value of Sustainability Initiatives at Newmont’s Ahafo Mine in Ghana (A)”

Discussion Questions

- 1) Where do failure 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?

3B. Participatory Stakeholder Engagement (Friday, March 13)

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 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.

DUE DILIGENCE ASSIGNMENT DUE SATURDAY, MARCH 14 9AM

4. Openness: Rosia Montana (Saturday, March 14)

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) & (B) (Witold Henisz, Sinziana Popa and Tim Gray) [(B) CASE 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?
4. ***Imagine you are an NGO activist seeking to derail the project. Outline your strategy.***
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.***

5A. Mindsets at IKEA (Friday, March 27)

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. What are the drivers of the use of child labor?
2. What are the risks involved for IKEA in its treatment of child labor issues?
3. How should IKEA respond to the accusations leveled against it? [**Brief In class Role Play Exercise**]
4. How should IKEA manage its policies with regard to child labor?
5. ***Should IKEA sign on to Rugmark?***
6. ***How should they deal with Rangan?***

5B. Summary Case (Friday, March 27)

Readings

Case Discussion

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

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?

TEAM PAPER OUTLINES DUE SATURDAY, MARCH 28 9AM – NB: I WILL SEND FEEDBACK BY MONDAY, MARCH 30

6. KEROVKA Crisis Management Simulation, Debrief & Course Wrap-up (Friday, April 10)

Readings

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?

FINAL TEAM PAPERS DUE SATURDAY, APRIL 11 9AM