



Global Strategic Management

MGMT 655

MBA for Executives (East)

Summer 2010

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The course is designed to educate future business leaders about the global context in which business is conducted and its relevance to strategic management. It will increase students' awareness of the key economic, political and legal issues affecting business on a global scale and the interactions among firms, markets, governments and other social actors in grappling with them. It will expose students to different analytical perspectives for understanding the increasingly complex and uncertain global business context that managers face. And it will enhance their capacity to think critically about the global context of business, a process that they will have an opportunity to extend and deepen in later elective offerings.

The course emphasizes the deep and persistent cross-national differences in economic, political and social institutions that affect the strategy, performance and value of the multinational firm. It highlights the importance of this institutional variation at three levels:

- **Multinational strategy:** Multinational firms may seek to overcome cross-national differences, adapt to them or exploit them. Their emphasis on these three archetypical strategies has implications for the organization and management of their network of subsidiaries as well as the knowledge, capital and labor flows between them.
- **National governance institutions:** A nation's structure of economic, political and social institutions impacts the characteristics of the global industries and firms that originate in that country.
- **Global governance institutions:** An increasingly complex network of economic, political and social institutions impact the competition among multinational firms and alter the global policy environment in which they all compete.

The course relies heavily on the case method and we will examine firms spanning consumer products, pharmaceuticals, financial services, natural resource extraction and producer goods as they compete globally including case examples in Latin America, India, Africa, Russia and China. We will also consider the evolving policy environment in which this competition takes place looking backward over the post-war period as well as to various scenarios for the future.

In addition to the six classroom sessions, the global strategic management course incorporates the International Study Tour. During the IST, students will be exposed directly to firms, institutions, and executives who are currently involved in the formulation of strategy in markets substantively different from their home territory. Company visits will cover a range of topics potentially including the assessment of current opportunities in a foreign market of their choosing as well as the likely future

evolution of that market, efforts to implement or adapt global strategies to that context, the identification, tracking of and response to competitor moves, and the operational management of local subsidiaries. The IST allows us to go beyond the classroom and get into the field to observe “live,” as it were, the formulation and implementation of global strategic management.

REQUIREMENTS

- Class participation (30%).
- Online timed final exam (35%).
- International Field Project (35%).

Four Elements of Class Participation

- One or two questions will be posted in the “assessment” section of webCafé before class 2-6. They will require you to make a decision based on the case material (and readings if relevant) and to state the main reasons for your answer (bullet points are fine) in ~5 sentences. You must respond to the poll no later than 4:00am on the morning of class and your answers must be submitted via the Assessment Tool.
- Effective classroom participation is accomplished by focused comments or questions that develop insights that are not immediately discernible from the cases or readings, and demonstrate mastery of reading and case materials. We especially encourage class participation that applies conceptual frameworks to case materials and that enriches the learning experience of the class. We expect students both to attend each and every class and to be prepared to participate in each and every discussion. A pattern of absences can result in LT/D/F grades for the course.
- Each IST team is responsible for preparing a pre-trip overview of their focal firm and posting a summary of the company visit. Additional details on these requirements can be found in the memo at the end of this syllabus.
- Effective IST session preparation is accomplished by engagement with the pre-trip evening sessions and company visits during the trip including the posing of focused questions to the company representatives that reflect an appreciation of the pre-trip country and company briefing and the additional information provided by the opening presentation. We expect students to attend company visits in each and every scheduled timeslot as well as the pre-trip sessions on the evening of Friday, August 13 and during lunch on Saturday, August 14. A pattern of absences can result in LT/D/F grades for the course.

READING MATERIALS

- All readings are available from Wharton Reprographics.

ABOUT THE INSTRUCTORS

Witold Henisz is an Associate Professor of Management 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. He analyzes (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. This research has been published in top-ranked journals in international business, management, international studies and sociology. For the past five years, he has served as a Departmental Editor at *The Journal of International Business Studies*.

Witold has won multiple teaching awards at the undergraduate and graduate levels for his elective courses that highlight the importance of integrating a deep understanding of political and social risk factors into the design of an organization's global strategy. He has authored teaching cases on the experiences of AES Corporation in the Republic of Georgia, the management of the bankruptcy of Thai Petrochemical Industries and the development of the Rosia Montana gold mine in Romania. He also teaches sessions on Global Policy Risk for multiple open enrollment and custom Executive Education programs at the Wharton School. He is currently co-leading the redesign of the global required course in the Wharton curriculum.

Witold has served as a consultant for the World Bank, The Inter-American Development Bank, The Conference Board, Eurasia Group and the Department of Homeland Security. He previously worked for The International Monetary Fund. He is currently a principal in the political risk management consultancy PRIMA LLC and the risk management consultancy The Probity Group.

Sonia Marciano joined the Stern School of Management July, 2007. She spent the previous year teaching strategy at the Columbia Business School and the previous two years at Harvard's Institute for Strategy and Competitiveness (ISC) as an Institute Fellow and Senior Lecturer. At the ISC, Professor Marciano developed content for the Institute's Microeconomics of Competitiveness course offering. She co-taught this course with Professor Michael E. Porter.

Prior to joining Harvard, Professor Marciano spent eight years as a Clinical Professor of Management and Strategy at the Kellogg School of Management, as well as an Adjunct Professor of Strategy at the University of Chicago. Sonia taught core strategy as well as an international strategy elective. She is continuously involved with executive education programs for various firms, such as Ernst & Young, Abbott Laboratories, and others. She also teaches strategy and economics for executive education programs in the U.S., (Kellogg, Columbia and Wharton), Canada (Schulich) and Europe (NYU).

Sonia has won several teaching awards for distinction in teaching. She was among the highest rated professors at Stern, Columbia, Harvard, Kellogg and the University of Chicago.

She received her BA with honors from the University of Chicago. She worked in consulting, banking and the insurance industries before returning to the University of Chicago to receive her MBA in 1994, and her PhD in Business Economics and Industrial Organization in 2000.

INTRODUCTORY WEEKEND

1. Conceptual Introduction: The Global Context for Strategic Management [Thursday, July 15]

- Background: Browse <http://www.pbs.org/wgbh/commandingheights/> (Particularly useful for students lacking a strong background in international economics, politics and policy)
- Readings: Kanbar, Ravi “The Co-Evolution of the Washington Consensus and the Economic Development Discourse” *Macalester International* 29(4)
- Friedman, Thomas L. “It’s a Flat World, After All” *New York Times Magazine* April 3, 2005
- Ghemawat, Pankaj, “Why the World Isn’t Flat,” *Foreign Policy*, March-April 2007, pp. 54-60.
- Florida, Richard, “The World is Spiky,” *The Atlantic Monthly*, October 2005, pp. 48-50.
- Case: Ghemawat, Pankaj “Grolsch: Growing Globally” IESE Case SM-1529-E 0-308-029
- Questions: 1. How has our understanding of the impact of global market forces and national policy on development changed over the past century?
2. Does this understanding vary by ideology? Country? Industry? Class? ... How?
2. Do you believe that the world is flat, flattening or spiky?
3. What are the implications of your answer for the strategic management of your firm?
4. **What are the implications of your answer for Grolsch’s global expansion strategy?**

2. Conceptual Frameworks and Introductory Case [Saturday, July 17]

- Readings: Ghemawat, Pankaj “Differences Across Countries: The CAGE Distance Framework” *Harvard Business School Publishing Reprint 2919BC*.
- Ghemawat, Pankaj “Managing Differences: The Central Challenge of Global Strategy” *Harvard Business School Publishing Reprint R0703C*.
- Piskorski, Mikolagj Jan, “Choosing Corporate and Global Scope” HBS Case 9-707-496
- Case: Montalto, Joseph “An Analysis of Huawei’s Success in Wireless Infrastructure”
- Questions: 1. How is China Different/Distant from the United States or the European Union?
2. **What unique factors are driving commoditization of cellular infrastructure?**
3. Should Western cellular infrastructure providers attempt to close the gap in product cost to compete with Chinese vendors?
4. What strategy should Western cellular infrastructure providers adopt to address the shift in the industry?"

ADAPTATION AND ARBITRAGE STRATEGIES

3. Adaptation

[Saturday, July 31]

- Readings: Kogut, Bruce and Spicer, Andrew (2002) “Capital Market Development and Mass Privatization Are Logical Contradictions: Lessons from Russia and the Czech Republic” *Industrial and Corporate Change* 11:1-37
- 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.
- Cases: Dyck, Alexander “The Hermitage Fund: Media and Corporate Governance in Russia” *HBS Case 9-703-010*
- Abdelal, Rawi and David Lane, “Chrysanthemum and Dragon: JAFCO Asia in China” *HBS Case 9-706-012*
- 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. How do foreign venture capital and private equity investments differ from other foreign direct investments?
 6. Is China ripe for foreign venture capital and private equity? From US investors? From European investors? From Japanese investors?
 - 7. Will JAFCO Asia outperform other Western investors in China? Why or why not?**
 8. Will JAFCO Asia and firms like it, ultimately improve the political relations between China and Japan?

4. Arbitrage [Saturday, August 14]

Reading: Shandlen, Kenneth (2007) “The Political Economy of AIDS Treatment: Intellectual Property and the Transformation of Generic Supply” *International Studies Quarterly* 51: 559-581.

Cases: Life, Death and Property Rights: The Pharmaceutical Industry Faces AIDS in Africa (*HBS Case N2-702-049*)

Phase Two: The Pharmaceutical Industry Responds to AIDS (*HBS Case N2-703-005*)

Big Pharma and the Golden Goose (*Financial Times*, April 16, 2001: 16)

Questions:

1. Are the managers of Cipla pirates or modern-day entrepreneurial Robin Hoods?
2. Why are the drug companies reluctant to comply with demands for affordable AIDS drugs from developing countries?
3. **Should Pfizer and Merck change their strategies (beyond those described in ‘Phase Two’)? Why? How? Your answer should address**
 - a. Pricing strategy for AIDS drugs (in developed and emerging markets)
 - b. Relations with NGOs
 - c. Relations with governments in both developed and emerging markets
 - d. Relation with emerging market drug companies

NATIONAL, TRANSNATIONAL AND GLOBAL GOVERNANCE

5. National Clusters and Transnational Activism [Friday, August 27]

Readings: Porter, Michael (1999) “Clusters and Competition: New Agendas for Companies, Governments, and Institutions?” *Harvard Business School Press Product #2034*.

Section on Corporate Social Responsibility from *Business Strategy Essentials* (posted to course website).

Case: Ghemawat, Pankaj and Sonia Marciano “De Beers in the Millennium” *Harvard Business School Case 706518-PDF-ENG*

Questions:

1. While the entire diamond value chain is distributed across the globe (literally and figuratively), activities such as cutting and polishing are geographically concentrated (namely, in India). Why might an activity such as cutting become concentrated in this way?
2. The De Beers organization was successful at monopolizing the trade of gem quality rough stones for over a century. Please explain the mechanisms by which the firm managed to sustain its central position in the diamond trade for as long as it did.
3. Why has De Beers given up monopolizing rough stones? That is, De Beers had a strategy that served it well for decades. What caused this strategy to lose consonance (“fit” with the conditions in its environment)?
4. **Evaluate De Beers’ branding strategy (not just for itself but for the majority of rough it distributes), as well as the Kimberly Process.**

6. Big Uncertainties in the Global Context of Strategic Management [Saturday, August 28]

Readings: Bremmer, Ian “State Capitalism Comes of Age: The End of the Free Market” *Foreign Affairs* May/June 2010 pp. 40-55.

Chancellor, Edward “China’s Red Flags” *GMO White Paper* March 2010

Burrows, Mathew J. and Jennifer Harris, “Revisiting the Future: Geopolitical Effects of the Financial Crisis” *Washington Quarterly* 32(2):27-38.

Naim, Moises “Think Again: Globalization” *Foreign Policy* February 2009

Kurlantzick, Joshua “The World is Bumpy: Deglobalization and its Dangers” *New Republic* July 2009

- Questions:
1. Will the post-war trend towards globalization continue? What will be the political, economic and strategic implications of this (break in) trend?
 2. Are we at an inflection point in public support for free markets and private enterprise? What will be the political, economic and strategic implications of this (break) trend?
 3. Is China the next bubble? What will be the political, economic and strategic implications of this (break in) trend?
 4. ***How would your strategic recommendation for one of our previous cases be impacted by the potential breaks in trend above (i.e., how should Grolsch, Alcatel-Lucent, financial investors in Russia or China, pharmaceutical companies or DeBeers [PICK ANY ONE CASE] adapt their global strategy for a future in which support for globalization and free markets has waned and the Chinese bubble has burst)? Why?***

MGMT 655: Global Strategic Management
International Study Trip Deliverables
(35% of overall grade for MGMT 655)

Each self-selected team of 4-7 students will do a strategic analysis of a problem that a company that the class will visit during the international trip is currently facing. The group will attend pre-trip sessions, conduct pre-trip research on the company, and come up with a small set of questions to pose to the company before the trip for discussion during the visit. The strategic summary of the company and questions regarding its strategy will draw upon the topics explored during the MGMT 655 course. The team will also post a summary of the company visit to web café before midnight the day of the visit. Finally, the team will prepare a research paper summarizing their background research, the strategic challenges identified and some sense of the corporate response to those challenges informed by the company visit and subsequent research.

- 1) Sign-ups for companies will open on web café on **Saturday, July 31 at 12:00pm** (the list of companies on the sign-up will be visible no later than **Friday, July 30**). There are a limited number of slots per company so you should sign-up as soon as possible for a preferred company but can always switch your sign-up later on if another company that you prefer to focus on is added to the schedule. If the company you listed does not confirm a visit or cancels a visit, you and your teammates may elect to continue writing a paper on that company or switch to a new company.
- 2) Each group will prepare a short presentation on their company. The presentation should consist of about three slides, the first summarizing the company's strategy in the region/world (how and why do they win in the marketplace: Aggregation, Adaptation or Arbitrage), the second highlighting the company's relative strengths and weaknesses particularly in the Chinese institutional environment, with the last slide listing the proposed questions that we should ask the company to address during our visit. This presentation should be posted to web café before **Thursday, August 12 at 9am**. They will be integrated into a presentation by Professor Henisz on the evening of **Friday, August 13** and a summary of that presentation including student questions will be provided to the company in advance of our visit in the hope that they will tailor a presentation towards your team's interests or at least be prepared for questions and answers of relevance to your paper topic.
- 3) Each group will summarize the content of the company visit in a 1-page memo to be posted to web café before midnight on the day of the visit. This memorandum should take the form of meeting minutes including a summary of the presentation provided by the company as well as the Q&A with particular attention to the responses to the questions prepared beforehand. The memoranda will be incorporated into a Friday afternoon debrief at the end of the IST and made available to all students as a resource in the preparation of their team papers.
- 4) After the visit, the group will write a 15-20 page double-spaced research paper that briefly summarizes the company's global strategy and answer, as best they can, the questions they posed to the company in their presentation. Papers will be evaluated on the basis of their
 - a. Application of course theory, frameworks and case examples to generate insight into the strategic choice faced by the company;
 - b. Incorporation into the strategic analysis of relevant information on characteristics of
 - i. the Chinese or Asian economic, political, legal or social context and the firm's perceptions of their likely evolution over time;
 - ii. the industry structure both globally and regionally or locally;
 - iii. the firm history and/or corporate culture including the influence of their home country political, economic and social institutions;

- iv. the firm's unique technological, brand, process or other capabilities;
 - v. the mode of entry and sequence of entry by which the firm entered the Chinese market as well as other foreign markets;
 - vi. the organizational and management approach taken by the firm towards their global network of subsidiaries
- c. Incorporation into the strategic analysis of information from
 - i. Pre- and post-trip primary and secondary research
 - ii. Interview content including Q&A sessions
 - iii. Information on other relevant firms including multinational and host country competitors and the focal firm's stakeholders
 - d. Comparison between the focal firm and other firms visited on the trip that face a similar strategic problem particularly if they are from the same industry.

The final paper should be submitted via WebCafe by **Saturday, October 9 at 9am.**