**University of Southern California**

**Marshall School of Business**

# GSBA 582: THE GLOBAL ENVIRONMENT AND INTERNATIONAL BUSINESS

**Spring, 2013**

**PM.GLOBE MODULE I**

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**COURSE OBJECTIVES**

* To understand the impacts of globalization and to develop the ability to think strategically about global business issues.
* To equip you with the basic facts of globalization, international trade in goods and factors of production growth, and the major trends and institutions shaping the future of international management.
* To provide you with a framework for assessing a country’s prospects for global business and its competitiveness in the global business environment.
* To learn to assess the business environment in other countries, including economic and financial structures, institutions and institutional voids, business practices, regulatory systems, and cultural and social conditions.
* To develop an international business perspective by understanding the similarities and differences in the business environment across countries and how heterogeneity in the business environment across countries affects international business practices and strategies.
* To understand patterns of international competition through examination of specific industries and firms.
* To develop skills in analyzing strategic challenges and opportunities in the international context and competencies to anticipate the potential strategies of global and local competitors in specific industries.
* To develop an appreciation of ethical issues confronting companies engaged in international business and the options for responsibly managing these ethical issues.
* To integrate and apply frameworks, models, tools, and concepts from core classes to a real world global setting.

**PEDAGOGY AND LEARNING APPROACHES**

The course is divided into two major portions. Module I consists of six weeks of classes on how to analyze the environment for doing international business in countries around the world and the implications of the global environment for making international business decisions. Module II is an international field experience, including preparatory class sessions in Los Angeles and a post-trip presentation. The international field experience will allow you to put into practice the tools you have acquired both in Module I of the course and the preparatory class sessions for Module II.

## Module I – The Global Environment and International Business

This first portion of PM.GLOBE consists of a six-week course focusing on the analysis of the global business environment and how this environment affects business decisions. This module examines issues surrounding globalization and the effects of globalization on international business. Frameworks for assessing the economic, political, social/cultural, institutional, and business environment of different countries will be presented. The implications for business decisions and strategies of the similarities and differences in the business environment across countries will be discussed. Throughout, the challenges and opportunities of doing business in an age of globalization will be highlighted.

This module is designed to use your core learning experiences in global economics and strategy courses as a foundation to enhance your understanding of conducting business as a manager in a global environment. We consider this course as a tool for discovery between instructors and students in order to help manage in an international environment. Your participation and feedback are essential.

## Module II – International Field Experience

The second portion of PM.GLOBE is organized around an international field learning experience in a specific country or pair of countries. Much of the work for this portion of the course will be done in teams. Some of the activities of Module II (such as the Saturday Pre-Trip Country Conferences and consultation with country faculty) will take place concurrently with Module I, and other activities will continue after the end of Module I. In addition to the trip itself, Module II includes two Saturday Pre-Trip Country Conferences (February 9 and March 2) and another Saturday session (April 20) for presentation of final reports. A detailed syllabus with information about this portion of the course is provided in a separate document.

**COURSE EVALUATION**

The course grade will be determined as follows:

**Module I**

10% Participation in Module I

5% Decision-Making with Data Group Assignment

25% Module 1 Quizzes (5 quizzes)

**Module II**

15% Module 2 Exam

15% Participation in Module II

30% Team Deliverables (including Pre-Trip Briefing Book Paper, Group Project Report and Presentation, and International Business Insights Memo)

In order to successfully pass this course, a passing grade must be achieved in each Module of PM.GLOBE. In other words, a passing grade must be received in both Module I and Module II of the course in order to pass the course.

**Participation in Module I (10%)**

Be prepared for each class session! A course like this one works well, and is an enjoyable, effective learning experience, if everyone is prepared and an active, productive participant in class discussions. Therefore, your overall participation in Module I class sessions will be closely monitored and will be worth 10% of the PM.GLOBE grade. In grading in-class participation, we will look at both the *quantity* and *quality* of your class contributions/interventions. In addition, students may submit prepared notes related to the discussion questions to supplement their participation in class discussions.

Attendance at class sessions will also be factored into your participation score. A seating chart will be passed around for you to indicate where you are sitting during the first class session, and you are expected to sit in the same seat for all class sessions. All class sessions are mandatory, and you are required to attend all GLOBE sessions. You must attend the weekly session on the evening your section is scheduled to have class. You may not change evenings. *If work, or other important obligations, makes it impossible for you to attend class on your scheduled class evening, we do encourage you to attend class on another evening (with your instructions permission, and space available****) but you will not receive attendance or participation credit for doing so****.*

In-class participation is obviously a function of preparation, skills, attitude, and a willingness to actively commit yourself in front of us, and your colleagues.A classroom is a cost-free environment for experimenting and learning to "play the game." Make use of it. We recognize that some students are far more comfortable than others with in-class participation. However, it is important you make an effort every class to contribute in some meaningful way. Please feel free to come and discuss with us ways to enhance your participation.

With regard to quality, the dimensions that we look for include:

*Relevance* -- does the comment bear on the subject at hand?  Comments that do not link up with what the discussion is focusing on can actually detract from the learning experience.

*Causal Linkage* -- are the logical antecedents or consequences of a particular argument traced out? Comments that push the implications of a fact or idea as far as possible are generally superior.

*Responsiveness* -- does the comment react in an important way to what someone else has said?

*Listening to Others* -- avoid repeating or rephrasing what others have already said.

*Analysis* -- is the reasoning employed consistent and logical?

*Evidence* -- have data from the case and reading, from personal experience, and from general knowledge been employed to support the assertions made?

*Importance* -- does the contribution further our understanding of the issues at hand?  Is a connection made with other cases and readings we have analyzed?

*Clarity* -- is the comment succinct and understandable?  Does it stick to the subject or does it wander?

**Classroom Conduct:** Another way to impact your participation grade is through your conduct in the classroom. We will lower your participation grade if you disrupt class discussions. Examples of disruptive behavior that will lower your participation grade include (but are not limited to): arriving late, leaving early, side conversations in class, and leaving and re-entering the classroom during case discussions or lectures. We expect professional behavior and respect for both your classmates and professors.

Factual misstatements, comments that demonstrate a lack of adequate preparation, or comments that come late in a discussion that distract the class and indicate that the student has not been actively listening will be noted as “negative” course participation.

When class participation is graded, the question of quantity versus quality inevitably arises.  While both are important, the quality of your contributions will carry the most weight.  Consistent comments that add little value will not improve your participation grade.

**Decision-Making with Data Group Assignment (5%)**

During Session 3, there will be a workshop on Global Decision-Making with Data. This workshop will examine data that can be used for assessing the global business environment and how to use this data to make global business decisions. There will be a group assignment based on the Global Decision-Making with Data workshop. This group assignment will be due before midnight on Sunday, February 12. It must be emailed to Professor Voigt with a time-stamp of anytime before Monday, February 13th.

**Module I Quizzes (25%)**

A set of five short quizzes will be used to test to your understanding and mastery of the course material. The quizzes will test both the material covered during class and the assigned readings. The format and timing of the quizzes will differ with each instructor. Specific details will be given in class by each instructor. Please be aware of all quiz dates. **There are no opportunities to make up missed quizzes**.

**Module II Requirements (60%)**

These requirements are described in the syllabus for Module II.

**ACADEMIC INTEGRITY**

USC seeks to maintain an optimal learning environment. USC is committed to the general principles of academic honesty that include and incorporate the concept of respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an instructor, and the obligations both to protect one’s own academic work from misuse by others as well as to avoid using another’s work as one’s own. By taking this course, students are expected to understand and abide by these principles. Violations of academic integrity standards will be treated seriously. *SCampus,* the USC Student Guidebook, contains the university’s academic integrity standards as part of the University Student Conduct Code (see the University Governance section of *SCampus* at <http://web-app.usc.edu/scampus/>). Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty (see <http://www.usc.edu/student-affairs/SJACS/>).

**STUDENTS WITH DISABILITIES**

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to your instructor as early in the semester as possible. Your letter must be specific as to the nature of any accommodations granted. DSP is located in STU 301 and is open 8:30AM to 5:00PM, Monday through Friday. The telephone number for DSP is 213-740-0776.

**OVERVIEW OF MODULE I CLASS SESSIONS**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Session | Week of Spring Semester | Dates | Instructor | Deliverables | Topics |
| 1 | 1 | 1/14-1/17 | Voigt | Quiz 1 | **Globalization and its Impacts on Businesses and Countries: An Introduction to Global Analysis** |
| 2 | 2 | **1/22-1/24 & 1/26**  **\*See Note Below** | Cunningham | Quiz 2 | **Globalization: How Trade Patterns Develop and Change**  **How Basic Theorems Explain and Predict**  **How Economies Change**  **Winners and Losers: Resistance to Trade** |
| 3 | 3 | 1/28-1/31 | Voigt | Group Assignment  \*\*Due: 2/17 | **The Relationships Between Companies, Markets, and Institutional Environments of Countries**  **Decision-making with Data Workshop** |
| 4 | 4 | 2/4-2/7 | Cunningham | Quiz 3 | **Flows of Capital and Labor Across Borders**  **Balance of Payments**  **Exchange Rates** |
| 5 | 5 | 2/11-2/14 | Cunningham  Voigt | Quiz 4 | **How a Crisis in One Country Spreads**  **Case Studies:**  **1994-1995 Lending Crisis in Mexico**  **1997-1998 East Asian Exchange Rate Crisis**  **2007-2009 U.S. Subprime Mortgage Crisis**  **Managing Market Entry and Operations in Diverse Country, Institutional, and Market Environments** |
| 6 | 7 | 2/25-2/28 | CunninghamVoigt | Quiz 5 | **Rules vs. Discretion:**  **the Impact of Monetary Policy on Growth**  **Global Citizenship and Corporate Responsibility** |

**\*Please note that Monday, 1/21, is a University Holiday; therefore, students enrolled in the Monday night section will meet during Week 2 on Saturday, 1/26, from 9:00 AM-12:00 Noon instead.**

**\*\* Decision-making with Data assignment must be emailed in and “time-stamped” before Monday, February 18th.**

**MODULE 1 CLASS SESSION OUTLINE**

**ASSIGNED READINGS AND CASES**

**WEEK 1 (January 14-17)**

**Session 1 Globalization and its Impacts on Businesses and Countries:**

**An Introduction to Global Analysis**

**Instructor: Carl Voigt**

**Readings: Ghemawat, Economic Evidence of the Globalization of Markets**

**Ghemawat, Semiglobalization and Strategy**

**Porter, The Competitive Advantage of Nations, Harvard Business Review, Mar/Apr 90, Vol 68, Issue 2, 73-93.**

(To save you money, we did not include this in the reader. You can assess a free copy from our Crocker Library by doing the following: Login to MyMarshall, go to Library Resources, click on EBSCO Business Source Complete; enter “The Competitive Advantages of Nations” in the top search box, and mark it as “title” on the drop down menu; enter Porter, in the second search box, and mark it as “author” on the drop down menu)

**“What the Banda Islands Tell US About World Trade”** (Posted to Blackboard)

**“Google” popular press articles that support and/or attack globalization.** (I’d like you to develop a personal opinion which you are willing and capable of articulating among your peers. I will cold call several people to get our conversation/debate going. Come prepared!)

**Quiz: Quiz # 1**

Our opening session will drop us into the center of the globalization debate. Yes, there is a debate. Most executives inside the walls of corporations and within Business Schools think it is a good thing, most employees, and most of society, in this country and in others, think it is a bad thing.

In the past five years more than 5,000 books have been published on globalization. Most offer visions of disappearing borders, integration of markets, ever expanding cross-border supply chains, falling trade barriers, and increased global trade. Globalization is presented as an inexorable process moving forward. However, others amass economic data to suggest that internationalization of activities is closer to 10-15 percent than the 100 percent envisioned in the popular press. Globalization is also a value-laden word. For some it is a process that creates wealth and prosperity, and improves global standards of living. For others it is seen as a process which

redistributes wealth and jobs, further impoverishes the have-nots, and is expanding the divide between developed and developing economies rather than closing it.

In our first session we will start by introducing the GLOBE Module I course. We will examine then dive into our first topic. We will examine the economic data about globalization and debate on its pros and cons for ourselves the controversial issues surrounding globalization. The primary purpose of our critical “look” at globalization is to get beyond superficial analyses, clichés, platitudes, and meaningless generalizations offered by many. Too many executives have been seduced by notions of borderlessness and unlimited global opportunities, and have been uncritically accepting of perceived global growth opportunities.

We need to be much more analytical and much more critical. We need a deep look at where and how markets are integrating, and where new business opportunities really are. We need to also look deep and hard at how truly different foreign countries and domestic markets are. We need to look at the similarities between economies. But we must also look at the differences, and find ways of incorporating them into international strategies. We need to determine which of the differences matter most, and to consider ways to profit from them rather than just treating them as constraints on our international strategies.

# Discussion Questions

1. Do you agree that national borders no longer matter?
2. Is globalization an economic or political phenomenon? Is it real or a figment of the imagination? What is the empirical evidence for globalization?
3. Why is globalization controversial?
4. Does globalization hurt third world developing economies or does it help them? Does third world growth hurt developed economies?
5. Is free trade a good thing? Do the benefits outweigh the costs? Does free trade increase the income and wealth inequality between economies?
6. What might the world look like in 25 years? 50 years?

**Deliverable**

If the first letter of your last name falls within A-M, please prepare a detailed argument in favor of globalization. If the first letter of your last name falls within N-Z, please prepare a detailed argument against globalization. During our class we will divide in sides and engage in the globalization debate. As a starting point you should consult the articles assigned to be read for Session 1. However, do not limit yourself to these articles. There are numerous websites that will quickly offer you “ammunition” for our class debate.

*You may submit your prepared “argument” notes for class participation credit, particularly if you do not get an opportunity to actively participate in the class discussion.*

**WEEK 2 (January 22-24 & Saturday, Jan 26)**

**Session 2 Globalization: How Trade Patterns Develop and Change**

**How Basic Theorems Explain and Predict How Economies Change**

**Winners and Losers: Resistance to Trade**

**Instructor: Cunningham**

**Readings: Lecture 1: Introduction to International Economics**

**Lecture 2: Comparative Advantage**

**Lecture 3: Heckscher-Ohlin Theorem**

**Lecture 4: Tariffs and Quotas**

**Lecture 5: Protectionist Arguments**

**"The Enemies of the WTO: Bogus Arguments Against the World Trade Organization," Paul Krugman, October 1999.**

**Quiz: Quiz # 2**

This session puts globalization in a historical context, introduces the basic economic case for trade, and provides a discussion of the social benefits and costs of globalization.

Countries and economies are much closer to each other than ever before. MNEs operate in several different continents with differing institutions and cultures. Is there one large global market? Are national borders now irrelevant? What is the basic economic theory behind globalization? Is trade liberalization good for everyone? Why are some people and organizations opposed to free trade? In this session, we will seek answers to these and related questions. We will see that patterns of trade may be explained by economic theory, and that trade creates winners, who support globalization--and losers, who oppose globalization.

Free trade and openness facilitate productivity and long run growth. This is not a zero-sum game. All countries benefit, but within countries there is a reallocation of resources that may produce losers.

# Discussion Questions: International Economics

1. What are the international financial institutions (the WTO, IMF, World Bank)? What roles do they play in shaping the flow of goods, services and capital across borders?
2. “Exports are good and imports are bad.” Discuss. Is mercantilist thinking still influential?
3. What is outsourcing? Is outsourcing good or bad for the U.S.?

**Deliverable**

New Balance Athletic Shoe Inc. (NBAS) is the only American shoe company that still has a manufacturing base in the U.S. However its American-made shoes, as a percentage of its total sales, has decreased from 70% twenty years ago to about 25% today. The company is considering locating a new production site outside of the U.S. The company is seeking to lower its costs by utilizing local inexpensive labor, but it is also looking to expand its market presence in booming emerging markets. Since the new location would not only supply the local market but also supply its global network of markets, supply chain issues are very important. NBAS has narrowed its considerations to three choices: Brazil, China, and Vietnam.

**A. Based on the data provided in the following table, and the country pages from the WEF Global Competitiveness Report and Enhancing Trade Index Report (attached) please prepare a recommendation to top management. Be sure to highlight major pros and cons of each country.**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Brazil | China | Vietnam |
| Population | 190 million | 1.3 billion | 90 million |
| Median age | 29.3 | 35.5 | 27.8 |
| Literacy rate | 91.6% | 92% | 94% |
| GDP per capita (PPP) | $11,600 | $8,400 | $3,300 |
| Projected future GDP growth rate | 2.8% | 9% | 6% |
| Manufacturing hourly labor cost | $9.00 | $2.00 | $1.00 |
| Projected future inflation rate | 6.9% | 5.4% | 18.9% |
| Gini Coefficient | 53.9% | 41.5% | 37.6% |
| Tariffs on athletic shoes imported into: | 35% | 24.5% | 30% |
| US tariffs imposed on athletics shoes from: | 15.75% | 30.7% | 29% |
| European Union tariffs imposed on athletic shoes from: | 16.9% | 16.9% | 16.9% |

**B. What additional information would you gather and what further analyses would make before delivering your final recommendation to top management? That is, what other issues would you consider critical to include in your final recommendation?**

**WEEK 3 (January 28-31)**

**Session 3 The Relationship between Companies, Markets, and Institutional Environments of Countries**

**Instructor: Voigt**

**Readings: Spotting Institutional Voids in Emerging Markets**

**The End of Corporate Imperialism**

**Khanna, Palepu, Sinha, Strategies that fit Emerging Markets (Download from EBSCO)**

**Workshop: Global Decision-Making with Data**

In session 3 we will build on the concepts and models presented in sessions 1 & 2, and further developing the core conceptual framework for our course on global analysis. Our specific focus in this session will be to drive beyond the macro-level analysis of country differences, to detailed examinations of how the factor endowments, physical infrastructure, and government and business institutions, support and/or impede business activities. History, culture, business traditions, societal inertia, and national ambition, all play into shaping the business environment within an economy. For example, the presence or absence of efficient distribution networks can dramatically impact the way companies design their domestic operations. Session 3 will also move from the conceptual to the empirical. We start the process of learning how to find and interpret real data for making real international global business strategy decisions.

In the first half of the session we will learn and apply frameworks for examining and interpreting economic data on global economies, and how to dive deep into an economy to examine the quality of its supporting infrastructure and institutions. This will include examining free trade agreements such as NAFTA and ASEAN, tariffs and non-tariffs barriers, macroeconomic policies, and specific government policies in different industrial sectors. We need to be able to quickly draw together and interpret publicly available information and use it to make future judgments about the attractiveness of global business opportunities. We also need to be able to dig down to the level of the most basic institutions which support and complement business activities. The presence or absence of these basic institutions, such as an independent and efficient judiciary, information technology, intellectual and physical property protection, distribution channels, etc., are critical to the potential success of global business.

The second half of this session will be a workshop led by our USC Marshall Reference Librarians. We will break into smaller groups and get our hands “dirty in the data.” We will use a directive worksheet to learn how to gather and interpret real data at the regional, economy, and the infrastructural and institutional levels. Our Reference Librarians will lead you to multiple data bases from which you can glean critical evaluative data for your GLOBE projects. Our objective is to learn both where to find crucial data, and how to use it to build economic and strategic models for making critical global business decisions.

Worksheet: Analyzing Economies and Institutional Voids *(to be posted)*

**Group Assignment:** Due before midnight on Sunday, February 17th. Check blackboard for specific assignment details. Your email must be sent to Professor Voigt with a time-stamp before Monday, February 18th.

**SUBJECT LINE: GLOBE COUNTRY(IES) and SURNAMES all group members**

**WEEK 4 (February 4 - February 7)**

**Session 4 Flows of Capital and Labor Across Borders**

**Balance of Payments**

**Exchange Rates**

**Instructor: Cunningham**

**Readings: Lecture 6: Factor Movements**

**Lecture 7: Trade Rounds**

**Lecture 8: Regional Integration**

**Lecture 9: Balance of Payments**

**"The Industrial Revolution: Past and Future," 2003 Annual Report Essay, Robert E. Lucas, Jr., The Region, Federal Reserve Bank of Minneapolis, May 2004.**

**Quiz: Quiz # 3**

Globalization is good for long run growth. This session examines how the movement of factors of production—labor and capital—affects prices, wages and interest rates. The attempts to integrate the world economy through global trade agreements are discussed. The more recent move toward regional agreements like NAFTA has created new barriers for countries not in the agreements. The balance of payments accounts show how flows of goods and capital link countries through interest rates and exchange rates. The paper by Lucas, 1995 Nobel Laureate in Economic Science, takes a historical view of growth and emphasizes the role of demographics.

# Discussion Questions: Factor Flows

1. Is there a difference between flows of outputs and flows of inputs?
2. Is the good ( regional trade agreements) the enemy of the best (world trade agreements), or a step toward

the best?

3. How are flows of goods linked to flows of capital?

4. Why were Malthus’s predictions of demographic-induced famine wrong?

5. Do we observe convergence in living standards across all countries?

6. What gives a country the best chance to raise living standards? Population growth? Saving? Productivity?

**Deliverable**

There are three countries which produce haggis, a savory concoction made from sheep’s pluck (heart, liver and lungs). The production costs per pound, in US dollars, including transportation but not including tariffs are:

United States Australia New Zealand

$1.00 $0.95 $0.93

Assume that the quality of haggis is identical across the countries.

1. Initially the United States, in response to political pressure from the powerful Yankee Pluckers Association, imposes a nine cents per pound import tariff on haggis. From which country or countries will American haggis lovers source their purchases? What will be the American price for haggis?

2. Now the ANZUS Trade Liberalization Agreement slashes U.S. haggis tariffs from nine cents to four cents per pound. From which country or countries will American haggis lovers source their purchases? What will be the American price for haggis?

3. Following the negotiation of the ANZUS agreement, the United States and Australia sign a treaty, the Kangaroo Treaty that eliminates all American tariffs on Australian haggis, but does not alter trade relations with New Zealand. The ANZUS agreement still applies between the United States and New Zealand. From which country or countries will American haggis lovers source their purchases? What will be the American price for haggis?

4. Resourceful Kiwi Pluckers now discover that they can transship their haggis to Australia and have it count under the Kangaroo Treaty for duty free export to the American market. There is a transportation cost from New Zealand to Australia of one cent per pound. From which country or countries will American haggis lovers source their purchases? What will be the American price for haggis?

5. Does the ANZUS agreement result in trade creation or trade diversion? Does the Kangaroo treaty result in trade creation or trade diversion? Does transshipment result in trade creation or trade diversion?

6. Other markets are affected by what happens in the haggis market. What will happen in the American market for wool (which is a jointly produced good with haggis—more sheep, more haggis, more wool)? What will happen in the American market for beef, which is a substitute for haggis? Discuss the effects on these markets of their American prices (rise, fall, or remain unchanged) because of the haggis trade agreements and transshipments.

Please write a short essay addressing these questions. The key things are prices and the direction of change. Number your paragraphs to correspond to the question numbers above. It need not be more than a single page.

**WEEK 4 MODULE II - FIRST SATURDAY PRE-TRIP CONFERENCE**

**Saturday, Feb 9**

**Pre-Trip Conference I (8:00 am – 5:00 pm):**

**- Country Specific Educational and Training Sessions**

This part of the course is described in the Module II Syllabus.

**WEEK 5 (February 11-14)**

**Session 5 Part I: How a Crisis in One Country Spreads**

**Case Studies:**

**1994-1995 Lending Crisis in Mexico**

**1997-1998 East Asian Exchange Rate Crisis**

**2007-2009 U.S. Subprime Mortgage Crisis**

**Part II: Managing Market Entry and Operations in Diverse Country, Institutional and Market Environments**

**Instructors: Cunningham & Voigt**

**PART I (Cunningham)**

**Readings: Brunnermeier, Deciphering the Liquidity and Credit Crunch 2007-2008 (Journal of Economic Perspectives, 23:1, Winter 2009, 77-100)**

**Coval, Jurek, & Stafford, The Economics of Structured Finance (Journal of Economic Perspectives, 23:1, Winter 2009, 3-25)**

**Mayer, Pence, & Sherlund, The Rise in Mortgage Defaults (Journal of Economic Perspectives, 23:1, Winter 2009, 27-50)**

**Cecchetti, Crisis and Responses: The Federal Reserve in the Early Stages of the Financial Crisis (Journal of Economic Perspectives, 23:1, Winter 2009, 51-75)**

**Miron, The Case Against the Fiscal Stimulus (Harvard Journal of Law and Public Policy, 33:2, 2010, 519-29)**

**Cochrane, Lessons from the Financial Crisis (Regulation, 35-7, Winter 2009-10)**

**PART II: (Voigt)**

**Cases: Lincoln Electric**

**Danone vs Wahaha: Who is having the last laugh?**

**Reading: Khanna, Local Institutions and Global Strategy**

**Quiz: Quiz # 4**

**First Half of Session 5**

A danger arises with globalization: economies become linked and a crisis in one country can spread to others. In this session we will see how a lending crisis in Mexico affected America, how an exchange rate crisis that began in Thailand spread to other countries, and how the subprime mortgage crisis in America affected the world.

# Discussion Questions

1. Why was the U.S. response different in the Mexican and East Asian crises?

2. How could a crisis that began in a small country like Thailand spread so widely and rapidly?

3. What were the flaws in structured finance?

4. How could defaults in American mortgages cause a worldwide recession?

5. Was the response of the Federal Reserve successful in mitigating the crisis?

6. Should there be barriers to international capital flows to prevent another international financial crisis?

**Second Half of Session 5**

In the second half of the session we will begin by assuming that our focal company is committed to expanding globally. We will draw together all the concepts, frameworks, models, ideas, and information presented in Sessions 1-4 and will use it to make an informed decision on how to enter a foreign marketplace. We will explore the array of potential approaches to entering foreign markets ranging from exporting through licensing, franchising, joint ventures and strategic alliances, through to wholly-owned market entries. Importantly, we will focus on which approaches are most appropriate given the existing institutional context, and the market imperatives the entering firm might face. There are obviously pros and cons for each.

Our learning will be focused around two cases: Lincoln Electric and Danone vs Wahaha. The **Lincoln Electric** case describes Lincoln’s business strategy and incentive system, and discusses the global strategy choices the company faces going forward. Lincoln Electric is deciding whether a strong push into India should be the next step in the company’s globalization. The company has enjoyed increasing success in China as a result of its aggressive expansion through both a joint venture and a set of majority-owned plants. The company is deciding how it could apply the lessons of its China experience, as well as its experience across Asia, Europe, and Latin America, to India. First of all, should Lincoln Electric own a manufacturing operation in India? If yes, Lincoln Electric could enter the Indian market by acquisition, by joint venture, or by building a new plant on its own. If the company were to enter by acquisition, it is unclear what type of valuation to apply to any of the Indian incumbent companies. If the company were to enter by joint venture, the question would be: How could Lincoln ensure its ability to make key business decisions?

The **Danone vs Wahaha** case brings to forefront conflicts in interests, practices and cultural values that foreign investors may encounter with local partners when doing business in China. In April 2007, Zong Qinghou, founder of Hangzhou Wahaha Group (Group) and chairman of all its joint ventures (JVs) formed with Danone, divulges details about Danone’s plan to buy a 51% interest in Wahaha’s non-JV subsidiaries and related entities that are owned and managed by Zong’s family interests. The disclosure of what is supposed to be a trade secret sparks off a series of public accusations, followed by lawsuits by each partner against the other. On the one hand, Danone indignantly retorts that its takeover plan is grounded in a breach of its contractual interest by Zong. Danone alleges that Zong has been making many of the same products as the JVs have under the same “Wahaha” trademark through a parallel network of production facilities that he or his family own or manage. He also uses the JV’s distribution channels for selling them. On the other hand, Zong argues that the “Wahaha” trademark has never officially been transferred to the JVs and complains of Danone’s lack of effort throughout. He also accuses Danone of attempting to monopolize China’s beverage market by driving out national brands like Wahaha, which are part of China’s cultural heritage and are the heart and soul of the Chinese people. As a way of protesting, Zong resigns from his post as chairman at the JVs. Danone then appoints Emmanuel Faber, chairman of Danone Asia Pacific, as the new chairman, but the legitimacy of this appointment is denied by the Wahaha Group.

# Discussion Questions: Lincoln Electric

1. Put yourself in CEO John Stropki's shoes. Should Lincoln Electric expand into India by investing in a major production facility there?
2. If you were to expand into India, would you enter through acquisition, a greenfield site, or some type of joint venture? Which factors would inform your decision among these entry mode choices?
3. In which countries is Lincoln Electric likely to be most successful or least successful? Why? How would this guide your own choice of where to place Lincoln Electric's production facilities abroad?
4. When Lincoln Electric goes to India and other countries, what factors should determine how much it adapts its core incentive pay-for-performance management practices to local labor market norms? Should Lincoln Electric follow the adage “when in Rome, do as the Romans do,” or should it seek to always replicate the recipe behind its success in the home plant in Cleveland?

# Discussion Questions: Danone vs Wahaha

1. Identify the factors that contributed to Danone’s decision to form JVs with Wahaha

2. How are control rights divided between Danone and Wahaha in their JVs in China? How are revenues shared between the two parties? How may these have led to their dispute?

3. What has gone wrong in terms of contractual enforcement between Danone and Wahaha? How could Wahaha’s alleged breach of its JV contract with Danone been avoided?

4. Is formal legal procedure the best option for Danone? How about Wahaha? What alternatives do the two companies have?

**Deliverable**

Prepare a set of guidelines (5-6) based on the two cases for making foreign market entry decisions.

*You may submit your prepared “argument” notes for class participation credit, particularly if you do not get an opportunity to actively participate in the class discussion.*

**WEEK 6 MODULE II - PROJECT PROPOSAL MEMO AND PRE-TRIP BRIEFING BOOK PAPER DUE**

**Thursday, February 21**

The first set of deliverables for Module II are due this week.

**Deliverables Due: Thursday, February 21**

**- Module II - Project Proposal Memo**

**- Module II – Pre-Trip Briefing Book Paper**

Your team’s project proposal memo and pre-trip briefing book paper are due on Thursday, February 21 by 6:30 PM. Please see the Module II syllabus for details.

**WEEK 7 (February 25-28)**

**Session 6 Part I: Rules vs. Discretion: The Impact of Monetary Policy on Growth**

**Part II: Global Citizenship and Corporate Responsibility**

**Instructors: Cunningham & Voigt**

**Part I: (Cunningham)**

**Reading: Bernanke, The Great Moderation**

**Taylor, The Great Deviation**

**PART II: (Voigt)**

**Cases: Blood Bananas**

**Reading: Donaldson, Values in Tension: Ethics Away from Home**

**Porter & Krammer, Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility**

(Download from Library data bases)

**Quiz: Quiz # 5**

Session 6 will be a busy session. It will cover two broad topics: the controversy over which type of monetary policy should be followed, and global citizenship and corporate responsibility.

**First Half of Session 6**

A longstanding controversy in economics—whether a rule-based monetary policy, or one in which the central bank has discretion to alter interest rates and commercial bank reserves—has fresh impact because of the change in policy in the three largest economies (the US Federal Reserve, the Bank of China, and the European Central Bank) toward greater discretion. Proponents of discretion, such as Chairman of the Board of Governors of the Federal Reserve Ben Bernanke, argue that discretion was necessary to avoid a plunge into a new Great Depression. Critics of discretion, such as John B. Taylor, argue that it was the move toward discretion which created the conditions which led to the financial crisis and resulting stagnation.

# Discussion Questions:

1. Why do proponents of discretion believe it is preferable to a rule-based monetary policy?

2. What is inflation targeting?

3. What is the Taylor Rule?

4. Would reinstituting the Taylor Rule increase rates? Would this hurt the recovery?

5. Would a rule-based monetary policy increase investment?

**Second Half of Session 6**

In the second half of session 6, we want to, must, consider the social responsibility and obligations that attend to doing business in a global context. Social responsibility and accountability is a tough enough topic and area of concern for companies to consider for their domestic markets. However, it is an even more difficult and perplexing topic in global business. It would be irresponsible of us all, not to have a candid and open discussion of our economic and moral obligations to humankind in all the countries we choose to do business in. Whether it is through active investment or through the more passive exporting of products, and/or importing of raw materials, component parts, and outsourced products.

Our case focuses on Chiquita, and the dilemmas faced by Fernando Aguirre the company’s CEO. (BTW – Just prior to assuming the CEO role at Chiquita, Fernando Aguirre was Chair of USC Marshall Board of Advisors.) Chiquita Brands International and its leaders learned a very hard lesson about paying off terrorist groups to protect their employees. Over the past 25 years, no place has been more perilous for companies than Colombia, a country that is finally beginning to emerge from the effects of civil war and narco-terrorism. In 2004, Chiquita voluntarily revealed to the U.S. Justice Department that one of its Colombian banana subsidiaries had made protection payments to terrorist groups from 1997 through 2004. The Justice Department began an investigation, focusing on the role and conduct of Chiquita and some of its officers in this criminal activity. Subsequently, Chiquita entered into a plea agreement that gave them the dubious distinction of being the first major U.S. company ever convicted of dealing with terrorists, and resulted in a fine of US$25 million and other penalties. To make matters worse, the industry was facing pressure from increasing retailer purchasing power, major changes in consumer tastes and preferences, and Europe's imposition of an "onerous tariff" on companies that sourced bananas from Latin America. With this in mind, Fernando Aguirre, Chiquita's CEO since 2004, reflected on how the company had arrived at this point, and what had been done to correct the course so far. He faced major challenges to the company's competitive position in this dynamic industry. What would it take to position the company on a more positive competitive trajectory? Would this even be possible in this industry and in the business climate Chiquita faced?

# Discussion Questions:

1. What do you think were the root causes for Chiquita**’**s actions in Colombia that ultimately led to their conviction?

2. Do you think Chiquita’s managers had a choice? Why or why not?

1. What other companies or industries should be worried about Chiquita’s experience? How does this story change your perspective on doing business abroad?
2. Want can current CEO Fernando Aguirre do, now, to restore Chiquita’s reputation and ensure future competitiveness?

**No Deliverables for Final Session**

**WEEK 7 MODULE II - SECOND SATURDAY PRE-TRIP CONFERENCE**

**Saturday, March 2**

**Pre-Trip Conference II (8:00 am – 5:00 pm):**

**- Country Specific Educational and Training Sessions**

**- Module II Exam**

This part of the course is described in the Module II Syllabus

**WEEK 8 MODULE II - RESEARCH FOR GROUP PROJECT (March 3 - March 9)**

**Module II Research for Group Project (Strategic Analysis Report)**

No class sessions are scheduled this week. This week should be used to conduct research for your group project (the Strategic Analysis Report). Meet with your faculty advisor as needed. Please see the Module II syllabus for details.

**WEEK 9 MODULE II - SPRING BREAK GLOBE TRIPS**

**Thursday, March 14 through Sunday, March 24**

**Module II International Field Experience**

The field experience travel component of the program will take place during Spring Break. Trips will commence on Thursday or Friday of Week 9 (3/14 or 3/15) and continue through the end of Spring Break. Trips will end on Sunday, 3/24. Please see the Module II syllabus for details.

Note: The above dates are approximate. Travel dates for some trips may differ slightly. Please check with your country faculty or the PM.GLOBE web site for the exact dates of your trip.

**WEEKS 10 through 12 MODULE II - COMPLETION OF GROUP PROJECT**

**(March 25 – April 13)**

**Module II Completion of Group Project (Strategic Analysis Report and International Business Insights Memo)**

No class sessions are schedule during these weeks. These weeks should be used to complete your Strategic Industry Analysis Report and International Business Insights Memo. Meet with your faculty advisor as needed. Please see the Module II syllabus for details.

**WEEK 13 MODULE II - GROUP PROJECT DUE**

**Monday, April 15**

**Deliverable Due: Monday, April 15**

**Group Project Due (Strategic Analysis Report and International Business Insights Memo)**

The Strategic Analysis Report and International Business Insights Memo are due by or before 6:30 PM on Monday, April 15. Please see the Module II syllabus for details.

**WEEK 13 MODULE II - SATURDAY POST-TRIP CONFERENCE**

**Saturday, April 20**

**Final Group Presentation Due**

The post-trip conference will be on Saturday, April 20, 8:00 AM-2:30 PM. Your final group project oral presentation will be given during this time. Please see the Module II syllabus for details.