

The Peter F. Drucker and Masatoshi Ito Graduate School of Management
Claremont Graduate University

Preliminary Syllabus, Course Outline, and Assignments

MGT 410

**Strategic Risk Management in an Emerging Economy
The Mexico Class**

Summer 2008

Instructors

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Academic Program

On Campus at Chapman, May 27 6-10PM

Background Discussion:

- Discussions of background readings (written assignments due at start of class)
- Review of cases, how to prepare for case discussions
- Purpose of just-in-time reading assignment

Sunday, June 1

Guided visit: (8:00 AM – 3:30 PM)

Tour of the Zocalo, National Palace, and Teotihuacan Pyramids, optional.

Introductory Dinner: 6:00 PM – 9:30 PM, Location TBA.

- Preliminaries
 - Welcome to Mexico City
 - Introductions of Faculty
 - Introductions of Students
 - Program Objectives
 - Program Overview
- “The Economy of Mexico – Recent History and Current Situation” by Professors Fabre and Smith

Monday, June 2

Morning Session: 8:30 AM – 11:30 AM, Lago de Chapultepec Class Rooms.

- “Mexico’s Competitive Advantages and Disadvantages”

Discussion Group Lunch – Project work 11:30 AM – 12:30 AM

Afternoon Session: 12:30 PM – 3:30 PM, Lago de Chapultepec Class Rooms

- “Strategic Assessment of an Opportunity in Mexico”
 - Case: Grupo Industrial Bimbo S.A. de C.V.

Dinner Session: 7:00 PM – 9:30 PM, Hacienda los Morales

- Speaker: TBA

Tuesday, June 3

Morning Session: 8:30 AM – 11:30 AM, Lago de Chapultepec Class Rooms.

- “Financing Mexican Enterprise – Families, Banks, Government, Capital Markets”

Discussion Group Lunch – Project work 11:30 AM – 12:30 AM

Afternoon Session: 12:30 PM – 3:30 PM, Lago de Chapultepec Class Rooms

- “Financing a High-Growth Business”
 - Case: Grupo Porcicola Mexicano.

Dinner Session: 7:00 PM – 9:30 PM, Villa Maria Polanco.

- Speaker: TBA

Wednesday, June 4

Morning Session: 8:30 AM – 11:30 AM, Lago de Chapultepec Class Rooms.

- “Identifying and Assessing the Risks of an Emerging-Market Opportunity”

Discussion Group Lunch – Project work 11:30 AM – 12:30 AM

Afternoon Session: 12:30 PM – 3:30 PM, Lago de Chapultepec Class Rooms

- “Dealing with Currency Uncertainty in an Emerging Market”
 - Case: Farmington Industries, Inc.: Managing Currency Exposure Risk

No Dinner Session: Free evening

Thursday, June 5

Free Day.

Dinner Session: 7:00 PM - 9:30 PM, Location TBA.

- Speaker: TBA

Friday, June 6

Morning Session: 8:30 AM – 11:30 AM, Hotel Presidente Intercontinental.

- “Risk Management – Hedging, Forwards, Futures, Swaps, Options”

Discussion Group Lunch – Project work 11:30 AM – 12:30 AM

Afternoon Session: 12:30 PM – 3:30 PM, Hotel Presidente Intercontinental.

- “Hedging in the Currency Market”
 - Case: Grupo Sidek (A)

Dinner Session: 7:00 PM – 9:30 PM, Location TBA

- Speaker: TBA

Saturday, June 7

Morning Session: 8:00 AM – 11:00 AM, Universidad Anáhuac del Sur Class Rooms.

- “Strategic Risk Management of an Emerging-Market Venture”

Cultural Presentation 11:30 AM – 1:00 AM

Afternoon Session: 1:00 PM – 3:00 PM, Universidad Anáhuac del Sur Class Rooms.

- “International Strategic Partnering”
 - Case: BancZero New Product Development

Guided visit: 3:00 PM – 6:30 PM. Bazar del Sabado (Artisan Market)

Dinner Celebration: 7:00 PM – 10:30 PM, Location TBA

About one month after return from Mexico City

Final Submission of Term Projects:

Grading

Write-up related to the advance reading assignment	25%
Daily case quizzes	20%
In-class discussion	30%
Final paper and Presentation	25%

Advance Reading
(The reading and related assignments are to be completed
before [the date of the on-campus discussion], when we will discuss the reading)

On Doing Business in Mexico

Belli, Pedro, "Globalizing the Rest of the World," *HBR*, July-August 1991.

Nichols, Nancy A., "From Complacency to Competitiveness: An Interview with Vitro's Ernesto Martens," *HBR*, September-October 1993.

"World to Mexico – Get a Grip!" HBS 9-796-123, August 15, 1997.

Sargent, John, "Getting to Know the Neighbors: Grupos in Mexico," *HBR*, November-December 2001.

On Strategy and Competitive Advantage

Porter, Michael E., "The Competitive Advantage of Nations," *HBR*, March-April 1990.

Porter, Michael E., "Clusters and the New Economics of Competition," *HBR*, November-December 1998.

Ghemawat, Pankaj, "Regional Strategies for Global Leadership," *HBR*, December 2005.

On Strategy in Emerging Markets

Khana, Tarun, and Krishna Palepu, "Why Focused Strategies May Be Wrong for Emerging Markets," *HBR*, July-August 1997.

Khana, Tarun, and Krishna Palepu, "The Right Way to Restructure Conglomerates in Emerging Markets," *HBR*, July-August 1999.

On Strategy and Risk Assessment

"Note on Political Risk Analysis," HBS 9-798-022, September 17, 1997.

On Strategy and Real Options

Kester, W. Carl, "Today's Options for Tomorrow's Growth," *HBR*, March-April 1984.

Luehrman, Timothy A., "Strategy and a Portfolio of Real Options," *HBR*, September-October 1998.

Amram, Martha and Nalin Kulatilaka, "Disciplined Decisions: Aligning Strategy with the Financial Markets," *HBR*, January-February 1999.

Copeland, Tom, and Peter Tufano, "A Real-World Way to Manage Real Options," *HBR*, March 2004.

Van Putten, Alexander B., and Ian C. MacMillan, "Making Real Options Really Work," *HBR*, December 2004.

Assignment on Advance Reading

The following written assignment is to be completed before you arrive in Mexico City. The assignment is intended build some basic familiarity with the economy of Mexico and to encourage you to begin thinking about the special difficulties of managing an emerging economy endeavor. We expect the readings and the assignments to be provocative and that you may be somewhat uncomfortable with being asked to address our questions at this stage in the course. Please keep in mind that there are no right or wrong answers. In grading the assignment, we will be looking for evidence that you have read the articles, thought about them critically and in a way that integrates the readings, rather than thinking of them separately. To make clear that this is not intended to be a high-pressure assignment, and to encourage you to take some risks in your answers, we plan to grade your answers in each heading on a “pass, marginal pass, fail.”

Please adhere carefully to the maximum page limit for each heading (even shorter is preferred), without trying to be clever with fonts or margins. Please do the readings in order, read all articles under a heading before trying to address the questions, and think of the sections as a progression. You should be able to draw on readings and answers from previous headings as you work through the assignment.

1. On Doing Business in Mexico (limit: 1 double-spaced page)

What is import substitution? Why do you think it occurs in emerging economies? How do you think it affects economies of developing countries? How might it affect the desire of US investors and businesses to pursue opportunities in emerging economies?

Belli, in his 1991 article, contends that, by that time, countries like Mexico understood the importance of competing in a global environment and were taking steps to do so. He asserts that the danger to these emerging economies was that investors and businesses would dismiss the regions and their efforts and, therefore miss out on the opportunities. Was he right? Had Mexico, in particular learned his lesson? Did the developed nations fail to recognize the opportunities?

Was Ernesto Martens-Rebolledo correct in 1993, when he intimated, that NAFTA would permanently open the Mexican economy to competition? Was he correct in his attribution of the sudden tripling of the cost of serving Vitro's debt in 1982 to failure of the country, and not failure of company management?

You can find a great deal of information about Grupo Vitro on the Internet. How has the company been doing since the interview? What do you think might explain its stock market performance since then?

What do you think explains the emergence of Grupos in Mexico? Why do you think this organization structure has persisted? Can it compete effectively with the modern public corporation?

2. On Strategy and Competitive Advantage (limit: 1 double-spaced page)

Noting that, “according to prevailing thinking, labor costs, interest rates, exchange rates, and economies of scale are the most potent determinants of competitiveness,” Porter contends that those who emphasize policies directed at such factors “fundamentally misperceive the true

sources of competitive advantage.” To what extent do you think his conclusion is a result of his focus on top developed countries to the exclusion of emerging economies?

How would you suggest trying to identify industries or clusters where Mexico can develop competitive advantage? How should local, regional, and global factors be incorporated into the assessment of competitive advantage?

Porter offers a list of things a government can do to foster competitive advantage. In what ways do you think practical and political considerations of an emerging economy might limit an emerging-economy government’s ability to follow Porter’s advice?

3. On Strategy in Emerging Markets (limit: 1 double-spaced page)

Khanna and Palepu (1977) argue for the advantages of conglomerate forms of business organizations in emerging market countries. In doing so, they focus on the conglomerate as an efficient response to the “institutional context,” which they take as given. If certain aspects of the institutional context are easy to identify as problematic, why do you think they are not well addressed by public policy of the emerging market countries? You can find out about many of the Mexican Grupos on the Internet. Do they appear to be conglomerates, per se, or concentric organizations involved in a number of related activities? What might explain the structures you find? How does the Khanna and Palepu analysis hold up if the organization is concentric

4. On Strategy and Risk Assessment (limit: 1 double-spaced page)

According to the “Note on Political Risk Analysis,” the risks of war, expropriation, nationalization, and currency inconvertibility are inherently more dangerous than other political risks associated with investing in foreign countries. Identify and discuss some ways a U.S. firm might try to manage such risks. What kinds of considerations do you think should influence the choice of how to manage such risks? Explain why.

5. On Strategy and Real Options (limit: 1 double-spaced page)

In contrast to traditional NPV analysis where greater (market) risk reduces value, why does high risk increase real option values? How do you think real option approaches might be used to manage the political risks of an investment in an emerging economy? Try to be specific with some examples. Your answer should demonstrate your understanding of real options.

Case Preparation

Please read through all of the assigned cases before you arrive in Mexico City. Preparation time for case discussions during the week will be extremely limited. If you have not read the case at least once in advance, you will not have sufficient time to prepare for the next day’s class.

Reading for [for the travel day to Mexico City]
(To be read during travel or before Sunday)

On Doing Business in Mexico

Garten, Jeffrey, E., "Troubles Ahead in Emerging Markets," *HBR*, May-June 1997.

Hecht, Laurence, and Peter Morici, "Managing Risks in Mexico," *HBR*, July-August 1993.

On Strategy and Risk Assessment

"A Note on Identifying Strategic Risk," HBS 9-199-031, November 5, 1999.

"Exchange Rate Terminology and Analytics," HBS 9-701-121, April 5, 2001.

On Risk Management

Froot, Kenneth A., David S. Scharfstein, and Jeremy C. Stein, "A Framework For Risk Management," *HBR*, November-December 1994.

Cases

1. "Grupo Industrial Bimbo S.A. de C.V.," HBS 9-595-048, November 14, 1994.
2. "Grupo Porcicola Mexicano: 'El Nuevo Cerdo,'" HBS 9-596-077, February 8, 1996.
3. "Farmington Industries, Inc.: Managing Currency Exposure Risk," HBS 9-104-053, April 30, 2004.
4. "Grupo Sidek (A)," HBS 9-297-022, July 14, 1997.
5. "BancZero New Product Development," HBS 9-697-044, September 18, 1997.

Case Discussion Questions

Grupo Industrial Bimbo S.A. de C.V.

1. How have past domestic and foreign government policies and the realities of the Mexican economy influenced Grupo Bimbo's strategies for building and maintaining competitive advantage in the industries in which it is involved?
2. How are NAFTA and GATT likely to alter the national competitive advantages of Mexico and the USA?
3. How well suited is Grupo Bimbo to cope with and benefit from the changes that NAFTA and GATT are likely to induce?
4. How should Grupo Bimbo position itself to most effectively deal with these changes?

Grupo Porcicola Mexicana: "El Nuevo Cerdo"

1. Does the Yucatan region of Mexico appear to have a competitive advantage in producing pork for supply to the geographic market in Mexico that it has targeted? Does it have a competitive advantage for supplying pork to the southern USA?
2. How does the organizational strategy (size, vertical integration, etc.) of GPM contribute to or detract from its competitive advantage?
3. Considering the product market, and impacts on the input markets, how has the Peso devaluation affected GPM's competitive advantage?
4. How, if at all, should GPM modify its strategy in light of the devaluation? Should it try to engage the Mexican government, in any way, in formulating or implementing a revised strategy?
5. Do you think GPM should be trying to manage its exposure to foreign exchange risk in some way? Without going into detail on how you might try to implement an exchange-risk management program that could be appropriate for GPM, what is the nature of the exposure you think it would be beneficial to manage?

Farmington Industries, Inc.

1. How well prepared was Farmington for the December 2004 devaluation? Should it have been better prepared, and if so, how and why?
2. How do you believe the peso devaluation will affect Farmington's performance going forward in the short and long run? Be sure to consider each division and be prepared to explain your reasoning.

3. How, if at all, should Farmington change its overall business strategy in response to the devaluation?

Grupo Sidek (A)

1. Why did devaluation of the peso in 1994-95 create such serious problems for Grupo Sidek?
2. Has devaluation destroyed Sidek's competitive advantage?
3. How should Sidek be trying to reposition itself in response to devaluation?
4. Should the company default or meet its debt service payment? Why?

BancZero New Product Development

1. What do you think of BancZero's new product development plan?
2. Critique the bank's implementation of the product development process with regard to introduction of the new swap product?
3. Should the bank modify the product to meet its current stress test standards, approve the product despite its failure of the stress test, or select some other course of action? Why?