1.9: International Issues

One critical aspect to maximizing firm value is recognizing that business is global not national. Census for January 2021 shows there were 330 million people in the US and 7.7 billion people on the planet. Marketing solely to the US excludes over 95% of potential customers. While not every customer has equal purchasing power, it makes no sense to exclude 95% of your potential customers. From an economic standpoint, the majority of economic activity is also outside the US. According to Worldbank GDP Ranking, in 2019 the US had GDP of $21.4 trillion while global GDP was $87.8 trillion. This means that 76% of economic activity occurs outside the US (up from 70% in 2005). In addition to our customers, many of our competitors and/or suppliers may be based internationally. Therefore, if we ignore the global aspects of business, we are not maximizing firm value.

If we think of international business from the three aspects of maximizing shareholder wealth (magnitude, timeliness, and riskiness of expected cash flows), we can see that international business is likely to have a significant, positive impact on the magnitude of expected cash flows. The timeliness is likely to be slightly slower, but not nearly as significant. The riskiness can go either way. On one hand, international operations introduce new risk factors (political, cultural, exchange rate, etc.). On the other hand, sometimes international operations can help diversify away (a topic for a later chapter) some of our risk. How do we know that international business is an essential element to maximizing shareholder wealth? S&P Indices report, In most years the S&P 500 firms that report a breakdown of foreign revenues report between 40-50% of their revenues from foreign countries. Since these are among the largest firms in terms of market values, clearly foreign revenues are a key component of maximizing firm value.