

# The strategy of international business

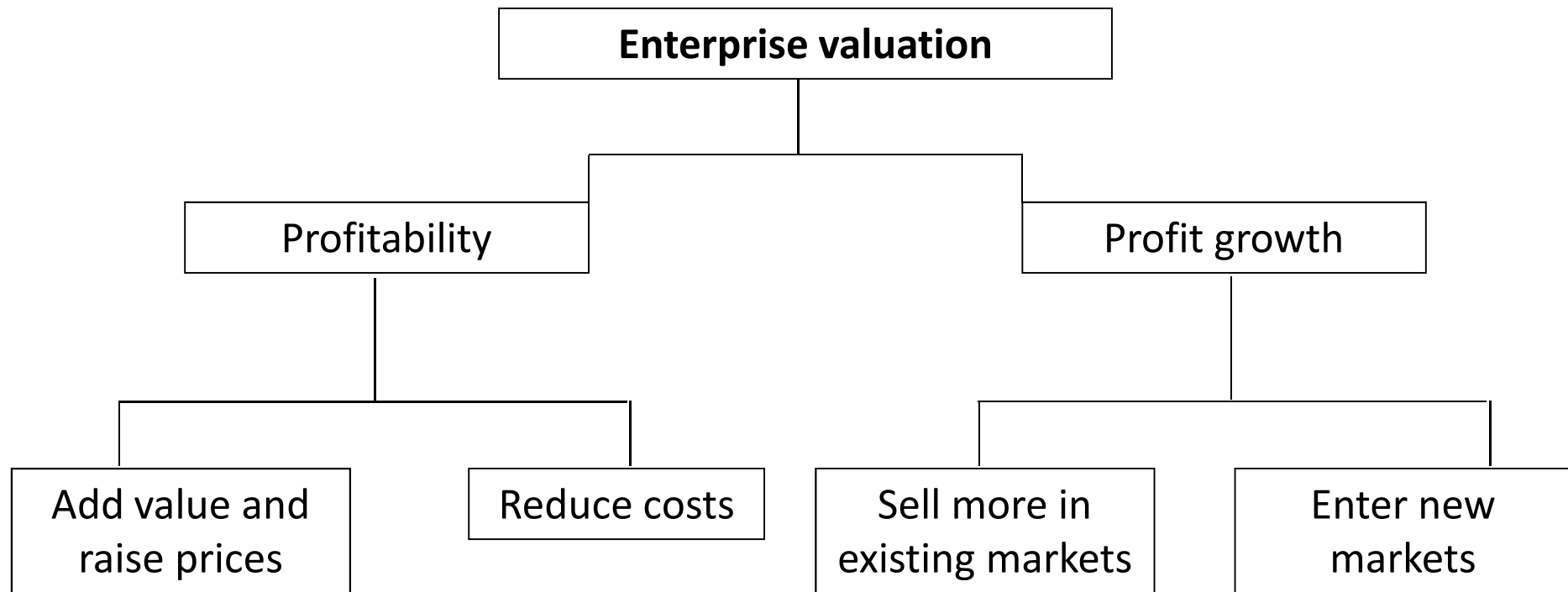
- What actions can managers take to be more competitive internationally?

Let's review some definitions:

- Strategy: actions taken to maximize value
- Profitability: net profits divided by invested capital
  - . Lowering costs or adding value
- Profit growth: % increase in net profits
  - . Sell more or expanding to new markets

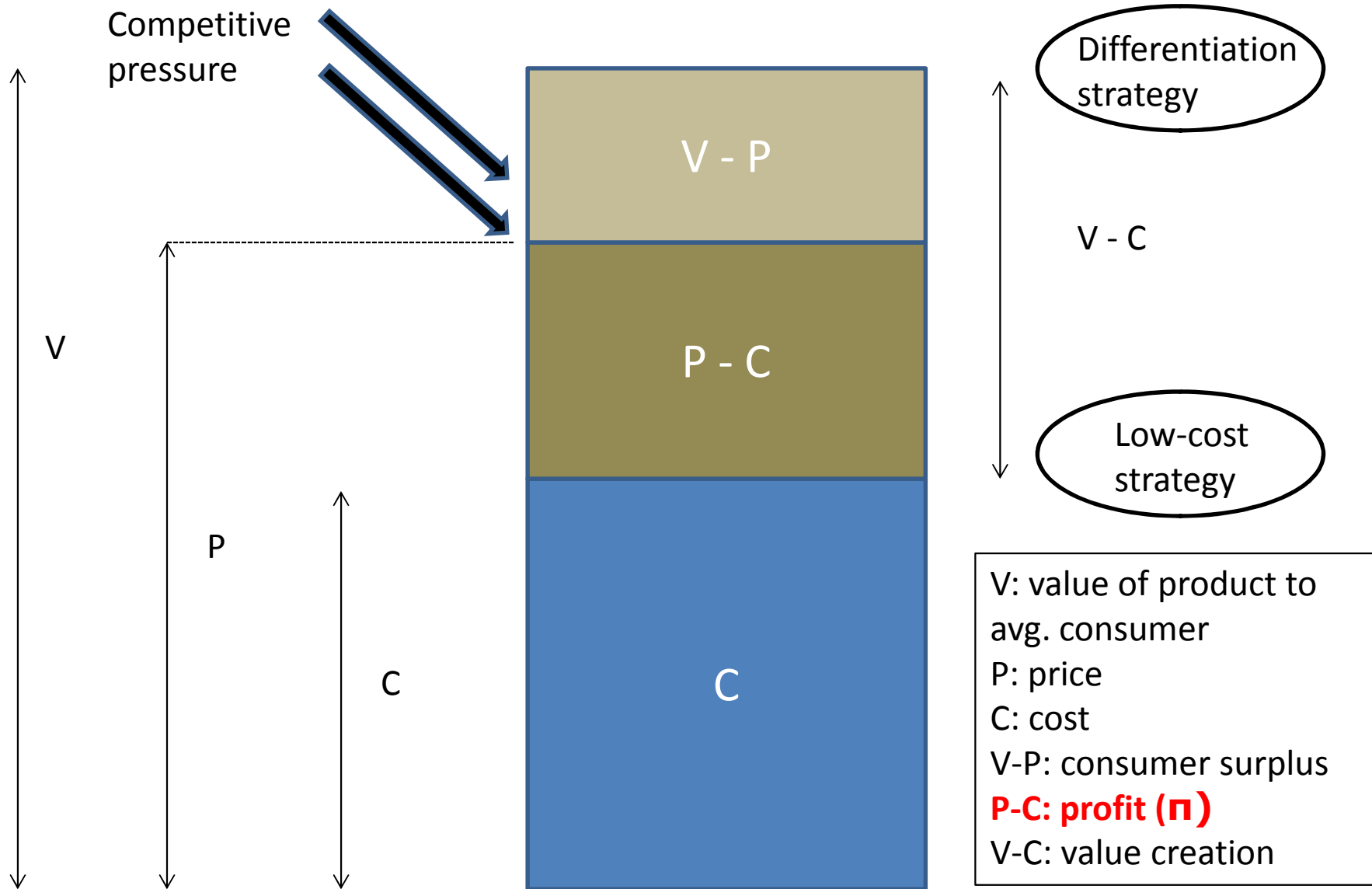
Expanding internationally → increase *both* profitability and profit growth

# The strategy of international business



Source: Hill, 2007

# Value creation



Source: Hill, 2007

# Value creation

$\Pi$  as long as  $P > C$ , and  $\Pi$  greater the lower  $C$  is *relative* to  $P$

$V - P \rightarrow$  competitive pressure; the lower, the higher  $P$  *relative* to  $V$

In general, the higher  $\Pi$  the greater the profitability

A firm can create value by lowering costs ( $C$  goes down) or making the product more attractive ( $V$  and  $P$  go up)

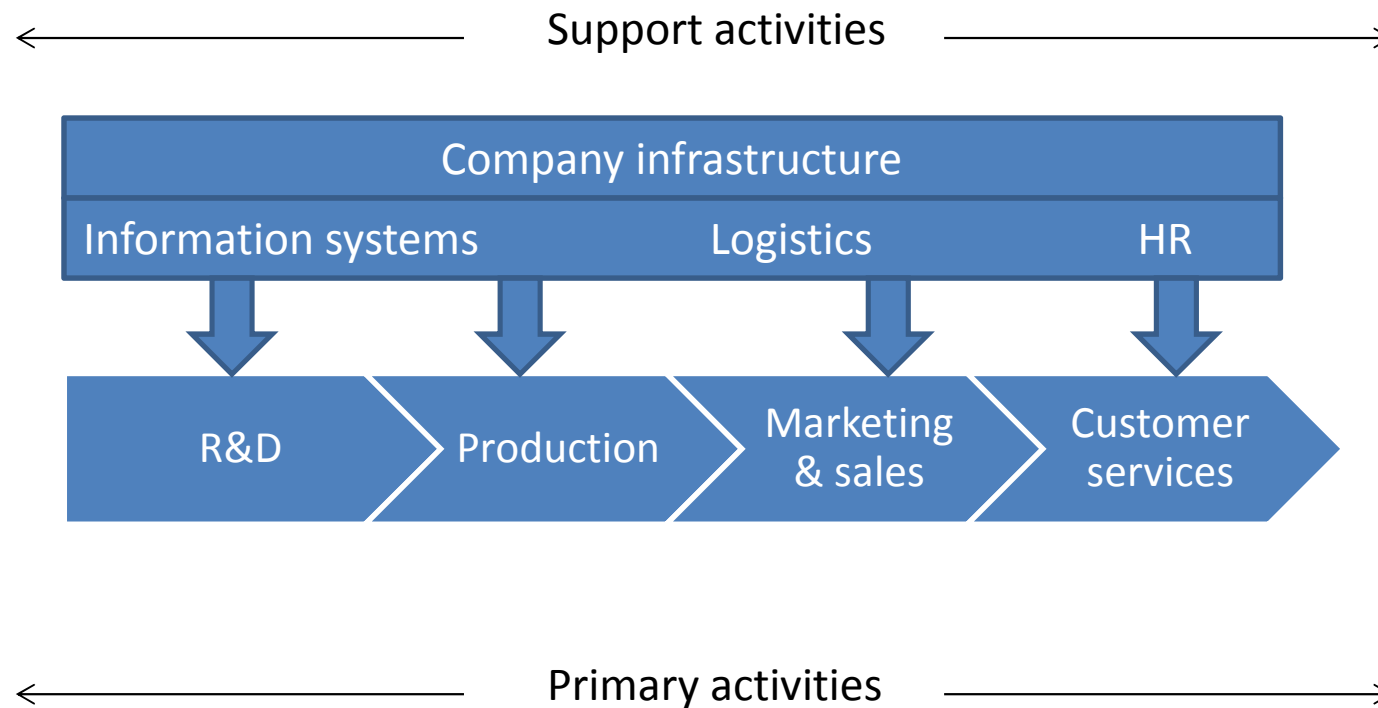
Low-cost strategy and differentiation strategy

**Goal of the firm: Max.  $\Pi$**  through value creation ( $V - C$ )

# The firm as a value chain

A “value chain” composed of distinct value creating activities

Primary activities and support activities



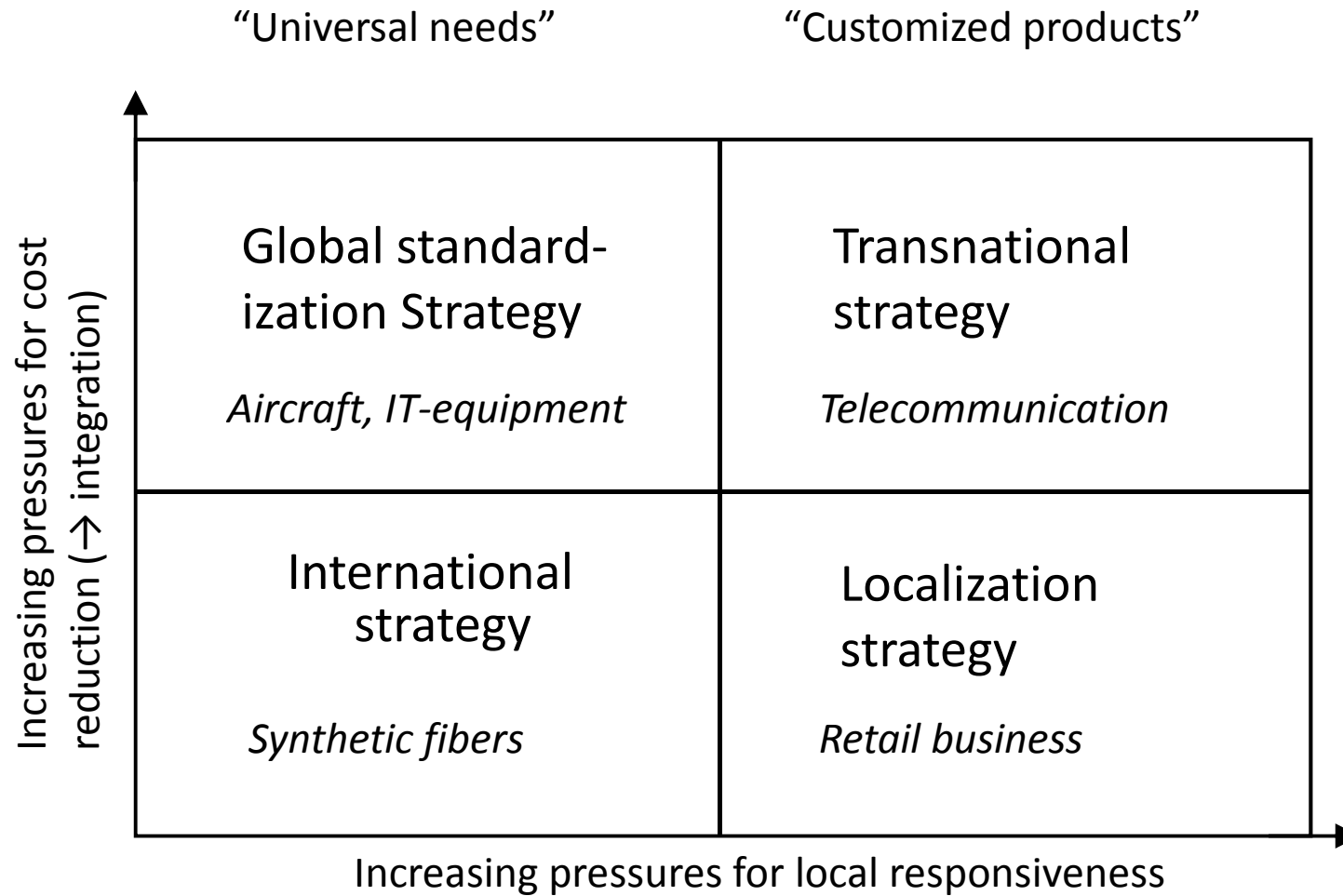
Source: Hill, 2007

# Global expansion, profitability, and profit growth

Firms that operate internationally are able to:

1. Expand the market of their domestic products
  - Sell products and also transfer of core competencies
  
2. Realize location economies
  - Create value in the optimal location
  
3. Realize greater cost economies from experience effects
  - Learning effects and economies of scale
  
4. Earn a greater return by leveraging 'foreign skills'
  - Valuable skills might occur in foreign subsidiaries

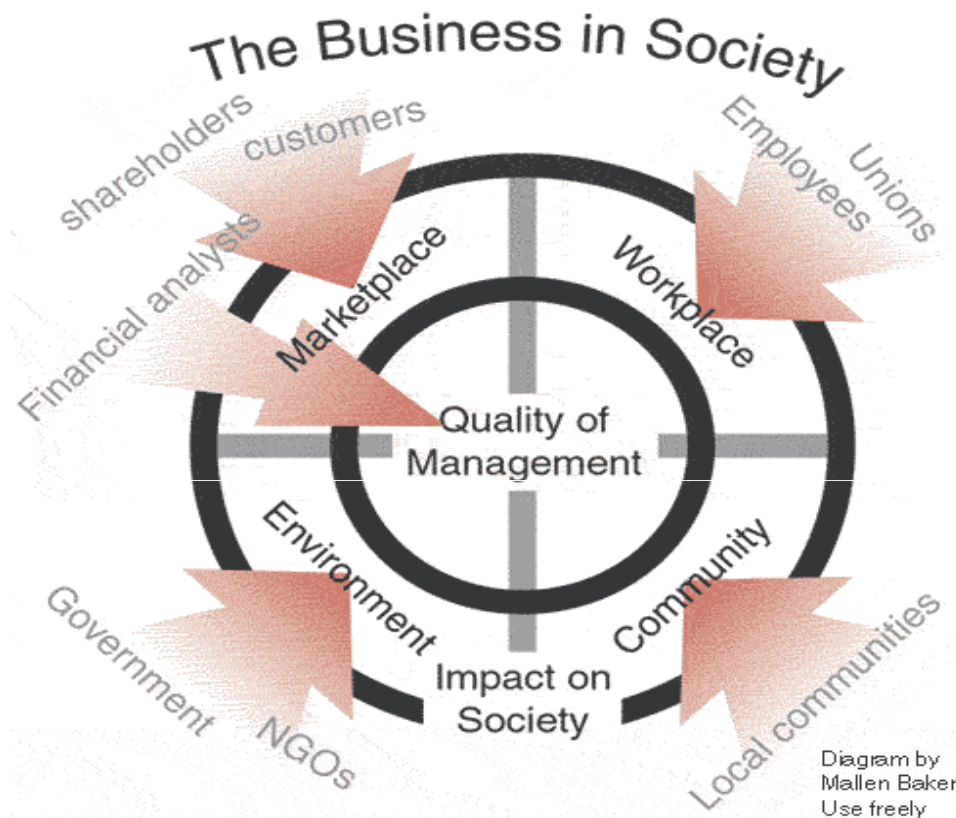
# Choosing a strategy: The conventional approach



Source: Hill, 2007

# Corporate social responsibility

What is it?



Enterprises “should have in place a process to integrate social, environmental, ethical and human rights concerns into their business operations and core strategy in close collaboration with their stakeholders” (European Commission, 2011).

# Corporate social responsibility

Really?

Let's break down the issue a bit more:

- Has “business” any responsibility?
- What about the principal-agent relation?
- According to CSR, the “agent” should go “beyond” the “whims” of stockholders or a “minimum fixed by law”
- What is he or she to do? To what extent? On whom will this burden rest? Will he or she be successful?
- Imposing taxes and deciding where to send them
- The “agent” is thus no longer serving the “principal’s” interests (he becomes a “civil servant”)

# Corporate social responsibility

- CSR involves denying the market mechanism
- To what extent is it justifiable to impose this “tax” on stockholders, employees, or customers?
- What if he/she gets away with it? Could employees and customers run away to less scrupulous individuals?
- Opposing CSR, the virtue of private competitive enterprises consists of forcing people to be responsible
- CSR is widespread among prestigious businessmen...
- “The pursuit of profits is wicked and immoral and must be curbed...”
- The CSR doctrine professes that collectivist ends can be achieved without collectivist means

# Corporate social responsibility

“There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud”

(Milton Friedman)



Further reading: Friedman, Milton (1970), The Social Responsibility of Business is to Increase its Profits, *The New York Magazine*

# Corporate social responsibility

Other takes on CSR (Hill):

- Cultural relativism  
“when in Rome do as Romans do”
- The righteous moralist  
Stick to home-country standards
- The Naïve immoralist  
“everyone is doing it”
- Utilitarianism  
“the greatest good for the greatest number of people”