

BA Business Management

International Financial Management

LCBB6002

Assignment Title: Assignment 1

Mohirta Constantin Laurentiu (2030333)

Table of Contents

Introduction.....	3
Evaluate International Financial Management (IFM) theories.....	3
Analysis different strategies that multinational corporations often adopt.....	5
Outline different ideas managing their exposure to foreign exchange risks.....	5
Conclusion.....	6
Recommendation.....	7
References.....	8

Introduction

International Financial Management is a strategic movement of any organisation that controls different financial activities across specific national borders. It involves overseeing different global financial operations such as risk management investing financing to meet the forest foreign exchange benefits. It also helps multinational corporations to adopt their financial activity in terms of trading and equity to make money through foreign currency. This report provides an expensive research regarding International Financial Management Theory. As well as it gives a wide range of literature to evaluate the different strategies that multinational enterprises adopt to manage their financial activity. As a result, theoretical model implementation helps to increase the corporate value and international cost of capital for an organisation to trend then its financial structure. This report also outlines different critical techniques related to the international financing for business growth which maximise the reputation of the MNC.

Evaluate International Financial Management (IFM) theories

International Financial Management also known as an international microeconomics that refers to the monetary interaction between the two or more countries. It significantly focused on the foreign direct investment and currency exchange rates that increase the organisation share value and broader the policies that put effort to make a strong globalisation (Eun *et al.*, 2021). Financial Management theory effectively controls the monetary resources of an organisation. The aim of the theory is to maximise the profit including shareholders wealth to make an appropriate financial decision that has a future proof. In this way it successfully manages the proper cash flow which is necessary to secure the organisation operation.

Capital structure theory

In financial management, this theory refers to a systematic approach to an international corporate business to manage their financing activity through equity and liabilities combination. This theory mainly explores the relationship between equity financing and debt financing and its market value that impacts the firm differently. Capital structure theory has a strong proponent of financial leverage which changes the capital cost (Ozili, 2020). For example, if an organisation takes more credit to liberate its investment then the capital structure increases in size and the average cost of capital decreases, resulting in the firm achieving higher value in the market. Therefore, it can be said that this theory postulates optimal capital structure is important to increase the cost of capital that impills a good relation of debt and equity ratio. Hence, the minimum cost of capital increases the value of the firm.

Pecking Order Theory

This theory relates to the capital structure of any organisation to follow a hierarchy system to consider the resource of financing. It raises a concept of asymmetric information that occurs when one party gives more better information than another which promotes imbalance in the transaction power. For instance, an organisation's manager typically collects information regarding the company's market performance, risk future, outlook then external information such as investors and creditors (Azmi *et al.*, 2021) . This information acts as an asymmetry, the external user like stakeholders and debt holders demand for a high return the account the risk that they take. In context to the theory, retain financing directly comes from companies and it minimises the information asymmetry (Pilbeam, 2023). In this way it successfully helps to explain the companies preference of financing to any investment project with internal financing first then external finance like debt. Lastly, comes equity which arises from information asymmetry to meet international fund investment opportunities.

Capital budgeting

Capital budgeting is the effective process of any international business to evaluate potential major investments. It helps the organisation to enhance its initiative that is required for the capital budgeting. The major focus of this theory is discounted cash flow throughput analysis and payback analysis to determine the potential returns. An organisation manager can assess business cash flow and out flow to pursue opportunities (Yubo 2021). In this way, it enhances the shareholder profit and value to manage different capital budgeting techniques to ensure its return over a certain period. Therefore, the purpose of the capital budgeting is to identify how much a project produces cash flow that exceeds the cost of the project. It is important to make business decisions to manage the operation into an international area (Dang *et al.*, 2020). It also expands the current business assets and operation by taking into new investments that add value to the business.

Portfolio theory

The modern portfolio theory refers to the method to select investment to maximise the organisation return by lowering the risk. It has a mathematical framework to build an appropriate portfolio of investment for an organisation to increase the expected return. This theory mainly implements expanding a business in the international market and it has a diversification technique that promotes the risk and return at a high level (Zhu and Sardana, 2020). Modern portfolio theory is an effective tool for investors to grow the exchange trade fund and it is easier to access a broad range of business assets. In this way it reduces the risk by increasing the government bond exchange traded fund.

Analysis different strategies that multinational corporations often adopt

Multinational corporations mainly emphasise the international lies strategies according to which country to do business with. This strategy can be traditionally deployed or has a modern touch but ensured as standardised approaches which can give several opportunities to enter in a new market. Financial experimentation with the domestic market has huge advantages to develop a successful business growth. On the other hand, to match the foreign currency receipts with financial outflow it is important to build an appropriate protection into a commercial contract. This financial management strategy takes a forward to a business contract that can give profit in terms of cash (Shapiro *et al.*, 2024). However, when the company has a sufficiently high profit margin but struggles due to exchange rent volatility. In this way, a strong brand position or a competitive value can raise the price of the organisation to make an appropriate movement in terms of increasing volume of trade.

In addition, a strong community position selling for a specific product is able to transact in one currency instead of operating internationally. This imposes exchange risk among the local customer and suppliers. As a result, establishing a protection into the commercial contract successfully gives a long term benefit regarding the foreign currency element. Moreover, to build a specific foreign exchange clause into a business contract it needs to allow the recovery of the exchange rate than the agreed amount (Zhu and Sardana, 2020). In this way, significantly passes the foreign exchange risk on to the suppliers and customers organisation has a power to negotiate the contract clause.

Outline different ideas managing their exposure to foreign exchange risks

Investing in the foreign assets as a multinational corporation improves business diversification and increases investors to take advantage. It gives benefit to the international assets and generates more revenue to become a global standard. Currency risk is always employed with it that sometimes negatively affects the investment's overall return. Organisation and Investor can face loss regards of monetary profits. Hedging strategy is effective to protect the foreign investment against currency risk. It can also mitigate an Organisation exposure to a performance of international currency exchange rate (Han, 2021). In this way it gives flexibility to the organisation to convert back the international font into the home currency letter which reduces the pressure on the financial team. This kind of International Financial Management is often adopted by multinational corporations to manage exchange risk.

Apart from that, exchange-traded funds are also focused on providing long and short exposure to international currency. This fund holds various securities that can increase the currency position to experience gain in terms of currency exchange rate. In this way, it benefited the investor to ensure their purchase. It successfully matches the organisation performance. Exchange red risk management is an integral part of any International Organisation decision. There are many risks such as transaction risk, translation risk and economic risk that can be reduced by Hedging strategy depending on the organisation's treasury. Simultaneously, to reduce double volatility of earning due to exchange rate organisation can implement optimization models. It can divide the optimal set for hedging strategies to optimise the debt composition (Luo, 2022). In this way, it significantly decreases the economic risk in the foreign market due to the upsetting effect.

Conclusion

From the above discussion, it can be concluded that International Financial Management helps the multinational organisation to manage its business environment. Also International finance deals with various monetary interactions that impose many risks in terms of investment. Hedging strategy successfully helps to acquire funds on investment with optimal manner to enhance the stakeholders benefit. In this way, a financial management team of multinational organisations balance the exchange rate and payments during the business contract to develop the industrial growth and meet the global standard to support a sustainable economy.

Recommendation

While doing international business, multinational organisations need to choose emerging economics which benefited the business funding to assess the development project. It can reduce global poverty and improve living conditions and standard of the citizens (Luo, 2022). In this way, it embraced a circular economy for a sustainable economic growth and also International Financial Management and developed the opportunity for successful trading with various international agencies.

References

- Azmi, W., Hassan, M. K., Houston, R., & Karim, M. S. (2021). ESG activities and banking performance: International evidence from emerging economies. *Journal of International Financial Markets, Institutions and Money*, 70, 101277.
- Dang, Q. T., Jasovska, P., & Rammal, H. G. (2020). International business-government relations: The risk management strategies of MNEs in emerging economies. *Journal of World Business*, 55(1), 101042.
- Eun, C. S., Resnick, B. G., & Chuluun, T. (2021). *International financial management*. McGraw-Hill.
- Han, X. (2021). Risk management, legitimacy, and the overseas subsidiary performance of emerging market MNEs. *International Business Review*, 30(4), 101732.
- Luo, Y. (2022). A general framework of digitization risks in international business. *Journal of international business studies*, 53(2), 344-361.
- Ozili, P. K. (2020). Theories of financial inclusion. In *Uncertainty and challenges in contemporary economic behaviour* (pp. 89-115). Emerald Publishing Limited.
- Pilbeam, K. (2023). *International finance*. Bloomsbury Publishing.
- Shapiro, A. C., Hanouna, P., & Sarin, A. (2024). *Multinational financial management*. John Wiley & Sons.
- Yubo, C. (2021). Innovation of enterprise financial management based on machine learning and artificial intelligence technology. *Journal of Intelligent & Fuzzy Systems*, 40(4), 6767-6778.
- Zhu, Y., & Sardana, D. (2020). Multinational enterprises' risk mitigation strategies in emerging markets: A political coalition perspective. *Journal of World Business*, 55(2), 101044.