

MODULE: INTERNATIONAL FINANCIAL MANAGEMENT

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Assessment 1

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I. Introduction

In this rapidly developing and globalizing world, the multinational companies determine the international trade characteristics and play a pivotal role in the movements among the markets. The economy highly depends on the operation of those enterprises and the broader market trends which they establish. International finance management (IFM) is a core engine to the resilient and efficient functioning of those multinational corporations and the opportunities to give employment to a wide range of people while enhancing and fostering production on the global market. As IFM is oriented toward serving the shareholders and maximizing the stock price, expansions and continuing operations abroad by implementing alternative management theories is necessary (Madura, 2008).

The following report reveals an in-depth critical analysis of the importance of financial management in the multinational setting and its strategic integration in the operation of one of the biggest multinational enterprises – Microsoft Corporation. By following the good practice of this business entity, the report outlines the concepts of financial theories and integration of strategies which lead to efficiency of performance, profitability and resilience. The main focus is on the choice of dividend distribution policy, methods of appraising projects and the introduction of the efficient market hypothesis in the context of Microsoft Corporation.

In this setting, the report will provide the challenges faced by international companies when enlarging and establishing new operations in other countries.

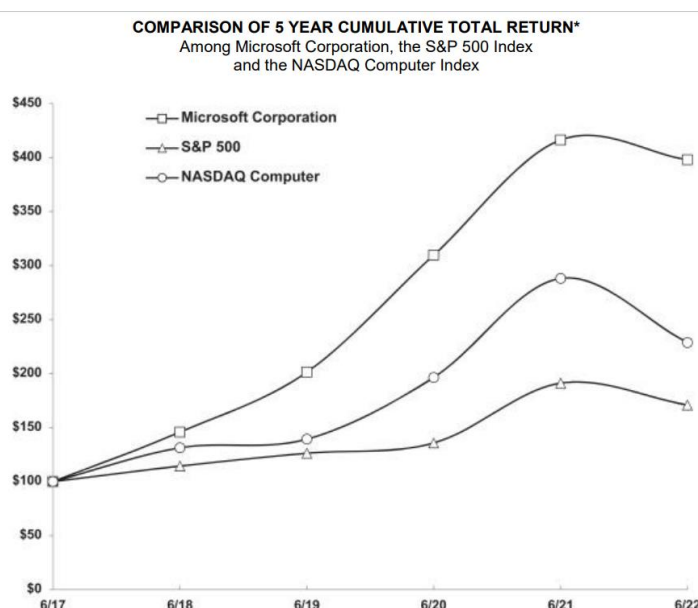
II. Importance of international finance management to Microsoft Corporation

Whenever a big enterprise decides to invest or operate abroad, it should establish its own and alternative policy based on various economic and organizational motives. International finance management is an important tool which provides the management with the opportunity to take upon the finance given by investors and to employ techniques and approaches for generating the maximized return (Arnold, 2012).

As the multinational corporations are characterized by transparency and liquidity, they strive for financial stability and acquiring of higher market shares. Through the implementation of IMF policies, those enterprises have the chance to make high levels of profits and minimize the costs of labour and the production expenses (Deresky, 2008). Therefore, such alternatives are beneficial for the broader market where financial strength and resilience is needed for the optimal operation of the business entity. Furthermore, the IMF is important for identification of ways of controlling and managing the capital in an appropriate way as well as valuing alternatives when financing expansions thus becoming more competitive (Madura, 2008).

The chosen multinational corporation for this report is Microsoft. This is a rapidly growing company in the field of software development which has an accelerating revenue growth and the highest cumulative return compared to its largest competitors for 2022 – depicted on Figure 1 (Annual Report, 2022).

Figure 1



Source: Annual Report, 2022

With the help of such financial tools, the Microsoft Corporation has managed to attain financial leadership on the market and to work with other smaller businesses with the strive of attaining profitability (Dabica & Furrer, 2014).

In order to look deeply into the case of Microsoft and its success globally, the report will focus on the following IFM theories – dividend distribution policy, efficient market hypothesis and methods of appraising projects.

1. Microsoft Corporation's dividend distribution policy

Crafting a well-structured and goals oriented dividend policy is a step which companies undertake in order to provide stability in the rate of growth of dividends and to realize the long-run organizational objectives in terms of earnings and returns (Edwards, 1984). The Microsoft Corporation had started its operation without paying any dividends until 2002 (ICMR, 2004). From 2003 onwards, the company decided to introduce a dividend policy which is paid quarterly as a reward to the shareholders. Looking at the latest statistical data for September 2023, Microsoft Corporation has a dividend of almost \$0.68 which gives them a yield of almost one percent (Annual Report, 2022).

Through the years, the corporation has been altering and enhancing its dividend distribution policy and every year the dividends are raising with a steady level and this trend is portrayed on Figure 2.

Figure 2

EX-DIVIDEND DATE		DIVIDEND YIELD	
08/16/2023		0.83%	
ANNUAL DIVIDEND		P/E RATIO	
\$2.72		33.93	

Ex/EFF DATE	TYPE	CASH AMOUNT	DECLARATION DATE	RECORD DATE	PAYMENT DATE
08/16/2023	CASH	\$0.68	06/13/2023	08/17/2023	09/14/2023
05/17/2023	CASH	\$0.68	03/14/2023	05/18/2023	06/08/2023
02/15/2023	CASH	\$0.68	11/29/2022	02/16/2023	03/09/2023
11/16/2022	CASH	\$0.68	09/19/2022	11/17/2022	12/08/2022
08/17/2022	CASH	\$0.62	06/14/2022	08/18/2022	09/08/2022
05/18/2022	CASH	\$0.62	03/14/2022	05/19/2022	06/09/2022
02/16/2022	CASH	\$0.62	12/07/2021	02/17/2022	03/10/2022
11/17/2021	CASH	\$0.62	09/14/2021	11/18/2021	12/09/2021
08/18/2021	CASH	\$0.56	06/16/2021	08/19/2021	09/09/2021
05/19/2021	CASH	\$0.56	03/16/2021	05/20/2021	06/10/2021
02/17/2021	CASH	\$0.56	12/02/2020	02/18/2021	03/11/2021
11/18/2020	CASH	\$0.56	09/15/2020	11/19/2020	12/10/2020
08/19/2020	CASH	\$0.51	06/17/2020	08/20/2020	09/10/2020

Source: Nasdaq, 2019

What this trend shows is that the financial management decision to distribute more profits to the shareholders is a beneficial one as it enhances the brand image of the corporation and makes it more attractive for further investors (Divecha & Morse, 1983). The main strategic goal of the company is to “pay the single biggest cash dividend” of 3 dollars per share on the market (Mahajan, 2020). With this smart move, the corporation strives to maintain high levels of growth, profitability and resilience in the long run.

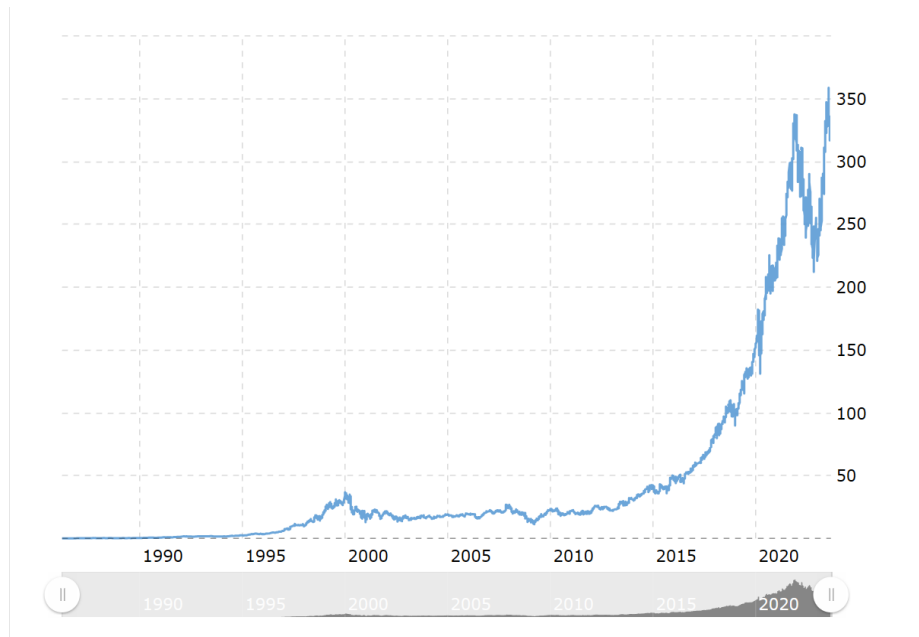
2. Efficient market hypothesis theory in the context of Microsoft Corporation

The efficient market hypothesis (EMH) theory is crucial for explaining the optimality and efficiency of the operation of one corporation. According to the study of Fama (1970), the EMH states that the prices of the stocks and securities are a reflection of the entire information about those securities. Therefore, people make rational decisions based on the hypothesis of the fair-value of the stocks.

The financial management strategies of Microsoft regarding the stock prices and following the EMH are not so effective. Even though the company implements diversification approaches and dividend-growth policies, the uncertainties about the returns and the risk-averse behaviour of the corporation about the return tradeoffs make it unstable and sometimes not so efficient (Ferreira, 2016).

The empirical data provided by the company portrays the following trend – the behaviour of the stock prices is unstable at some moments but overall there is a rise in price over the period – for Microsoft almost 0.08% according to Ferreira (2016). The whole trend is depicted on Figure 3.

Figure 3



Source: Macrotrends, 2019

The risky investments which the corporation has made in its history have led to the increased share price, the rising cash flows and the high levels of profitability. Therefore, the company follows the EMH theory in its practice and the company's shareholders have benefited from this.

3. Microsoft Corporation's methods of appraising projects

There exist several important methods of appraising projects, but one of the most used are the economic and financial analysis, the market analysis, the credit score management (Gotze, Northcott, Schuster, 2015).

For Microsoft, a vital goal is to introduce management practices which appraise the employees and provide personal freedom for training and qualification in order to perform better on the market (Chon, 2019). The company introduces an innovative practice called 360 Degree Feedback which combines financial, market and internal analysis in order to coordinate activities between workers and to provide them the needed feedback to enhance their further operation (Eisalou, 2014).

4. Challenges in international financial markets

Although Microsoft Corporation is one of the leaders on the global scale, it still faces some challenges in international financial markets. First and foremost, there are some expenses which emerge from translating software and technologies to another countries

(Microsoft Annual Report, 2012). This provides costs for the company which should be discussed by the management team.

Moreover, operating into so many international places leads to the facing of increased levels of competition. In order to remain competitive, Microsoft Corporation should be adaptive and flexible in terms of approaches and should carefully observe expectations and trends to fulfill the needs of the public.

Despite the challenges it is meeting on the road, the corporation has maintained almost stable levels of performance which are proven by the profitability ratio – return on asset ROA. Figure 4 portrays the tendency of having a higher return at the end of the period compared to the one in the beginning which reflects a good financial performance.

Figure 4



Source: Stock Analysis, 2023

III. Conclusion

Microsoft Corporation is an example of a successful organization which depends on the balanced financial management strategies, the search for innovation and development. Expanding and operating in new markets is a main goal for the organization and it strives to foster alternative and flexible practices in order to gain more market share, higher competitiveness and effective performance.

Diversification, adaptive dividend policies and strategies are only some of the ways through which the company attains its leadership. In some cases, Microsoft Corporation takes risky decisions and runs into challenges and higher costs. This, however, is a premise for international expansion, integration and maximization of profits. Managing, forecasting, planning and monitoring are the four key steps which provide the corporation with the gateway for strategically becoming a market leader.

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