

INTERNATIONAL FINANCIAL **MANAGEMENT**

Dobrinka Vasileva, 2030402

Programme: BA Business Management

Module: International Financial Management

Module code: LCBB600

Table of Contents

Introduction.....	3
Concept of international Financial Management.....	3
Managing the Working Capital.....	3
Helps in Operation of the Business.....	3
Challenges Faced in International Financial Market by British Petroleum PLC.....	4
Theories of International Financial Management.....	4
• The international fisher effect.....	4
• Purchasing power parity and the optimum currency area.....	4/5
Dividend Distribution Policy of British Petroleum PLC.....	5
Methods of Appraising Project.....	6
Conclusion.....	7
References.....	8

Introduction-

The essay will analyze the importance of international financial management of British Petroleum PLC a company based in the United Kingdom that deals in services related to oil, gas, and petroleum and it is one of the world's biggest organizations that earns high revenues. It will explain the challenges faced by British Petroleum PLC in international financial markets also various theories of IFM. The analysis will explain the dividend distribution policy of the company and the efficient market hypothesis of British Petroleum PLC. The essay contains the evaluation of appraisal project techniques which is used by British Petroleum PLC.

Concept of International Financial Management-

International financial management is an arrangement of international finance of various economies that helps in transferring funds from one place to another place. IFM is the management of finance that helps the organization also in the decision-making of their capital and funds so that it will be easy for the organization to take decisions related to its operations (Madura 2020). International finance management helps the organization in the correct decision-making of their funds and helps in the management of their funds. IFM gives an insight into the funds whether the funds are of business or the whole economy.

Importance of International Financial Management for British Petroleum PLC- International financial management helps British Petroleum PLC in various aspects –

Managing the Working Capital- International financial management helps British Petroleum PLC in managing the day-to-day activities of the organization. IFM helps British Petroleum in managing its short-term expenses for running the organization (Shapiro and Hanouna, 2019, p. 43).

Increases the Value of the Business- International financial management helps in increasing the value of British Petroleum PLC by suggesting the firm in investing, it gives an insight into where to spend, and how to spend so that the investment will give a positive NPV.

Helps in Operation of the Business- International financial management helps BP PLC in managing its day-to-day operation by evaluating the day-to-day spending of the business also

it evaluates the long-term expenses of the firm. IFM guides the firm in taking decisions related to the funds of the British Petroleum PLC that will increase the worth of the organization.

Evaluating the Performance of Business- International financial management helps the company in measuring the actual performance by its results which are related to the finance of the organization (Shapiro and Hanouna, 2019, p. 43). It ascertains the future financial risk of the company so that it will be covered timely and helps in increasing the performance of the firm. IFM helps in knowing the financial position of the firm.

Challenges Faced in International Financial Market by British Petroleum PLC-

British Petroleum PLC faced many challenges in the international financial market such as exchanging the currency of the various countries. The demand for oil and gas was high in 2020 but the supply for the same was less due to the pandemic, supply and demand were imbalanced during the pandemic. Prices of oil stocks were fluctuating because of fluctuations in the market. The market is highly volatile so it affects the organization in growth and development. The pricing system of countries was different, so it affects British Petroleum in fixing the prices of the product for different countries as it affects the international financial market.

Theories of International Financial Management-

The theories of international financial management are the international fisher effect, purchasing power parity, and the optimum currency area.

The international fisher effect explains the currencies which represent a high rate of interest would be depreciated due to high inflation, as a high-interest rate increases inflation. The relationship between inflation and interest rates is very important to the financial market (Joksimović et al. 2020). The theory states that the interest rate should follow the inflation rate, if the rate of interest increases then inflation should also increase and if the rate of interest decreases then the rate of inflation will be decreased.

Purchasing power parity explains the relationship between the exchange rates of various countries. The exchange rate of one country should be the same of another country, PPP

states that if the prices of one country will increase then the exchange rate of the country will decrease (Amadeo 2021).

The optimum currency area ascertains the area that helps in increasing the benefits for the economy so that the exchange rate will be fixed. It helps in analyzing the factors which affect the payment of cost.

Dividend Distribution Policy of British Petroleum PLC-

The dividend distribution policy of British Petroleum PLC is an important part of the organization. The company distributed dividends to its shareholders in the context of profitability and increasing the overall strength of the organization. A good dividend policy helps in increasing trust and better relationships with investors.

British Petroleum PLC has announced a total dividend of \$11.25 billion in buyback to its shareholders in 2022 and increase of 21 percent as compared to 2021. The company distributed a \$4.3 billion dividend in 2021 to its shareholders. BP has announced an increase of 10 percent in dividends per ordinary share in 2022. The company has provided consistent payments of dividends to its shareholders (British Petroleum PLC, 2022). A dividend distribution policy helps the company maximise the wealth of the shareholders also it increases the goodwill of the company in the eyes of investors and shareholders which gives high profitability to the company in the future.

	Pence per share			Cents per share			\$ million		
	2022	2021	2020	2022	2021	2020	2022	2021	2020
Dividends announced and paid in cash									
Preference shares							1	2	1
Ordinary shares									
March	4.1595	3.7684	8.1558	5.460	5.250	10.500	1,068	1,063	2,102
June	4.3556	3.7118	8.3421	5.460	5.250	10.500	1,061	1,062	2,119
September	5.1684	3.9529	4.0433	6.006	5.460	5.250	1,140	1,100	1,059
December	4.9402	4.1045	3.9169	6.006	5.460	5.250	1,088	1,077	1,059
	18.6237	15.5376	24.4581	22.932	21.420	31.500	4,358	4,304	6,340
Dividend announced, paid in March 2023				6.61			1,188		

Source – (British Petroleum, 2022).

British Petroleum has paid 22.932 cents per share dividend to its shareholders. **The company is following a regular dividend policy that helps the company in maintaining a good credit rating. British Petroleum PLC has promised its shareholders to pay a monthly dividend** (British Petroleum PLC, 2022).

Efficient Market Hypothesis Theory of BP PLC-

The efficient market hypothesis theory explains that all information related to the stock price is available at one time (Baldridge, 2022). The theory states that the information related to operations, performance, and risk of British Petroleum PLC is available for the pricing of the stock. The theory helps in maintaining the balance between the market valuation of stock and the price of the stock.

Per ordinary share	Cents per share		
	2022	2021	2020
Basic earnings per share	(13.10)	37.57	(100.42)
Diluted earnings per share	(13.10)	37.33	(100.42)

Per American Depositary Share (ADS)*	Dollars per share		
	2022	2021	2020
Basic earnings per share	(0.79)	2.25	(6.03)
Diluted earnings per share	(0.79)	2.24	(6.03)

Source- (British Petroleum, 2022).

The basic earnings per share of British Petroleum PLC in 2022 was 13.10 cents per share, in 2021 it was 37.57 cents per share. The market of oil and gas faced various uncertainties like increases in the prices of oil, sudden inflation and deflation, and political challenges, these challenges affect the price of British Petroleum shares. The diluted EPS of British Petroleum PLC in 2022 was 13.10 cents per share, in 2021 it was 37.33 cents per share (British Petroleum, 2022). The weighted average outstanding shares are adjusted for the average shares that are issued to the employee's shared plans. The theory states that if trading of stock should be done on its market value, then there is no need to analyze of timing strategy that leads to outperform.

Methods of Appraising Project-

The mechanism for appraising a project is used to ascertain the profitability of the investment or a project. There are various methods that British Petroleum used to determine the profitability of the investment. The first method for ascertaining the returns of investment is the accounting rate of return. ARR helps in determining the annual return percentage of the investment which gives an idea to the organization whether the investment gives benefit to the organization in the future or not (Bragg, 2023).

BP PLC used the internal rate of return technique to ascertain the profitability of the investment as it evaluates the discount rate that presents the net present value to zero. They also used a payback period mechanism that helps in identifying how much time a project takes to pay back the investment amount or to cover the value that is paid while investing in a project. The net present value is used in calculating the future cash flows of the business minus the future cash flows from the initial amount of the investment (Pascual et al. 2018). These methods help in analyzing the returns of the project or investment and help in identifying the risk factors of the investment.

Conclusion-

The essay concludes that international financial management is very essential for British Petroleum PLC in making financial decisions and making strategies for achieving the goals and objectives of the organization. Many challenges were faced by the company in the international financial market, but IFM helps British Petroleum to overcome these challenges and create profitability in the market. The dividend distribution policy of BP PLC was good which help in increasing the value of the shareholders and also increasing the profits of the company. A sound dividend policy leads to increasing the worth of the company in the eyes of investors. BP PLC used various mechanism for analyzing the profitability of the project or investment.

References-

- Amadeo, K. (2021) *What is Purchasing Power Parity?* Available at- [https://www.thebalancemoney.com/purchasing-power-parity-3305953#:~:text=Purchase%20power%20parity%20\(PPP\)%20is%20a%20method%20of%20accounting%20for,Big%20Mac%20in%2055%20countries.](https://www.thebalancemoney.com/purchasing-power-parity-3305953#:~:text=Purchase%20power%20parity%20(PPP)%20is%20a%20method%20of%20accounting%20for,Big%20Mac%20in%2055%20countries.) (Accessed: 25 July 2023).
- Baldrige, R. (2022) *What is the efficient market hypothesis.* Available at- <https://www.forbes.com/advisor/investing/efficient-market-hypothesis/> (Accessed: 24 July 2023).
- Bragg, S. (2023) *Accounting rate of return definition.* Available at- <https://www.accountingtools.com/articles/what-is-the-accounting-rate-of-return.html> (Accessed: 24 July 2023).
- British Petroleum PLC. (2022) *Annual Report and Form 20-F-2022.* Available at- <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/investors/bp-annual-report-and-form-20f-2022.pdf> (Accessed: 24 July 2023).
- International Energy Agency (2020) *The global oil industry is experiencing a shock like no other in its history.* Available at- <https://www.iea.org/articles/the-global-oil-industry-is-experiencing-shock-like-no-other-in-its-history> (Accessed: 23 July 2023).
- Joksimović, M., Joksimović, D. and Grujić-Vučkovski, B., (2020). A test of international fisher effect: researching from Serbia and the European Union. *Ekonomika*, 66(2), pp.49-61.
- Madura, J. (2020). *International financial management.* Cengage Learning.
- Pascual, N., Sison, A., Gerardo, B. and Medina, R. (2018) Calculating Internal Rate of Return (IRR) in Practice using Improved Newton-Raphson Algorithm. *Philippine Computing Journal*, 13(2), pp.17-21.
- Shapiro, A.C. and Hanouna, P. (2019) *Multinational financial management.* John Wiley & Sons.

