

International Financial Management

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INTRODUCTION

International financial management which is also called international finance, it is very well known in term of today's world. International financial management simply refers to the management of finance at international level. This concept is totally different from normal financial management because of various factors that are consisting different currencies, various political situations, imperfect markets, as well as diversified sets of different opportunities. International financial management used for acquisition of funds and for making different investment decisions (Khattak, 2020). In this report, dividend distribution policies of Unilever which is a multinational company established in UK, it is one of the biggest consumer goods organisation. As they are very well known about the great brands and the beliefs which doing operations in right way. This company is offers different beauty products and personal care products, various foods as well as refreshments, and products for home care will be discussed, and its efficient market hypothesis theory of Unilever. And furthermore, evaluation of different methods of appraisals would be discussed.

TASK

Importance of International financial management; IFM plays a crucial role in this growing world, each and everyday transaction between two different countries are scaling up in order to trade with different supporting factors. International finance assists to maintain different economic relationships among different countries through determination of exchange rates that are totally based on the related values of currencies, along with IFRS system that is financial reporting of standards (Rugman, 2019). With the proper system for managing the international finances, help could be provided to the Unilever in acquiring effectiveness and efficiency in different markets. Products would be produced more efficiently in the market. Unilever could further acquire raw material which is needed for production.

Challenges of international financial management; complex taxation system affects the operations of Unilever and further affect the profitability of firm. High level of volatility in the international market could be considered as another challenge which leads to choosing risky options. Further, Unilever would require to manage its credit risk as the trade is conducted internationally. There are higher chances of data getting stolen as the information is being

exposed to the global market. Further, the company could face cultural differences which would damage the reputation of entity.

Dividend distribution policies of Unilever; it includes the different principal amounts in order to ascertain various amounts which could be distributed to the equity shareholders of the organisation. Along with it, it is used to strike proper balance between pay out as well as retained earnings, with the help of this companies are able to address its overall future requirements. Dividends would be continued to be declared as per the share that are basis on the ordinary equity of shares of the organisation. Dividends are being generally recommended by the board of directors. The overall objective of making different dividend policies in order to provide clarity to their stakeholders on the dividend distribution framework which is to be adopted by the organisation (Tahir, Masri, and Rahman, 2020).

The Unilever's dividend distribution policies should ensure that it must return its cash from all the operational activities which are more than its immediate as well as foreseeable requirements back to the shareholders over the long term. Different interim dividend policies are to be considered in order to declare by the boards that are based on the overall performance of the organisation during the whole accounting year as well as final dividend that is totally based on the performance of the complete year. The company used to strive in order to declare a steady stream of dividends to the shareholders that is in their best on term interest (Khan, 2022). Dividends that are being declared by the Unilever out of the current year's profits after tax of the organisation. In some situations, including but not limited to loss after tax in a specific financial year, the board of should consider using of retained earnings in order to declare dividends, which subject to application of different legal provision. Unilever's dividend distribution policy seeks in order to pay an attractive, sustainable as well as growing dividends.

Efficient market hypothesis of Unilever; which is also termed as efficient market theory, states that price of the share of the business shows all the information relate dot the entity and generation of constant alpha or risk adjusted return is not possible. Stocks are being traded at fair value which lead investors to not to purchase such stocks that are undervalued. It becomes impossible for the investors to outperform with the help of right selection of stocks. Higher returns could only be earned by the investors through purchase of riskier investment options. Investors would not be able to identify the market trend in market with the use of technical analysis.

EMH works on different assumptions which includes; stocks are being traded at their market value on exchange, all the needed information is being presented through actual stock market value, investors do not have the capability to outperform in the market as they are required to take decision on the basis of information available (Singh, Babshetti and Shivaprasad, 2021). Further there exist three level of efficient market hypothesis which includes; the first level is **weak form** of EMH shows that price of the financial instruments in the market are the representation of the public information. It does not show any such information which is not yet disclosed. The second level is **semi strong form** of EMH which states that quick adjustments could be made in the market price of the instruments with the introduction of new information. The third level is **strong form** of EMH which states that both current information and the historical data is being presented through market price of the financial instruments. Insider data and the public information is included in this. Unilever's efficient market hypothesis says that market has dynamic system which is over reactive and investors are not considered as rational individuals. With the use of Earning per share and its comparison along with comparison of the change in share price over a particular period of time, investor attitude could be identified (Kang, Lee and Park, 2022). Further, efficient market hypothesis could be considered to be semi strong form as the information regarding firms like Unilever are being provided such that decisions could be taken by the investors. The stock market of UK is considered to have semi strong form of EMH as adjustments could be performed.

Methods of Project appraisal; There exists different method that are being adopted by Unilever which are related to financial appraisal; **payback period;** this method helps the firm finding the time period within which the amount invested in particular project would be recovered. The choice between which project should be selected is made on the basis of this method. Decision by Unilever is taken by identifying the time taken by each project available for making an investment. that project would be selected by the firm which has shorter payback period which would mean that initial cost of the project would be covered within small period of time. **Net present value;** it is an another method which helps Unilever in identifying which project should be selected. This method helps in calculating the amount money generated by investing in a particular project. It is being calculated by deducting the cash outflows from the current value of cash inflows. Those projects are being selected by the firm that would provide positive value of NPV. Positive value of the NPV shows that return rate is higher than the discount rate. This

means that organization would earn more profit if such project would be selected. **IRR**; it is a method which helps the Unilever in finding out the amount of return which would be earned by the entity on any project (WeiDa., 2022). It is the rate at which discounted cash flows leads to NPV becoming zero. Such project would be selected which has the rate of return at which the current value of inflows would equate with the present value of the initial cost. **Profitability index**; this method of project appraisal shows that there exists a relation between the present value of earnings in future and the initial investment value. With the NPV having positive value, index value would be more than 1 and the value of index would be negative when the NPV has negative value.

CONCLUSION

From the above report, it can be concluded that dividend distribution policy is made by the firm for its shareholders which provides the information related to the amount of profit which would be provided to the shareholders in the form of dividend. The policy of the Unilever states that immediate return should be provided to the shareholders with the positive earnings from the operations. Further, efficient market hypothesis theory has been included which states that information related to the stock prices are readily available in the market and are shared to the public such that they could take informed decisions. There are various methods which shows what project should be selected by the Unilever that would provide maximum benefits to the firm. Such appraisal techniques include payback period, net present value, Internal rate of return and profitability index. These methods help in assessing the projects and selecting that project which would be more profitable.

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