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Course title: International Financial Management

International financial company analysis

Johnson & Johnson

Johnson & Johnson (J&J) is primarily an American multinational corporation coined in 1886 and excels in the manufacturing of pharmaceuticals, medical devices as well as consumer packaged goods. The firm is ranked 36th in the Fortune 500 list of the gigantic United States (US) corporations on the basis of total revenue (Drake et al., 2006). The company is headquartered in New Brunswick, New Jersey. The firm's brand includes but is not limited to typical household names of first aid supplies and medications. Amongst its notable consumer products sparks from Tylenol medications, Band-Aid Brand line of bandages, Acuvue contact lenses, clear and clean facial wash, Jonson's baby products among many others (Kmietowicz, 2013). The essay presents a detailed account of J & J relative to its dividend distribution policy, and the relevance of international financial management to the company. The challenges experienced by the company in the diverse international markets coupled with the method employed by J & J in the appraising of its project. Lastly, a summative discussion of the company's efficient market hypothesis theory.

According to Carls et al. (2011), the dividend distribution policy of Johnson & Johnson is premised on the criteria taken into account by the Board of directors before the recommendations of dividends to its shareholders for a given financial year and then presents the clarification to stakeholders regarding the distribution of profits accrued in the company. The policy states that the board of directors has to take into account the distribution of profits relative to the applicable provision of the Companies Act, business strategies and the underlying rules, regulation of Tax altogether with the subsequently applicable legislation (Borkowski, Welsh & Wentzel, 2010). J & J came up with the DividendMax programme coined in 2011 whose mandate was to provide private investors with dividend forecast data. The view of the firm's management was and remains

that retail investors might be at a disadvantage to the relatively large institutions whose accessibility to technical data and subsequent tools gives them a relatively unfair edge.

In the determination of dividend pay-out level in the company, it is primarily determined by the interim dividend board of directors and by the general shareholder meetings for the end of year dividend. Additionally, the board might end up recommending a special dividend in the light of specialised situations. The following factors are taken into consideration before dividend recommendation by Johnson & Johnson company (Borkowski, Welsh & Wentzel, 2012). The accumulated reserves, capital expenditure in the future, any paid interim dividend, earning stability, the position of cash flow trends of dividend pay-out, and the financial performance for the year. Further taxation implications, the costs of raising funds, expectations of shareholders, the economic environment as well as the legal and regulatory framework are considered in order for the dividend distribution theory for the company to hold.

The efficient market hypothesis occasionally regarded as the efficient market theory is a hypothesis that denotes that the share prices primarily reflect the entire information and consistent alpha general remains an impossibility (Degutis & Novickytė, 2014). According to the EMH, stocks always trade within the exchanges of their fair value, this makes it difficult for the investors purchasing sell stocks or undervalued stocks as far as inflated prices are concerned. As such, it becomes impossible outperforming the ultimate market through market timing or expert stock selection the only means by which J & J acquires higher returns is through buying riskier investments in specific countries. It is through the adoption of the Efficient market hypothesis theory that the company has been able to continue growing and penetrating new markets to sell its products (Malkiel., 2005).

International finance management (IFM) alternatively regarded as international finance entails the management of finance in an international business environment, the generation of profits through foreign currency exchange altogether with trading (Madura, 2020). The international finance activities of J & J have helped the company to link with overseas business customers-partners, engage in international dealings, and leaders among many others. This is true relative to the argument by Sharan (2012), who denoted that international finance makes it possible for an organisation to connect.

Through proper management of international finance, Johnson & Johnson has been able to achieve similar effectiveness and efficiency in the entire market. This justifies the success and the continued leadership of the company in the whole world. Inappropriate management of IFM results in an unsustainable market (Somanath, 2011). The IFM, J & J has been able to achieve the following benefits. First, it has been able to earn a higher return. For instance, the consideration of the theory of purchasing power parity dictates that when the spot exchange rate of two countries begins from the point of equilibrium, the disparity in the rates of inflation of the two countries might seemingly influence the value of the underlying currencies in the long-range companies inherent within such country would in the long-range be affected significantly (Frankel, 2003).

J & J has also been in a position to diversify, broaden and penetrate hard-to-enter markets as a result of its effectiveness when it comes to the management of IFM. IFM has enabled the company to acquire essential raw materials required in the production process. Engage in Foreign Direct Investment (FDI) abroad other than in the US alone. Consequently, it has managed to efficiently generate products in the foreign markets compared to that domestically. The company has also been able to accrue a significant amount of interest rate based on the theory of interest rate parity

(Madura, 2020). It denotes that the differential in interest rate between two nations is the same as the differential between the spot exchange rate and the forward exchange rate.

Studies have also shown that international finance might help companies in international trade altogether and in the sphere of the exchange of goods and services among the nations. In J & J, international finance has enabled the company to significantly enhance its profitability altogether with its overall value (Bahl, 2012). Through effective financial management, the company has also been able to be stable economically even despite times of economic turmoil. Through the initiative, J & J workers have been encouraged to save money and this has helped in their financial planning.

Apart from the benefits from the international financial markets, J & J tend to experience some challenges. This includes low rates and excessive taking which to a significant extent has significantly contributed to the relatively high valuation of assets, compressed risk spreading, and interim premiums as well as boosting leverage, collateral shortages, and illiquidity. This has exposed J & J financial system shocks. To a significant extent, this has weakened risk pricing and liquidity illusion thus the risk of pro-cycling “fire sales” with global spillovers emanating.

There are also other challenges that the company experienced in the international markets such as the persistently higher interest and elevated inflation rates. Consequently, at some point, the company experienced market fragility and asset bubbles alongside climate-related financial risks. Post pandemic changes and corporate solvency also remains among the top challenges experienced in the company. Despite these challenges being prone to the company, it has managed to leverage them to a significant extent and this is the reason why the company remains the leader

Johnson & Johnson has adopted three important project appraisal methodologies. This includes economic analysis methodology. The company uses this method in highlighting the requirements of raw materials, anticipated sales, capacity utilisation levels, problem profits, and perceived expenses (In Odgaard, Kelly & Laird, 2005).

Market analysis also plays a very fundamental role as far as the company is concerned. Before the inception of production, the company often has to anticipate the potential market of the product. The firm often anticipates its potential consumers for the product and where as well as when the product should be sold. A subsequent method that has been adopted is the usage of the financial analysis appraisal method. According to Milios et al. (2018), finance is amongst the most crucial prerequisites to enable any given project. It is only through finance which facilitates an entrepreneur collectively brings together the labour of one, the machine of another, and the raw material in unison to produce a certain commodity.

Through financial appraisal, the company often engages in the assessment of the financial requirement for both the working and fixed capital needed (Næss, 2020). Consequently, the firm is also involved in the accounting of the working capital and the underlying means of excessive assets over prevailing utilities. This is often taken based on the optimum current ratio. It is through undertaking the two aspects that financial appraisal is achieved.

In summary, Johnson & Johnson is one of the leading companies across the world. In the paper, critical analysis and evaluation of J & J dividend distribution policy. This included aspects such as how the dividend is determined and who determines this. Furthermore, a critical analysis of efficient market hypothesis theory in the context of J & J operations has been pointed out. More importantly, the method of appraising projects as far as the company is concerned has been

presented. This included financial analysis, and economic analysis altogether with market analysis prospects.

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