

International Financial Management

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INTRODUCTION

Shell is considered as one of the largest publicly traded oil and gas companies in the world. Shell operates its operations in numerous countries. The below report will discuss briefly the importance of international financial management at Shell. Then the report will discuss in detail the challenges faced by Shell in different international financial markets. The below report will then evaluate the dividend distribution policy of Shell. The report will analyze briefly the market hypothesis theory of Shell in multinational corporation's operations. At last the report will evaluate in detail different methods used by Shell for appraising projects.

Importance of International financial management

International financial marketing is considered very important in operations and success in global markets. Shell operates in several countries and is considered a one of the biggest multinational company.

Foreign exchange risk management – Shell operates in multiple countries. International financial management helps shell in managing foreign exchange risk. Shell uses multiple strategies and tools in its operations to manage multiple risks related to global business (Madura, 2020). The company keeps regular track and does detailed monitoring and manages currency exposures to reduce and balance the effects caused by exchange of rate fluctuations on the financial statements of the company.

Treasury and cash management – As shell operates its business operations in numerous countries and deals with multiple currencies which results in multiple difficulties in the management of cash. Effective international marketing helps to ensure that the company has strong treasury system and processes in place to effectively manage its global cash flows and working capital.

Risk management – Shell faces multiple risks related to finance while operations its business in international market. The risks in international markets which are faced by Shell are generally related to market risks, credit risks and operational risks. IFM helps the company to identify, manage and deal with such risks in more effective and efficient manner. This process generally

includes using of multiple tools and procedures related to risk management and then keeping a regular and detailed monitoring of the process (Shapiro, and Hanouna, 2019). By managing and dealing with all the risks in international markets will help the company to protect its shareholder values and will helps in ensuring continuous flow of its business operations in multiple countries.

Challenges faced by Shell

There are multiple challenges which Shell faces in international financial markets. Some of them are mentioned below –

Language barriers – The language barrier is considered as one of the major challenge faced by Shell in international markets. The company deals with the language barrier by hiring candidates who have knowledge and is fluent in different languages. Shell faces major challenges in explaining their policies and goals to the international clients due to language barriers. The company has developed an advanced customer executive and support system which is capable to handle all the queries asked by the international clients and resolve them quickly as soon as possible.

Currency risk – Shell conducts its business operation in numerous countries and does a transaction of variety of currencies. The fluctuations in the exchange rates create a huge impact on the financial performance of the company (Moşteanu, 2019). When the value of a local currency gets weak against the currency in which Shell reports its financials, it can result in lower revenues and profits. The challenges in handling and manages the risks related to currencies is considered as one of the major challenge for Shell in international financial markets.

Regulatory environment – Shell must handle efficiently and effectively in different regulatory frameworks across different countries. It is considered that each jurisdiction has its own set of rules and policies which helps in governing multiple aspects which include taxation, accounting standards and environmental compliance and energy policies. It is considered very difficult to

keep up with these multiple rules, regulations and policies they are very costly and requires multiple amounts of resources and expertise from different people and organizations.

Dividend distribution policy of Shell

Shell is considered as one of the largest publicly traded oil and gas companies in the world. Shell is known and recognized for providing attractive dividends to the share holders of the company. Shell aims to grow its dividend per share by almost 4% every year. Shell has very well past record of maintaining proper and equal dividend to the shareholders of the company. The company aims to provide consistent increase in the dividend share of the shareholders at regular intervals by offering predictable dividend payouts to them (Borio, Farag, and Tarashev, 2020). The dividend yield which is used to measure the dividend payment as a percentage of the stock price is considered an important tool for investors for evaluating the dividend stocks of the company. Shell has already offered a relatively high dividend yield compared to many other companies in the past. It is very essential for the company to consider that dividend yields fluctuate with changes in stock price and dividend payments. The dividend growth of the company is considered more variable. The investors around the world who are thinking to invest for a longer period of time to the company consider the dividend growth a important factor before investment as it helps them to understand the company's ability to increase shareholder returns over time. The dividend growth in the petroleum industry is majorly influenced by several factors which mainly include oil and gas prices, global economic conditions and the company's financial performance. The financial health and profitability of Shell play a crucial role in its ability to sustain and increase dividend payments. The company's dividend distribution policy is influenced by its earnings, cash flow generation, debt levels, capital expenditures and other financial obligations (Weerathunga, Chen, and Sameera, 2020). It is very essential for the company to keep a track and monitor in detail the factors to assess the sustainability of the company dividend policy.

Efficient market hypothesis theory

Efficient market hypothesis theory is a theory which suggests that financial markets are highly efficient and that asset prices reflect all available information. The theory also tells that it is not possible to consistently achieve above average returns by analyzing the past market data or using any other investment strategy. Shell is considered as one of the largest multinational corporations in the world. The company is engaged in different aspects of the energy industry which mainly include explorations, production, refining and distribution of oil and gas products (Younas, and Turdialiev, 2021). Shell is a public company so the stock price of the company is variable and is influenced by multiple factors in the market which mainly includes market conditions, industry trends and the financial performances. In the petroleum industry all the information available related to public or private is easily available and is quickly and accurately reflected in the stock price of the company. This means that investors cannot consistently outperform the market by trading on this information because it is already incorporated into the price. The efficient market hypothesis theory is classified into three forms weak form, semi-strong form and strong form efficiency. The weak form of the theory suggests that the past stock price of the company or the past price patterns of the company or any important financial information cannot be used to find out the future stock price of the company. Investors in Shell's stock would not be able to consistently profit by analyzing past price data alone. The semi strong form of theory includes all the information which is mentioned in weak form as well as it also includes all the public information (Hellmann, and Patel, 2021). The semi strong form of the theory tells that the stock prices of the company already reflects publicly available information which generally include information related to financial statements, news releases, industry reports and other relevant data of the company. The strong form of the efficient hypothesis theory suggests that stock prices fully reflect all available information which mainly includes both public and private information.

Methods of project appraisal

There are multiple methods used by Shell in project appraisal. Some of them are mentioned below –

Financial analysis

Non present value also known as NPV is widely used by multinational corporations to identify in detail the profitability of the investment made by the investors in the company. The NPV helps to calculate the present value of expected cash inflows and outflows over the life time of the project. If the resulted NPV is positive then the project is considered financially correct if the NPV is negative then the project is not considered. Another financial factor in the financial analysis is the internal rate of return (Vitimir, and et. al., 2020). The IRR is the discount rate at which the NPV of a project becomes zero. It represents the project's rate of return. Shell usually compares the IRR with its current rate or required rate of return. If the IRR exceeds the current rate then the project is considered attractive. The payback period is the time taken for the initial investment to be recovered through expected cash flows. Shell uses this factor to analyze the risks related to the project and liquidity. The company prefers shorter payback periods.

CONCLUSION

The above report discussed briefly the importance of international financial management at Shell. Then the report discussed in detail the various challenges faced by Shell in different international financial markets. The above report then evaluated in detail the dividend distribution policy of Shell. The report analyzed briefly the market hypothesis theory of Shell in multinational corporation's operations. At last the report evaluated in detail different methods used by Shell for appraising projects.

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