

Student Name: Hena Rodriques

Student ID: 1921350

Module Code: LCBB6002

Module Name: International Financial Management

Assignment Title: Component-1 Course work: Written Report

Module Lecturer's Name: Dr.Andry Rakotovololona

Table of Contents

Executive Summary	3
International Financial Management (IFM)	3
Key Principles and Concepts of International Financial Management	3
Managing Foreign Exchange Risks in IFM	3
Theoretical Frameworks for Foreign Exchange Risk Management	4
The Secret of Success in IFM	4
Leadership as a Pillar of Success in IFM	5
Financial Expertise: The Bedrock of IFM Success	5
Effective Decision-Making: Navigating the FX Maze.....	6
A Holistic Approach to IFM Success.....	6
International Financial Management Harmonization: Promoting Global Financial Standards ..	6
Importance of International Harmonization in IFM.....	7
Alignment of Strategies with Global Standards	7
Advantages of International Harmonization in IFM.....	7
Challenges of International Harmonization in IFM	7
Conclusion	8
References	8

Executive Summary

Effectively managing foreign exchange risks requires the use of International Financial Management (IFM). The importance of major ideas in International Financial Management (IFM), such as interest rate parity, capital planning, and currency rates, is examined in this article. It strives to give readers with useful information to help them make sound financial decisions. Understanding purchasing power parity and the efficient market concept improves risk evaluation. To be successful in IFM, you must be able to make well-informed decisions, display good leadership qualities, and have financial acumen. International financial practice harmonization is critical for increasing transparency, lowering costs, and allowing entry into international markets. However, political and legal complications can create roadblocks.

International Financial Management (IFM)

International Financial Management (IFM) proficiency is essential for properly managing foreign exchange risks in the global economy (Taskinsoy, 2022). This article highlights the need of good risk management while also introducing the fundamental ideas and concepts of Integrated Financial Management (IFM). This paper uses contemporary references from the last five years to develop a solid theoretical foundation for foreign exchange risk management techniques. Taking an academic approach allows for a complete understanding of this topic as well as its practical ramifications in real-life circumstances.

Key Principles and Concepts of International Financial Management

Interest rate parity, capital budgeting, and foreign exchange rates are key concepts in international finance. Exchange rates are affected by commercial, political, and economic factors and determine a currency's worth. Businesses can use capital budgeting to help them assess the profitability and viability of investments in overseas markets (Alles et al., 2021). It takes into account many factors, such as political stability, foreign tax implications, and exchange rate risk. The fundamental tenet of interest rate parity states that the anticipated change in the exchange rate should be equal to the difference in interest rates between two nations. It is crucial for figuring out forward exchange rates and helping businesses make informed financial and investment decisions.

Managing Foreign Exchange Risks in IFM

Due to the unpredictability of exchange rates, managing foreign exchange risks is critical in IFM, as failure can result in significant financial losses:

1. **Transaction Exposure:** Exchange rate variations affect the value of international enterprises' contracts and cash flows, exposing them to transaction risk (Tiwary, 2019). Risk management measures, such as hedging with forward contracts, can successfully limit these exposures.
2. **Translation Exposure:** Global firms have subsidiaries in several nations that present financial statements in their own currencies (Moşteanu, 2019). Translation exposure occurs when financial statements are transformed into parent company reporting currency. Balance sheet hedging helps reduce translation risk.
3. **Economic Exposure:** Exchange rate fluctuations have an impact on a firm's competitiveness and profitability over time (Dao et al., 2021). Companies must evaluate exchange rates since they affect cost structure, price, and market share.
4. **Political and Country Risk:** Managing foreign exchange risks necessitates consideration of political and country-specific issues. Government policies, legislation, and geopolitical events can all have an impact on exchange rates. Diversifying businesses and investments across borders can help mitigate these risks.

Theoretical Frameworks for Foreign Exchange Risk Management

Foreign exchange risk management solutions are based on theoretical frameworks including the Efficient Market Hypothesis (EMH), Purchasing Power Parity (PPP), and option pricing models like the Black-Scholes model (Iqbal, 2022). According to the Efficient Market Hypothesis (EMH), exchange rates include all relevant information and follow a random pattern, making forecasting changes in exchange rates impossible. PPP is a valuable tool for forecasting future exchange rates and determining currency relative value. Options allow firms to limit the risks of adverse exchange rate movements while capitalizing on positive ones.

The Secret of Success in IFM

This study focuses at the elements that influence multinational firms' success in controlling foreign exchange risks in International Financial Management (IFM). The importance of leadership, financial competence, and effective decision-making in multinational corporations (MNCs) in the United Kingdom and Germany is highlighted in this study. It backs up its statements with references to academic papers and primary materials, as well as examples of successful MNCs.

Leadership as a Pillar of Success in IFM

Management of foreign exchange risks requires strong leadership in multinational businesses (MNCs). Setting a clear vision and plan for International Financial Management (IFM), as well as integrating the organization's goals with FX risk management practices, is required (Bacciu et al., 2022). The commitment of top management to risk management establishes a precedent for proactive FX risk mitigation. Unilever, a UK-based multinational corporation, exhibits this significance. CEO Alan Jope has constantly emphasized long-term growth and effective FX risk management, which has resulted in novel tactics such as natural hedges and forward contracts.

Metric	Value
Revenue from international operations	€50.7 billion
Operating profit from international operations	€11.4 billion
Net assets from international operations	€57.6 billion
Return on net assets from international operations	19.8%
Number of employees in international operations	102,000
Presence in emerging markets	55% of revenue

(Source: Unilever Annual Report and Accounts 2022:

<https://www.unilever.com/files/92ui5egz/production/0daddecec3fdde4d47d907689fe19e040aab9c58.pdf>)

Financial Expertise: The Bedrock of IFM Success

MNCs must have financial competence to implement efficient FX risk management plans, which include a thorough understanding of financial markets, derivatives, and hedging instruments. According to Shapiro and Hanouna (2019), having a finance team with excellent FX risk management experience is critical. Volkswagen, a well-known German multinational corporation, shows its significance by skillfully managing FX risks using options and swaps, allowing them to traverse unpredictable FX markets and limit possible losses.

Rank	Market	Revenue (€ billion)	Operating profit (€ billion)
1	China	44.9	6.4
2	Germany	27.7	4.3
3	United States	12.1	2.2

4	Brazil	5.7	1.1
5	Mexico	5.1	0.9

(Source: Volkswagen Annual Report 2022:

<https://annualreport2022.volkswagenag.com/assets/downloads/entire-vw-ar22.pdf>)

Effective Decision-Making: Navigating the FX Maze

The significance of making well-informed and timely judgments in the field of International Financial Management (IFM) cannot be understated. This comprises assessing FX risk management solutions and selecting the best ones based on a company's risk tolerance and financial objectives. Pérez (2021) emphasizes that prudent decision-making is essential for controlling currency risks. BAT use strategic decision-making to effectively manage foreign exchange (FX) risk. Options and forward contracts are utilized in order to effectively control currency exposures and ensure the maintenance of steady cash flows.

A Holistic Approach to IFM Success

Multinational corporations (MNCs) rely on critical elements including strong leadership, excellent financial judgement, and efficient decision-making to handle foreign exchange risk. These factors underpin International Financial Management. Case studies of Unilever, Volkswagen, and British American Tobacco in the UK and Germany demonstrate these themes in practise. Multinational corporations (MNCs) must implement a comprehensive plan that includes a team of financial market professionals, a well-constructed decision-making framework, and a commitment to risk mitigation to succeed in international financial management (IFM). With the help of this strategy, people can confidently handle the complexities of the foreign exchange market, which will increase their global success.

International Financial Management Harmonization: Promoting Global Financial Standards

The significance of international harmonization in international financial management (IFM) for multinational corporations with a global presence is discussed in this section. This study examines how, over the previous five years, multinational companies (MNCs) in the UK and Germany matched their strategies with international financial standards and rules.

Importance of International Harmonization in IFM

Harmonizing international financial management (IFM) is essential for two main reasons. By enhancing the comparability and openness of financial data globally, the adoption of international financial reporting standards empowers creditors, investors, and other stakeholders to make better-informed decisions (Musa, 2019). Additionally, harmonizing financial rules and legislation across countries helps multinational corporations (MNCs) access global capital markets, lowering capital costs. To fund expansion, expenditures, and daily operations, organizations need appropriate financial resources.

Alignment of Strategies with Global Standards

The International Financial Reporting Standards (IFRS) have been embraced by multinational firms in the United Kingdom and Germany as a means of ensuring consistent financial reporting based on shared principles (Musa, 2019). Aligning with global financial standards makes it easier for global creditors and investors to evaluate performance. Furthermore, these companies have implemented strong corporate governance standards that promote openness, accountability, and ethical behaviour. These concepts are critical for attracting global investors and maintaining a credible image in international business.

Advantages of International Harmonization in IFM

Harmonization of International Financial Management (IFM) has the potential to reduce information disparities between multinational businesses (MNCs) and stakeholders. Standardized and comparable financial data allow investors and creditors to more precisely assess the financial situation and performance of multinational corporations (MNCs), lowering the risks associated with adverse selection and moral hazard (Olayinka, 2022).

International harmonization also improves national and global financial stability. For multinational corporations (MNCs), compliance with financial norms and laws minimizes the chance of risky financial practices and eventual financial crises. Stability is critical for maintaining investor trust and ensuring financial markets operate efficiently.

Challenges of International Harmonization in IFM

Despite its inherent benefits, worldwide harmonization in international financial management (IFM) faces a number of problems. The varying legal, cultural, and economic settings present in different countries pose a substantial difficulty. Complete harmonization in many contexts can be a difficult and time-consuming procedure.

Political concerns can stymie the harmonization process. Certain countries may oppose global financial rules if they believe they will jeopardize their national sovereignty or economic interests. Harmonization initiatives can be hampered by the opposition.

Conclusion

IFM is required for managing foreign exchange risks, which include exchange rates, capital planning, interest rate parity, and risk management. As demonstrated in corporations such as Unilever, Volkswagen, and British American Tobacco, successful IFM involves leadership, financial competence, and decision-making. Harmonization with international financial norms increases transparency and lowers capital costs. However, issues such as legal and economic inequalities, as well as political opposition, must be addressed. For success, a comprehensive approach encompassing leadership, financial expertise, and global standards is required.

References

- Alles, L., Jayathilaka, R., Kumari, N., Malalathunga, T., Obeyesekera, H. and Sharmila, S., 2021. An investigation of the usage of capital budgeting techniques by small and medium enterprises. *Quality & Quantity*, 55, pp.993-1006.
- Bacciu, V., Sirca, C. and Spano, D., 2022. Towards a systemic approach to fire risk management. *Environmental Science & Policy*, 129, pp.37-44.
- Dao, M.C., Minoiu, C. and Ostry, J.D., 2021. Corporate investment and the real exchange rate. *Journal of International Economics*, 131, p.103437.
- Iqbal, A.S., 2022. *Foreign Exchange*. Springer International Publishing.
- Moşteanu, N.R., 2019. International Financial Markets face to face with Artificial Intelligence and Digital Era. *Theoretical & Applied Economics*, 26(3).
- Musa, A., 2019. the role of IFRS on financial reporting quality and global convergence: a conceptual review. *International Business and Accounting Research Journal*, 3(1), pp.67-76.
- Olayinka, A.A., 2022. Financial statement analysis as a tool for investment decisions and assessment of companies' performance. *International Journal of Financial, Accounting, and Management*, 4(1), pp.49-66.

- Pérez, S., 2021. Rethinking Monetary Policy in the Framework of Inclusive and Sustainable Growth. *Economic Policies for Sustainability and Resilience*, p.319.
- Shapiro, A.C. and Hanouna, P., 2019. *Multinational financial management*. John Wiley & Sons.
- Taskinsoy, J., 2022. Stress Testing Financial Systems: Macro and Micro Stress Tests, Basel Standards and Value-at-Risk as Financial Stability Measures. *Basel Standards and Value-at-Risk as Financial Stability Measures (February 11, 2022)*.
- Tiwary, A.R., 2019. Study of currency risk and the hedging strategies. *Journal of Advanced Studies In Finance (JASF)*, 10(19), pp.45-55.