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INTERNATIONAL FINANCIAL MANAGEMENT OF UNILEVER

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INTERNATIONAL FINANCIAL MANAGEMENT OF UNILEVER

Introduction

International financial management is a fundamental interaction between two or more countries, it majorly focuses on FDI's i.e., Foreign direct investment and exchange rates of currency. Its importance is increasing day by day due to increment in globalisation. They generally deals in trade, exchange of foreign currency, investments etc. (Agyapong, 2021). Financial management is a method which is used to make optimum decisions in respect of investment, capital structure, management of working capital, etc. to reach their financial goals. In this report, analysis of dividend distribution policy of Unilever will be discussed. also hypothetical theory, and their methods of appraising projects as well.

MAIN BODY

Importance of International Financial Management; it helps in maintaining economic relations between different countries. It is possible by evaluating rate of exchange which is based on currency's value. Various financial institutions are there like international financial corporation, and world bank etc. which aids in analysis of finance globally.

Every listed company have to prepare and reveal their dividend distribution policy. The BODs of Unilever disclose this dividend policy. This policy has aim to give clear picture to their stakeholders which is adopted by the company.

Dividend payout; the policy of dividend distribution should make sure, that return from cash activities shall be more than immediate need back. In order to enhance value of shareholders of the company they pay attractive, continues dividend, and increase dividend amount timely (Alhadab, 2018). The board of directors shall consider before releasing dividend policy is for what purpose dividend is to be declared, at which rate it should be declared. Both interim and final dividend should be consider before declaration. Generally interim dividend is based on company's performance of a particular time period and final dividend is decided in respect of overall performance of the company. Every dividend which is recommended by them is approved by board of directors at annual meeting of the company. Only that much amount will be approved which is being decided in the annual meeting of board of directors. They decide their dividend after calculating profit after tax of current year. If company is in loss then they can use their retained earnings to distribute dividends. Some factors are there on the basis of which payment of dividend is pay out. Internal factors are; the financial performance which is existing currently, board of directors should consider about cash inflow and outflow and their liquidity position, their capital expenditure, plans for investments etc. external factors which affect macro-economic environment, condition of market, sometimes expectation of shareholders increases, which effects dividend payment method. In order to achieve long term goals Unilever utilise their retained earnings, which may be approved by boards of directors, but up to set limit. Such as issue of bonus shares, growth opportunities which comprises merger and acquisition of the company (Davis, and Rhodes, 2020).

Dividend payout method and timings; with respect to applicability of local laws, rules and regulations Unilever approved their dividend in time. Unclaimed dividend; Unilever always manage their unclaimed dividend in adhere to its lows and regulations.

Hypothesis theory of Unilever; it is also called efficient market theory, it represents that share prices reflect all the information and obtaining alpha is impossible. According to this selling and purchasing of stocks are always at their fair value. It makes unfeasible for investors to purchase stocks which are being underrated. So it makes market expert to perform better next time. Moreover, it push investors to buy more riskier stocks to get higher return. So it is impossible for company to purchase cheap stocks to earn extra income. Three variations are there which identify efficiency level of Unilever in market.

Weak; this form of efficient market hypothesis make assumptions that public market information which are being available reflects by prices of securities. Moreover, it assumes that price, volume, and returns are not dependent on future prices. It states that consistent returns did not provide strategies of technical trading, because they can not predict future price from past price.

Semi strong form; it discloses the utilisation of both technical and fundamental analysis. It assumes information which is being available, prices of stocks easily adjusted in this. So from this future predictions can't be done.

Strong form; of efficient market hypothesis; according to it price reflects entire information of public and private sector (Gørrissen, 2020). By using strong form Unilever keep up to date themselves about all the outsider information, historical data, as well as current data. So through strong form, even insiders can not get the information to predict future price of shares, so this will enable them to make future predictions regarding future prices of shares. A small rise in index funds which track major market indexes in mutual funds as well as ETFs in order to spread acceptance of efficient market hypothesis.

Methods of project appraisal which are being used by Unilever for decision making.

Economic Analysis; this analysis consider that how much raw material is being needed, in how much capacity they can utilise it, how they can anticipate sales and their expenses. Unilever always keep that much amount of profit from which they can govern their economic variables such as sales, purchase etc. with the help of economic analysis Unilever identify in how much quantity they should sell so that they can achieve their target income.

Financial analysis; in this analysis evaluation of both fixed and working capital would be done properly by Unilever. Need for fixed asset or capital is depend on operation's type, scale of operation whether it is a small or large operation (Lee, and Kim 2020). All the assets related items are kept into consideration such as cost of asset, installation charges etc. moreover if any other expenses like repair and maintenance, remodelling etc. are also taken into consideration by Unilever. In the system of accounting, working capital refers to excess of current assets over current liabilities. Ratio of 2:1 always lies between them. Working capital is needed to run day to day operations of Unilever. Working capital act as a lubricant for Unilever so that its requirement should clearly visible.

Market analysis; Unilever analyse market condition before starting the production of their products. They analyse who is going to purchase their products, who will be their targeted customers. Moreover where they can sell their products. Unilever states that their products have no value if there is no demand in the market for that particular product. They anticipate their target market with the help of managerial economics, demand analysis etc.

Technical Feasibility; the company take it into consideration while making their project appraisal, with the help of this organisation make sure their products comes under prescribed norms, also plant and all equipments are provided at reasonable prices. It also provide information regarding availability of funds to run that plant and machinery. With regard to foreign technical collaboration, Unilever always take care of their legal provisions of providing list of products time to time which comes under terms and conditions of the collaboration. So Unilever always check their legal provisions of respected project (Nicholls, 2020). Unilever cover these inputs while making project appraisal, they also ensure how much land will required, is it available or not, second is they make sure water is available or not at that particular place, they also consider availability of power transportation, communication facilities, availability of network etc. thirdly they considered that machine shops must be available in near by area, electronic items or repairing shops etc. are available or not. The firm always corporate with anti pollution law, they make their project appraisals by taking care of pollution level. They make sure availability of proper quality and quantity is there or not.

Management Competence; the only reason for success of company is they manage their managerial competence because it is very important not only for organisation, but every company should consider their managerial competence while making project appraisal if they want to be success in business (Partalidou, and et.al., 2020). If this managerial competence of a company is up to that level, even chances of a poor project would be increase. So firm consider all these factors before accepting project appraisals.

CONCLUSION:

From the above essay we can conclude that, international financial management plays crucial role to manage flow of currencies globally. It helps to make investment decisions like capital structure, management of working capital etc. These decisions will help companies to achieve objectives. In the selected firm, the prime objective to make dividend policy is to provide clear cut picture of payment structure of dividend. The company believes in punctuality, they pay their dividends on exact time. In order to make goodwill they keep their shareholders at first priority. Three efficiency level are also discussed in this report which is weak form, semi strong and strong form. So overall the dividend policy of the company is good , this will help them to increase overall goodwill.

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