

BA Business Management

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Table of Contents

Introduction.....	3
Understanding financial risk.....	3
Strategies for the managing foreign risks	4
Strategic hedging	5
Strategic approaches	5
Foreign exchange strategies.....	6
Conclusion	7
References.....	8

Introduction

In this ever-evolving business environment, financial activities have been managed strategically across national borders. It mainly entails trading and making money with the exchange of foreign currency. The management of global financial practices include investing, financing, and risk mitigation. International financial management majorly maintains a regular and sufficient supply of funds. There should be solid plan for the optimal usage of capital and it is setting up a safe and secure investments. However, the global finance management incurs some issues also and international companies can tackle it effectively. While on the other hand it will explore the theories that are used for the calculation of outcomes of the knowledge through the methods of global finance business. Additionally, it will explain the concept of financial structure of the companies. Hence because of the different operations risk arises in the different countries that are why this report will outline the management of financial risk.

Understanding financial risk

Forex risk and currency risk are the other names of the foreign exchange. Majorly it reflects the possible danger and fiscal loss emerging because of the unfavourable actions and changes in the exchange rates of the foreign business (Fanelli and Strau, 2020). The business facing the three types of financial risk that are mentioned below:

Transaction exposure: Transaction exposure occurs when financial business has different currencies and the contractual flows in the various regions. Conversely, the different variations in the switch rates can create the impact on the prices and future cash flows (Wu et al., 2021).

Translation exposure: Translation exposure is founded for foreign business with effective financial support along with that it is utilized when the business tries to shift the financial reports from additional currencies to attain effective currency. Due to changes in the currency rates the shift in the statements of financial positions and income statement is observed.

Economic exposure: economic exposure refers to the complicated type of indirect revelation. Hence it causes the long-term effects on the exchange rates of the foreign business. However, the morale market is aggressive and cash flows are pretentious by this effectively (Zhou et al., 2022).

Strategies to manage foreign risk.

1. Financial hedging strategies

Forward contracts: Forward contract refers to the contracts that aid in altering the currencies at an exact rate. Mainly this contract is used by the multinational organizations to lock the exchange rates of the future transactions. Therefore, it will be beneficial in reducing the qualms effectively and efficiently (Abid et al., 2020).

Options contracts: it provides rights to the multinational companies to for exchanging the currencies at the specific rates. Hence this approach is offering flexibility and downside protection to the organizations effectively. Therefore, this strategy it utilized only when the exchanges are not certain.

Currency swaps: it refers to the changes of currency for another currency in the absence of counterparty. Hence MNCs can utilize this for attaining the currency in the lack of the forex exchange and currency swaps (Chan, 2020).

Money marker edge: it explains that the organization can lend and borrow foreign currencies for the offsetting the risk related to Forex. While on the other hand it can be done by performing the different exchange rates.

2. Operational strategies

Nettings: In this the internal companies can create the balance in payable currency by receiving same currency as well as it aids the organization in minimizing the risk of forex transactions effectively. It is beneficial in minimizing the exposure of transactions.

Leading and lagging: Leading method is utilized by the company to boost the payment. While on the other hand lagging can be understand as the minimization of the speed of payments. Such kind of strategies is used by the international organizations.

Diversification: The establishment of the business in diverse countries and varied currency is deemed and a useful strategy for the business because it allows the organization to minimize the risk and increase the foreign business effectively and efficiently (Abid et al., 2020). In the case

of economy of individual country, the organization to face minimum challenges as well as it flourishes the exposure of the organization effectively and efficiently.

3. Natural hedging: It is one of the best strategies for countering the risks involves in foreign exchange. Natural hedging is the process of the investment in certain products and services for tackling the risk in one area effectively and efficiently. Hence the entities are performing the sales in one country through natural hedging and facing the challenges in another country. Additionally natural hedging is used because of the protective business structure. It is observing that the presence of supplier's competitors and the consumers in same country and using same currency can create the risk in financial exchanges. Therefore, natural hedging is the best strategy to counter such kind of situation and managing finance effectively (Zhou et al., 2022).

Additionally, the multinational companies have to adapt natural hedging which will help in maintain the cost and revenue of the business in different countries. In the recent years various researchers and scholars have argued to over the natural hedging and its needs and effectiveness on the foreign exchange. Hence the adaptation of this strategy can improve the productivity and profitability of the multinational organizations by navigating the risks effectively and efficiently.

4. Strategic hedging

Strategic hedging is different from natural hedging because of its nature because the dynamic nature includes the calculation on the basis of the adjusting condition of the market. Hence strategic hedging is a mixture of the hypothetical model of the global structure and financial structure (Wu et al., 2021). While on the other hand the implementation of the strategy is mandatory for the organization because it helps in the development of effective framework. Therefore, it is essential for regulating and consistently tracking the adjustments to outline the synergy and collaborations among practical strategies. Additionally strategic hedging with forex is considered as effective. The forex hedging is done for the motive of gaining short term benefits and to protect the organizational loss effectively.

Strategic approaches

Strategic planning: the international business can implement the strategies like differentiation and development of geographical and environmental regions which will help the business in

reducing the dependence on single currency as well as it also includes that business has to enter the marketplace with effective exchange rates and stable transactions. This strategy will allow the organization to increase the profit effectively and efficiently (Fanelli and Strau, 2020).

Centralized versus decentralized management: Multinational companies have decided to uphold Forex threats and implement every strategy to counter the challenges and maintain exposures which will aid the organization in managing risk and accomplishing profits effectively and efficiently. While on the other hand the decentralized management will help the business in responding to the local circumstances.

Efficient utilization of imitative for speculations: The organization can implement the objectives of the company by hedging approaches which mainly includes the participation in the forex exchange and attaining effective benefits (Seabrooke and Tsingou, 2021). This method is effective for the industries that possess the ability to take the risk and keep on trying to generate revenue by implementing effective strategies.

Foreign exchange strategies

The foreign exchange strategies majorly include the financial results by guiding the currency market along with this it includes different methods like day trading, swing trading, and trend subsequent depending on the other wanted objectives and risk acceptance. Additionally, it includes the knowledge of worldwide economic events interest rates and the differentials and the capability of the dynamic market environment. The ever-evolving market dynamics affects the decisions making and risk mitigation.

Additionally, it contains financial hedging strategies like forwards contracts and option contracts that allow multinational companies to acquire and secure and the exchange rates which helps in decreasing the uncertainties of transactions at the time of dealing with multifaceted currencies (Eun et al., 2021). In result currency swaps and market hedges that further helps in the managing financial transactions.

It also includes the operational strategies such as netting, lagging payments, leading and diversifications which are naturally serving the strategies to mitigate the risk regarding the

currencies. These strategies help the organization in capitalizing the exchange rates effectively and efficiently.

Conclusion

In essence this report has examined the significance of the mixing the sensible and theoretical knowledge effectively. It has also analysed the strategies for managing the forex exchange rates. It has identified the strategies which will help multinational companies in mitigating the risk of foreign exchange rates. Forex risk and currency risk are the other names of the foreign exchange. Transaction exposure occurs when financial business has different currencies and the contractual flows in the various regions. Natural hedging is the process of the investment in certain products and services for tackling the risk in one area effectively and efficiently. The ever-evolving market dynamics affects the decisions making and risk mitigation.

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