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International Financial Management

LCBB6002

**Importance of International Financial management
at Ford Motor Company**



Ford Motor Company

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Introduction

The management subject known as financial management is responsible for looking after a company's financial assets and operations. With the dual goals of reducing costs and optimizing resources to increase profits, the manager plans, organizes, directs, and controls the actions related to the company's funding sources and its usage or investment. The main objectives of international financial management are providing a consistent flow of cash for the organization's commercial activities and maximizing its use to produce the highest potential returns for the company.

This report deals with an evaluation and analysis of the importance of international financial management to an American-based Multinational Automobile manufacturing company, **Ford Motor**, and the challenges that the company must face in managing international.

It further provides an analysis of the Dividend distribution policy of the company, the Efficient market hypothesis about the operations of the company, and the methods used by the company in appraising its long-term capital projects.

Importance of International Financial management (IFM)

IFM simply means the management of finances in the global business environment. It is a branch of financial management that deals with macro-economic relationships between different countries. It covers aspects like investment in foreign markets, foreign exchange rates, inflation rates in different countries, global economic conditions, and political risks associated with the business environments of different countries (Mosteanu and Faccia, 2020, P.162).

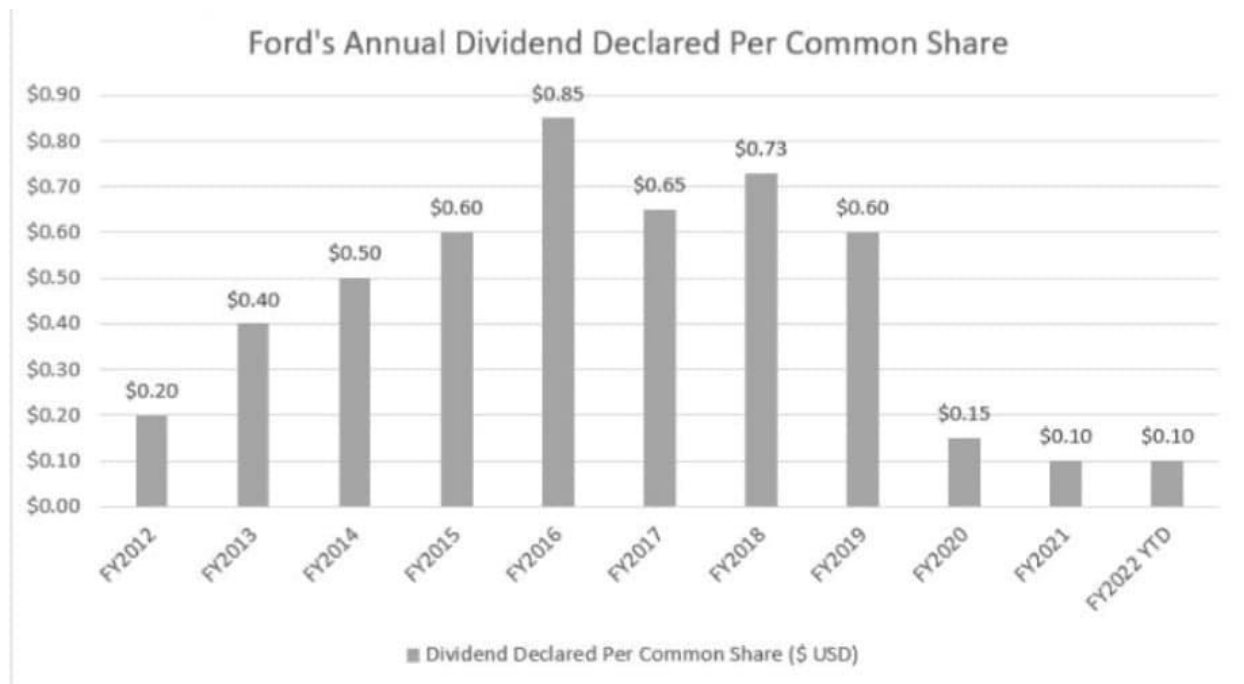
As **Ford motors** are operating in multiple countries and a substantial proportion of its total revenue comes from other countries like China Germany, Canada, and the UK, the role of international financial management is of paramount importance for the effective management of the finances of the company (Alexandra-Maria, 2018). For efficient and sound financial and investment decisions at Ford motors, the company needs to understand the complexities involved in international finance, identify and exploit the investment opportunities in the overseas market, raise international finance and analyze exchange rates, inflation rates, and political risks associated with foreign markets. International financial management helps Ford Motors to manage all these aspects and take adequate financing and investment decision that maximizes its profits.

Analysis of dividend distribution policy Ford motors

One of the key decisions involved in financial management is dividend decisions. It involves decisions about how much of the earnings of the company are to be distributed as dividends to the shareholders and how much of the earnings are to be retained (Kanakriyah, 2020, P.432). The ultimate objective of financial management is to maximize shareholders' wealth. Thus, an optimum dividend decision would increase the value of shares of the company, thereby increasing the shareholder's wealth. Whenever an attractive investment opportunity arises, the company can distribute lesser dividends or no dividends to its shareholders and reinvest the earnings of the company for future growth. However, the management should also ensure that there is no adverse effect on the value of the shares of the company due to the distribution of lesser dividends or no dividends.

Ford motors suspended the dividends to its shareholders from the first quarter of the financial year 2020, owing to the pandemic, and to finance its electronic vehicle operations. It reinstated its quarterly dividend from October 2021. At present, the company pays a quarterly dividend of .10 USD, and its annual dividend yield is 3.53%. Ford paid dividends of \$ 16.5 billion from 2012 to 2020, although there was a decline in market capitalization from \$ 50 billion to \$ 35 billion during the same period. Thus, the dividend payments by the

company have failed to provide adequate returns to its shareholders. At present, the future growth through expansion of its EV operations is the top priority of Ford motors, and considering this, the lower rates of dividends cannot be considered to be irrational.



Source: Annual report,2021

The above chart depicts annual dividend payments by Ford Motors since the Financial year 2012 to date.

Analysis of the Efficient market hypothesis (EMH)

The efficient market hypothesis states that the share prices of a company reflect all the information. Everything is already factored in the prices of the shares and no analysis can provide an edge over the market as the market discounts everything (Rossi and Gunardi, 2018, P.183). Thus, investors cannot outperform the market by purchasing securities at undervalued prices or selling their securities at a price higher than the fair value. There are three types of EMH:

Weak form efficiency – The weak-form EMH states that all the historical information is reflected in the prices of the securities but the new information that is not yet available to the public may not be reflected in the prices. Investors can earn short-term returns above market averages through fundamental analysis, but no patterns can be determined.

Semi-strong efficiency – As per this EMH, all the new public information is instantly discounted in the prices of the securities in the market and the investors cannot earn excess returns by performing fundamental or technical analysis (Kaur, Chahal, and Kharb, 2019, P.31)

Strong form efficiency – The followers of the strong form of efficient market hypothesis believe that all the information whether public or private is already discounted in the prices of the securities. Thus,

neither public nor any private information can provide the investors an opportunity to earn excess returns.

Considering the operations of **Ford motors**, the market for its shares can be considered to be semi-efficient where all the past information like the declared profitability of the company is already discounted in the share prices of Ford motors. Further, all the new public information is also immediately discounted in the prices of the shares of the company. For example, suppose the news of the quarterly results of the company is out in public after the closure of the market on a particular day, and the opening prices of the shares on the stock exchanges on the next day will be impacted depending on the results declared.

Project appraisal methods

To take an informed investment decision regarding the acceptance of a project, a company must appraise the project before undertaking it (Pancotti, C., Pedralli, M., Smit, G. and Vignetti, S., 2020, P.7). There are different methods for project appraisal:

Economic analysis – Under economic analysis, various aspects of the project are considered to appraise the project like the potential profits, expected capacity utilization, the requirement of raw materials and other inputs, expected costs, and expected revenue. The company can determine the sales target it needs to achieve to earn the desired profits. Thus, the expected sales and the demand for the product are important factors to determine the feasibility of the project. Further, the location of the project and the government policies also play an important role in determining its viability.

Ford motors perform economic analysis before setting up a new manufacturing unit both domestically and in other countries. It makes forecasts of the profits that may be earned from the new unit, the demand for its cars, and the expected additional sales resulting from the new unit and accordingly determine its feasibility.

Financial analysis – Project appraisal using financial analysis involves assessing the requirements of fixed and working capital for the proposed project to ascertain its viability. Fixed capital involves investment in fixed assets like equipment, plant and machinery, land, and building. The requirements of fixed capital for the project can vary depending on the scale of operations and the nature of the operations. Working capital on the other hand is required for conducting the day-to-day operations of the new project. Adequacy of working capital plays an important role in the success of the project.

Ford motors perform financial analysis before setting up new manufacturing units and retail outlets to determine the amount of investment that will be required in the form of fixed assets requirements at the new facilities and the working capital required for the operations of the retail outlets and manufacturing facilities.

Market Analysis - Market analysis is used by companies to determine the feasibility of a new product line or a new product and the potential demand for the product. Anticipating the demand helps in the identification of the target market for the product. There are different methods for forecasting future demand like the opinion polling method and life cycle segmentation analysis method.

Ford Motors conduct both online and in-person marketing research methods for the development of new models of its cars and deciding its marketing campaigns. Further, it also studies the actions of its competitors as a part of its market analysis.

Technical feasibility - It involves evaluating and assessing the adequacy of the proposed project to produce the desired results in terms of technical aspects. It requires an evaluation of whether the business possesses adequate know-how or whether these resources must be procured from outside. Other factors to be considered for assessing the technical feasibility include the availability of the workforce possessing the required levels of skill set, licenses mandatorily required as per the anti-pollution norms, availability of sites, etc.

Ford motors performed technical analysis before undertaking the production of the EV. For determining the feasibility of EV projects undertaken it must consider whether it has adequate know-how, the anti-pollution norms, and safety standards that its products must comply with.

Conclusion

The above report covers the importance of international financial management and how it can be beneficial to an organization like Ford motors. The trend of dividend distribution by Ford motors and an analysis of its dividend distribution policy and its implications are discussed. An understanding of the market efficiency hypothesis, several types of market efficiencies, and determination of market efficiency for Ford motors considering the operations of the company were highlighted. Project appraisal methods are used by Ford motors to determine the feasibility of the projects it plans to undertake are discussed.

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