International Financial Management

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Abstract

International Financial Management is a well-known term in today's world and it is also known as international finance. It means financial management in an international business environment. It is different because of the different currency of different countries, dissimilar political situations, imperfect markets, diversified opportunity sets.

International Financial Management came into being when the countries of the world started opening their doors for each other. This phenomenon is well known by the name of "liberalization". Due to the open environment and freedom to conduct business in any corner of the world, entrepreneurs started looking for opportunities even outside their country boundaries. The spark of liberalization was further aired by swift progression in telecommunications and transportation technologies that too with increased accessibility and daily dropping prices. Apart from everything else, we cannot forget the contribution of financial innovations such as currency derivatives; cross-border stock listings, multi-currency bonds and international mutual funds.

KEYWORDS: international financial management, features of domestic and international financial management, scope, objectives, functions, limitations.

INTRODUCTION:

International Financial Management is a well-known term in today's world and it is also known as international finance. It means financial management in an international business environment. It is different because of the different currency of different countries, dissimilar political situations, imperfect markets, diversified opportunity sets.

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The resultant of liberalization and technology advancement is today's dynamic international business environment. Financial management for a domestic business and an international business is as dramatically different as the opportunities in the two. The

meaning and objective of financial management do not change in international financial management but the dimensions and dynamics change drastically.

Features of Domestic and International Financial Management:

Four major facets which differentiate international financial management from domestic financial management are an introduction of foreign currency, political risk and market imperfections and enhanced opportunity set.

Foreign Exchange:

It's an additional risk which a finance manager is required to cater to under an International Financial Management setting. Foreign exchange risk refers to the risk of fluctuating prices of currency which has the potential to convert a profitable deal into a loss-making one.

Political Risks:

The political risk may include any change in the economic environment of the country viz. Taxation Rules, Contract Act etc. It is pertaining to the government of a country which can anytime change the rules of the game in an unexpected manner.

Market Imperfection:

Having done a lot of integration in the world economy, it has got a lot of differences across the countries in terms of transportation cost, different tax rates, etc. Imperfect markets force a finance manager to strive for best opportunities across the countries.

Enhanced Opportunity Set:

By doing business in other than native countries, a business expands its chances of reaping fruits of different taste. Not only does it enhances the opportunity for the business but also diversifies the overall risk of a business.

Just like domestic financial management, the goal of International Finance is also to maximize the shareholder's wealth. The goal is not only is limited to the 'Shareholders' but extends to all 'Stakeholders' viz. employees, suppliers, customers etc. No goal can be achieved without achieving welfare of shareholders. In other words, maximizing shareholder's wealth would mean maximizing the price of the share. Here again comes a question, whether in which currency should the value of the share be maximized? This is an important decision to be taken by the management of the organization.

International level initiatives like General Agreement on Trade and Tariffs (GATT), The North American Free Trade Agreement (NAFTA), World Trade Organization (WTO) etc has to give promoted international trade and given it a shape.

All because of liberalization and those international agreements, we have a buzz word called “MNC” i.e. Multinational Corporations. MNCs enjoy an edge over other normal companies because of its international setting and best opportunities.

International Finance has become an important wing for all big MNCs. Without the expertise in International Financial Management, it can be difficult to sustain in the market because international financial markets have a totally different shape and analytics compared to the domestic financial markets. A sound management of international finances can help an organization achieve same efficiency and effectiveness in all markets.

Scope/Elements:

Investment decisions includes investment in fixed assets (called as capital budgeting). Investment in current assets are also a part of investment decisions called as working capital decisions.

Financial decisions - They relate to the raising of finance from various resources which will depend upon decision on type of source, period of financing, cost of financing and the returns thereby.

Dividend decision - The finance manager has to take decision with regards to the net profit distribution. Net profits are generally divided into two:

Dividend for shareholders- Dividend and the rate of it has to be decided.

Retained profits- Amount of retained profits has to be finalized which will depend upon expansion and diversification plans of the enterprise.

Objectives of Financial Management:

The financial management is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives can be-

- To ensure regular and adequate supply of funds to the concern.
- To ensure adequate returns to the shareholders which will depend upon the earning capacity, market price of the share, expectations of the shareholders.
- To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.
- To ensure safety on investment, i.e, funds should be invested in safe ventures so that adequate rate of return can be achieved.
- To plan a sound capital structure-There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital.

Functions of Financial Management:

Estimation of capital requirements: A finance manager has to make estimation with regards to capital requirements of the company. This will depend upon expected costs and profits and future programs and policies of a concern. Estimations have to be made in an adequate manner which increases earning capacity of enterprise.

Determination of capital composition: Once the estimation have been made, the capital structure have to be decided. This involves short- term and long- term debt equity analysis. This will depend upon the proportion of equity capital a company is possessing and additional funds which have to be raised from outside parties.

Choice of sources of funds: For additional funds to be procured, a company has many choices like-

- Issue of shares and debentures,
- Loans to be taken from banks and financial institutions,
- Public deposits to be drawn like in form of bonds.

Choice of factor will depend on relative merits and demerits of each source and period of financing.

Investment of funds: The finance manager has to decide to allocate funds into profitable ventures so that there is safety on investment and regular returns is possible.

Disposal of surplus: The net profits decision have to be made by the finance manager. This can be done in two ways:

Dividend declaration - It includes identifying the rate of dividends and other benefits like bonus.

Retained profits - The volume has to be decided which will depend upon expansional, innovational, diversification plans of the company.

Management of cash:

Finance manager has to make decisions with regards to cash management. Cash is required for many purposes like payment of wages and salaries, payment of electricity and water bills, payment to creditors, meeting current liabilities, maintainance of enough stock, purchase of raw materials, etc.

Financial controls:

The finance manager has not only to plan, procure and utilize the funds but he also has to exercise control over finances. This can be done through many techniques like ratio analysis, financial forecasting, cost and profit control, etc.

Limitations:

Long-Term Sustainable Goals

Profit maximization might be one of the top goals of financial management but this type of practice doesn't imply that short-term profit increases will help produce long-term sustainable goals for the company. While profit maximization in financial management has the potential to bring in extra money in the short-term, long-term earning could be drastically diminished.

Product Quality

Another limitation of profit maximization in financial management is the potential to decrease product quality. Earning higher profits might be one of the goals of financial management but cutting corners, using lower quality materials, and sacrificing company values to earn a higher profit will affect the reputation of the company and potentially lose customers.

Employee Training

Employee training is essential for any company looking to maintain long-term profits while creating happy employees. Without a satisfied workforce, your company will fail and any corners you cut to maximize profits will not have been worth it. The best way to successfully reach profit maximization in financial management is to focus more on company integrity and long-term, sustainable goals. Short-term goals are a great way to meet long-term goals, but only if they have the company's future in mind.

Conclusion:

This unit looked at the question of whether the international financial management are efficient in the sense that prices demanded are fair and reflect all known and relevant information about investments. Financing short-term needs is essentially a financing of current assets using short-term financial resources. Current assets, however, are usually funded in part through long-term financial resources that can fund a permanent as well as transitional part of current assets. Different sources are used to finance current assets. It is mainly the trade credit, which is a natural source of financing of the customer by the supplier.

It represents the customer's liabilities arising from the delay payments to suppliers for the receipt of the goods. Short-term bank loans are loans whose lenders are banks. Loans are provided in various forms. Knowledge of forms and parameters of short-term bank loans is a prerequisite for the effective management and the use of bank loans to the fulfillment of the objectives of the company. Part of the short-term financial resources are a variety of obligations, which form a source from their creation to the time of their payment. Optimal composition of short-term financial resources contributes to ensure the

ability to pay as one of the fundamental objectives of the company in its financial management.

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