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Modern System of International Financial Management in Multinational Companies

Abstract. *Introduction.* Multinational Companies (MNCs) are unique economic entities because of their turnover, sales, global production activity and financial system. The defining feature of the MNCs functioning is their ability to get free access to any resources in globalized economy. The transboundary movement of goods and services, skilled labor and management, and thus experience actually means ensuring uninterrupted MNC reproduction processes globally. Realization of such MNCs' potential provides their strong financial system, which is currently recognized as one of the structural elements of the system of global finance.
Purpose of this article is to summarize contemporary theoretical and practical approaches to MNCs' international financial management as well as to disclose the special features of its functioning in contemporary global economy.
Results. The key aspects of MNCs' financial management are described. On the basis of author's conclusions, the following six components of MNCs' international financial management are disclosed: working capital management, strategic financial management, financial instruments for long-term international financing of MNCs, mechanism of subsidiaries financing, planning and forecasting of MNCs financial activity, theoretical approaches to financial decisions substantiation. Also, the correlation between MNC financial system and global financial environment has been analyzed.
Conclusion. MNCs' finance is a system of monetary relations, resulting in the economic activities of MNCs and is necessary for the accumulation, allocation and efficient usage of capital and income funds. The peculiarity of the financial management of MNC is that it is performed within the entire system of MNC. It means that financial flows have to be consistent within the activities of branches, subsidiaries and other structural units of MNC that are often found not only within the different regions, but also located in markets with different rates of development, The result of financial goals achieving should be solving the issues of minimization the cost of capital, maximization the value of MNC, rationalization of ratio between own and borrowed funds, ensuring the planned profitability, risks minimization, development and implementation of the standard indicators of equity, assets, sales, profits growth.
Keywords: International Financial Management; MNC's Finance; Global Financial Environment; Long-term International Financing of MNC
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Анотація. Проаналізовано сучасні особливості міжнародного фінансового менеджменту транснаціональних корпорацій (ТНК). На основі авторських узагальнень визначено шість основних елементів фінансового менеджменту ТНК: операційний фінансовий менеджмент, стратегічне фінансове управління, механізм фінансування діяльності ТНК за рахунок ресурсів міжнародних фінансових ринків, фінансування філій ТНК, фінансове планування та прогнозування діяльності ТНК, а також теоретичне підґрунтя фінансових рішень. Виявлено характер взаємозв'язку і взаємовплив фінансів ТНК та глобального фінансового середовища. Запропоновано комплексну імплементацію всіх елементів фінансового менеджменту з метою підвищення загальної ефективності структури ТНК.
Ключові слова: міжнародний фінансовий менеджмент; ТНК; глобальне фінансове середовище; довгострокове міжнародне фінансування ТНК.

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Аннотация. Проанализированы современные особенности международного финансового менеджмента ТНК. На основании авторских обобщений определены шесть главных аспектов финансов ТНК: операционный финансовый менеджмент, стратегическое финансовое управление, механизм финансирования деятельности ТНК за счет долгосрочных ресурсов международных финансовых рынков, специфика финансирования филиалов ТНК, финансовое планирование и прогнозирование деятельности ТНК, а также теоретические основы финансовых решений. Выявлен характер взаимосвязи финансов ТНК и глобальной финансовой среды. Предложено комплексное внедрение всех элементов финансового менеджмента с целью повышения общей эффективности структуры ТНК.
Ключевые слова: международный финансовый менеджмент; ТНК; глобальная финансовая среда; долгосрочное международное финансирование ТНК.

Introduction. Nowadays activity of Multinational Companies is not only the driving force of internalization of businesses but also of trasnationalization of entire national economic systems. Multinational Companies (MNCs), or Transnational corporations (TNCs), in essence are unique economic entities: according to UNCTAD (2013, 2014) [1, 2], in 2008 there were 82000 TNCs with a total of 820,000 foreign affiliates. Their aggregate activity is straightforward. Foreign affiliates of TNCs generated sales worth $26 trillion (of which $7.5 trillion were for exports). They contributed value added worth $6.6 trillion, up 5.5%, which compares well with global GDP growth of 2.3%. Their employment numbered 72 million. The growth of international production by the top 100 TNCs stagnated in 2012. However, the 100 largest TNCs increased their foreign assets by 20%, continuing the expansion of their international production networks. The foreign affiliates' assets of top 100 TNCs in 2013 reached $8.3 trillion (total assets of top 100 TNCs were about $14 trillion). Also, global value chains (GVCs) are typically coordinated by TNCs, with cross-border trade of inputs and outputs taking place within their networks of affiliates, contractual partners and arm's-length suppliers. TNC-coordinated GVCs account for some 80% of global trade.

The defining feature of the MNCs functioning is their ability to get free access to any resources in globalized economy. The particular stage of activity's internationalization begins when MNCs introduce or expand already existing mechanisms of investment, innovation and financial activity, and transfer much of them beyond their national economies. To prove this thesis, it should be admitted that cash holdings by the top 5,000 TNCs remained high in 2013, accounting for more than 11% of their total assets. Cash holdings (including short-term investments) by developed country TNCs were estimated at $3.5 trillion, while TNCs from developing and transition economies held $1.0 trillion. Developing country TNCs have held their cash-to-assets ratios relatively constant over the last five years, at about 12%. In contrast, the cash-to-assets ratios of developed country TNCs increased in recent years, from an average of 9% before the financial crisis to more than 11% in 2013. This increase implies that, at the end of 2013, developed country TNCs held $670 billion more cash than they would have before – a significant brake on investment.

Realization of such MNCs' potential provides their strong financial system, which is currently recognized as one of the structural elements of the system of global finance. The described processes are determining the relevance of research on the theoretical aspects of the operation of the modern financial mechanism of MNCs.

Brief Literature Review. There are a lot of research papers dedicated to the issues of MNCs activity as well as to its impact not only on national economies but also on the global one. Special attention to the MNCs activity are paid in publications of UNCTAD's scientists (UNCTAD, 2013, 2014) [1, 2], also in numerous researches of specialists in international firm finance such as Eitman D., Stonehill A., and Moffet M. (2013) [3], Buckley, P. J. and M. C. Casson (2009) [4] et al. But thorough study of those researches revealed that they are not reflecting the full range of the theoretical substantiation of particularities of MNC's financial mechanism functioning.

Purpose of this article is to summarize contemporary theoretical and practical approaches to MNC's international financial management as well as to disclose the special features of its functioning in contemporary global economy.

Results. MNCs' finance is correct to define as a system of monetary relations, resulting in the economic activities of MNCs and is necessary for the accumulation, allocation and efficient use of capital and income funds. In that way MNC's finance is a special system, not only because it ensures the smooth functioning of the corporation, and their effective development and allocation depend on the state of the world market, but especially by the fact that the financial system of MNC itself affects the state of national economies and entire global finance.

While the current crisis evidenced the strong interrelations between production and finance giving a boost to «financialization» approach, there is an urgent need to re-explore the nature of financial mechanism of MNCs.

The peculiarity of the modern financial management of MNC is that it is performed within the entire system of MNC. It means that financial flows have to be consistent within the activities of branches, subsidiaries and other structural units of MNC that are often found not only within the different regions but also located in markets with different rates of development, types of socio-cultural environments etc.

The investigation and analysis of the annual reports of the biggest MNCs with high transnationalization indices distributed geographically and by industry (Toyota Motor Corporation, Nestle SA, Siemens AG, Ford Motor Company, Unilever PLC) allowed us distinguishing six basic elements that form the system of financial management of MNCs. These introduced elements clearly demonstrate the described above modern mechanism of interrelated economic and financial linkages within the global economy.

In that way, the first element of modern financial management system of MNCs is short-term or working capital management. Working capital management of MNC provides management of corporation's financial flows within one year (or one operating cycle). This component is extremely important, as it allows multinationals in the short-term run to accumulate a liquid funds that are in permanent disposal of MNC, ensuring its effective functioning. A basis for such an effective management is represented by a complex of short-term instruments that are providing the liquid working capital.

The international working capital management requires achieving the two basic objectives: (1) optimizing cash flow movements and (2) investing excess cash [5, 6]. To achieve mentioned objectives MNCs use following modern methods of working capital optimization: (1) Accelerating cash inflows and delaying cash outflows. (2) Managing blocked funds. This instrument is essential in those host countries where the profits repatriation from the subsidiary to the parent company is forbidden. (3) Leading and lagging strategy. (4) Capital budgeting is the transformation of company's equity capital and liabilities into highly profitable assets. The particularity of capital budgeting in MNCs is that its assets are denominated in different currencies and therefore have geopolitical and financial risks. The modern instrument nowadays used by MNCs is a system of centralized cash management that allows considering the differences on tax management, limitations on profits repatriation, volatility of exchange rates [7].(5) Using netting/clearing to reduce overall transaction costs. (6) Instruments of international transfer pricing for the purpose of minimizing the tax on cash flow. (7) Accounts receivable management. This instrument is very effective in intra-firm trade within the MNC's subsidiaries when management is focused mostly on global allocation of resources, despite the crediting or delays in payments. (8) Inventory management. MNC has to maintain inventory simultaneously in different countries, consider that transit time is quite larger, customs procedures are quite lengthy, political risk along with exchange rate risk is strong there.

Investing the excess cash clearly demonstrates the interrelation between cash management and international financial markets. The Eurocurrency market helps in investing and accommodating excess cash in the international money market. Investment in foreign markets has been made much simpler and easier due to improved telecommunication systems and integration among money markets in various countries. But there are some important aspects of such kind of investing– MNC has [5, 6]: (1) to define the investments strategy – should an MNC develop a centralized cash-management strategy or maintain a separate investment for all subsidiaries; (2) to define the country and the market for investments; (3) to diversify its securities portfolio across the countries with different currency denominations.

The second element is long-term financial management or so called strategic financial management. Strategic financial management encompasses long-term directions and priorities of international financial activity of MNCs: (1) Development and implementation of MNc's financial policy and strategy. (2) Development and realization of real investments and investment portfolio. (3) Perspective budgeting. (4) Mechanism of long-term financial resources generating. (5) Maximization of market value of MNC. (6) Formation of optimal capital structure. (7) International tax management. (8) Global allocation of assets. (9) Factor analysis of global financial environment. (10) International risk-management.

Strategic financial management is aimed primarily at increasing profitability and market value of MNC via implementation of long-term effective management of its assets and liabilities. The main purpose of strategic financial management is to increase the financial capacity of MNC that means its ability to use effectively its own financial resources and to attract debt capital. Therefore, the development and implementation of elements of financial strategy should be based on usage of methods of financial market forecasting. Thus the key priorities in strategic financial management for MNC remain globalization of its activities through foreign direct investment and international production [8].

Financial strategy of MNC covers all aspects of its activities, including optimization of fixed and floating assets, profit distribution, non-cash payments, tax and price policy, securities management and others. Thus, financial strategy of MNC is a generalized functional model of actions that are necessary to achieve mentioned goals through coordination and allocation of financial resources of integrated structure. The main objective here is to achieve full independence and self-accounting of subsidiaries. Also MNC's global financial strategy has to focus on (1) providing the effective producing of competitive products, (2) host country resource mobilization, (3) the maximum reduction of production costs, (4) the formation and distribution of income, (5) the effective use of capital.

Note that all these methods will not only provide an efficient seamless working capital management, but also serve as a tool to minimize various types of risks that arise in the current activities of MNC. However, listed methods of financial management currently implemented in a single system, known as Total Cash Management [9]. Total Cash Management System allows MNC to generate positive cash flow and ensure its effective use to generate the future cash flows. Thus, the application of Total Cash Management provides a platform for an agreed solution both current and long-term objectives in international financial management of MNC.

The third element of the MNC financial management is associated with the structure and characteristics of the methods of financing the activities of MNC, and particularly with funds obtaining. MNC unlike a domestic company has a great potential to get financial resources due to the geography of its activities. Therefore, the only issue for multinationals in this aspect is the choice of the most efficient financial resources and their sustainable management [5, 6]. Thus, MNC can form centralized financial assets from the mother company or bring them from consolidated branch network. MNC also has easy access to the instruments of both local and global financial markets.

Taking into account the fact that the profitability and financial stability of MNC in the long run will be affected mostly by long-term external (towards MNC) international financial resources, we will focus here just on their analysis. It is also worth to be noted that short-term international financing refers mostly to the financing of working capital, but often these instruments are extending and thus became long-term financial resources.

Long-term funds of financial resources are [10]: (1) Financing from creditors, mostly in the form of banking loans and issuance and placement of debt securities but in the private order. (2) Financing from investors in the form of issuance and placement of different types of securities: stocks, depository receipts, derivatives and others. (3) Eurocurrency financing: previews MNC's financing in the host market by nonresidents of this country in the third currency (e.g., euroequity financing, eurobonds, eurocurrency loans etc.). (4) Foreign financing – financing of MNC's activity in the host market by residents of this country denominated in the currency of this host country. MNC can obtain long-term resources in foreign markets in few ways: (a) issue of bonds denominated in domestic currency; (b) issue of stocks denominated in domestic currency; (c) banking loans denominated in domestic currency; (6) official financing (from international financial organizations).

The benefits from MNC international financing are caused by several factors. First, MNCs tend to have a high credit rating, and thus, access to cheaper resources. Availability of liquid assets and intensive cash flow allow MNC to reduce the cost of obtained capital. Second, MNCs are rapidly growing companies that use markets opportunities around the world that provide real sales growth. This greatly increases their investment attractiveness, which also reduces the cost of raising the funds. Third, widely diversified MNCs' activities provide their financial stability and extend the opportunities for obtaining capital. Fourth, MNCs are tightly integrated into the global financial system and their finance are its structural element. Thus, MNCs are clients of leading global banking organizations that provide conditions for the transparency of their activities and, therefore, broaden their opportunities to obtain debt funds from credit organizations [8]. However, there are some drawbacks for multinationals in this aspect. Thus, currency, transaction, political and economic risks are often the determining factors that strongly influence the decision about selection the financial resources.

The forth element is related with the previous one and covers the problem of financing the subsidiaries of MNCs. Most MNCs are interested in reduction of their subsidiaries funding by the financial means of parent company. This results in a high proportion of borrowed funds in subsidiaries' capital. At the same time, the increase of the share of obtained capital for some companies became a precondition for investment. The reasons are different. Some branches that have limited possibilities of raising funds consider that the best way to increase them is to invest through lending subsidiaries.

Choice of the mechanism of subsidiary financing is the most important problem for MNC. There are three main groups of financial funds available for subsidiary financing: (1) Funds generated internally by the foreign subsidiaries – include depreciation and noncash charges, retained earnings. (2) Funds from within the MNC: funds from parent company, funds from sister subsidiaries, subsidiary borrowing with parent guarantee. (3) Funds external to MNC: borrowing from sources in parent country, borrowing from sources outside of parent country, local equity. Ideally the choice among the sources of fund should minimize the cost of external funds after adjusting for foreign exchange risk. Simultaneously, the firm should choose internal sources in order to minimize worldwide taxes and political risk [3].

The next component of international financial management of MNC is represented by the system of planning and forecasting. Effective planning of financing activities and a global strategy of MNC's development largely depends on the purpose and orientation of top management, its organizational capacity and intuition. Many companies are striving for immediate profit without paying special attention to the long-term development strategy and objectives. Although, this is possible only for a very short phase of MNC's activity. With the aggravation of foreign competition in the national market each MNC meets the need to penetrate and develop new markets.

Also, MNC should pay special attention to the problem of effective allocation of worldwide generalized profits with the purpose of avoiding the high levels of taxes, currency risks, currencies/assets' inconvertibility and other unfavorable global activity. Several methods of financial planning are used for this: (1) flexible budget, (2) percent of sales, (3) breakeven analysis, (4) costs management, (5) situation plan analysis.

It should be admitted here that all activities of MNC are predicted mostly due to the sales forecast. Sales forecast accounts movement in sales for the last 5-10 years, value of non-performed orders, tendencies in future/new orders, analysis of current state of market, calculation of sales within the commodity groups and MNC in general. The sales forecast is the base for drawing up pro-forma financial statements that are necessary not only for the corporations themselves, but also could be required by banks or other lenders for determining the MNC's creditworthiness [11].

The last component of MNC's international financial management is strongly correlated with theoretical/mathematical substantiation of MNC's financial decisions. MNC in its activity applies a numerous economic and mathematical models and algorithms that are widely used in financial strategy implementation. However, a peculiarity of MNC's activity should preview considering specific global factors, including, country and currency risks. Therefore, one should to introduce those specific adjustment factors into models and algorithms. In the light of our study we suggest to use financial management models that are based on the criteria of their impact on the assets and liabilities of the MNC as well as on its market value.

Hence, the following mathematical approaches to management of MNC's finance and the cost of its capital are used: (1) Instruments for assets evaluation in balance sheet and (2) Instruments for liabilities evaluation in balance sheet.

Thus, the cost and availability of capital is directly linked to the degree of market liquidity and segmentation. Firm having access to markets with high liquidity and a low level of segmentation should have a lower cost of capital and greater ability to raise new capital [3].

Conclusions. This study approves that financial system of MNC is a mechanism which ensures the implementation of its main objectives not only in its financial activity, but also in general economic activity, which can be measured not only by simple extrapolation of current dynamics of economic indicators, but also by analyzing trends and factors of the global financial environment, causing fundamental changes in the structure of its main components.

MNCs, organized and structured as groups, are a locus for a global valorization of capital, where productive and financial valorizations are closely intertwined. In the context of a global finance capital, dominating macroeconomic regime of financial accumulation has a preeminent role in MNCs' strategy. Unfettered deregulation of financial markets and multiplication of financial innovations gave a further boost to the transformation of MNCs, which can be defined as financial groups with industrial activities. We consider that this thesis could be a further topic for scientific investigation.

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