

Multinational Financial Management

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Power Points by
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CHAPTER 1

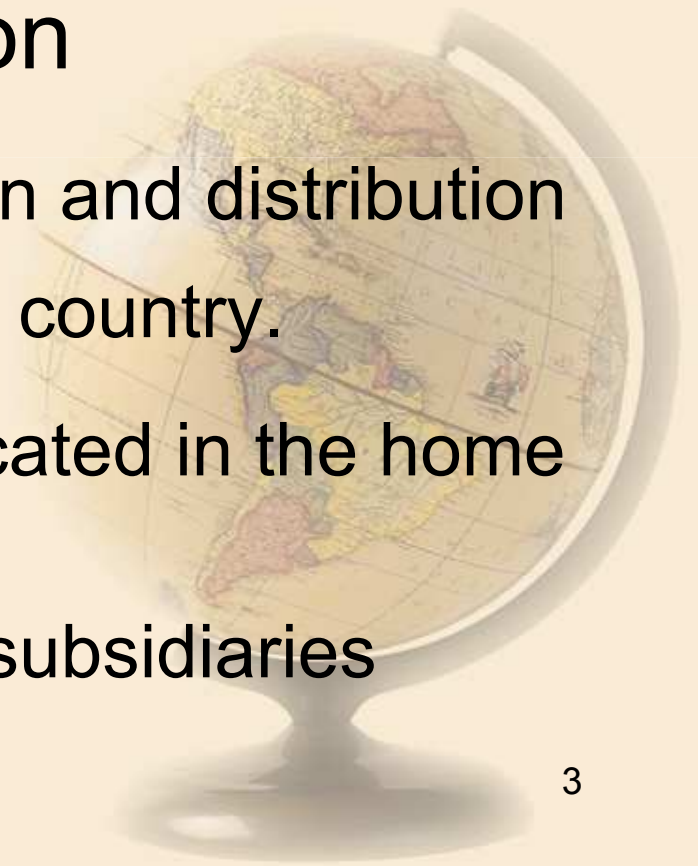
Introduction: Multinational Enterprise and Multinational Financial Management



PART 1 THE RISE OF THE MULTINATIONAL CORPORATION

I. The MNC: A Definition

- a company with production and distribution facilities in more than one country.
- with a parent company located in the home country
- at least five or six foreign subsidiaries



THE RISE OF THE MULTINATIONAL CORPORATION

A. Forces Changing Global Markets

Massive deregulation

Collapse of communism

Privatizations of state-owned industries

Revolution in information technology

Wave of M&A

Emergence of free market policies in Third World Nations

Countless nations accepting the standards of free market capitalism

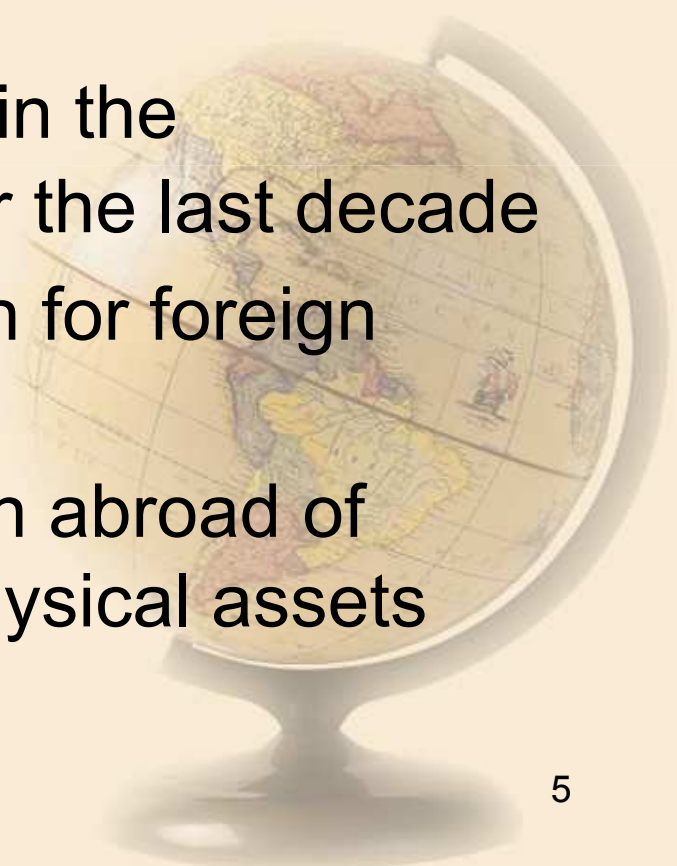


THE RISE OF THE MULTINATIONAL CORPORATION

The Rise of China as a Global Competitor

the most dramatic change in the international economy over the last decade
the number one destination for foreign direct investment (FDI)

Note: FDI is the acquisition abroad of companies, property, or physical assets



THE RISE OF THE MULTINATIONAL CORPORATION

B. Who is the Prime Transmitter of Competitive Forces in the Global Economy: The MNC

emphasizes group performance such as
Global coordinated allocation of
resources

Market – entry strategy

Ownership of foreign operations

Production, marketing and financial
activities



THE RISE OF THE MULTINATIONAL CORPORATION

C. The MNC's Evolution

Reasons to Go Global:

1. More raw materials
2. New markets
3. Minimize costs of production



THE RISE OF THE MULTINATIONAL CORPORATION

RAW MATERIAL SEEKERS

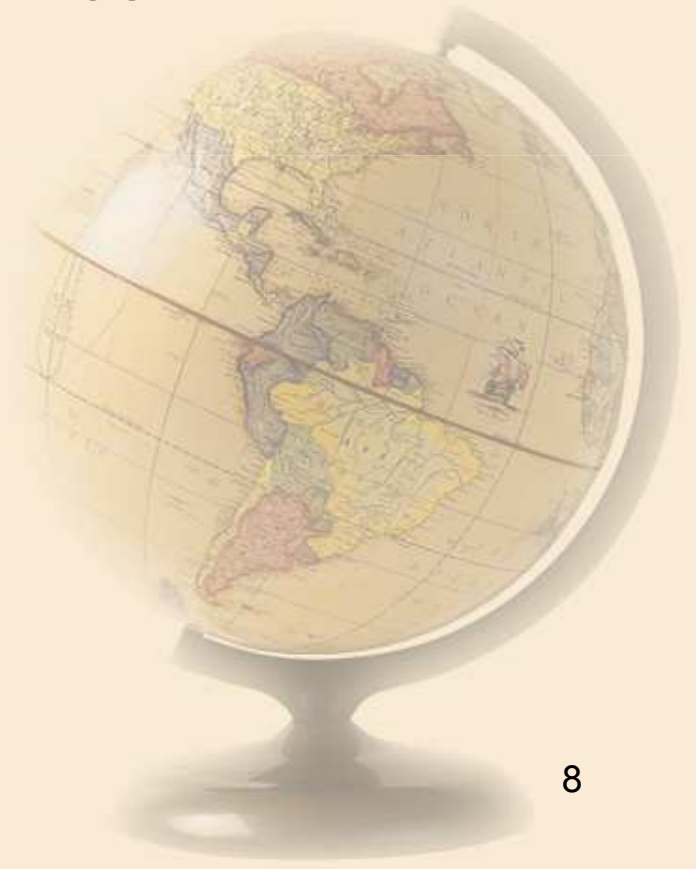
exploit markets in other countries

historically first to appear

modern-day counterparts

British Petroleum

Exxon



THE RISE OF THE MULTINATIONAL CORPORATION

MARKET SEEKERS

Produce and sell in foreign markets

Have heavy foreign direct investments

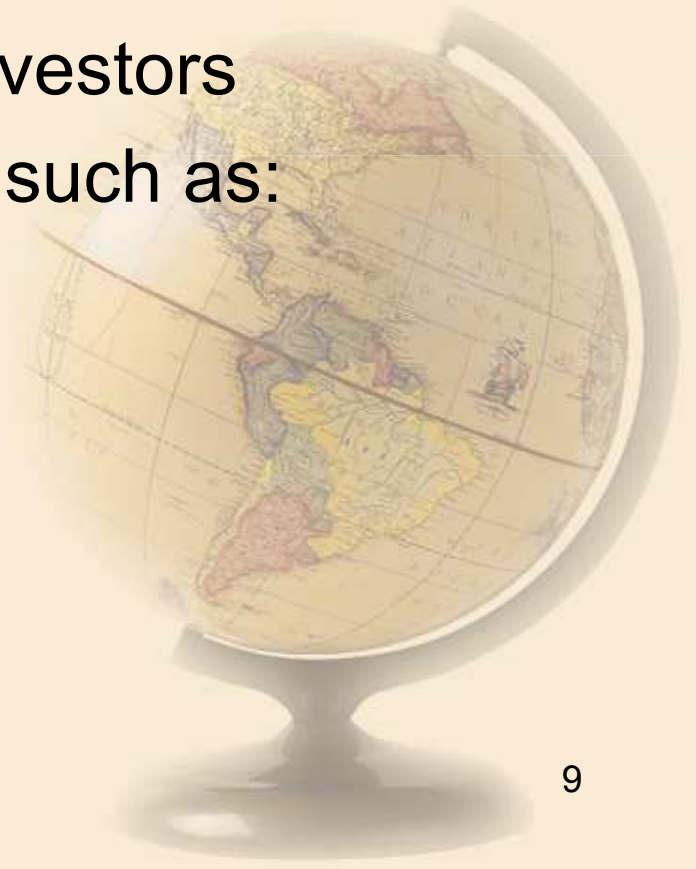
Represented today by firms such as:

IBM

MacDonald's

Nestle

Levi Strauss



THE RISE OF THE MULTINATIONAL CORPORATION

COST MINIMIZERS

seek lower-cost production abroad

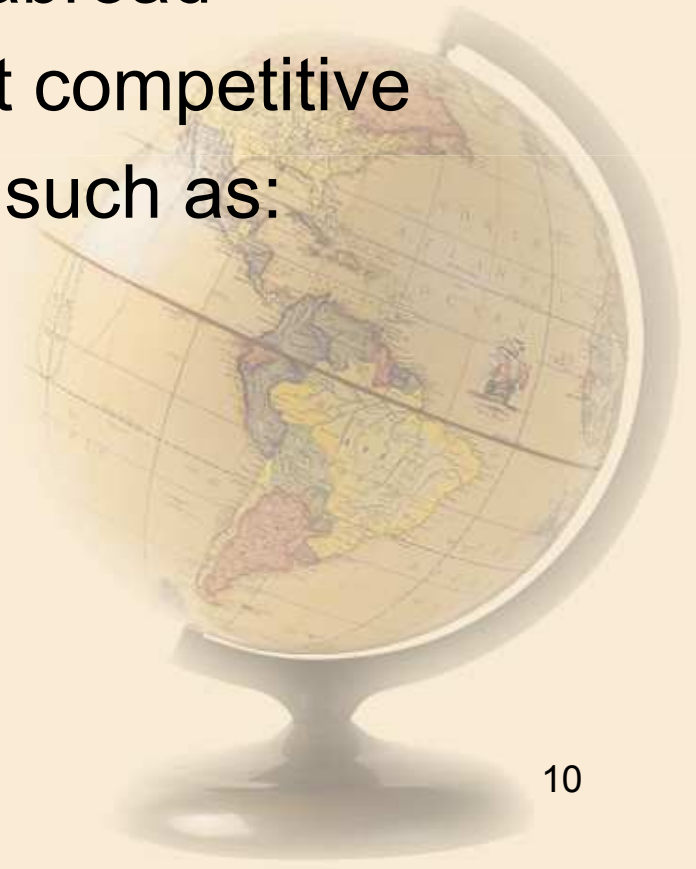
Their motive: to remain cost competitive

Represented today by firms such as:

Texas Instruments

Intel

Seagate Technology

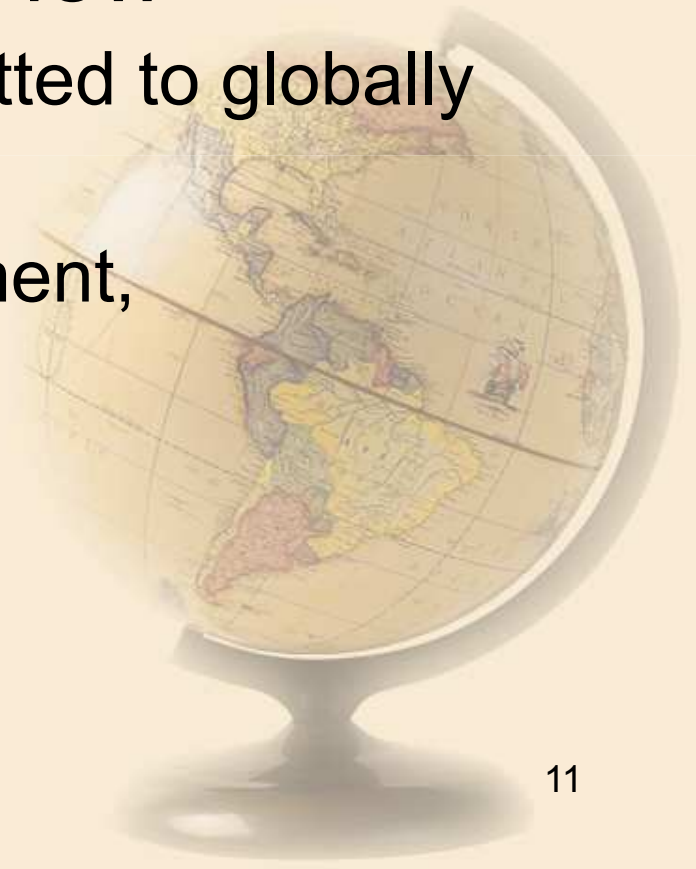


THE RISE OF THE MULTINATIONAL CORPORATION

D. What is the MNC?

From a Behavioral View

it's a state of mind committed to globally producing, undertaking investment, marketing, and financing.



THE RISE OF THE MULTINATIONAL CORPORATION

E. THE GLOBAL MANAGER:

1. Understands political and economic differences;
2. Searches for most cost-effective suppliers;
3. Evaluates changes on value of the firm.



Part II INTERNATIONALIZATION OF BUSINESS AND FINANCE

- I. Globalization
- II. Political and Labor Union Concerns
- III. Consequences of Global Competition:
The acceleration of the global economy



PART III. MULTINATIONAL FINANCIAL MANAGEMENT: THEORY AND PRACTICE

I. The MNC's Policies

A. Main Objective of MNC:
Maximize shareholder wealth

B. Other Objectives Reflect Its Ability
to Link:
via affiliate transfer mechanisms



MFM: THEORY AND PRACTICE

C. Mode of Transfer:

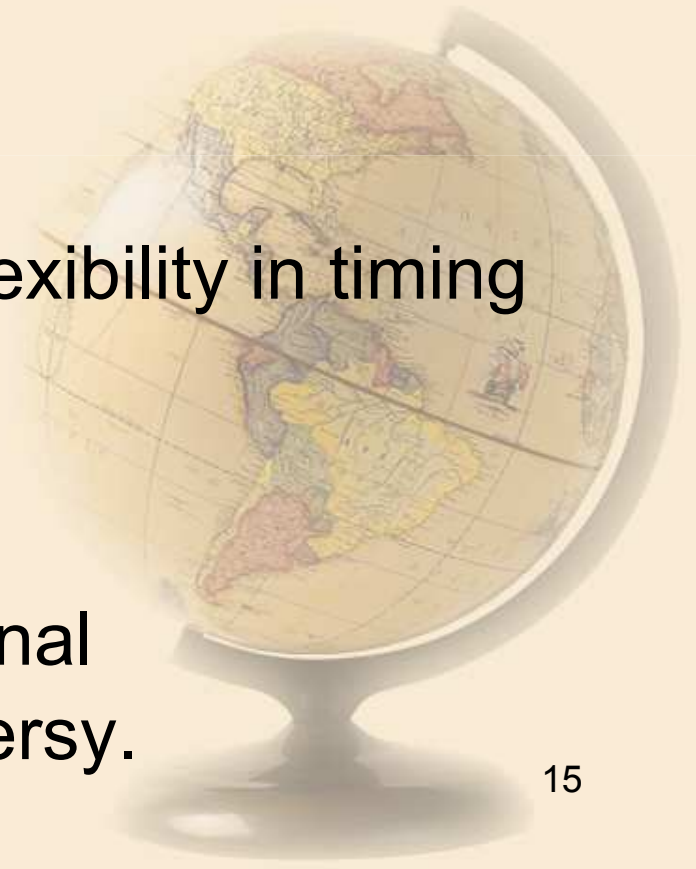
Reflects freedom to select a variety of financial channels.

D. Timing Flexibility:

Most MNC have some flexibility in timing of fund flows.

E. Value

The ability to avoid national taxes has led to controversy.

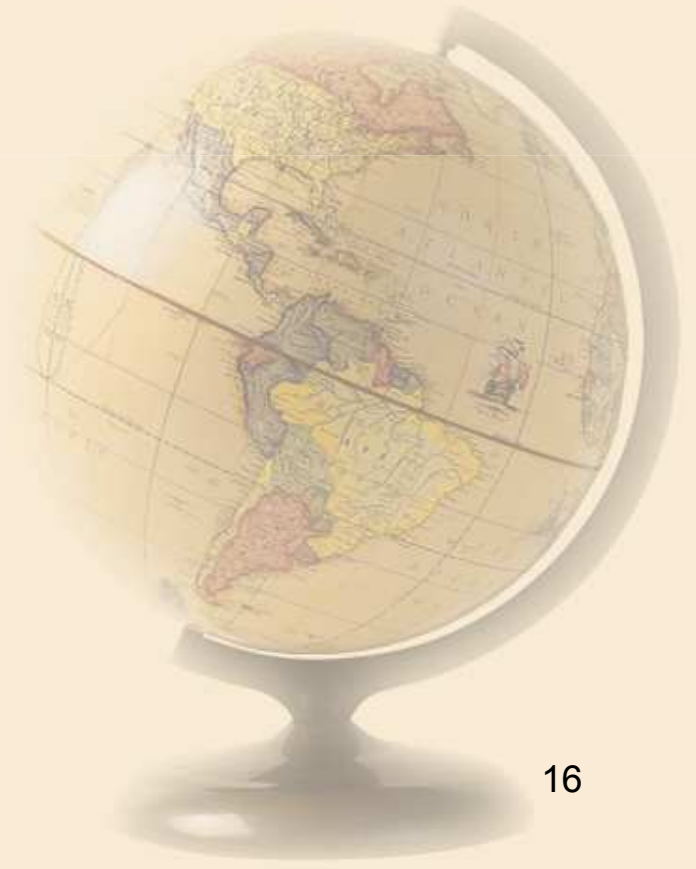


MFM: THEORY AND PRACTICE

II. FUNCTIONS OF FINANCIAL MANAGEMENT

A. Two Basic Functions:

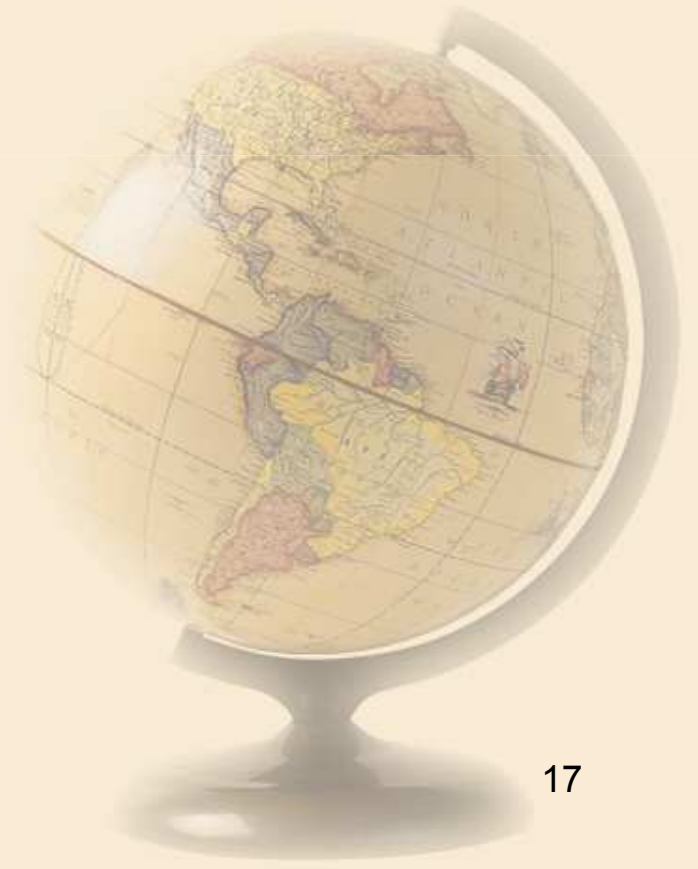
1. Financing
2. Investing



MFM: THEORY AND PRACTICE

B. Additional Factors Facing the MNC Executive

1. Political risk
2. Economic risk



MFM: THEORY AND PRACTICE

III. THEORETICAL FOUNDATIONS

A. Useful Concepts from Financial Economics:

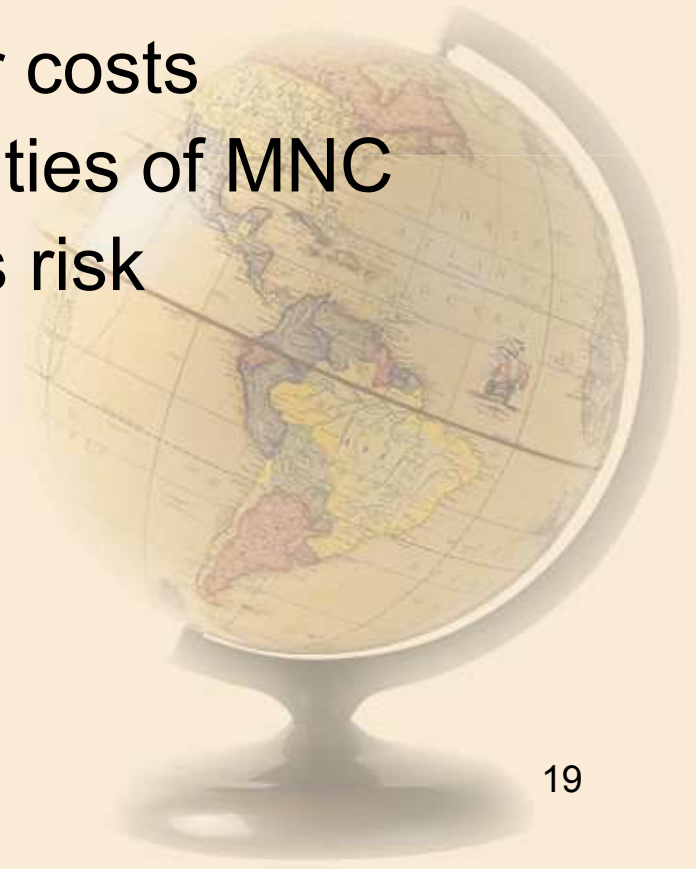
1. Arbitrage
2. Market Efficiency
3. Capital Asset Pricing



MFM: THEORY AND PRACTICE

B. Importance of Total Risk

1. Adverse Impact
lower sales and higher costs
2. Justifies hedging activities of MNC
3. Diversification reduces risk



MFM: THEORY AND PRACTICE

IV. THE GLOBAL FINANCIAL MARKET PLACE

- A. Inter-linkage by Computers
- B. Market Acts as A Global Referendum Process Where :
Currencies may rise or fall

