SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION
MBA FA 406(A)
SUBJECT NAME: INTERNATIONAL FINANCIAL MANAGEMENT

UNIT-V

TOPIC NAME: MULTINATIONAL WORKING CAPITAL MANAGEMENT

A multinational enterprise to survive and succeed in a fiercely competitive environment must manage its working capital prudently. Working capital management in an MNC requires managing its current assets and current liabilities in such a way as to reduce funds tied in working capital while simultaneously providing adequate funding and liquidity for the conduct of its global businesses so as to enhance value to the equity shareholders and so also to the firm. While the basics of managing working capital are, by and large, the same both in a domestic or multinational organization, risks and options involved in working capital management in MNCs are much greater than their domestic counterparts. Further, working capital management in a multinational firm focuses on inter subsidiary transfer of funds as well as transfers from the affiliates to the parent firm. Besides, there are specific approaches to manage cash, receivables and inventories in MNCs. All these aspects are dealt with in this unit in this unit.

Multinational working capital management is the management of current assets and current liabilities of any multinational company who has large number of branches and subsidiaries in different countries. In simple words, we manage the inventory, cash, our short term investments, our creditors and currency exchange risks. By managing this, multinational company can reduce its cost and increase the money for paying day to day expenses.

The goals of working capital management in an MNC are the same as those of a domestic firm that is to manage the firm's current assets and liabilities in such a way that a satisfactory level of working capital is maintained. The discussion of the working capital management in section is made with reference to:

1. Cash management

2. Credit management
3. Inventory management

CASH MANAGEMENT:

Cash management is the business procedure of gathering, handling and (short-term) investing cash. It is an essential part of making sure a service's monetary stability and solvency. Regularly business treasurers or a company supervisor is accountable for total cash management.

Cash management is a broad term that describes the collection, concentration, and dispensation of cash. The objective is to handle the cash balances of a business in such a method regarding optimize the accessibility of cash not purchased set possessions or stocks and to do so in such a method regarding prevent the danger of bankruptcy. Elements kept track of as a part of cash management consist of a business's level of liquidity, its management of cash balances, and its short-term financial investment techniques.

In some methods, handling cash circulation is the most vital task of company supervisors. If at any time a business fails to pay a commitment when it is due since of the absence of cash, the business is insolvent. Effective cash management indicates more than simply avoiding bankruptcy.

FUNCTION:

In basic, little companies do not constantly have the capability to get the credit they may require. Being not able to deal with these circumstances puts a business at threat for loss of profits or, in the worst case situation, going out of company.

Effective capital management is vital for every single service. Different account and payment services permit you to discover effective options for capital management in the way most matched for you. We will assist your business discover appropriate options for cash management optimization and working capital management.

Company experts report that bad management is the primary factor for company failure. Poor cash management is most likely the most regular stumbling block for business owners. Comprehending the standard principles of capital will assist you prepare for the unexpected scenarios that almost every company deals with.

Effective cash management includes preventing bankruptcy, lowering days in balance due, choosing necessary short-term financial investment automobiles, enhancing collection rates, and enhancing a business's general monetary success, all which can be aided with the best cash systems customized to match certain requirements.

Corporatist are frequently dealing with cash management obstacles on day-to-day basis as they handle both ends of the liquidity spectrum-- local and international reporting obstacles provided by single and several banks supported by different banking platforms.

Some cash management options provided today, offer multi-currency and multi-country cash tools. These cash systems support treasury management, consisting of payables, receivables, capital forecasting, liquidity management, monetary supply chain management, and electronic billing payments.

Effectively handling cash is a vital ability for small company designers since they normally have less access to budget friendly credit and have a considerable quantity of in advance expenses they have to handle while awaiting receivables. Carefully handling cash allows a business to satisfy unanticipated costs in addition to dealing with regularly-occurring occasions like payroll.

Cash management is especially essential for brand-new and growing companies. Cash circulation can be an issue even when a little company has many customers, provides an item exceptional to that provided by its rivals, and takes pleasure in a sterling track record in its market. Businesses suffering from cash circulation issues have no margin of security in case of unexpected costs.

Great cash management is basic. It includes:

1. Understanding when, where, and how your cash requirements will take place
2. Understanding the very best sources for conference extra cash requirements
3. Being prepared to fulfill these requirements when they take place, by keeping excellent relationships with lenders and other lenders

The beginning point for excellent capital management is establishing a capital forecast. Smart company owner understand ways to establish both short-term (weekly, month-to-month) capital forecasts to assist them handle day-to-day cash, and long-lasting (yearly, 3-5 year) capital forecasts to assist them establish the essential capital method to fulfill their company requirements. They likewise prepare and utilize historic capital statements to comprehend how they utilized cash in the past.

In addition, worker wages and other expenditures drain pipes significant funds from the majority of companies. These elements make reliable cash management a vital part of any company's monetary preparation. Cash is the lifeline of a company.

When cash is gotten in exchange for services or items rendered, numerous small company owners, intent on growing their service and tamping down financial obligation, invest most or all these funds. While such concerns are admirable, they ought to leave space for companies to take in lean monetary times down the line. The secret to effective cash management, for that reason, depends on arranging

reasonable forecasts, keeping track of dispensations and collections, developing efficient billing and collection steps, and sticking to financial limitations.
Cash management lets services procedure and utilizes their cash in such a method that they have sufficient funds offered for periodic expenses like paying staff members. These techniques affect cash circulation, as well, making it most likely that the company will have the funds it requires at the ideal time.
We supply 24 × 7 online scholastic assistances for Cash Management Assignment Help & Cash Management Homework Help. Our group of financing and economics specialists are extremely informed, almost experienced with years of experience are geared up with all the resources to fix every issue in Cash Management Assignment Help. Expert aid for Cash Management Assignment is offered at really inexpensive costs.

CREDIT MANAGEMENT:

Multinational firms located in different countries compete for the same global export markets. Being so, it is imperative that they offer attractive liberal credit terms to potential customers While the favorable credit terms are desirable to enhance sales and hence profits, N Cs should ensure that the risk/cost of default is lower than the incremental profits expected from such liberal credit terms because ranting credit is more risky' in the international context. In particular, such an exercise is required in the case of sales/exports to enveloping countries (given the risks associated with "Such sales and their lack of 'hard' currency). To sunrise the risk, 'In Cs should seek the backing of their respective governments in extending credit.
Risk also emanates from exchange rate fluctuations on account of time Ag between when the sale is made and time when collections are made' from debtors Hedging can reduce this type of risk, but at a cost. In general, cost incurred in hedging techniques (such as options, forward contracts)
may outweigh the benefit, Therefore international firms hold adopt the appropriate hedging techniques) to miniseries exchange rate risk, particularly with respect to export sales made to less enveloped countries, as their currencies are prone to depreciation/devaluation. Finally, it will be useful to apply the "leads and lags" technique for advancing or delaying settlements, both in respect of debtors and creditors, as per the need.

INVENTORY MANAGEMENT:

The third major current asset is inventory. The term refers to the stockpile of the products firm is offering for sale and the components that make lip the product. In other words, inventory is composed of assets that will be sold in future in the normal course of operations. The assets which firms store as inventory in anticipation of need are (i) raw materials, (ii) work-in-process (semi-finished goods) and (ii;) finished goods. The raw material inventory contains items that are purchased by the firm from others and arc converted into finished goods through the manufacturing (production) process. They are an important input of the final product. The work in-process inventory consists of items currently being used in the production process. They are normally semi-finished goods that are a various stages of production in a multi-stage production process. Finished goods represents final or completed products which are available for sale. The inventory of such goods consists of items that have been produced hut arc yet to be sold.

Inventory, as a current asset, differs from other current assets because only financial managers are not involved. Rather, all the functional areas, finance, marketing, production, and purchasing, are involved. The rise concerning the appropriate differ among the different functional areas, the financial manager is to concise the conflicting cricut points of the various functional areas regarding the appropriate inventory else will order to fulfil the overall objective of maximising. Thus, inventory management, like the management of other current assets, should be related to the overall objective of the firm. It is in this context that the present chapter is devoted to the main elements of inventory management from the viewpoint of financial managers. The objectives of inventory management are explained in some detail in Section 1. Section 2 is concerned with inventory management techniques. Attention is given here to basic concepts relevant to the management and control of inventory. The aspects covered are:

(i) Determination of the type of control required,
(ii) The basic economic order quantity,
(iii) The reorder point, and
(iv) Safety stocks. As a matter of fact, the inventory management techniques are a part of production management. But a familiarity with them is of great help to the financial managers in planning and budgeting inventory, hence, they are explained here.

IMPORTANCE OF WORKING CAPITAL:

Working capital is a vital part of a business and can provide the following advantages to a business:

Higher return on capital:

Firms with lower working capital will post a higher return on capital. Therefore, shareholders will benefit from a higher return for every dollar invested in the business.

Improved credit profile and solvency:

The ability to meet short-term obligations is a pre-requisite to long-term solvency. And it is often a good indication of counterparty’s credit risk. Adequate working capital management will allow a business to pay on time its short-term obligations. This could include payment for a purchase of raw materials, payment of salaries, and other operating expenses.

Higher profitability:

According to research conducted by Tauringana and Adjapong Afrifa, the management of account payables and receivables is an important driver of small businesses' profitability.

Higher liquidity:

A large amount of cash can be tied up in working capital, so a company managing it efficiently could benefit from additional liquidity and be less dependent on external financing. This is especially important for smaller businesses as they typically have limited access to external funding sources. Also, small businesses often pay their bills in cash from earnings so efficient working capital management will allow a business to better allocate its resources and improve their cash management.

Increased business value:

Firms with more efficient working capital management will generate more free cash flows which will result in higher business valuation and enterprise value.

Favorable financing conditions:

A firm with a good relationship with its trade partners and paying its suppliers on time will benefit from favorable financing terms such as discount payments from its suppliers and banking partners.

Uninterrupted production:

A firm paying its suppliers on time will also benefit from a regular flow of raw materials, ensuring that the production remains uninterrupted and clients receive their goods on time.

Ability to face shocks and peak demand:

Efficient working capital management will help a firm to survive through a crisis or ramp up production in case of an unexpectedly large order.

Competitive advantage:

Firms with an efficient supply chain will often be able to sell their products at a discount versus similar firms with inefficient sourcing