Research on Asset Allocation and Financing Application in International Financial Management of Large Multinational Enterprises

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Abstract: With the increasingly close trade relationship between international businesses, the asset allocation and financing structure of large multinational corporations have gradually become a hotspot in international economics research. Financing structure and asset allocation are important components of financial research of multinational corporations, and a relatively mature theoretical system has gradually formed. However, research on multinational corporations is still in its infancy, which is inconsistent with the status of multinational corporations in the world economy. Based on the research background, the paper argues that the taxation systems of different countries are different, the bankruptcy laws and regulations are different, and the interest rate level has a large gap. Enterprises face a considerable degree of exchange rate risk. This determines the capital structure and financing policies of multinational corporations, and has its own special content compared with ordinary enterprises. In practice, the problem that multinational corporations cannot avoid is how to adjust their financing structure, formulate appropriate financing policies, determine the optimal capital structure, and maximize the market value of enterprises.

1. Introduction

The more important the international financial management of multinational corporations is mainly because modern enterprises are more internationalized. If enterprises want to have a place in the world market, they must use international financial management methods to truly manage financial affairs from an international perspective. This solves the problem that traditional financial management methods cannot solve [1]. At this stage, more and more companies in China choose to go out and set up branches in foreign countries to expand their business. In this case, it is very important to use the national financial management method. However, the level of international financial management of multinational corporations in China is not high and needs to be further strengthened.

2. The Importance of International Financial Management and the Status Quo of China

The study of international financial management has become more and more eye-catching. On the one hand, the theory and practice of corporate financial management have gradually matured under the impetus of computer technology, and on the other hand, it has emerged in the international business community. Significant changes in the series.

2.1 Investment growth and investment structure and investment style are constantly changing with the development of the times

The acceleration of foreign investment by multinational corporations has greatly promoted the development of the host economy. The host government is increasingly aware of the positive effects of investment by multinational corporations on the domestic economy. As a result, many countries, including developed countries, have engaged in fierce competition to attract investment from multinational companies. After entering the 1990s, as the process of economic integration accelerated, the number of enterprises operating in a multinational economy increased rapidly. At

present, multinational corporations are no longer patents in developed countries, and enterprises in developing countries are also developing towards internationalization. Since the reform and opening, China has always focused on attracting foreign investment. After entering the 21st century, Chinese companies are also making great strides toward the international arena.

2.2 Floating exchange rate system makes the operating environment more unstable

Since the collapse of the Bretton Woods system in 1974, the fixed exchange rate system has withdrawn from the stage, and countries have begun to implement a floating exchange rate system or a managed floating exchange rate system [2]. At the same time, the operational risks of multinational companies have also increased. Today, the development of multinational corporations depends not only on the strength of their ability to acquire, but also on the ability to avoid risks. It is even more important for multinational corporations to strengthen international financial management. As shown in Figure 1, the relationship between the operating risks of multinational companies and financing risks.

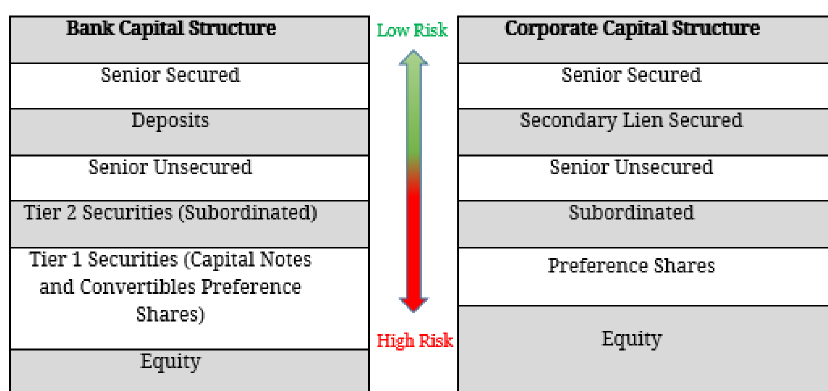

Figure 1. Schematic diagram of the operational risks and financing risks of multinational companies

2.3 International financial markets pose challenges and opportunities for investment financing and asset allocation of multinational corporations

Since the 1960s, the European currency market has been continuously developed and improved, and its scale is larger than any domestic financial market, providing a broader space for the capital operation of multinational corporations. After the 1980s, financial innovation tools emerged in an endless stream. The emergence of currency futures, options and swaps allowed multinational companies to raise funds globally while increasing risks. In the 1990s, the global integration of money markets and capital markets the acceleration of the process has caused almost all enterprises to be affected by the world economic environment. Not many companies can be considered pure domestic models, either directly engaged in import business or compete with competitors from abroad in the product and raw material markets.

In China, due to the weak market economy awareness, enterprises do not have enough understanding of financial financing and investment efficiency. Most enterprises regard financial management as a simple “cashir” job, or simply equate it with “bookkeeping accounting”. The losses caused by the company's incompetence in financial management are significant. It is not uncommon for companies that are in trouble due to poor management of accounts receivable and payable, let alone rationally optimize the investment portfolio to obtain the maximum benefit, or properly arrange the financing structure. Reduce funding costs. The financial failures caused by the lack of understanding of international financial management in transnational operations are numerous. Most import and export companies in China do not adopt foreign exchange hedging measures. The currencies used in import and export transactions are basically in single currency dollars. In the case of the continuous depreciation of the US dollar, enterprises are not aware of the use of other currencies with relatively stable value to avoid foreign exchange risks, and do not know how to

hedge. When importing, external business is harder than the US dollar. Currency pricing and it is easy to avoid damage. The resulting foreign exchange risk has caused serious losses to the company and the country. Corresponding to the simplification of the currency used in the exchange, the US dollar is also in an absolute dominant position in China's foreign exchange reserves. This is not only a macroeconomic policy issue, but also a country's international financial management issue [3].

3. Large-scale multinational corporation financing and asset allocation pUrposes

The financing structure of multinational corporations refers to the composition of different ways of financing funds of multinational corporations and the proportional relationship between the amounts of financing. Different financing methods account for a different proportion of enterprises, forming different financing structures. The capital structure of a multinational enterprise refers to the combination of various sources of long-term funds obtained by a multinational enterprise and their interrelationships—specifically, the ratio of equity capital to debt capital of a multinational enterprise. The equity capital of a multinational enterprise refers to the capital raised through the issuance of international stocks and the use of retained earnings, such as preferred stocks and common stock interests; and debt capital refers to the use of international credit, international leasing, and issuance of international bonds by multinational corporations. Funds. The contents of the financing structure and capital structure of the enterprise are shown in Figure 2.

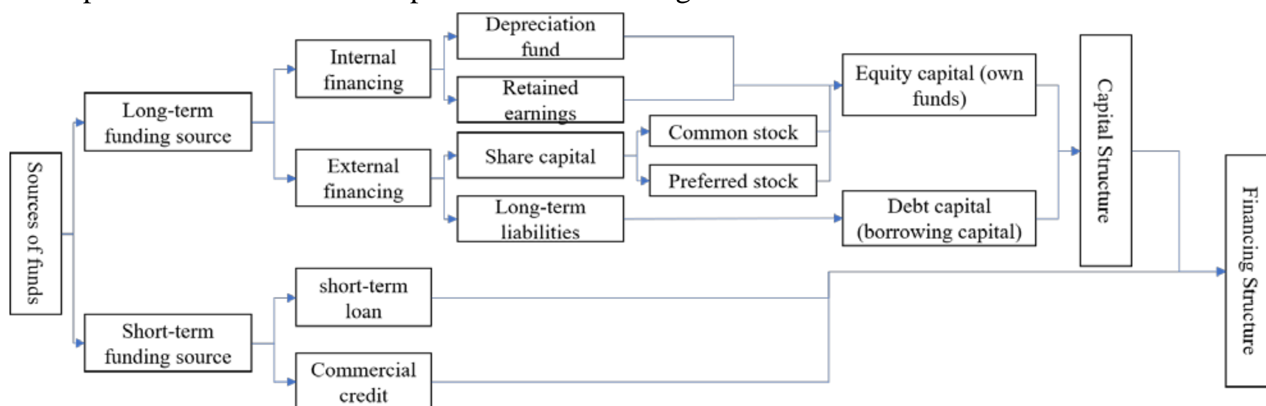

Figure 2. Multinational corporate financing structure and asset structure

To maximize the value of a market for a multinational company is to choose the right financing method and choose the best ratio of debt to equity, that is, to find the best capital structure. The optimal capital structure here refers to the capital structure that can maximize the market value of multinational enterprises or minimize the cost of capital. It is a reasonable standard for measuring corporate financing behavior and financing decisions. However, in practice, the setting of the optimal capital structure depends to a large extent on subjective judgment rather than on accurate calculation. Financial managers tend to set the optimal capital structure within a certain range, such as 40% to 50% of the debt. The proportion of debt capital of multinational corporations should be in the total capital, and there are considerable differences between different countries. For example, US multinationals have a lower proportion of debt, while Japan, Germany, and Sweden are relatively high.

4. Qualitative and Quantitative Description of Multinational Enterprises' Financing Methods

There are three most common financing methods for multinational companies: issuing common stock, preferred stock and bonds in the international financial market. This not only can get a lot of needed funds, but also increase the company's international visibility and expand the influence of the company's products in the sales market.

4.1 Using international bonds as a financing method

Multinational corporations' issue long-term bonds on the international bond market, usually with a pre-determined interest rate. Bond interest, like bank interest, can be paid in pre-tax income. In this way, multinational companies can pay less part of the income tax. The international bond cost rate is Bond interest × (1 - income tax rate) / [total bond issue × (1 - fundraising rate)] × 100 %.

In the case of international bonds as a means of financing, at this time, the financing characteristics of a multinational enterprise are: it must bear the economic responsibility of repaying principal and interest; the creditor of the enterprise has the priority of repayment; the principal and interest repaid by the enterprise to the creditor is certain; The interest on the liability is tax deductible, so the financing cost of the bond is less than the interest paid to the creditor. For multinational companies, this type of financing is very attractive.

4.2 Using preferred stock as a financing method

International preferred stock cost rate: Preferred stock dividends paid annually / [total preferred stock capital × (1 - fundraising rate)] × 100 %.

As with bonds, dividends on preferred stocks paid by companies are usually certain, but if a multinational company fails to pay dividends on preferred stocks in a given year, holders of preferred stocks cannot be forced to pay, which is different from bonds; when multinational corporations are insolvent The claim of the holder of the international preferred stock is second to the bondholder and precedes the holder of the ordinary stock; therefore, the investment risk of the holder of the international preferred stock is greater than that of the bond holder, which requires international The interest rate of preferred stocks is higher than the interest rate of bonds; the financing of issuing international preferred stocks is also higher, and the dividends of international preferred stocks are paid from the after-tax profits, and the income tax payable by multinational corporations is not reduced. Therefore, the cost of international preferred stock is higher than the cost of international bonds. However, the funds raised by the issuance of national preferred stocks belong to the own funds of multinational corporations and generally can be occupied for a long time. Therefore, under certain conditions, multinational corporations are still willing to adopt this financing method.

4.3 Using common stock as a financing method

International common stock cost rate: {Ordinary stock dividends issued in the next year / [Total ordinary share issuance × (1 - fundraising rate)] + Expected growth rate of common stock dividends}× 100 %.

When the multinational corporation is insolvent, the holder of the international common stock has the right to claim not only after the bond holder, but also after the holder of the preferred stock, which has the greatest investment risk. Therefore, the remuneration of the common stockholders the rate should also be the highest, that is, the stock interest rate should be higher than the bond interest rate and the preferred stock rate; in addition, the interest rate will increase year by year as the operating conditions of the multinational companies improve. Therefore, the international common stock cost rate is the highest [5].

5. Risk Analysis of Assets Allocation and Financing of International Financial Management in Large Multinational Enterprises

5.1 Bankruptcy isolation

Bankruptcy segregation refers to the isolation of the underlying asset risk and bankruptcy risk of the sponsor, as well as the isolation of the SPV's bankruptcy risk. Bankruptcy isolation avoids the impact of the sponsor company's bankruptcy on the securitized assets, and the securitized assets need not be used to repay the sponsor's bankruptcy debt. Suppose there is an M company that sells the underlying assets to N securities, but M still assumes the responsibility of paying the difference.

Therefore, the underlying asset risk and bankruptcy risk of Company M have not been effectively isolated.

5.2 Realizing the risk of loss

The financing basis of traditional financing methods such as bank loans and securities are the overall credit of the promoters, while asset securitization is based on the cash flow generated by the underlying assets. Despite the unique advantages of asset securitization, companies can raise large amounts of money. However, companies are obliged to pay the corresponding fees to the parties involved in asset securitization. At this time, if the financing cost has no balance or the balance is small, the securitized assets need to be realized to pay the expenses of each participant, thus resulting in the loss of asset securitization. In this paper, M company needs to pay the corresponding securities of SPV's N securities, custodian bank Huaxia Bank, guarantor X company, investors, etc., so the profit of M company deducted from remuneration must be lower than no loss. Convert the present value of the currency. If the realized loss of M company's asset securitization cannot fully compensate its financing cost balance, it will cause the risk of liquidation loss.

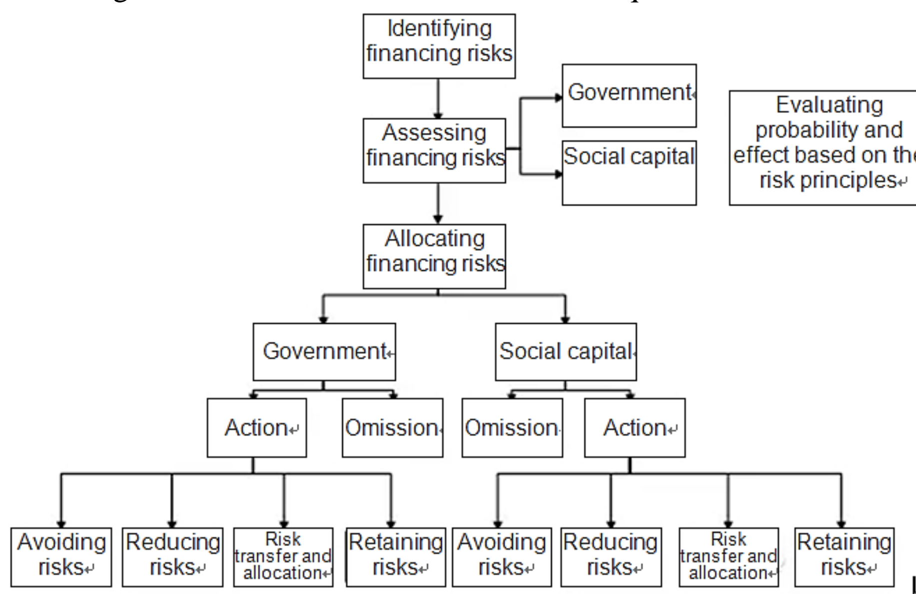

Figure 3. Analysis of financing risks of multinational corporations

5.3 Scale is not economic risk

The cost of asset securitization financing is relatively high, mainly including the cost of issuance, securities interest, and agency fees paid to SPV. Therefore, the scale of asset securitization will greatly affect its income and economies of scale. In this case study, Company M needs to pay a high intermediary fee to N Securities, and the expected annualized rate of return of M's securitized assets is at least 6.6%, up to 9%, and the interest rate is so high. Therefore, if the scale of asset securitization of M company is small, the cash flow generated by its fundraising costs relative to the underlying assets is higher.

5.4 Early repayment risk

Asset securitization has early financial risks compared to other securities products. The so-called early repayment risk means that the debtor pays all or part of the debt earlier than the maturity date because it changes the interest rate of the securities or changes its own income, so that the future cash flow deviates from the expected cash flow, thus the quality of the asset pool. Both the intimate interests of the sponsors have had an impact. In this paper, the interest rate of securities also changes due to market changes or macroeconomic regulation and control [4]. The securities management party N Securities will repay the corresponding part of the debt in advance according to the change of the securities interest rate. Therefore, the future cash flow of M company's asset securitization

financing will be unstable. Moreover, for the pricing of securities, from the repayment of the repayment period to the redemption period pricing, and to a certain extent, the pricing risk is increased.

5.5 Repayment risk

Research on corporate asset securitization must consider whether it is real sales or secured financing. When the real seller sells, the creditor cannot enjoy the right of recourse to the issuer, so the asset securitization is handled as an off-balance sheet sales business. When the guarantee financing, it is treated as an on-balance sheet financing business. At this point, a repayment risk arises. Reimbursement risk means that when the cash flow of the underlying asset is lower than the principal and interest of the securities, the creditor will pursue the seller and the seller will pay the difference. In this paper, when the cash flow generated by the underlying assets of Company M is lower than the principal and interest of the securities, Company M needs to supplement the difference. This form of credit enhancement of over-guarantee makes the risk of assets not fully transition to investors, investors still have the right to recourse, and thus run counter to the principle of “real sales”.

6. Analysis of risk aversion measures for asset allocation and financing of large multinational corporations

6.1 Ratio of equity capital to debt capital

In multinational corporations, the higher the proportion of debt capital, the more fixed-cost expenditures, and the greater the possibility that multinational corporations will lose their solvency; on the contrary, the lower the proportion of debt capital, the higher the taxable income, the smaller the space for multinational companies to use tax burden savings, the higher the capital cost. Although borrowing by multinational corporations will increase their financial risks, moderate borrowing will not only help reduce the cost of comprehensive capital, but also enable enterprises to obtain greater financial leverage.

The different national environments of different countries determine the difference in debt ratios among countries. For example, the mature manufacturing sector in Japan, Norway, and Sweden has a debt ratio of more than 70%, while the UK and the US have less than 50% debt, while France, Germany, and the Netherlands are in between. Some scholars (Zhao Fuqiang, Hong Lei) proposed that the ideal balance of assets is 60% of their own capital and 40% of liabilities. If the debt is highly indebted, the economy will be slightly sluggish. As the interest burden is too heavy, the profits of the company will drop rapidly. For multinational companies, the ratio of local debt to foreign debt in debt financing is also a problem that cannot be ignored. Factors affecting this ratio are: local capital and foreign capital supply in project financing, the financial system established by the host government, the costs associated with various options, and other factors.

6.2 Proportion of debt and equity of subsidiaries

The debt ratio of the subsidiary will affect the debt ratio of the parent company when the parent company makes the consolidated assets and liabilities. Therefore, when selecting the debt ratio of the overseas subsidiary, the influence of the selected capital composition on the overall interests of the multinational company should be considered. Due to the different debt ratio standards set by different countries, many multinational companies have adopted a debt ratio that makes the subsidiaries consistent with local standards. This has several advantages: (1) no fines; (2) local competition it is easier to estimate the company's equity income; (3) not to blame the host country authorities.

6.3 Impact of parent company on subsidiaries

From the parent company's point of view, there are three basic ways to solve the subsidiary: one is to invest in shares, the main income is dividends; the second is borrowing financing, the main

income is interest; the third is the internal transfer of the company, its main performance For transfer fees and management fees, etc. In principle, which kind of capital supply a multinational company should provide to overseas subsidiaries depends on the cost of various supply methods. However, due to the complexity of the international business environment, the choice of multinational companies is also affected by non-cost factors, which are sometimes decisive. For example, the company's goals and policies, the company's technical level and funding sources, the country's tax policy and foreign exchange controls, exchange rate changes, the host country's political stability and balance of payments.

7. Conclusion

In summary, multinational corporations in China should indeed strengthen international financial management. Because multinational corporations in China want to achieve long-term development in the world market, financial management must be internationalized, so that they can effectively disperse the business process. Various risks, there are more ways to choose to raise funds. To this end, China's multinational companies must thoroughly study international financial management.

Acknowledgements

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