**ASHESI UNIVERISTY COLLEGE**

# FINANCIAL RISKS MANAGEMENT PRACTICES OF MULTINATIONAL COMPANIES IN GHANA

By

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## DECLARATION

I hereby declare that this dissertation is the result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature: ……………………………………………………………………………

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I hereby declare that the preparation and presentation of the dissertation were supervised with guidelines on supervision of dissertation laid down by Ashesi University College.

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## ABSTRACT

This study sought to find out the management practices employed by multinationals in Ghana in controlling the financial risks they are exposed to. It also assessed the management practices used by multinationals in the recent financial crisis.

This study is relevant since multinationals located in developing countries operate under different business environment and economies as compared to developed economies. Hence, multinational companies in developing countries should control financial risk by using management practices conducive for the environment they operate in.

The study made use of interviews as the method used in collecting data. Data collected was then grouped and analysed according to the common management practices.

Analysis generated from the data collected concluded that, interest rate risks and exchange rate risks were the most common financial risks the companies face. In managing these risks, management set limit within which the company can absorb risks as the first step in controlling financial risks. The study also identified hedging tools such as options, forwards and future contracts as dominant management practices in controlling financial risk.

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# CHAPTER 1

# INTRODUCTION

## 1.1 Background to study

Multinational companies (MNCs) can be classified based on their ownership, management and their structural and strategic components. With their basic goal to produce goods and services and make profits globally, they enter potential markets to achieve this goal.

Multinational companies have been in existence in Ghana before the country attained independence in 1957. Ghana like other African countries colonised was left in a deplorable state after colonization. In order to improve the standard of living of the people, governments turned to the World Bank and the International Monetary Fund (IMF) for assistance in improving the lives of the people. Decisions made at the World Bank and the IMF were influenced by the “colonial maters” since they owned majority stake in them. These decisions required countries who sort assistance to allow multinational companies to operate in their countries in order to benefit from them (Lieten, 1999).

Multinational companies were dominant in Africa during the 1950s to aid governments in stabilizing and sustaining their economies (Decker, 2008). The flooding of multinational companies in Ghana reduced in the 1970s since government wanted much stake in the investment and management of them. Multinational companies can be seen springing up in the country recently after a decline in them decades later.

The nature of every environment exposes businesses to risks which must be managed to ensure that the businesses continue to operate as a going concern. Political and financial risks are two important risks MNCs are exposed to in countries they are established in and operating. Financial risk which result from unexpected changes in the financial environments tends to affect the countries within which the multinationals are located (Butler, 2004). Ghana like any other country is influenced by some quantitative factors such as the inflation, interest rate, currency rate and balance of trade which reflect on the country's economic and financial position.

Inflation rate in Ghana in 2008 increased significantly which was as a result of the global economic crisis. This affected the prices of goods and services produced in the country that year. Information given by the statistical service showed that inflation rates increased in 2009 from 19.86% in January to 20.53% in March. This however dropped to 18.37% in September which made it the third consecutive decline in the year.

The governor of the bank of Ghana, Kwesi Amissah-Arthur in October 2009 stated interest rates in the country would be reduced if inflation continues to fall to increase economic growth rates since the inflation rates were steadily increasing. Inflation rates fell for seven consecutive times in January and now stand at 14.23%. As a result of this, interest rates can be reduced which would influence the funding of MNCs locally. On the other hand, high interest rates can make MNCs seek funding from their parent companies which increases their transaction cost as a result of high cost involved in repatriation.

Financial risk management is essential for the survival of multinationals since the environment is volatile and can be affected by the least shock. Multinational companies (MNCs) often use financial instruments or derivatives to prevent or minimize the extent to which they would be affected (Corbett, 2004). With the management of financial risk by multinationals they are able to create desired variation from unexpected outcome at some point in time. Thus, multinational companies who practice good financial risk management would have an advantage to counter any financial risk the country may be experiencing. The recent global economic crisis came as a shock to economies. Overcoming shocks such as this required efficient and effective management of risks.

## 1.2 Research Problem

The nature of multinational companies exposes them to different potential markets in different countries, since they aim to expand by producing more goods and services. These countries even though they may be in the same geographical location have different financial and economic issues affecting them. In other words, each country has its own regulatory frame work by which business transactions are managed in the economy. Ghana like any other country has MNCs established in the country, which continue to exist despite the economic fluctuations the country faces.

How then have these MNCs managed to continue operations in the country? This is what this study seeks to assess; the management practices used to curb the financial risks faced by multinational companies in the country. The recent global economic crisis from mid 2007 to 2008 had significant impacts on the business environment and on economies.

With the fall of some financial institutions, governments of developed countries had to create packages to assist financial institutions since the situation had a global financial meltdown on the lives of citizens.

This study also assesses the management practices used by multinationals during the recent financial crisis in order to prepare for such unforeseen crisis.

### 1.3 Research Objectives

This study seeks to assess the financial risk management practices of multinational companies in Ghana. Outlined below are the research objectives:

a) To identify financial risk management practices of MNCs in Ghana;
b) To identify financial risk management policies used by the MNCs during the global financial crisis; and
c) To examine the effects of these management practices on the companies.

### 1.4 Research Questions

Objectives of this study answers were sought to the following research questions to help examine the financial risk management practices used by multinational companies in Ghana:

1. How do MNCs in Ghana manage risk?
2. What are the measures put in place by the MNCs for unforeseen financial risk?

3. What was/were the outcome(s) of these practices on the companies?
4. Which financial risks did the companies experience during the global financial crisis?
5. How did management address the risks associated with the global financial crisis?
6. What has been the effect of these management practices on the MNCs?

**1.5 Significance of the study**

This study assists in the better understanding of how management practices implemented by MNCs in Ghana have contributed to the performance of that company. It brings into life what MNCs would have experienced had they not put measures in place to solve any unforeseen financial risks. It also sought to evaluate the impact of the financial risk management practices during the recent financial crisis.

The study also sought to provide stake holders of a company such as management to review past policies. The review of past management practices in reducing the impact of financial risks would help future decisions to avoid repeating past mistakes.

Interested stakeholders would benefit from this study. Thus, the study would assist in research findings in financial risk management of MNCs in the country. The lack of documented articles makes it difficult to assess information on MNCs management in financial risks in Ghana. Hence, more information will be made available to further assist in other research findings in relation to MNCs financial risk management in Ghana, for academic work and to help other organizations make right decisions in managing their financial risk.

Investors in a society would be informed on decisions concerning the MNCs when making investment decisions. Thus, as the result of these findings, investors can either continue to invest in a company or attract new investors due to the management practices implemented by management and the effects on the operations of the company.

The country as a whole can make good use of such information, to continue to ensure a stable economy. In some cases, government could assist or encourage MNCs in managing financial risks. In other words if these risks are not managed well, they can affect the performance of the companies which will tend to affect the economy.

**1.6 Scope and Limitation of the Study**

This study was centred on the financial institutions, food manufacturing companies and the telecommunication industries in Ghana and how they have managed financial risks they face. These risks are currency risks, interest rate risks and inflation rate risks they face and financial risks they faced during the recent financial crisis.

Six multinational companies were used for this study which does not represent all MNCs in the country. The timing of the study could be a limitation, since companies might still be recovering from the financial crisis, and so would not have fully seen results of implemented policies. The bureaucratic nature of giving out information may also affect the study if the correct information is withheld. Hence, the study focused on management practices implemented and the impact on the operations of the companies.

### 1.7 Methodology

The researcher interacted with financial managers of the multinational companies to assess how they control and manage financial risk they face.

Through interviews the managers were able to examine financial risks the companies faced and how they manage those risks. Data from the interview process was then analysed by a descriptive analysis based on the management practices used by the multinational companies for the study. The interviews were based mainly on the research questions stated above to assist in achieving the outlined objectives

The multinational companies used for this study were selected from the financial, telecommunication and the food manufacturing industry. This included Nestle Ghana Limited, Cadbury Ghana, Tigo, MTN Ghana, Stanbic Bank and Barclays Bank Ghana. Data obtained was then analysed based on the tools and management practices the companies used in managing the financial risks they faced. The common practices used by the companies were also evaluated to compare the operations among the companies.

### 1.8 Outline of the Thesis Report

The first chapter contains the background to the study. It identifies the research problem, states the research objectives and outlines the hypothesis for the study. It further justifies the study and states the possible limitations and scope of the study, its methodology and the outline.

Chapter two presents literature review of other academic works written in line with how multinationals have managed financial risks faced in the country of residence. Thus, the chapter summarizes other written works similar to the topic or works which might help this study. Based on what has already been done, the study was structured to give a better understanding of how multinational companies had managed and controlled interest rate risks, currency risks and inflation risks they face.

Chapter three of the study explains the methods used in collecting the data of multinational companies to be used in this study. In view of the nature the study, the data collected was through an interview process. This explained practicality the management practices that have been used to manage financial risks these multinationals have faced.

In chapter four, the results from the findings were analysed to see which ones were used, why they were used and the outcome on the operations of the companies. Thus, results gotten from these multinationals were critically analyzed and evaluated to assess the impact on the operations of the MNCs. The findings were as a result of questions asked during the interview process.

Chapter five focused on the results from the research findings. Based on the analysis in the previous chapter, a better understanding of how these multinational companies in Ghana manage their financial risks was ascertained. This chapter will also included conclusions derived from the study and made necessary recommendations out of the study.

# CHAPTER 2

# LITERATURE REVIEW

## 2.1 INTRODUCTION

In this chapter, relevant literature of the subject of study would be reviewed. To start financial risk is defined; the types of financial risks multinational face and thereafter examine management practices of multinationals in controlling the risks they face.

## 2.1 DEFINITION OF FINANCIAL RISK

Financial risk can be classified and defined according to the different stakeholders involved such as the investor and management of a company. Several definitions can be linked to whether these risks are from the company or the investor's point of view. Generally financial risk is any unfavourable conditions in financial terms. Financial risks can also be referred to the firm's inability to meet its financial obligations as a result of cash flow problems. From the shareholders point of view, this is an additional risk shareholders are exposed to due to the company's decision to use debt equity as a means of financing.

The AllBusiness Company classifies financial risk as a section of the total corporate risk which is beyond the control of businesses as a result of using debts. It goes on to state default risk as part of a company's financial risk, which is attributed to a borrower not being able to make principal and or interest repayments on debts. Hence, this increases a company's risks based on the increase in its financial leverage. Financial risk can also be defined financial risk as the "additional volatility of a firm's net income caused by a fixed interest expense" (Gallagher and Andrew, 1997). They attribute this risk to borrowing money, which compounds the risks a business will face and also intensifying the volatility of the net income.

The above definitions have attributed financial risks to debts used in financing businesses and the possibility of not being able to meet the obligations associated with them. Apart from the definition by AllBusiness Company, the other definitions ignored financial risks which can be beyond the control of the business, but from external factors. These factors include interest and foreign exchange rates which will eventually affect the operations of the business including the ability to fulfil its debts repayments. These external factors cannot be controlled by businesses or companies, since they are mostly influenced by the environment and governments.

In relation to this study, financial risk will be defined as:

"The level of financial uncertainties related and associated to the operations of businesses"

## 2.2 QUANTITATIVE RISK FACTORS

Quantitative risk factors are those factors which influence the financial risks companies are exposed to. These factors are interlinked and tend affect each other when there is either a fall or an increase of it. The outlined quantitative factors include the interest rate, inflation rate and the exchange rate prevailing in the business environment of the country. These factors tend to influence the risk associated with borrowing or lending, the cost of doing business and the risk of dealing in foreign currency. Discussed below are the qualitative factors which influence the financial risks businesses are exposed to.

### 2.2.1 Interest rate

This is the charge associated with an amount of money borrowed to a lender. The rate is an additional amount which must be included to the principal amount borrowed. In other words, it can be referred to as the price one pays for using money borrowed over a specific period of time. Interest rates change as a result of inflation and other policies influencing the business environment of a country. Nominal interest rate is an interest rate which does not include a component of inflation where as real interest rate is the inflation rate which has a component of inflation. For the purposes of this study, interest rate refers to the real interest rate since it includes an aspect of inflation.

### 2.2.2 Inflation Rate

This is the rise in the average level of the prices of goods and services in a country. The inflation rate evaluates the value of the currency of a country. This rate helps in calculating the real interest rate and the wage increase of an economy. In order words, this rate can be referred to as the purchasing power of consumers over a specific period of time; weekly, monthly or even annually. Since it involves the prices consumers have to pay for goods and services, the Consumer Price Index (CPI) is the indicator used in measuring it.

### 2.2.3 Currency (Foreign Exchange) Rate

This is the quantity of currency needed buy and sell another currency. It can also be referred as the rate at which currencies can be exchanged for other currencies. It also means that the higher the value of the local currency against the foreign currency, the higher the value of the foreign currency. The Spot exchange rate is the current exchange rate while forward exchange is the exchange rate quoted currently but expected to be traded in a specific date in future. This rate can be fixed or flexible and can be quoted as either direct or indirect.

## 2.3 TYPES OF FINANCIAL RISK

The main types of financial risks are interest rate risk; inflation rate risk and currency or exchange rate risk. Financial risks are influenced by several factors which can be classified as either qualitative or quantitative in nature. These factors reflect the financial or economic stands of a country and are partially influenced by the host government (Butler, 2004). Hence, this affects the operations of multinational companies.

### 2.3.1 Interest rate risk

This is defined as the risk of investments value changing due to the fluctuations in the interest rates. Low interest rate tends to favour borrowing than in deposit situations, since low interest rates yield low returns. This risk can deter multinationals from borrowing locally if the rates are high and on the other hand, increase borrowing locally if the rate is low. They also inversely affect securities, to caution investors to make the right decisions or insure their investments. This type of risk tends to affect stocks more directly than bonds. Companies which deal with or have foreign parties are affected since the interest rate determines their cost of transaction. Thus, the risk associated with the changes in interest rate can possibly change the value of a firm's assets. Factors that affect the interest rates are real rates plus a component of expected inflation.

### 2.3.2 Currency (Foreign Exchange) risk

This is another type of risk where little variations in exchange rates can affect the operations of the business. This can also be described as the risk of a gain or a loss as a result of an exchange rate change (Giddy and Dufey). This risk affects businesses with foreign ties since the difference in currencies will be subject to the exchange rate. This type of risk is prone to financial instruments which are not in the domestic currency. Currency risk works both for and against a company depending on the direction in which the exchange rate moves. Hence volatile exchange rates due to unstable economies tend to expose companies to currency risk. Companies exposed to this risk reduce transactions which involves the exchange of currencies. This increases the cost of transaction in such companies' operations. The supply and demand for foreign currencies are factors which affect the risk associated with the foreign exchange rate.

### 2.3.3 Inflation risk

This can be known as purchasing power risk is the risk of rising prices of consumer goods. Inflation risk affect the purchasing power of currencies by reducing the power of the currency used in buying goods in a country. On the other hand, it can be the loss of assets resulting from rise in cost of goods and services. Inflation risk can however be very distressing in the long-run and tend to reduce business activities in an economy such as consumption of goods and services. The demand for the supply of goods and services affect the rate of inflation in an economy.

### 2.3.4 The balance of trade

This is the difference between imports and exports and the difference between investments and savings (**current account balance**). With this form of financial risk, multinational companies which for example depend mostly on imports for example and tend to export their products make sure they always have a positive balance of trade in order to continue operating as a going concern business. A company exposed to such risk tend to depend more on its import and export in its operation. Thus, with this risk operations of the company are affected and would eventually reflect on the company. A positive balance of trade would mean the company is in a positive position to still be operation.

## 2.4 QUALITATIVE RISK FACTORS

Qualitative risk factors tend to also influence the business environment in which businesses operate in any host country. These risks have a political element in it, since governments of host country have influence in making such decisions to help boost the business sector in the country.

Such factors include how loans given to multinational companies are structured and when host governments can cancel their contracts. Qualitative factors such as the control of capital on investments, repatriation and foreign exchange also the financial risks multinationals face. Since the study focuses on how financial risks are managed, qualitative factors were ignored due to the political element associated in it.

## 2.5 DEFINITION OF FINANCIAL RISK MANAGEMENT

In our day to day living and transactions, we tend to directly or indirectly make provisions for what we expect to happen or prevent from happening. Due to the uncertainty and probability of not achieving a desired return, companies will need to always make room to shield them from any consequences. This involves first assessing the risk then guiding its management.

Financial risk management can be defined as measures to be implemented to control uncertainties from financial markets. It can be referred to as the management of company's finances to maximize shareholder's wealth (Shapiro, 2003). In his book, he identifies the shareholder being the legal owner of the company and management being fiduciary obliged to act in the best interest of the company. Thus, since shareholders provide the capital risk for the company, management must take strategic decisions in controlling financial risks the business faces to maximize shareholders' wealth in the end.

The Edinburgh Business School also defines financial risk management as a "process which aims to analyze, control and if necessary, reduce the risks to an acceptable level" (Moles, 2010). Apart from the definition by Shapiro, the other definitions both refer to financial risk management as implementing practices to reduce the effect of the risks on the operations of the company. All the above definitions accept the fact that, every business at a point in time is exposed to some sort of risks as a result of the environment businesses operate in. The continuity of the business however allows management to take decisions in controlling these risks. Shapiro in his book further states the reason why these risks should be controlled; to maximize the wealth shareholders have for investing in a company.

## 2.6 MANAGING FINANCIAL RISK

Risk management can be part of a company's competitive advantage in preparing for anticipated risk. This involves assessing the financial risks and going ahead to further develop management strategies to manage them. Discussed below are the management practices other articles have reviewed.

### 2.6.1 Managing risks with financial derivatives

Future and forward contract are means through which a companies can prevent or control the financial risks they are likely face. Chou (2003) suggests companies would be able to protect themselves against risk of prices do not vary from expected future prices. The use of forwards and contracts allows the companies to hedge against future variations in prices changes. Through these derivatives companies tend to hold assets in order to control future price changes. Thus, it serves as a guarantee for anticipated risk companies would tend to face.

Options are another form of derivatives used to manage financial risks companies face. Options give the companies a right to sell (put option) a financial assets or buy (call option) a financial asset (Chou, 2003).

Through options, companies' secure future price changes of underlying assets and change in currencies. Put and call options are available on financial assets such as foreign currencies, stock and futures and can be exercised only at a specific date. Chou further states insurance package premiums with options makes it attractive to companies who are interested in it although it's also associated in using options as a means of managing financial risks they face.

Major uncertainties of MNCS are exchange rates. This is because; exchange rates are typically four times volatile as interests and about ten times volatile as inflation rates (Jorion, 1990). In Jorion's work, he analyzes how US multinationals are exposed to foreign exchange risk since this risk has direct implications on the assets-pricing test. Jorion suggest MNCs can hedge their cost of capital since exchange rate can be more diversifiable in this area to prevent effects on operations of the companies. He further made mention of options and forward contracts as means of hedging which supports the early works stated about hedging the currency against the exchange rate to reduce any effects of the operations of the company.

A further study on how US MNCs used foreign exchange derivatives indicates a positive relationship between the amount of foreign exchange derivative used and extents of the MNCs involvement in foreign markets (Seema Menon & Viswanathan, 2005). Derivatives such as forwards, option contract and currency swaps are mentioned in their study as derivatives which significantly influenced US multinationals. Their conclusion on the impact of derivatives used by MNCs involved in foreign markets however showed a negative relationship between companies in particular industries. They however concluded that the use of more foreign exchange derivatives by MNCs reduces the risks they tend to be exposed such as currency exchange risk.

In managing financial risks exposed by MNCs in South Africa, a council suggested the quotation of prices by MNCs in the local currency when transacting business with foreign companies (2003). This they stated will be possible if there is less competition with suppliers of a company since a stringent competition will force the company to accept the foreign currency by managing any risks associated with the transaction through a commercial bank and the suppliers. The quotation of prices they suggested should be subject to the variations of the exchange rate, and must be clearly stated and disclosed during business transactions since companies are secured from future uncertainties.

The report by the council also suggested hedging against the foreign currency should be decided and tailored toward currency risk. In controlling these risks, currencies can be fully or partially hedged. Forward exchange contracts can be used in situations where local suppliers deal in foreign currency. This policy further states how movement in exchange rates can be contracted against the hedge rates, which will help management monitor its hedging decisions regarding the company's foreign currency risks.

In the article "managing foreign exchange risk", Giddy and Dufey (1992) link the risk of exchange rates, interest rates and inflation risk through the purchasing power parity (relationship between inflation and exchange rates), international fisher effect (interest rates and exchange rates relationship) and the unbiased forward rate theory (relates forward exchange rate to exchange rate expectations). They make mention of tools such as forwards, futures, debt, swap and options in hedging against exchange risk. Unlike the other writers they suggest debt as a means to managing exchange risk faced by the firm which is similar to hedging with debt financing from MNCs from the corporate level (Chowdry, 1995). This practice management of forward contracts allows multinationals to borrow at the currency exposed to the risk to off-set the risk exposed by the foreign currency.

Hedging as stated already by other writers helps MNCs manage their risks in order not to be adversely affected. Another practice is to write contracts with foreign parties at fixed exchange rate as at the agreed day the contracts comes into being (Clark, 1993). He goes on to discuss how such management practices in controlling risks will be beneficial to MNCs who are into the production of goods than of services. Clark however states that, MNCs into service provision with limited role in long-term growth will find hedging against exchange rates appropriate since they can develop the brand reputation of the company, as a result of managing these risks to prevent any adverse effect of the company. Clark goes on to suggest to MNCs to employ subcontractors to help in managing short-term financial risks should the company is likely to face. He however did not state these how short-term financial risk could be addressed.

### 2.6.2 Managing Risk through Speculations

Faulkender in his work (Faulkender, 2005) suggest that managing interest rate risk can be achieved by certain primary speculation and not necessarily hedging by companies. He states the two factors from interest rate risk; a combination of a firm's initial exposure of debt and other ways it alters its debts. Thus, companies with floating debt rates tend to reduce their short-term interest payment which will eventually lock them at higher fixed rate. To Faulkender, companies should not hedge since the interest rates can only be predicted as a result of the business environment they operate in order which will reduce the associated with hedging.

Richard Lyons (1998) argues in the article" Risk management: A Financial Engineering Roundtable" that the current trend of foreign exchange risk is as a result of six factors affecting the exposure of risk in the foreign exchange markets to accompany. According to Richard, firms he suggests are re-considering hedging as to whether it is the right decision for them based on the risk level and the cost involved in transacting a hedge. This he attributes to the emphasis placed on value creation at the corporate level of the company. He further suggests for firms not to use options as the main means of hedging since it is not always the right tool. Thus, he opposes that firms are not increasing value of the firm since hedging risk in this area is as not as significant as it is assumed to be. He also stated the need for companies to be able to change from either fixed to flexible exchange rates or vice versa depending on how beneficial it will be to the company.

### 2.6.3 Setting Limits to Manage Risk

In managing interest rate risks, banks for example can use comprehensive risk management process that will help identify, measure, monitor and control the risk. Limits and controls set by the bank for instance helps the banks to determine how much risks the bank can absorb and this can be done through activities and strategies which take place in the bank (Shapiro, 2003). The use of internal control measures by management helps safe guard the risk exposed as a result of interest rates.

### 2.6.4 Managing financial Risk in Africa

Developing countries were anticipated to be affected in the recent financial crisis in two different ways. These are financial contagion or corruption and as a result of the downturn in developed countries through and trade prices, remittances, foreign direct investment and commercial lending (Te Velde, 2008). This downturn was further anticipated to affect developing countries with high account deficits and government deficits which were supposed to put pressure on exchange rates and inflation rates. Thus, developing countries were forced not to reduce their interest rates in order to make it attractive for investments to help address the situation such what happened in South Africa. In managing the crisis, government of developing countries had to first stabilize the economy and cooperate across borders through international financial rules and system (Te Velde, 2008). Developing the financial institution in the country made the economy absorb some risk in order to support investment inflows.

Unlike some methods used in developed country such as duration analysis to manage interest rates faced by banks, it was realized that this was not appropriate in the case of Africa. Instead banks in Africa should adopt a system known as the Basle accord to manage its interest rate risk (Naude, 1995). This allows banks create liquidity through maturity to solve the problem of mismatch through its credit supply which is similar to measures implemented in development bank in Asia. This will also mean the adaption of interest rate indicators through new technology to tighten the banks regulations.

Other literature discussed in the chapter did not make mention of ways to manage risk in Africa or the developing world since the financial markets in Africa and other developing countries are quite different from the developed countries. Hence, this makes some of the measures not feasible in Africa. Instead Naude (1995) addresses the possible ways African countries can manage their interest rate risk in order to control the impact on the operations of companies.

### 2.6.5 Managing Risk by Structure of Company

Multinational banks faced with financial risk are employing different was of implementing certain practices to manage those risks. Some of such practices is by identifying the risks through dynamic internal audit (Quick, 2000). These dynamic ways of auditing the banks exposes risks which wouldn't have been noticed through normal auditing. Hence with the knowledge of such risks, effective measures can be put in place to control the effect of those risks.

Multinational companies in structuring their companies can factor in its operations to minimize risk and maximize return. Capital budgeting processes are means in which MNCs make their investment decisions. Since this decision influences areas such as financial leverage, production, Marketing and human resource, choices made with respect to these areas should prevent risk exposure and adverse effects on the operations of the company. Local partners can reduce MNCs exposure to risk through raising local debt and equity funding in the economy. A common method used in capital budgeting; Net Present Value (NPV) and Internal Rate of Return (IRR) can be employed by the company as an investment criteria. This method can be used by Multinational especially when investing in uncertain environment. Thus, all incremental cash flows would be included and discounted at rate based on the systematic risk of the asset which reduces the risk exposure of the company.

One other way in which multinationals can manage risks they are exposed to in an environment is to take certain initiatives through the structure of the company. This normally comes after an investment decision has been made. The four options available to the MNC (Butler, 2004) is to first negotiate with the host government for an environment that will maximize the return on its investment at the same time reducing financial and political exposure to risk. In this negotiation, an investment agreement is concluded stating each party's (MNC and government) rights and responsibilities. Tax rates, taxable bases and tariffs are among some of items negotiated in the country's investment environment. Some financial environment items include transfer prices, loan repayment, access to capital markets in host country and royalties.

The next option Butler suggests is to obtain political risk insurance contract. This political risk insurance is insurance in a form of put option (the right to sell an underlying asset at a specified exercise price and on or before a specified date). This put option prevents a company from a decline in its underlying assets. Such insurance contracts can be referred to as out-of the-money put options since they insure negative outcomes, but however left in the case of positive or neutral outcomes. Quick (2000) also suggests products and services by MNCs should include insurance packages. This prevents these multinational banks from being affected if there are any financial risks to be faces as result of changes in the financial markets.

Lastly, Butler suggests that MNCs plan for disaster recovery in order to manage the risk they face. These plans are made in advance to help minimize the loss and also speed up MNCs response to adverse outcomes. Plans can be made toward new growth opportunities to reduce the effect of the risk on the company. With such plans in place MNCs would be able to counter and deal risk which affects the company in order retain a foothold in the economy.

Managing multinational risk being a major problem which MNCs face and can be linked to the structure of the company (Wells, 1998). Other literature such as Wells suggests how these risks can be managed by providing certain packages such as reward systems especially for management to make decisions which controls or manages the risks the multinationals face.

A similar concept between Wells (1998) and Clark (1993) is the idea of providing reward packages for management to control or reduce the effects of financial risks the company faces. Thus, when management rewards are tied to the decisions they take regarding the control of financial risks of companies, they tend to make relevant and important decisions knowing that the choices they make have an effects of the success of the company and themselves. These two writers also agree in MNCs employing expertise to make relevant decisions to control the effects of financial risks on the operations of the company.

### 2.6.6 Managing Risk through Diversification

Multinationals can reduce risk by diversifying (Kim, Hwang, Burgers, 1993) such as partitioning the risk-return variance. Diversification of MNCs can be in the form of portfolio of investments, funding and their operations. Such diversifications reduce the risks the MNC is exposed to since it depend on various sections to continue operating ass a going concern. Through diversification, risk companies can be offset risk faced by using other unaffected sections of the diverse portfolio to continue operating ass a going concern.

### 2.6.7 Other Management Practices

Another way of managing risk is through the use of a non-linear system (Martinez, Priesmeyer, Menger, 1999). This system finds patterns of complex financial risk factors and examines the changing environmental factors which influence these risks. This system further describes evolving systems of anticipated financial risk to enable companies control any effects on the operations of the company. Thus, with this risk companies can hedge or plan for future risk to prevent negative impacts on the company and also benefit from any anticipated gain. This system can however not predict financial risks in financial crisis..

Boyacigiller Nakiye (Boyacigiller, 1990) states that, MNCs can effectively manage risks they face despite conditions in which they operate in. This he suggests by the interaction of MNCs and their parent companies such as allowing them have majority stake in the company to control operations in their host country. With such majority control, funding of the company can be provided by the parent to favour the subsidiary company when interest rates for example are increasing in the host countries.

The articles reviewed identified various ways multinational companies manage financial risks they face. The common financial risks multinational face is beyond the control of the companies since they are determined by the host government. A similar concept running through the management of financial risks discussed in this chapter is for companies to forecast the currency and hedge against any future uncertainties in this floating world (Shapiro, 1976).With hedging the currency is insured against unforeseen risks to prevent any adverse effect on the operations of the company.

All the reviewed articles did not show how multinational companies in developing countries or Ghana manage their financial risk. Instead, works on how multinationals in developed countries have managed financial risks and specific financial risks are reviewed. Suggestions as how MNCs can manage their financial risk in developing countries are discussed without detailed information on what measures have specifically been employed. In this study management practices of some selected multinationals in Ghana (or for that matter in a developing country) is addressed to fill the gap of financial risk management.

# CHAPTER 3

# METHODOLOGY AND LIMITATIONS

## 3.1 Introduction

This chapter places emphasis on how the data for the study was collected. The data informs how the multinationals used in this study employ management practices to control the financial risks they face. It also includes the sources and types of data collected, sample size, questionnaire design, the data presentation and how the data will be analyzed.

Due to the practically of this study, a questionnaire was designed and used during interviews to analyze management practices used by the Multinational Companies to control the risks they face or anticipate to face in the country.

## 3.2 Subject

The study covered some multinational Companies in Ghana, namely in Accra. This included Nestle Ghana limited, Cadbury Ghana Limited, Tigo (Ghana,) MTN Ghana, Stanbic Bank and Barclays Bank Ghana. These multinational Companies have been in existence in the country for some time, which makes them among the best companies necessary for the study.

## 3.3 Sources of Data

Primary data was used as the main source of this study. It basically consisted of questions designed to guide in the interview process. These questions were used to collect information relating to risks faced by the multinationals in the study and how they were able to control the effects on the operations on the company. The questions also assessed the measures put in place by the companies during the financial crisis and how it impacted on the companies' operations. Furthermore, the questions reviewed the management practices the companies put in place in anticipation for financial risks in the future. The interview conducted was with the financial managers and heads of financial risks management of the companies and other relevant people who provided significant information on this study.

### 3.4 Sampling and Sample Size

The method of sampling for the study was non-probability sampling through expert sampling. This method was chosen since the study will requires multinational companies who have been in existence for quite some time and as a result have experienced and controlled some form of financial risk. Nestle Ghana Limited, Cadbury Ghana Limited, Barclays Bank Ghana, Stanbic bank, MTN and Tigo (Ghana) are among the best companies which fall in this category, hence making them appropriate for the study. These companies used for the study fall under the vibrant and fast growing sectors in the country, namely the financial, telecommunication and manufacturing sector. Two companies were chosen from each sector to help in comparing the management practices employed and the impact on the operations of the companies.

## 3.5 Sample characteristics

The finance managers who answered the questions through the interview were of any sex, and seen as competent persons to take relevant decisions and advise management on practices to control risks the company is likely to face. The two companies selected from the different sectors was to help give a fair outcome of how multinational companies in a sector and in the country manage financial risks they face. The questions asked during the interview process were based on the objectives of this study as stated in the first chapter.

## 3.6 Questionnaire Design

In formulating the questions to guide the interview, questions such as whether the company faced financial risks, whether it had been able to control the risks were asked to ascertain the kind of response to the questions. Measures put in place by companies in anticipation of risks and whether this influenced the sectors they find themselves operating in, helped to determine the extent of effect on the company. This was intended to determine if the type of financial risks they face is as a result of the industry or sectors they find themselves doing business in. Refer to the appendix for the questions used during the interview.

Thus, in conclusion the questions were simply designed to find out the preparedness of multinational companies for anticipated risks. The impact of the risks as a result of the measures put in place by the companies on the operations of the business, and the changes in the measures which did not favour the operations of the company.

### 3.7 Data Presentation and Analysis

Letters were sent out to the financial managers of these companies to request for an appropriate date for an interview to be scheduled. The questions were then administered to financial managers of the companies since management practices to control financial risks comprise of the financial manager's advice to management. This induced an interactive session as a result of the practicality of the study.

The data collected was documented and compiled to aid in the analysis. To analyze the data, the compiled information was categorized into similar management practices used by the companies in managing their financial risks and the impact on the operations of the companies. Due to the number of multinationals used for the study, the analysis was descriptive in nature to determine the management practices used by the companies and how they are implemented.

### 3.8 LIMITATIONS

Since limitations are always bound to occur, this study is also likely to be faced by limitations. Below is some of the list of limitations to be faced in the course of this study.

1) Three of the companies were not willing to give out the financial risks they faced and the policies they put in place. This was as a result of fear disclosing inside information to the public.
2) The nature of retrieving information through interviews was not based on any facts since data collected was orally.

Documented information is more reliable as compared to oral ones, but the nature of this study will required more of an interactive discussion, making it liable to skewed information.

3) Cadbury refused to give out information since it is not listed on the Ghana Stock Exchange (GSE), hence it cannot disclose information to the public.
4) The sample size for the study doesn't show a proper sample of multinational companies from the different sectors in the country. Hence, it doesn't explain the management practices used by multinational companies in Ghana.

In conclusion, despite the limitations from the collection of data and interviews conducted, the data collected was used to produce substantial results through the analysis.

# CHAPTER 4

# ANAYSIS OF DATA

## 4.1 Introduction

In this chapter, data collected through the interview was assessed and analysed. As stated in the previous chapter, the analysis is classified on each company's response to the interview on as to how it manages its financial risks. Although three out of the six companies responded to the study, data collected was used to produce substantial results.

## 4.2 Nestle Ghana

The company classifies risks which affect the company in terms of its profitability and liquidity as financial risks. The common risk the company commonly faces is as a result of the inflow of raw materials for the production of its products which is normally in the form of duties of imports. Due to the nature of the company which depends largely on raw materials imported (80%), it is on large extent exposed to the risk of importation is due to the unstable economy, which also affects interest rates and depreciation in the currency.

The management of the financial risks of the company is to a very large extent based on the profitability standard the company has set for its self. Thus, the controlling and managing of these risks should fall in the profitability limit of the company. As a manufacturing company, the company makes sure to scrutinize the evolution of the local currency on a daily basis to enable it adjust any changes in its pricing. As a result of its operations with other countries, it compares the local currency to other foreign currencies on weekly basis to ascertain how much risk the company will be faced with, or has to factor in the production of its products. Thus, the selling prices of the company are always updated in the direction in which the financial market tends to move. This measure is applied to the over fifty (50) products the company manufactured to determine how profitable it will be, which should meet the profitability standard by the company. The finance director of Nestle however noted that, although the company is multinational, the financial risk it faces is not as a result of its affiliates in other countries since it exists as a separate entity on its own.

The production of consumer goods makes the company employ the marginal contribution method of controlling risks it might be exposed to. This is to prevent it from facing the high risks which can be associated with production. Hence, the company critically value this measure. "A firm grip of this measure reduces the risks which could otherwise have affected the company" as said by the financial controller. This is because; the company values its variable cost since it tends to induce different risks if not managed well. With this, the company tries to reduce the cost associated with production (variable cost) to enable it price its products fairly since an increase in prices could reduce the consumption of products produced and can even kick the company out of business. The company also employs the use of a cash system in running the company. Thus, cash payments of at least two days should be made before delivery of products are made. This system of not supplying on credit has limited and prevented the company from such risk associated with it.

Financial tools and guideline are used by the company as means of controlling its financial risks. In the interview the financial director did not mention any specific tools the company uses since the company deems it as confidential hence for fear of disclosing it to their competitors. He however, made mention of training sessions designed to educate employees on how these risks could be addressed. He also stated the use of a matrix organization employed by the company in managing its financial risks. This involves the association of competent people from different divisions in the organization such as dairy and nutrition, who meet to discuss how such risks could be managed. Such meetings are organized by the Nestle Central and West African group to help the individual companies from different countries manage their financial risks.

In forging ahead, Nestle Group Plc encourages the practice of its companies to forecast into the coming year to prepare for unforeseen financial risks; which it refers to as Dynamic Forecasting. This type of forecasting in planned eighteen (18) months into the coming year and an operational plan of a year. This helps the company to close those gaps that occur during the year to enable it achieve its set target. This also reduces the exposure the company would have otherwise experienced through risks associated financially. As a result of the implementation of this policy, the price increase of goods in the economy in 2009 due to the depreciation in the currency was corrected and the company postponed its increase in prices.

In order to make targets set by company achievable; measures used by the company in managing its financial risks are reviewed to make it more suitable to adjust to any changes. The company uses an analysis known as the VOSTA Analysis to make sure decisions taken fall the objectives of the company and also adjust to changes.

V – Vision

O – Objective

S – Strategies

T – Tactics

A – Activities

Thus, the measures used by the company in managing its risk are subject to change when and where necessary. This measure recently helped the company reduce its stock cover of eighty (80) days to forty (40) days. It also reduced the risks the company would have been faced with.

These measures the company uses to control its financial risks have to a large extent benefitted the company. It has increased the markets share of the company, by making it the leader in most of the products it offers to the markets. This has also set the company at the premium section of the market. Through these measures, the company has improved on sum of its products and stopped producing products which were exposing the company to some sort of financial risks. On the other hand, certain decisions the company made in managing its financial risk had adverse effects on the company. Borrowing outside the country as a result of the high interest rates prevailing in the economy affected the net financing cost of the company. This situation was however corrected when the interest rates reduced, hence making it more profitable for the company to borrow locally to finance its operations.

The company was slightly hit by the recent financial crisis since it depends mostly on raw materials imported (about 80% of its raw materials for production). This affected the importation of raw materials for production due to the depreciation in the currency. Although the impact was not severe, it in a way affected the financials of the company. In order to correct the situation, the company increased the prices of its products to off-set the increase in the raw materials. As part of the company objective in protecting its profitability, high priority was given to the profits the company was making which influenced the increase in prices. Consumers got used to the prices later even though they rejected it in the initial stages. Hence, there was a decline in the consumption of products. The company on the other hand had to absorb some cost to continue operating as a going concern.

In managing the interest rate risk faced by the company, the company tends to fund it operations externally when interest rates increase and fund locally when they tend to fall. Due to the nature of the business, the company operates with different banks locally that tend to have different interest rates, which means they tend to borrow from banks with low interest rates to reduce the risk they may be faced with.

The company develops export basis to off-set any loss it is likely encounter in managing its exchange risks. Thus, it exports about ten (10) to twelve (12) percent of its products to generate foreign change. In managing its inflation risks, the trend of inflation being experienced in the country is followed by the company through the prices of its products. It increases the prices of its products when the country is experiencing high inflation and reduces its prices when it tends to fall, thus adjusting the selling price of its products. This can be associated to the company's initiative on saving.

The future of the company in managing its financial risks is to always have a mindset which has the following:

- Promotion to flexibility
- Team work
- Openness to environment and
- Readiness for changes

"Risk is not on figures but more on creating a flexible environment" as quoted by the finance director of the company in concluding. This is what Nestle believes in through its shared values and corporate governance.

### 4.3 Barclays Bank

The common financial risks Barclays faces are exchange rate risks, interest rate risks and indirectly inflation risks. The interest rate risks and exchange risk the bank faces is as a result of the lending and borrowing business the bank engages in. Unlike other business, the bank is indirectly affected by inflation risks since consumers and other businesses that are to large extent affected directly and tend to influence the operations of the bank.

The company in a quest to manage these risks has developed policies on what should be done and also employed competent people who understand the market to help any adverse effects such risks can have on the bank. These risks can be linked to both internal and external factors as a result of the bank's operation locally in the country and also dealing on the international markets through the trading of currencies.

As part of a measure in managing the financial risks the bank faces, it sets limits within which it can expose itself to risks. With such limits set by the bank, it helps with controlling transactions the bank engages in to prevent it from being affected from exposures financially. Thus, this serves as a measure in keeping the bank within a certain boundary in transactions it deals in and also be able to manage the possible financial risks it might be exposed to since it would have made provisions for it. Although Barclays operates as a multinational bank and affiliated to its parent company, it exists as a separate entity and hence not influenced by actions and operations of its affiliates in other countries. In other words, the financial risks the bank faces in not influenced by other Barclays banks.

In anticipation of those financial risks the bank does not expect to be faced with, it makes provision through reviewing its measures in controlling and managing its financial risks. These measures are usually reviewed annually to enable the company adapt to the dynamic nature of financial markets. With such reviews, the company would is able to adjust to either a favourable or unfavourable condition and still not be affected as a result of the changes in the movements of the financial market. This also means that, Barclays' measures in managing and controlling its financial risks are not fixed; hence open for diversity. These measures employed by the bank have impacted on the bank such as increasing its profits margin.

Locally, the bank is able to borrow at lower interest rates and lend at a higher rates making profits since borrowing and lending are the means in which it makes its profits. On the international markets, transactions such as trading of currencies increase the profits the company makes, since it can also buy currencies at lower rates and sell at higher rates increasing the profit it makes from the international markets. In an interview with a senior associate from the treasury department of the bank, he stated that bank's transaction on the international markets through the trading of currencies have not resulted in losses. This he attributes to the fact that, a trade-off to for-go an amount of money is restricted in a limit the bank has set for itself in exposing itself to risk; hence preventing any loss associated with such transactions.

Operating as a bank in a developing country, Barclays was not affected by the recent global financial crisis which is seen to have corrected itself and soon forgotten about. Indirectly the bank was slightly affected in raising money since it was expensive to do so. The crisis made all banks cautious in giving out money, hence this affected business in raising money which also affected the banks, since the stringent measures the bank employed in lending reduced the number of money it gave out. On order to manage this problem, the bank made provisions through the management of its credit risks. Since currencies were expensive during this period, the risk the bank encountered was transferred to the customers to bear. The number of remittances through the bank also dropped drastically during this period.

During the financial crisis period, the bank made certain changes to lending in order control any adverse affects as a result by the crisis. Some of measures were to give out only short-term loans within one to two years instead of long term loans it was used to. The bank adopted the use of variable interest rates to prevent it from making losses, thus if it had pegged loans to fixed interest rates. Thus with variable rates, the company's interest rates move in line with the variability of the economy. Such that, an increase in the interest rate will reflect on the interest rate passed on to the customer. A strict policy was employed by the company in terms of request of collateral and debt collection during defaults.

The bank also adopted a package for its customers by including insurance packages in the money it gave out, in order to prevent losses which could be coupled with such transactions. An interview with members from the risk management department showed that, the number of creditors reduced drastically which also affected the profits the bank generates from lending. It also stopped its policy of encouraging lending to prevent it from any adverse effects. With measures the bank was able to protect the profit margin of the company to some extent, since loans which could not be retrieved were written off as bad debts. The financial position of the bank was however not changed, and has since seen business boom again due to the corrected crisis.

Barclays in managing exchange risk, has a limit set as to how much exposure it can absorb from risks related transactions. Thus in setting levels or exposure limits, the banks considers transactions it undertakes to fall within the limits to prevent it from making any form of losses. This also involves the sizes of transactions the company can undertake in its dealings. Since this risks is associated to how much value the company makes from trading in other currencies, it takes into account how much currencies can be traded at a particular time to reduce any loss which may be accompanied with it.

In managing the interest rates the bank faces, limits are also set just like the measures taken by the company in controlling its exchange risks. The bank values interest rate risks because it is aligned to its lending and borrowing transactions. Due to the changes in the financial markets, borrowing and lending are fixed at variable interest rates to reduce losses the bank may encounter, such as borrowing at a fixed rate and lending at a variable rates. This exposes the bank to losses should the variable interest rate favour the creditor.

The senior associate of the bank's treasury department admitted that, the bank will continue to manage its anticipated financial risk by how much risk it can absorb. He further stated how much the bank is opened up to diversity as a result of the introduction of new products being introduced in the markets.

### 4.4 Stanbic Bank

Stanbic bank like Barclays is also faced with currency, interest rate risk and indirectly by inflation risk. These financial risks can be seen in the operational, market and credit risk the bank normally faces. Generally the company has made available certain measure in managing and controlling these risks.

These measures are tied to each transaction and have controls to enable transactions the bank engages in fall within the desired limit set by the bank. Risks tools are also used by the bank such as key risk key indicators and reported through general reports on daily, weekly and on monthly basis. The financial market risks also makes use of dual control limits as mentioned above and are also supervised by managers to make sure all transactions the company undertakes are within its specified limits of risks it can be exposed to.

With the market risks, due to the delicate nature of its implications on the bank, there are front-line supervisors who make sure decisions are accurate and profitable to undertake whereas the back line supervisors are responsible for making sure the bank follows the outline measures. Checklist by the company helps the bank not to repeat measures which would not be appropriate for the bank to undertake. These financial risks the company faces are both as a result of its transactions locally and from the international markets, and not with its affiliates in other countries.

Apart from the general measure the company employs in managing its exposure to financial risks, its policies are flexible enough to adapt to changes in the economical environment of the country. Thus, the measures the bank make uses are dynamic enough to address the different changes which are likely to occur in the financial environment. These measures the bank uses have had a positive impact on the bank. Losses pegged at 0.75% of gross in 2008 income allowed a portion of profits to be made subjects to changes in the financial markets. This reflected in the increase of the gross profit the bank made, hence making it appropriate to allow for more risk related transactions. This number increased in 2009 to 1.5 having a positive impact on the profits of the company. According to the operational risk manager, the bank is not affected in any way as a result of the measures it employs in managing its risks.

Apart from the slight impact the bank faced through the reduction of the number of debtors, there was no significant impact on the operations of the bank during the financial crisis. The risk manager of the bank in an interview however stated the bank made over a hundred percent profit in 2009 compared to the profit made in 2008. As a result of this significant change on the bank's profits, he believes the bank was not affected by the crisis hence not employing new measures although its policies in managing financial risks are dynamic to changes in the business environment of the economy.

In managing the risks associated with interest rates and exchange rates, Stanbic hedges with financial instrument against these financial risks. Forward contracts are some means through which the bank hedges to reduce the risks exposed to currency or exchange risks and interest rates risks. In anticipation of such risks, the bank buys foreign currencies and hedges against the local currency at a spot rate. Thus, in purchasing the foreign currency at a forward price, the risk the bank would have been exposed to had there been any changes in the local currency wouldn't affect the spot rate resulting in a gain over the price offered at the market price.

Through options, underlying assets of the bank are exercise through put or call options which enable the company to exercise this right on a specific date in future.  This shields the company from any risks the company would have experienced had it not hedged its financial assets through this means. In addition to managing these financial risks, the bank makes use of natural investment in diverse areas as a means of controlling and managing its risks.

### 4.5 Summary of Findings from Companies

Companies analysed under the study had different management practises employed to solve financial risks faced. These management practices are tailored in line with company objectives and implemented to achieve desired results.

#### 4.5.1 Limits Set in Managing Financial Risks

The multinationals used for the study all had limits set in controlling the risks they are exposed to. As suggested by Shapiro (2003), limits set as controls allows companies manage their transactions by knowing how much they are exposed to. These limits limited the transactions the companies were dealing in by being cautious of anticipated risks. Nestlé's limits included the profitability standard it sets for itself in its operations. Barclays and Stanbic on the other hand, had limits in their exposure to currencies they traded in and interest rates used in transacting business.

In the end, the limits checked the companies by preventing adverse effect on the operations of the companies.

### 4.5.2 Managing Risks with Financial Derivatives

Stanbic Bank uses financial derivatives such as forward contracts and options to hedge against financial risks. Through such derivatives losses were controlled and managed since the bank had secured against future changes in the financial markets. This practice as stated in Chou's (2003) work prevents the bank from losses which could otherwise have been prevented. This is also as a result of the banks transactions with foreign markets (Seema Menon & Viswanathan, 2005). This helped the company continue to operate as a going concern when the economy experienced fluctuations during the financial crisis.

### 4.5.3 Company Structure in Risk Management

In managing financial risks, the companies analysed had structures put in place to control and manage any financial uncertainties. Nestle used a VOSTA analysis as part of its structures in ensuring that transactions of company were based on its vision, objectives, strategies, tactics and achievements to prevent financial risks. As part of the structure of Barclays, credit management policies are tailored to control the risk it is likely to face. Stanbic on the other hand as part of its organizational structure reports daily to managers to serve as checks on managing their risks. These management structures are similar measures stated in Quick (2000) and Butler's (2004) work. In their works they agreed to the fact that, companies' management of financial risks is to large extent influenced by the structure of the company.

As stated by (Kim, Hwang, Burgers, 1993), diversification is one major means by which multinationals can control and manage financial risk they face. The multinational companies used for this study make use of this practice to reduce the effects of their operations. This diversification tends to reduces exposure of financial risk affecting the companies. This management practice agrees with what Lyons (1998) suggested by not using hedging as the only means of managing financial risks.

# CHAPTER 5

# SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

## 5.1 Summary of Findings

From the study, the multinational companies analyzed have measures put in place to help them control and manage financial risks they face. These measures used in managing these risks are part of the objectives the companies desire to achieve, hence strategize their operations to reach set targets.

All three multinationals used for the study had set limits as to how much risk the company is prepared to absorb, hence prevent any unnecessary financial risks from affecting their operations. In making provisions of controlling and managing risks, multinational companies use different measures or implement different policies in reducing the effects of financial risks they face.

Due to the dynamic nature of the financial markets and the introduction of new products designed to suite the unchanging desires of consumers and customers, multinational companies are open for reviewing measures to enable it manage any risks associated with such new developments.

## 5.2 Conclusion

The main objectives of this study were to assess the financial risks management practices of multinational companies in Ghana, those measures the companies used during the recent financial crisis and the effects on the operations of the companies.

From the data collected during the interviews conducted, certain conclusions can be drawn on how multinational companies in Ghana manage the financial risks they face.

The most common type of management practice in managing interest rates among the multinational companies under this study is to move with the trend of the interest rates prevailing in the economy. Management in controlling interest rates sets limits within which the companies are allowed to absorb risks.

In the case of the banks, they tend to operate within such limits by making sure transactions they undertake are not mismatched, such as currency trading. This allows them to have both ends of their transactions having the same type of rates. Thus, variable interest used will run through transactions to prevent risks associated with any mismatch. On the part of a manufacturing firm, interest rates determine how much the companies borrow within the set limits of the company. Hence, high interest rates direct multinational companies to lower rates if it even means financing from external markets.

Since multinational companies tend to trade in more of foreign currencies to generate profits for themselves and exposed to risks, hedging through different financial derivatives such as options, forward contracts and future contracts helps to manage the effects on the operations of the company. Diversification by companies also reduces the exposure of multinational companies on their operations.

Although these companies are prepared in managing and controlling financial risks they face, choosing practices which are tailored in the company’s objective in controlling financial risks helps companies to continue operating as a going concern.

### 5.3 Recommendations

The study carried out confirms that, multinational companies are prone to be exposed to financial risks due to diverse nature of its transactions. Management practices by companies to reduce the impact on their operations should be encouraged to address the different risks multinationals are posed to, as a result of new products introduced due to the changing environment and customer demands.

The management practices implemented by multinational companies in controlling and managing should be further investigated into. This would disclose hidden factors which expose the companies to such risks and further adopt measures which have been employed by other multinationals, hence impacting positively on the operations of the company.

This study analysed the management practices of multinational companies in Ghana and found that, the risk management practices implemented by the multinationals are similar to practices across the world. This can be attributed to the nature of multinationals and management practices which have helped control the effects of the risks on the companies.

The study recommends management practices which can be implemented in developing countries since most of the practices are used in developed countries. Further study in this area would help multinationals in developing countries adopt management practices suitable for the business environment in which they operate in.

## APPENDIX I

**Ashesi University College- Interview Guideline**

This is a descriptive study on the management practices of multinational companies in Ghana. The results of this study interview are solely for academic purposes. All information provided will be treated with utmost confidentiality.

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1. What are the common financial risks the MNC faces (name of multinational company) faces?
2. How does the company (name of company) manage its financial risk?
   - How prepared is the company (name of company) in controlling and managing its financial risks?
   - Are these risks as a result of the company's affiliates in other countries?
3. Are there any measures put in place by the company for unforeseen financial risk?
   - Which measures are taken by the company to manage these unforeseen risks?
   - How does Barclays manage its financial risk?
   - Are these measures changed or are they fixed measures adopted by the company?
4. What was/were the outcome(s) of these practices on the company's operation?
   - How have these measures helped the company?
   - Have there been any adverse effects on the operations of the company? (For example, any losses?)
   - What measures haven't benefitted/helped the company?
5. Which financial risks did Barclays experience during the global financial crisis?
   - Was the company affected?
   - How prepared was the company for the global financial crisis?
6. How did management solve the risks associated with the global financial crisis?

- Did the laid-down risk control measures help the company in managing the risks...if not why?
- What were the steps the company took to curb these risks?

7. What has been the effect of these management practices in managing risks experienced during the crisis on the company?
    - Has it affected the operations of the business? (Merit and demerit).
8. Has it changed the financial position of the company?
9. How does the company manage the following risks?
    - Interest rate risks
    - Currency/exchange risks
    - Inflation risk
10. How does the company plan to manage future risks?

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