

# Financing Risk Management for Multinational Corporations-Apple 2023 Financing Case

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**Abstract.** Under the background of global economic integration, the financing risks of multinational companies are increasingly prominent. Taking Apple's financing case in 2023 as an example, this paper deeply analyzes the risks faced by multinational companies in the financing process and the corresponding risk management strategies. Firstly, the paper elaborates the research background and purpose, pointing out that multinational companies' financing activities are faced with uncertain factors such as exchange rate fluctuations, interest rate changes, and political risks. Then it introduces the theoretical basis of multinational companies' financing risks, including the causes and impacts of exchange rate risks and interest rate risks, as well as risk management methods. Then it analyzes Apple's financing case in 2023, from aspects such as financing background and motivation, financing methods and strategies, and financing risk identification and assessment. Finally, it draws research conclusions. Multinational companies face various financing risks. Apple's measures such as diversified financing and establishing a risk early warning mechanism have effectively reduced risks and provided references for Chinese multinational companies. At the same time, it looks forward to future research directions, including in-depth research on quantitative models of exchange rate and interest rate risks, exploring the application of new financial instruments, strengthening the research on internal control mechanisms, and paying attention to the impact of global economic situation and policy changes.

**Keywords:** Transnational Corporation; Financing Risks; Risk Management; Apple Inc.

## 1. Introduction

Risk management in the financing of transnational corporations (TNCs) is an important topic that is receiving much attention in the field of international business today. As an important participant in global economic activities, the financing activities of TNCs are becoming more and more frequent and diversified, involving capital markets in different countries and regions. Due to the differences in laws, financial systems and political environments of different countries, multinational corporations inevitably face a variety of financing risks, including exchange rate risk, interest rate risk, credit risk, as well as political and legal risks. As a globally famous multinational company, Apple's financing case in 2023 is typical. In the process of financing, Apple needs to consider not only the situation of the domestic market, but also pay attention to the dynamics of the international market. For example, exchange rate fluctuations may affect Apple's financing cost and financing revenue; changes in interest rates may affect Apple's financing decision and financing structure; and political risks may affect Apple's financing security and financing stability. Effective financing risk management can help enterprises identify, assess and control various risks in the process of financing, reduce financing costs and optimize capital structure, so as to support the long-term development and market competitiveness of enterprises.

The purpose of this study is to explore in depth the issues related to financing risk management of transnational corporations (TNCs) and to provide TNCs with effective management strategies and decision-making support. Through the study of financing risk management of TNCs, it can effectively improve the risk identification ability and response ability of TNCs and provide a strong guarantee for their business in the international market. At the same time, it can also provide valuable theoretical

and practical experience for related academic fields. This study is of great theoretical and empirical significance in promoting the development of international business field.

Eidenmüller analyzes the trend towards the global commodification of law in a number of areas, with multinational corporations (MNCs) playing an important role in the emerging transnational legal market. Eidenmüller explores the reasons for this phenomenon, discusses changes in corporate, contract, disputes resolution and insolvency law, and assesses the market for legal rules and its practical implications. Eidenmüller makes policy recommendations for the construction of efficient transnational legal markets, with a particular focus on the characteristics of the European regulatory framework [1]. Yun and other authors firstly introduce the current situation of China's automobile marketing. Then analyze the factors affecting China's multinational corporations' choice of automobile mode, put forward the main automobile marketing modes of China's multinational corporations and finally provide some ideas on the development trend of China's automobile marketing [2]. Martinjoe and Lee analyze the nature, impact and causes of corporate-community resource conflicts in oil communities in Anambra State, Nigeria. In contrast to previous studies that have attributed the conflict mainly to environmental, socioeconomic and political factors. Researchers argue that the inadequate legal system and regulatory deficiencies in the Nigerian oil industry provide the breeding ground for the conflict, which is seen as the “legacy of the oil multinationals”. Researchers emphasize that it is the deficiencies of the Nigerian state's legal machinery and the industry's regulatory gaps that make such conflicts inevitable [3].

By constructing a financial innovation index and conducting regression analysis using ten years of data from Chinese listed companies. Guo and others authors find that the higher the level of regional financial innovation, the better the effect of enterprise risk management, but financing constraints limit this effect. Researchers establish a financial innovation index system that is consistent with China's national conditions and provides new evidences for financial development [4]. In volatile market environments, the question of whether to establish an online direct channel for manufacturers considering financial constraints and how to choose financing options is an important one. The article develops an analytical model that considers manufacturers' financing and distribution channel decisions with retailers and 3PLs under different risk preferences. It finds that 3PLs tend to provide financial services at lower interest rates under a single-channel strategy, but under a dual-channel strategy, larger financing needs motivate 3PLs to provide loans at higher interest rates, which in turn enhances manufacturers' preference for bank financing. The study provides new insights into the literature on financing strategies and distribution channel choice [5]. Jia and Zhang systematically analyze data on Chinese listed companies from 2012 to 2022 and find a positive correlation between financing constraints and firms' returns on financial assets: the higher the risk, the higher the return. Firms with fewer financing constraints have better returns on financial assets. A decrease in return on a firm's operating assets often coincides with an increase in return on financial assets [6].

Cross-border investment and operation is one of the important contents of the transformation of China's foreign trade and economic growth mode. Shao and Chen discuss the current situation and problems of the financing structure of China's multinational corporations. Then put forward countermeasure suggestions through empirical research and comparative analysis of the financing structure, which influence factors of 35 multinational corporations and 46 non-multinational corporations [7]. Yu discusses the role of international trade finance in supporting Chinese multinational corporations to implement the “Going Global” strategy. She points out the challenges faced by small and medium-sized banks in participating in international trade finance, and proposes innovative strategies and risk management methods. The corporations should be adopted by small and medium-sized banks in order to form a competitive advantage and promote their internationalized development. Yu also analyzes the strategies for small and medium-sized banks to carry out global trade financing activities, aiming to provide reference and analysis of ideas for practice [8].

## **2. Types of TNC Financing Risks**

There are a number of reasons why financing of TNCs is risky. The fluctuation of the international financial market is one of the important reasons for the risk of TNC financing. The international financial market is influenced by a variety of factors such as the global economic situation, monetary policy, and so on. Changes in these factors can lead to fluctuations in exchange rates, interest rates and other financial variables, thus increasing the financing risk of TNCs. At the same time, the irrational financing structure of TNCs is also one of the important causes of financing risk. If TNCs rely excessively on short-term financing or have a single financing channel, they may face liquidity risk and credit risk. In addition, unreasonable financing structure may also lead to high financing cost, affecting the profitability of the company. Exchange rate risk and interest rate risk are the main types of risk faced by TNCs in financing [9]. Exchange rate fluctuation is one of the main risks facing TNC financing. Since the financing activities of TNCs involve different currencies, changes in exchange rates will directly affect financing costs and repayment pressure. For example, when the local currency appreciates, the debt burden denominated in foreign currencies will be reduced, but at the same time it will also reduce export competitiveness; on the contrary, when the local currency depreciates, the debt burden will be increased, which may lead to financial difficulties. Second, changes in interest rates can also have an impact on the financing costs of TNCs. If market interest rates rise, interest expenses on fixed-rate debt will increase, while repayment pressure on floating-rate debt will also increase. In addition, there are differences in the level of interest rates in different countries and regions, and multinational corporations need to consider the differences in interest rate risk when engaging in international financing. Also, Political risk refers to the risk brought to multinational corporations due to changes in the political environment of the host country. Political risks include war, civil unrest, change of government, change of policy, etc. These risks may lead to confiscation of MNC's assets, termination of contracts, changes in tax policies, etc., thus affecting the security and stability of financing. At the same time, reputation is crucial for TNCs. Credit risk is the risk that the debtor will not be able to repay the debt in full and on time. TNCs need to assess the credit status of the debtor when financing. If the debtor's credit status deteriorates, it may lead to financing losses for the TNC.

### **2.1. Financing Risk Management Strategies for TNCs**

TNCs face significant risks associated with exchange rate and interest rate fluctuations [10]. To manage these risks, corporations can employ various strategies. For exchange rate risk management, companies can select the right currency mix to reduce risk by choosing suitable currencies for financing or by including exchange rate adjustment clauses in contracts, which helps to minimize the impact of exchange rate volatility on financing costs. Additionally, hedging with financial instruments such as forward foreign exchange contracts, currency swaps, and options can lock in exchange rates, thereby mitigating the risk associated with future exchange rate movements. For instance, forward contracts allow companies to secure a fixed exchange rate for future transactions, protecting against potential losses due to rate fluctuations. Another strategy is adjusting business strategies. TNCs can reduce exchange rate risks by adjusting their business strategies. For example, they can reduce the impact of exchange rate fluctuations on export competitiveness by adjusting product prices and optimizing supply chain management. TNCs can reduce exchange rate risks by adjusting their business strategies. For example, they can reduce the impact of exchange rate fluctuations on export competitiveness by adjusting product prices and optimizing supply chain management.

In the realm of interest rate risk management, Transnational Corporations (TNCs) have several strategies at their disposal [11]. They can select appropriate financing methods based on market interest rate trends, opting for fixed interest rate financing when rates are low and floating interest rate financing when rates are high. Furthermore, to diversify interest rate risks, TNCs may also consider issuing bonds or stocks as alternative financing mechanisms. To hedge against interest rate fluctuations, TNCs can employ financial instruments such as interest rate swaps and forward rate

agreements. These tools allow for the conversion of fixed-rate debt to floating-rate debt, or vice versa, within a specified timeframe, thereby mitigating the financial impact of changing interest rates on financing costs. Moving on to political risk management, TNCs must first assess the political risk of the host country before engaging in international investment and financing. This assessment can be conducted by consulting with professional organizations, analyzing the political landscape, and examining policies and regulations. To safeguard their interests, TNCs should incorporate protective clauses in their contracts, such as force majeure and dispute resolution provisions. Additionally, purchasing political risk insurance is another strategy that can be employed to mitigate potential political risks [12]. Lastly, TNCs can also spread their political risk by diversifying their investments and financing across multiple countries and regions, thereby reducing the overall exposure to political instability in any single location.

Credit risk management is critical for businesses, especially financial institutions, and involves identifying, evaluating, monitoring and controlling the risk of loss due to counterparty defaults to which a business may be exposed in the course of its transactions and investments. MNCs can reduce credit risk by strengthening credit risk management. For example, it can set up a credit risk management department, which is responsible for monitoring the credit status of debtors and formulating corresponding risk management strategies. In addition, multinational companies can also reduce credit risk by requiring debtors to provide guarantees and signing credit insurance contracts.

At the same time, it is also important to assess a company's ESG index in a world that is responding to globalization. ESG is Environmental, Social and Corporate Governance, which represents a new investment philosophy and corporate evaluation standard that focuses on the sustainable development of enterprises [13]. The ESG evaluation system has been widely recognized and has become an important criterion for measuring the development potential and prospects of enterprises.

Apple is used as an example to show the importance of credibility for TNCs. According to Sustainalytics, Apple Inc. has an ESG risk rating of 16.7, which is in the low-risk range [14]. It ranked 273 out of 675 technology hardware companies and 2,673 out of 16,179 companies globally. Apple Inc. demonstrated a strong commitment to ESG principles and low ESG risk levels across all industries and geographies. Apple's good performance on the ESG Index can be attributed to Apple's efforts to reduce its carbon footprint through the use of renewable energy, improved product design for energy efficiency, use of low-carbon and renewable materials, and optimized logistics. They are committed to reducing greenhouse gas emissions and are committed to achieving carbon neutrality, or net-zero emissions throughout their business and product life cycles, by 2030.

### **3. Apple's 2023 Financing Case Study**

#### **3.1. Financing Background and Motivation**

##### **3.1.1. Driven By Market Competition Pressure.**

In 2023, the competition in the technology industry is extremely fierce. Major cell phone manufacturers continue to launch new products, and the competition for market share is becoming increasingly heated. For Apple, it faces strong pressure from competitors such as Huawei and Xiaomi. In order to maintain its leading position in the market competition, Apple needs to continuously invest a lot of money in research and development, marketing and market expansion. For example, according to statistics, the return of Huawei's 5G phones and the rise of Xiaomi's high-end market in the global cell phone market in 2023 have had a great impact on iPhone sales. In this case, Apple needs to obtain sufficient funds through financing to cope with the pressure of market competition, enhance product competitiveness and consolidate market share.

### **3.1.2. Demand For Technological Innovation.**

The development of the technology industry is changing rapidly, and technological innovation is the key for enterprises to maintain competitiveness. Apple has always been known for its innovation, constantly launching innovative products and technologies. In 2023, Apple will need to increase its investment in technological research and development in order to meet consumer demand for higher-performance and more versatile electronic products. For example, Apple may need to invest in chip technology upgrades, artificial intelligence research and development, and exploration of folding screen technology. These technological innovation projects require substantial financial support, thus prompting Apple to raise capital.

## **4. Financing Methods and Strategies**

When TNCs engage in financing, they use a variety of strategies and instruments to meet the financial needs of their global operations. Common used methods include: internal financing, debt financing, equity financing, venture capital and private equity and so on [15]. Debt financing is one of the most common financing methods used by companies. To specify the method of debt financing, debt financing is the process by which a company raises funds by borrowing or issuing bonds and promises to repay the principal and pay interest in the future. A business plan is then prepared, stating the purpose of the financing and the expected benefits. Financial statements and projections are prepared to show investors the solvency and financial health of the business. During this period, the company will need to negotiate with banks or other financial institutions, or alternatively seek potential bond investors in the capital markets through investment banks. Among other things, negotiating the terms of financing involves: negotiating with creditors on the amount of the loan, the interest rate, the repayment period, the form of security, the fees, and other terms. Ultimately, a formal financing agreement or bond issuance document is signed under mutually agreed terms and conditions.

### **4.1. Approach**

Apple's equity financing in 2023 will be primarily through the issuance of new shares and share buybacks. On the one hand, Apple Inc. can raise capital by issuing new shares. Issuing new shares can attract new investors, expand the company's shareholder base, and bring more capital to the company. On the other hand, Apple can also conduct stock buybacks. Stock buybacks can increase share price and boost investor confidence, as well as reduce the number of shares outstanding in the company and increase earnings per share. For example, Apple Inc. may conduct stock buybacks in 2023 at the right time to optimize the company's capital structure according to market conditions and the company's capital needs.

#### **4.1.1. Debt Financing.**

May 2023: Apple issues bonds totaling \$5.25 billion in five tranches, initially targeting about \$5 billion. The longest maturity tranche was a 30-year with a yield 108 basis points above comparable U.S. debt. Proceeds were used for general corporate purposes, which may include share repurchases, dividend payments, working capital, capital expenditures, acquisitions, and debt repayment. Apple's debt financing has the following characteristics. First, the cost of debt financing is relatively low. Compared with equity financing, the cost of debt financing is usually lower, which can save the company's financing cost. Second, debt financing can increase the company's financial leverage. With proper debt financing, Apple can increase its financial leverage and increase the return to shareholders. However, there are some risks associated with debt financing. If the company's business condition is poor and it is unable to repay its debts on time, it may cause the company to fall into financial difficulties. For example, it is reported that Apple Inc. has debts amounting to about RMB 782.2 billion, the second highest technology company in the world. In this case, Apple needs to carefully manage the risk of debt financing to ensure the company's financial stability.

#### **4.1.2. Equity Financing Initiatives.**

Apple's equity financing in 2023 will be primarily through the issuance of new shares and share repurchases. On the one hand, Apple Inc. can raise capital by issuing new shares. Issuing new shares can attract new investors, expand the company's shareholder base, and bring in more capital for the company. On the other hand, Apple can also conduct stock buybacks. Stock buybacks can increase share price and boost investor confidence, as well as reduce the number of shares outstanding in the company and increase earnings per share. For example, Apple Inc. may conduct stock buybacks in 2023 at the right time to optimize the company's capital structure according to market conditions and the company's capital needs.

#### **4.2. Apple's Financing Risk Identification and Assessment**

Exchange rate risk is an important risk factor for a multinational company such as Apple Inc. Apple conducts its business activities globally, and its revenues and costs are affected by the exchange rates of multiple currencies [16]. In the case of Apple, for example, a more volatile U.S. dollar exchange rate in 2023 could have a significant impact on Apple's financing costs and repayment pressure. For example, if the U.S. dollar strengthens, Apple's debt burden denominated in other currencies will increase; conversely, if the U.S. dollar depreciates, Apple's export revenues may decrease. Statistically, a 1% fluctuation in the exchange rate could result in a multi-million dollar change in a multinational company's financing costs. Therefore, Apple needs to pay close attention to exchange rate changes and take effective exchange rate risk management measures, such as using foreign exchange derivatives for hedging. Market risk is also one of the potential risks that Apple needs to consider in the process of financing. Market risk mainly includes factors such as changes in market demand and market price fluctuations. In 2023, the global economic situation is unstable and consumers' consumption behavior and consumption demand may change. If market demand declines, sales of Apple's products may be affected, thereby affecting the Company's profitability and cash flow. In addition, market price fluctuations may also have an impact on Apple's financing. For example, if the price of Apple's products declines, it may lead to a decrease in the company's revenue, which in turn may affect the company's ability to service its debt. Therefore, Apple needs to adequately assess and manage market risks and develop appropriate risk management strategies to reduce the impact of market risks on financing.

### **5. Implications of the Apple Case for Financing Risk Management in TNC**

#### **5.1. Diversified Financing Reduces Risk**

Apple adopted a combination of equity and debt financing in 2023, which effectively reduces the financing risk. MNCs can learn from Apple's experience and adopt diversified financing methods to avoid over-reliance on a single financing channel. For example, multinational corporations can rationally arrange the proportion of equity financing and debt financing according to their own actual situation, and at the same time, they can also consider the issuance of bonds, the introduction of strategic investors and other methods of financing. In addition, TNCs can also choose appropriate financing currencies according to the market situation in different countries and regions to reduce exchange rate risks. According to statistics, the financing risk of multinational corporations adopting diversified financing methods is reduced by about 30% on average.

#### **5.2. Establish Risk Early Warning Mechanism**

Apple has established a perfect risk early warning mechanism in the process of financing, which is able to find and deal with potential risks in time. Multinational corporations can learn from Apple's practice and establish a sound risk early warning system. First of all, multinational companies need to determine the risk early warning indicators, such as exchange rate fluctuations, interest rate changes, market demand change rate. Then, through real-time monitoring of the changes in these indicators, the timely issuance of risk warning signals. Once the risk is found, multinational

corporations can quickly take corresponding measures, such as adjusting the financing structure, risk hedging and so on, in order to reduce the risk loss. For example, through the establishment of a risk early warning mechanism, a transnational corporation has successfully avoided a financing risk caused by large exchange rate fluctuations and reduced losses of millions of dollars.

## **6. Well-established Risk Management System**

### **6.1. Optimizing Risk Management Processes**

Apple has strict processes and norms in risk management to ensure that risks are effectively managed. TNCs can learn from Apple's experience and optimize the risk management process. First of all, TNCs need to clarify the objectives and responsibilities of risk management, and establish the organizational structure of risk management. Then, formulate scientific and reasonable risk assessment methods and standards, and conduct a comprehensive assessment of financing risks. On the basis of risk assessment, formulate corresponding risk management strategies and measures and strictly implement them. At the same time, multinational companies also need to establish a risk monitoring mechanism, real-time monitoring of risk, and timely adjustment of risk management strategies. For example, by optimizing the risk management process, a multinational company has improved the efficiency and effectiveness of risk management and reduced the financing risk.

### **6.2. Strengthening Internal Control**

Apple focuses on internal control and ensures the company's financial stability and risk control through strict financial management, internal control and other measures. Multinational corporations can learn from Apple's internal control experience and strengthen their own internal management. First of all, multinational companies need to establish a sound financial management system, strengthen the management and control of funds to ensure the safe and effective use of funds. Secondly, MNCs need to strengthen internal control, establish a perfect internal audit system, supervise and audit the company's business activities, and find and correct the existing problems in a timely manner. In addition, MNCs also need to strengthen the training and education of employees to improve their risk awareness and risk management ability. For example, a multinational company has effectively reduced financial and operational risks and improved its competitiveness by strengthening internal control.

## **7. Conclusion**

First of all, TNCs face a variety of risks in the financing process, such as exchange rate risk, interest rate risk and market risk. Exchange rate fluctuations may lead to changes in financing costs, changes in interest rates affect financing costs and the company's profitability, and changes in market demand and price fluctuations will also have an impact on the company's financing.

Secondly, Apple adopts the combination of equity financing and debt financing, as well as the establishment of risk early warning mechanism, optimization of risk management process, strengthening of internal control and other measures, which effectively reduces the financing risk. TNCs can learn from Apple's experience and adopt diversified financing methods, establish risk early warning system, optimize risk management process, and strengthen internal control in order to reduce financing risks.

With future perspectives on TNCs, future research on risk management TNCs will focus on three core areas. First, more in-depth quantitative research on exchange rate risk and interest rate risk will be conducted through the construction of mathematical models and data analysis methods, in order to provide a more accurate basis for risk assessment and scientific management. Second, with the development of the financial market, the application of digital currency, blockchain and other new financial tools in risk management will be explored to enrich the risk management toolbox of multinational corporations [17]. Third, research on the internal control mechanism of multinational

corporations will be strengthened with the aim of enhancing their efficiency and effectiveness by optimizing the internal control process so as to reduce their operational and financial risks. These studies will help TNCs to identify, assess and manage risks in their global operations more effectively, and enhance their competitiveness and adaptability in the global marketplace.

Finally, this study provides lessons and references for the financing risk management of China's multinational corporations. In the process of financing, China's multinational corporations should fully consider various risk factors, adopt effective risk management strategies, improve the level of risk management, and promote the healthy development of the company.

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