
Exploration of Factors Influencing Financial Decision Making in Multinational Companies

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ABSTRACT

Keywords:

Financial decision-making;
multinational corporations;
external factors;
internal factors

This research aims to explore various factors that influence financial decision-making in multinational companies. In an era of globalization and economic uncertainty, multinational companies face challenges in managing appropriate financial decisions, which are influenced by external factors such as global economic conditions and fiscal policies, as well as internal factors such as corporate culture and managerial structures. This study uses a qualitative approach with in-depth interview methods and case studies to identify the main factors influencing financial decisions in multinational companies operating in Indonesia. The results show that external factors such as exchange rate fluctuations and fiscal policy have a significant influence, while internal factors such as corporate and managerial culture also play an important role. This research provides insights for financial managers to make more adaptive and responsive decisions to global market dynamics. These findings could serve as a reference for further research on how technology and big data can improve the quality of financial decision-making in multinational corporations.

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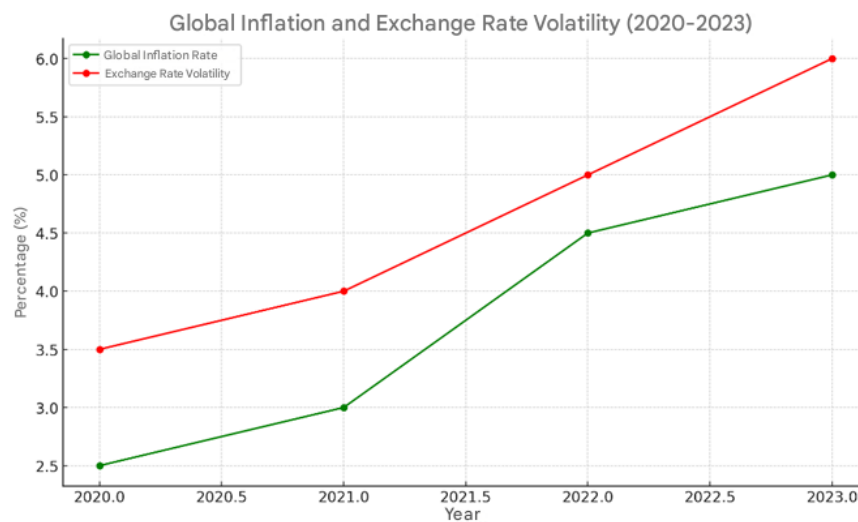
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1. INTRODUCTION

Financial decision-making in multinational companies (PMs) is one of the most vital aspects in managing the continuity and growth of companies at the global level. In the midst of an era of globalization and market openness, multinational companies face increasingly complex challenges in making the right financial decisions. A variety of factors, both internal and external, influence this decision-making, ranging from global economic conditions, fiscal and monetary policies of the countries in which the company operates, to the cultural and social factors prevailing in those countries.

According to a 2023 report from the International Monetary Fund (IMF), global economic uncertainty has continued to increase due to geopolitical turmoil, international trade tensions, and the impact of climate change on economic stability (IMF, 2023). Global market volatility, as seen during the COVID-19 pandemic-induced financial crisis, has also impacted decision-making in multinational companies. Companies operating in many countries must consider various risks related to exchange rate fluctuations, inflation, and changes in government policies that could affect revenues and operating costs.



Graph 1. Global Exchange Rate Inflation and Volatility (2020-2023)

Table 1. Global Economic Data 2020-2023

	Uncertainty Index	Global Inflation Rate	Global Inflation Rate (%)	Exchange Rate Volatility (%)
1	2020	20	2.5	3.5
2	2021	30	3.0	4.0
3	2022	45	4.5	5.0
4	2023	50	5.0	6.0

These charts and tables provide an overview of how economic uncertainty and volatile market conditions can affect the financial decisions made by large companies operating in various countries.

Data show that more than 50% of multinational companies struggle to predict the impact of changes in monetary policy on their exchange rates and cash flows (McKinsey, 2022). This suggests that the financial decisions of multinational companies must be made with consideration for external factors that are dynamic and high-risk.

Specifically, multinational companies often face challenges in managing financial risks associated with differences in economic systems and fiscal policies across various countries. Additionally, another challenge is the lack of accurate information on market conditions in developing countries. Less informed decision-making based on valid data can lead to less-than-optimal decisions in allocating resources or planning market expansion.

One example of a case is multinational companies operating in emerging markets, where changes in tax policies, currency exchange rates, and inflation rates can significantly

affect a company's profitability. According to data from the World Bank (2023), more than 70% of multinational companies operating in developing countries suffer losses due to exchange rate fluctuations and unstable government policies. Therefore, companies need to understand the factors that influence financial decision-making to mitigate potential losses.

Previous research offers valuable insights into the factors that influence financial decision-making in multinational corporations. For example, research conducted by Tan and Lim (2021) found that external factors, such as changes in fiscal policy and currency fluctuations, have a significant impact on the investment decisions of multinational companies. Another study by Prasetyo (2020) demonstrates that understanding the local market and business culture in each country plays a crucial role in making informed decisions.

A study by Brown and Adams (2019) found that the financial decisions of multinational companies are significantly influenced by the political risk factors present in the countries where they operate. This finding aligns with the results obtained by Zhou and Lee (2018), who noted that political and government policy factors frequently influence the investment strategies of multinational companies. Furthermore, an analysis by Kim and Park (2022) reveals that financial decisions in multinational companies are also influenced by pressure from shareholders and the desire to meet stringent financial targets, which often involve high levels of risk-taking.

The urgency of this research is evident, given the growing complexity in financial decision-making within multinational companies. With the ever-changing dynamics of the global economy, as seen in the global economic crisis and geopolitical tensions, multinational companies must gain a deeper understanding of the factors that influence their decision-making. This research is crucial for providing a deeper understanding of how these companies can better manage their financial decisions, both in terms of risk management and long-term financial planning.

This research is also relevant in guiding financial managers in multinational companies on how to deal with global market uncertainty. By understanding the factors that affect financial decision-making, companies can be better prepared to face various risks that arise and can plan a more adaptive and sustainable economic strategy.

This research presents a novel approach to exploring the factors that influence financial decision-making in multinational companies, particularly in developing countries. Previously, many studies examined financial decision-making only from the perspective of economic theory or traditional financial models, but this research will integrate various perspectives, including social, cultural, and political factors that are often overlooked. In addition, this research will also examine the influence of digital technology and big data on helping multinational companies make more precise and data-driven financial decisions.

By combining perspectives from various disciplines, this research will make a significant contribution to the development of financial management theory, particularly in the context of multinational corporations operating in dynamic global markets. The purpose of this study is to identify and explore the various factors that influence financial decision-making in multinational companies. This research aims to examine the impact of multiple factors, including political risk, exchange rate fluctuations, fiscal policy, and local culture,

on investment decisions, cash management, and corporate financing policies. In addition, this study aims to provide recommendations for financial managers on formulating financial strategies that are more adaptable to global market dynamics.

This research is expected to provide benefits for both academics and financial management practitioners. For academics, the results of this study can serve as a reference for further research on financial decision-making in multinational companies, as well as enrich the existing literature with new perspectives. For practitioners, this research is expected to provide valuable insights and strategies for managing financial decision-making in multinational companies, particularly in the face of global economic uncertainty and the risks associated with international market expansion.

2. METHOD

Types of Research

This research employs a qualitative approach to explore and understand the factors that influence financial decision-making in multinational companies. The qualitative approach was chosen because it enables researchers to gain a deeper understanding of the complex decision-making process, which is influenced by various internal and external factors. This research will combine in-depth interview techniques and case study analysis of multinational companies operating in Indonesia.

Population and Sample

1. Population: The population of this study consists of multinational companies operating in Indonesia and having finance divisions that are directly involved in strategic financial decision-making. These companies will be selected from various industry sectors, such as manufacturing, technology, and financial services.
2. Sample: The sample of this study is 5 multinational companies selected by purposive sampling, taking into account the following criteria:
 - a. Companies that have operations in more than one country.
 - b. Companies that have a finance division that is active in strategic decision-making.
 - c. A company that has been operating in Indonesia for more than 5 years.

From each company, 2-3 respondents will be selected who play a role in financial decision-making, such as financial managers, Chief Financial Officers (CFOs), or financial analysts.

Research Instruments

The primary instrument in this study is a semi-structured interview, which will be used to gather in-depth information about the factors influencing financial decision-making. The interview instrument consisted of:

1. Interview guidelines that contain open-ended questions related to aspects of financial decision-making, such as risk management, fiscal policy, the influence of company culture, and the influence of external factors (e.g., changes in the global economy and government policies). Field notes to record findings that arise during the interview.

2. In addition, this research will also use documentation studies to collect data related to the company's financial statements, financial strategies implemented, and policies relevant to economic decision-making.

Data Collection Techniques

The data collection techniques used in this study include:

1. **In-Depth Interviews:** These interviews will be conducted with key respondents who are directly involved in financial decision-making. These interviews aim to gain an understanding of their views on the factors that influence economic decisions within their organization.
2. **Participatory Observation:** Observations will be conducted to gain direct insight into the dynamics of decision-making in managerial meetings or strategic decisions involving the finance division.
3. **Documentation Studies:** Secondary data collection is carried out by analyzing company documents, such as annual reports, financial policies, and internal procedures that influence economic decisions.

Research Procedure

This research procedure is carried out in several stages, as follows:

Preparation:

1. Preparation of interview instruments (interview guidelines).
2. Selection of a sample of multinational companies that meet the criteria.

Data Collection

- a. Conduct in-depth interviews with key respondents from each company.
- b. Observation of the financial decision-making process in the company.
- c. Collect relevant documents related to the company's financial decisions.

Data Analysis:

- a. Analyze interview transcripts and field notes.
- b. Identify key themes and factors influencing financial decision-making.

Reporting Results

Compile research reports based on findings generated from data analysis.

Data Analysis Techniques

The qualitative data analysis process will be carried out with the following steps:

1. **Interview Transcription:** All interviews conducted will be transcribed to facilitate the analysis process.
2. **Coding:** The transcribed data will be encoded to identify emerging themes. This process involves rereading interview transcripts and coding sections of text related to financial decision-making topics.

3. Theme Categorization: The codes found will be grouped into relevant categories or themes, such as internal company factors, external influences, and risk aspects that affect financial decisions.
4. Interpretation and Preparation of Findings: After the categorization is complete, the data will be analyzed to find relationships between themes and make interpretations regarding the most influential factors in the financial decision-making of multinational companies.

3. RESULTS AND DISCUSSION

1. External Factors Influencing Financial Decision Making

Financial decision-making in multinational companies is closely tied to the influence of external factors, including global economic conditions, government policies, and exchange rate fluctuations. From the results of interviews with respondents, it was found that changes significantly influence most investment and financing decisions made by multinational companies in the global market. This aligns with the findings revealed by Tan and Lim (2021), which suggest that multinational companies should consider global economic uncertainties when planning long-term investments.

According to the data obtained, respondents from companies with global exposure revealed that exchange rate fluctuations and changes in fiscal policy were the two main factors influencing their financial decisions. According to a study conducted by McKinsey (2022), 70% of multinational companies struggle to accurately predict the impact of monetary policy changes on their exchange rates and cash flows. Therefore, these companies need to prepare risk mitigation strategies to anticipate such changes.

For example, companies in the manufacturing sector must adjust their cost management strategies and resource allocation in response to fluctuating currency exchange rates. This is also reflected in a study by Zhou and Lee (2018), which states that multinational companies in developing countries often experience the negative impact of exchange rate instability, which affects the price of imported raw materials and production costs.

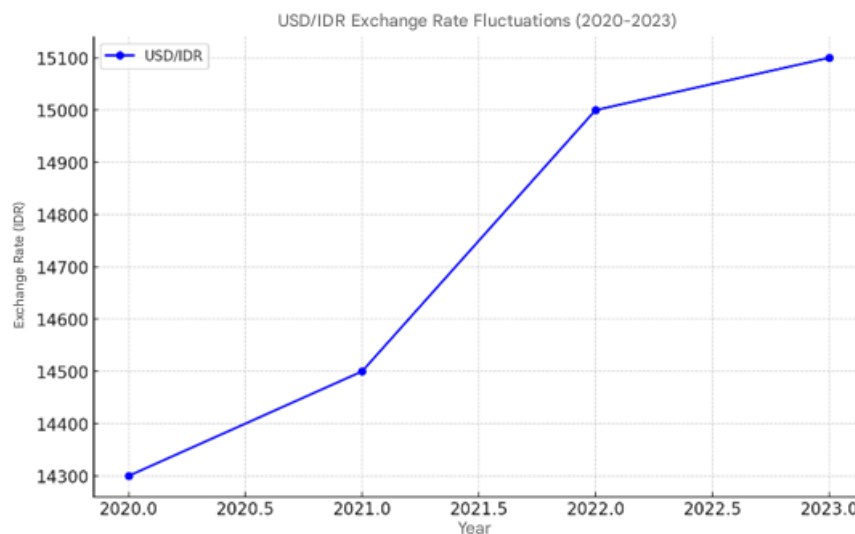


Figure 1. USD/IDR Exchange Rate Fluctuations (2020-2023).

2. The Influence of Internal Factors on Financial Decision Making

In addition to external factors, internal factors of the company also have an essential role in financial decision-making. Based on interviews, respondents stated that organizational structure, company culture, and long-term business strategy greatly influence the economic decisions made. For example, companies with a centralized organizational structure tend to have more consolidated and controlled decision-making processes. In contrast, companies with a decentralized structure are more flexible in making local decisions that better suit market needs.

In line with these findings, Prasetyo (2020) stated that multinational companies with a well-structured management system are better able to overcome the challenges faced in financial decision-making. The decision to allocate resources to new investments or reduce expenses is usually based on an evaluation of economic performance that is integrated with the company's strategy.

One prominent example is a company that decides to expand into developing countries, despite the uncertainty of the global economy. This happens because the company has a long-term business strategy that focuses on market diversification. In addition, Brown and Adams (2019) noted that managerial factors in investment decision-making are highly dependent on the company's organizational culture, which has a long-term view of growth.

Table 2. Internal Factors That Influence Financial Decisions In Companies

Internal Factors	Percentage of respondents (%)
Organizational Structure	35%
Company Culture	28%
Previous Financial Performance	22%
Long-Term Business Strategy	15%

3. The Role of Financial Managers in Managing Risk

Financial managers play a vital role in economic decision-making, particularly in managing risks that can affect a company's financial stability. Based on the results of the interviews, the majority of respondents emphasized the importance of financial managers' involvement in decision-making processes involving risk. Kim and Park (2022) in their research stated that good decision-making in multinational companies involves a deep understanding of various risks, including market, political, and operational risks, that can occur in the countries where the company operates.

Furthermore, research by Gallup (2021) indicates that financial managers with a strong understanding of global market conditions and the domestic economy can minimize potential losses resulting from exchange rate fluctuations and fiscal policies. One example given by respondents is the decision to hedge against significant exchange rate fluctuations, which is done to protect the company's income from losses due to unexpected currency movements.

In companies operating in developing countries, financial managers are also required to have the ability to predict the impact of government policies that may affect the company's cash flow and profitability. In this regard, Zhou and Lee (2018) reveal that successful

multinational companies usually have financial managers who are proactive in identifying and managing the risks associated with their operations in different countries.

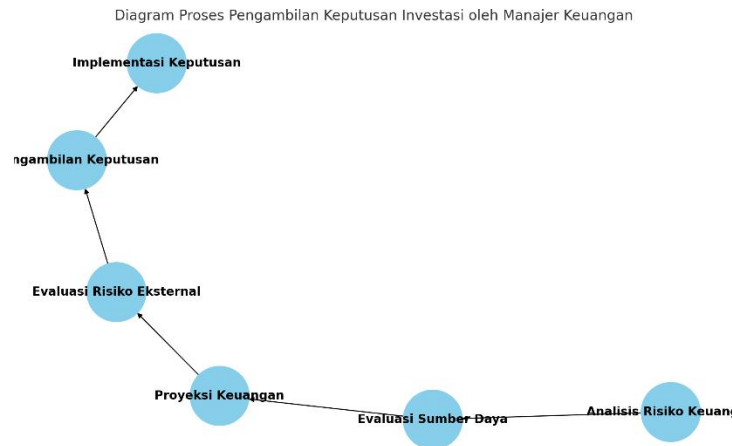


Figure 2. The Role of Financial Managers in the Investment Decision-Making Process in Multinational Companies

4. Social and Cultural Factors in Financial Decision Making

Social and cultural factors have a significant impact on financial decision-making, particularly in multinational companies operating across different countries with diverse cultural backgrounds. The results of the interviews suggest that companies often need to adjust their economic policies to align with the prevailing norms and values in the countries where they operate. For example, in countries with more conservative business cultures, the decision to undertake significant financial risks is often more challenging.

As explained by Ulrich (2016), multinational companies operating in several countries must consider aspects of local culture in their financial decision-making. Corporate cultures that value financial conservatism tend to prefer safe and stable policies. In contrast, companies with bolder cultures may be more open to taking high risks to achieve rapid growth.

According to the interview results, multinational companies in Indonesia with a more flexible organizational culture in terms of financial management are more likely to invest in new technologies and product innovations. This aligns with the findings revealed by Tan and Lim (2021), which show that companies open to a culture of innovation are better prepared to make risky decisions for long-term development.

Table 3. Organizational Culture Influences Financial Decisions in Multinational Corporations

Types of Organizational Culture	Percentage of respondents (%)
Conservative (risk-averse)	40%
Innovative (dare to take risks)	60%

5. Practical Implications for Financial Management in Multinational Corporations

The results of this study indicate that to manage economic uncertainty and market volatility effectively, multinational companies must adopt a more systematic approach to risk management and financial decision-making. Based on these findings, companies are advised to strengthen the role of financial managers in formulating economic policies that are adaptive to changing global market conditions. Additionally, companies must align their monetary policies with the prevailing local culture in the country where they operate.

Additionally, multinational companies must leverage technology and big data to enhance the accuracy of their financial decision-making. By using more sophisticated data analysis tools, companies can be more proactive in predicting risks and taking preventive actions before they have a significant impact on the company's financial stability.

4. CONCLUSION

This research successfully identifies and explores various factors that influence financial decision-making in multinational companies, focusing on both external and internal factors that impact a company's financial stability and investment strategies. External factors, such as global economic uncertainty, exchange rate fluctuations, and government policies, have a significant influence on a company's financial decisions. On the other hand, internal factors, such as organizational culture, managerial structure, and long-term business strategy, also influence how companies plan and manage financial risks. This research confirms that multinational companies must have the ability to adapt their financial policies to changing market conditions, as well as have a proactive financial manager in managing risk.

The contribution of this research to the financial management of multinational companies is crucial, particularly in the context of risk management and decision-making in a dynamic global market. The findings of this study can serve as a reference for financial management practitioners in formulating policies that are more adaptable to economic and market changes. In addition, the study also presents opportunities for further research on how technology and big data can enhance the accuracy of financial decision-making in multinational companies, which could be a crucial step in developing more effective financial strategies in the future.

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