

Teaching International Financial Management of the Multinational Enterprise in International Business Education: Exploring the Role of the Parent Firm's Corporate Treasury and the Use of Internal Debt Financing by Foreign Subsidiaries

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Abstract. This teaching article, which is intended for international business educators and students enrolled in undergraduate or pre-experience postgraduate courses, presents three propositions. First, international financial management of the multinational enterprise (MNE) is important in international business education. Second, theoretical concepts and frameworks need to be made relevant to the learning experiences of students by analysing the real-world practices of MNEs and their foreign subsidiaries. Third, both rigour and relevance must be well-integrated. We apply this teaching and learning approach by examining the role of internal capital markets within the MNE's organizational structure, where the parent firm's corporate treasury effectively mirrors the working of internal capital markets in business practice. We introduce a framework for the sources of funds in the MNE and the foreign subsidiary, discussing its theoretical insights and practical value. We examine the use of internal debt financing that foreign subsidiaries obtain from the corporate treasury. To illustrate the link between theory and practice, we use the full accounts of Nestlé (UK) Ltd., filed with the United Kingdom Companies House, as an example for classroom teaching and learning.

Keywords: multinational enterprises; foreign subsidiary; corporate treasury; internal debt financing.

1. Introduction

International financial management (IFM) of the multinational enterprise (MNE) serves as a cornerstone of international business education (IBE), providing students with a comprehensive understanding of the financial strategies,

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instruments, and regulatory environments that shape global commerce. Through the study of IFM, students gain critical analytical skills to assess financing options, currency risk management, and international taxation (Eiteman, Stonehill and Moffet, 2024; Madura and Fox, 2023). This knowledge empowers future professionals to make informed decisions in complex, volatile financial landscapes and fosters their ability to contribute to the strategic financial planning and sustainability of MNEs. Moreover, IFM enhances the international competitiveness of the firms by cultivating a workforce adept at navigating cross-border financial challenges, aligning financial practices with international standards, and leveraging financial resources to drive growth in international markets.

This teaching article proposes a structured, practice-oriented approach to teaching and learning international financial management, with a focus on MNEs and their foreign subsidiaries. By integrating theoretical frameworks with real-world applications, the study aims to deepen student understanding and engagement. The specific objectives are to:

1. Explain the role of an internal capital market within the MNE's organizational structure, in which the corporate treasury functions as an in-house bank, providing internal financial services and solutions to affiliated units within the corporate network.

2. Present a framework on sources of fund available to MNEs and their subsidiaries, drawing on Collinson, Narula, Qamar and Rugman (2024).

3. Examine the use of internal debt financing (also known as intra-firm loans or related-party debt or amounts owed to group undertakings) by foreign subsidiaries, including interest rate structures and the requirement of compliance with the principle of arm's length price standards.

4. Illustrate these concepts using the 2023 full accounts of Nestlé (UK) Ltd., filed with the UK Companies House, for classroom teaching and learning in an undergraduate or a pre-experience postgraduate course in international business.

This study focuses on these topics because, despite their strategic importance, they have received relatively limited attention in the international business education (IBE) literature (Aggarwal and Goodell, 2013; Nguyen and Rugman, 2015; Nguyen and Almodóvar, 2018; Nguyen, Almodóvar and Wei, 2022). This is partly due to data limitations, as internal debt information are often unavailable in large commercial databases like Orbis, which are frequently used in the subsidiary management literature (Nguyen, 2024). This reflects a notable research gap, which this study seeks to address.

In business reality, foreign subsidiaries frequently rely on their parent firms for financing, as MNEs can raise capital more efficiently across global markets and allocate it internally (Foley and Manova, 2015; Rugman, 1980). This internal financing sources help foreign subsidiaries overcome external capital market imperfections, especially in countries where capital markets are underdeveloped,