CASE ANALYSIS

LaJolla Engineering Services

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ANSWER 1

Yes, O'Connor must spend time finding out the mistakes which are made that lead to the translation losses. This can be done by checking the balance sheet. The balance sheet is the financial statement which states all the assets, liabilities, and equity of the shareholders during a specific period(Lander and Auger, 2008). By checking it O’Conner can identify the various mistakes which are done that affect the business. The next step is to find out if the process of production of the particular products if moved offshore has any significant impact on reducing the translation losses(Brenner, 2003). It is also evident from the case study that the value of the local currency is decreasing which also makes a significant impact on the profitability of the business. Further, it is also stated in the case that the company has a delay in getting payments from some of the government agencies which the company is supplying in Venezuela. O’Conner must also analyse these as the average invoice was taking more than 180 days to get settled. O’Conner needs to address this issue as delays in the payment will lead the company to invest extra capital to pay to its supplier to produce the product which leads to the lack of sector rotation in the company(Saren, Sarkar and Bachar, 2020).Sector rotation is the movement of money invested in stocks from one industry to another(Conover *et al.*, 2008). By analysing these O’Conner can find out the key problem for these late payments and can have a conversation with the agencies to get the payments on time which improves the profitability of the company. The next step which O’Conner is to find out the various possible ways of hedging available and select the suitable one. Hedging is the strategy used by many companies to protect themselves from financial risks(BOYABATLI and TOKTAY, 2004). By formulating the best hedging strategy available O’Conner can sign various deals with the government or various currency exchange agencies to reduce the taxes and charges which play a major role in the transactions for a fixed period, which reduces the loss in translation in a significant amount.

ANSWER 2

Jamaica:

Initially, the company was not much concerned about Jamaica and agreed to take all its revenue in Jamaican dollars. But after the fall of the Jamaican dollar in 2003, the company renegotiated and made a risk-sharing agreement. By this agreement, the company will receive its revenue the same as before, now the partnering company will share the exchange rate, and this was put forth from the start of the fourth quarter, which also made a translation loss to the company. The risksharing is the agreement which is obtained between the two companies to share the risk which is obtained by the fluctuation in exchange rates of the currency(Dore, 2008).

Mexico:

Initially, the value of the Mexican Peso was quite stable. But later it started to slide down from 2002 and 2003, which gave a huge translation loss to the company. Further, when the CFO had a deeper look into the financial statements from the Mexico office it is evident that this loss has been increasing every quarter. The company has already started subsidiary operation in 2000, which was also not helpful in decreasing these losses. Further, when the CFO asked questions about these issues to the local managers, she doesn't get any answer as the local managers state that they were not able to understand the question(Piekkari, Welch and Welch, 2014). Thus, the lack of communication is the main threat ahead of the CFO to stabilize the issue in the country. Another concern for the CFO is the index for the foreign currency-denominated accounts and the CFO fears that the regular index of these accounts which are done with the help of government published indexes for these accounts will also have an impact on these translational losses(Mutize and Gossel, 2019).

Venezuela:

The value of the local currency falling in Venezuela is due to the political crisis which had happened because of the president(Giambona, Graham and Harvey, 2017). Another important problem which the company faces in the country is that there is a lack of payment from the government agencies as the average invoice was taking more than 180 days to settle. This gives an additional loss to the company as it was making exclusive products to these agencies(Saren, Sarkar and Bachar, 2020). There is a potential option for the company as the controller of the company in the country suggested the CFO take the changing of Venezuelan books to U.S dollars out of the country to some small islands where there are low exchange costs(Roberts, 1995).

This will reduce the translation losses to an extent, but the main problem is the payments to be collected from the government agencies, which the CFO must concentrate to put this option proposed by the controller of the company in the country.

ANSWER 3

To reduce the translation losses which the company is going through it is important that Meghan has reduced the exchange cost which is high when the revenues are in the local currencies to the U.S dollar. Meghan can use the various hedging strategies and should select the appropriate hedging to have a fixed agreement over the exchange rate for a fixed period either with the government of the countries or with the exchange agencies(BOYABATLI and TOKTAY, 2004). By making this fixed contract the company will have standard charges for the exchange which the company makes to convert the revenue to U.S dollars, which will reduce the losses as the company will not have highly fluctuating exchange rates(Saren, Sarkar and Bachar, 2020). The next step which must be done is to regularize the payments for the invoices by the government agencies in Venezuela. By doing so it will protect the company from investing more money to pay to the suppliers for the production of the special product which is supplied only to the agencies(Conover *et al.*, 2008). By regularizing the payments for the invoices, the company can try the idea which is put forward by the controller of the company in Venezuela to move the conversion of the Venezuelan books to the U.S dollar outside of the country where the exchange rates are low(Roberts, 1995). The next step is to sign the risksharing agreements with the remaining two countries as it was one in Jamaica, by doing so half of the charges for converting the revenue will fall on the counterparts in that country which will significantly reduce the translation losses(Dore, 2008). The next step for Meghan is to make agreements with the political leader in the countries and if possible, must make deals with them to reduce the various taxes which are implied to the country which will reduce the total losses the company is generating in the particular countries(Giambona, Graham and Harvey, 2017).

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