INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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CONTENTS

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   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

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MANAGEMENT OF TRANSLATION EXPOSURE: A COMPARATIVE ANALYSIS OF MNCS IN INDIA

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ABSTRACT

Translation exposure refers primarily to the impact of exchange rate fluctuations on consolidated financial statements of MNCs. It is usually treated as only one of the accounting issues as it does not represent real movements of cash. This may be one of the reasons for dearth of literature in this area especially in India. The present study portrays translation exposure management as practiced by various multinational companies in India. It is a comparative analysis of management of translation exposure by banking and non banking as well as foreign and Indian MNCs. This paper is based on a questionnaire study undertaken in 2004-2008. Using a sample of 200 Indian and foreign MNCs operating in India, the purpose of the paper to make a comparative analysis of attitude of banking and non-banking MNCs in India towards management of their translation exposure. The companies selected under study cover a broad spectrum of major players of various sectors producing a variety of products. Usually it is presumed that method of translation and management policy affects translation gain or loss. We find that there is no significant effect of method of translation and management policy of the company on their translation loss or gain. We find very significant difference between attitude of banking and non banking companies. Most of the banking companies are managing their translation exposure either actively or regularly whereas most of the non- banking companies are ignoring their translation exposure. Attitude of Indian and foreign companies towards management of their translation exposure has been significantly different. Majority of companies are using techniques of exposure netting, leading and lagging and balance sheet hedges for the management of their translation exposure. Usage of derivatives is very less as compared to other hedging techniques. This paper explores the need of further study of behavior of companies towards translation exposure management.

KEYWORDS

Derivatives, Exposure Management, Exposure Netting, Translation Exposure, Translation Gain/ Loss.

INTRODUCTION

Translation exposure is the risk of the net worth of a company changing because of the fluctuating home valuation of assets and liabilities denominated in foreign currencies. Translation exposure arises from the need to "translate" foreign currency assets or liabilities into the home currency for the purpose of finalizing the accounts for any given period. Multinational corporations having operations in many countries have to prepare their consolidated financial statements to have a complete knowledge of result of all their business operations. Usually, foreign subsidiaries prepare their accounting records and financial statements in the currency of the country where they operate. For this, it is necessary to translate foreign currency denominated accounts of subsidiary companies into the currency of parent company. Most of the companies not having any foreign subsidiary also deal in many international transactions such as exports, imports, borrowing in foreign currency, acquiring assets from other countries and making international investments. At the end of financial year, many of these transactions remain unsettled which result in foreign currency assets or liabilities. Such assets and liabilities also have to be translated into their home currency in order to prepare their final financial statements. But the currency fluctuations can create currency gains or losses from such translations.

Translation exposure does not represent real movements of cash between different currency systems, but can clearly impact both the consolidated profit and loss account and the consolidated balance sheet. The balance sheet effects are often dismissed as illusory since they have no impact on cash. However the level of assets and liabilities can affect financial ratios which are calculated using the balance sheet figures. It may result in practical problems where the company has restrictions on its level of borrowings. Translation exposure is the difference between exposed assets and exposed liabilities. A greater amount of exposed assets than liabilities will give rise to a positive exposure while a greater amount of liabilities than assets will give rise to a negative exposure. The amount of translation exposure depends on the degree of foreign involvement of a multinational's overseas subsidiaries, the location of these foreign subsidiaries and the correlation between foreign currency and the home currency and the methods of accounting for the translation. There are mainly four methods of accounting for the translation of foreign currency assets, liabilities and items of income statement i.e. current rate method, temporal method, monetary/ non-monetary method and current/ non-current method. In current rate method all the items are translated into reporting currency on the rate prevailing on the date of balance sheet. In case of temporal method assets and liabilities which are to be carried at historical values (like fixed assets, cost of goods sold, depreciation, amortization expenses etc) are translated at historical rates whereas the assets and liabilities which are to be carried at current value (current assets, receivables, payables and cash) are translated at current rate. In case of monetary/ non-monetary method, the monetary items of balance sheet like debtors, creditors, receivables, payables, loans etc. are to be translated at current rates whereas non-monetary assets, non monetary liabilities and share capital are translated at historical rate. In current/ non-current method, current liabilities and current assets are translated at balance sheet date rate whereas non-current liabilities and fixed assets are translated at historical exchange rates. Assets and liabilities that are translated at the current exchange rate are considered to be exposed to foreign exchange risk; those assets and liabilities which are translated at a historic exchange rate will maintain their home currency values and hence are not exposed. Under all of these methods except current rate method, all the items of income statement are to be translated at the average rate during the period.

As per Indian Accounting Standard for the translation of financial information of foreign subsidiaries different rates are used. An Indian company is to use spot rate to translate its daily foreign currency transactions. It can otherwise use an average rate to translate the transactions related to a week or a month but the care should be taken to ensure that this exchange rate is true representative of actual exchange rates prevailing at the time of transaction. More over when the transaction is settled partly or fully, on a date other than transaction date, then it will result in exchange gain or loss which is shown in income statement of Indian company. For the purpose of balance sheet, historical rate is to be used for fixed assets, depreciation, monetary and non monetary assets and liabilities. Current rate is to be applied for inventory valuation and contingent liabilities.

Companies can plan to take advantage of favorable exchange rate fluctuations. Even unfavorable fluctuations can prove to be profitable ones provided these are duly managed in advance. Translation exposure can be managed by matching assets and liabilities in the overseas currency, whenever possible. But this may result in losing control over consolidated gearing. There is also the problem of trying to match assets and liabilities in countries where there are no sophisticate capital markets or in other cases a perfect match is not necessarily desirable. Other strategies which can be applied internally to hedge translation exposure include exposure netting, leading, lagging, adjusting flow of funds and balance sheet hedge. External techniques such as money market hedge, currency swap, cross currency swap and forward contracts can also be applied. Results of the study explore that majority of companies are using techniques of exposure netting, leading/lagging and balance sheet hedges.

LITERATURE REVIEW

As translation exposure refers primarily to the impact of exchange rates on earnings and balance sheet items when consolidating financial statements from foreign subsidiaries, it does not represent real movements of cash between different currency systems. It is treated as only one of the accounting issues. Many of the companies in India do not take their translation exposure so seriously and ignore it completely. This may be one of the reasons for dearth of literature in the area of management of translation exposure, especially in India. Some of the studies identified in this area are as follow;

Dalthan Medeiros Simasa and Otavio R. de Medeirosb, in their paper, "Translation of Financial Statements" critically analyze the effects of accounting procedures for changing prices and exchange rate fluctuations of various multinational companies. They conclude that with regard to changing prices, General Price Level Accounting is the best option. They also suggest that for exchange rate fluctuations, the Closing Rate Method should be preferred over the Temporal Method. They conclude that convenience of use, for both the accounting profession and report users, seems to have been the determinant factor.

Gordon M. Bodnar (1998) in his study "Derivatives usage in Risk Management by U.S. and German Non-Financial Firms: A comparative Survey", critically analyses effect of environment in different economies on the hedging strategies of the firms. The study points out that German firms are more likely to use derivatives as compared to U.S. firms. There is a strong focus on accounting earnings in all business decisions in Germany. For U.S. firms, the translation exposure under the current rate method is given by the net equity of the foreign subsidiary whereas under the temporal method it is the net amount of assets and liabilities translated at the current exchange rate. He concludes that majority of U.S. companies do care as they hedge their translation exposure.

Niclas Hagelin and Bengt Pramborg, in their research study, "Hedging Foreign Exchange Exposure: Risk Reduction from Transaction and Translation Hedging", investigate the risk reducing effect of foreign exchange exposure hedging by using a sample of Swedish firms. They investigate risk reduction from using different hedging instruments. The results of the study show that firms' foreign exchange exposure increases with the level of inherent exposure, measured as the difference between revenues and costs denominated in foreign currency, and that it is decreasing with firm size. It also concludes a significant reduction in foreign exchange exposure from the use of financial hedging strategies. The evidence suggests that the usage of foreign denominated debt as well as currency derivatives reduce firms' foreign exchange exposure. They reach to the conclusion that both transaction exposure hedges and translation exposure hedges reduce exposure. A possible explanation for this is that translation exposure approximates the exposed value of future cash flows from operations in foreign subsidiaries (i.e. economic exposure). So, economic exposure can be reduced by hedging the translation exposure.

Richard P. Melnick and W. Carl Kester in their "Note on Transaction and Translation Exposure", provide explanation to transaction and translation exposure. They pointed out that translation exposure arises whenever a firm has assets and liabilities whose value is denominated in currencies other than the parent's reporting currency. They lay emphasis on various techniques for managing these exposures such as forward marked hedge, money market hedge, balance sheet hedges, swaps and leads and lags. Every one of these methods entails a cost of some type. Explicit cost can be adequately measured in percentage rates as the forward premium or discount on a currency, or the difference in nominal interest rates on credit denominated in the two currencies. Implicit costs are related to the conduct and management of business locally. They find out that eliminating one type of exposure sometimes comes at the expense of exacerbating another exposure. A logically prior question for managers to address is which of several types of exposures deserves the highest priority. The issue of how much time, efforts and expense to devote to the elimination of foreign exchange exposures depends on the factors like management's attitudes toward risk and the efficiency of foreign exchange and credit markets. They conclude that risk averter managers are more likely to engage in hedging activities as compared to risk taker managers.

SIGNIFICANCE OF STUDY
High volatility of exchange rates imposes threat to the company engaged in international business. Every company that conducts at least some of its business in another currency is exposed to foreign exchange risk in one form or the other. It is obligatory for all firms having foreign subsidiaries to prepare consolidated accounts at the end of the financial year. In this case, it is difficult to fix the exchange rate at which the financial items of final accounts of a subsidiary company should be translated into the home currency, leading to translation exposure which can be translation loss or translation gain. Usually it is also stated that success of any MNC largely depends on how effectively it manages its translation exposure. In India, MNCs are expanding their business beyond national boundaries at a very fast pace. A major proportion of their total revenue is dependent on their business operations in foreign countries. But they do not take translation exposure so seriously and usually leave it unmanaged. Many a times, the net worth of these companies have abruptly gone down just because of their careless attitude towards their translation exposure. That is why the study of translation exposure management is very significant in Indian context. This study can be of great use for exporters, importers, business planners, bankers, researchers, students and academicians to judge the effectiveness of various translation exposure management tools in India.

OBJECTIVES OF STUDY
Translation exposure is related directly to consolidated financial statements of MNCs having foreign subsidiaries. Very high translation exposure can adversely affect the image of company in international market. But despite the vast expansion of their business beyond national boundaries, many companies in India have ignored their translation exposure assuming it to be only accounting exposure not the real one like transaction or economic exposure. It has resulted in too many questions; whether or not companies in India are seriously managing their translation exposure? If yes, how do they manage? All of these questions are required to be answered which initiate this research work. The present study examines the available evidence on management policy of MNCs in India towards management of their translation exposure. It is usually stated that Indian companies are not so serious about management of their translation exposure as compared to their foreign counterparts. This research is a comparative analysis of management policy of Indian and foreign companies. Management policy of banking and non-banking companies towards for their translation exposure has also been compared. The difference between attitude of companies having foreign subsidiaries and not having foreign subsidiaries has also been investigated. Usage of various strategies to manage translation exposure has been scrutinized in detail.

HYPOTHESIS
In this research the following hypothesis have been tested;

a) There is no significant effect of method of translation on translation gain or loss faced by the non-banking companies.

b) There is no significance difference between Indian and foreign companies having foreign subsidiaries regarding their attitude towards management of translation exposure.

c) There is no significance effect of management of translation exposure by non-banking companies and translation gain or loss faced by them.

RESEARCH METHODOLOGY
This study is a comparative analysis of management of translation exposure by various banking and non banking, Indian and foreign MNCs operating in India. The results presented in this study are based on a questionnaire study undertaken in 2005-2010. The sample is composed of 200 companies out of fortune 500 companies which were ranked on the basis of their sales during the financial year from 1st Jan to 31st December 2003, as published in Economic Times in May 2004. The selected companies cover a broad specter of major players of various sectors such as Auto, Parma, Banking, Oil, Cement, FMCG, Chemicals, Steel, IT, Textile, Nuts, consumer durable, Electricity, energy, Paper and paper products etc. Out of 200 companies, 95 companies responded back.

Management policies for managing translation exposure have been divided into mainly three groups; Active management, Regular management and no management. Three point scales has been used for this purpose. 3 have been used for active management, 2 for regular management and 1 for no management of translation exposure. On the basis of general statements, hypothesis have been framed regarding the behavior of companies in India and tested with the help of ANOVA technique. A scale of 1 to 5 has been used to analyze results. Significance was discussed on 5 % level in all tests used for hypothesis testing. Graphs and tables have also been used to facilitate the analysis of data.

RESULT & DISCUSSION
In the survey it has been found that all of the companies under study are heavily internationally oriented as significant proportion of their turnover originates from foreign markets on the basis of their published accounts. The international trade of these companies is denominated in various foreign currencies resulting in high translation exposure. On the basis of the study of management of translation exposure by these companies, the followings are the findings of the study;

COMPARISON OF TRANSLATION METHODS USED BY INDIAN & FOREIGN NON-BANKING COMPANIES NOT HAVING FOREIGN SUBSIDIARY

Even the companies not having any foreign subsidiary also face translation exposure as some or the other assets, liabilities or transactions are denominated in foreign currency. At the time of preparation of financial statements all the items have to be denominated only in single reporting currency. So these companies also have to choose certain method of translation for this purpose. The results have been depicted in table 1.

TABLE 1: METHODS OF TRANSLATION OF NON-BANKING COMPANIES NOT HAVING FOREIGN SUBSIDIARIES

Method of Translation	Indian	Foreign	Total
Monetary/Non Monetary	*16*	*3*	*19*
Current/ Non Current	*9*	*3*	*12*
Current	*8*	*1*	*9*
Total	*32*	*7*	*39*

The results of the survey show that most of such Indian as well as foreign companies is applying monetary/ non-monetary method for the purpose of translation of their assets and liabilities. Some of these companies are also applying current/ non-current method. Only a few of the Indian companies are following current method. All of these companies are translating their foreign currency transactions at the rate which was prevalent on the date of occurrence of transaction. The results also reflect actual rate method is most popular among companies for translation of most of the items of their income statement.

COMPARISON OF TRANSLATION METHODS USED BY INDIAN & FOREIGN NON-BANKING COMPANIES HAVING FOREIGN SUBSIDIARY

The companies which have foreign subsidiary apply different method of translation for their main company and their subsidiary company. The methods of translation used by these companies for their own foreign currency denominated assets and liabilities have been presented in table 2 and for income statements in table 3. The methods of translation used by these companies for assets and liabilities of their foreign subsidiaries have been depicted in table 4 and for income statements in table 5.

TABLE 2: METHODS OF TRANSLATION OF NON-BANKING COMPANIES HAVING FOREIGN SUBSIDIARIES FOR THEIR OWN FOREIGN CURRENCY ASSETS & LIABILITIES

Method of Translation	Indian	Foreign	Total
Monetary/Non Monetary	*16*	*3*	*19*
Current	*9*	*1*	*10*
Not Disclosed	*13*	*2*	*15*
Total	38	6	44

TABLE 3: METHODS OF TRANSLATION OF NON-BANKING COMPANIES HAVING FOREIGN SUBSIDIARIES FOR THEIR OWN INCOME STATEMENTS

Method of Translation	Total
Transaction Date Rate (Actual Rate)	*30*
Current Rate	*1*
Monthly Average	*3*
Not Disclosed	*10*
Total	44

The results show that most of Indian as well as foreign companies under survey are applying monetary/ non-monetary method for the purpose of translation of their own assets and liabilities. Some of these companies are also applying current rate method. Some of the Indian companies have not even disclosed their method of translation. For translating the items of income statement, most of the companies are applying actual rate prevailing on transaction date. Some of the companies have followed the system of monthly average. It also reflects that current rate method is not so popular among companies for translation of their income statement.

TABLE 4: METHODS OF TRANSLATION OF NON-BANKING COMPANIES FOR ASSETS & LIABILITIES OF THEIR FOREIGN SUBSIDIARIES

Method Of Translation	Indian	Foreign	Total
Monetary/Non Monetary	*12*	*4*	*16*
Current	*13*	*2*	*15*
Not Disclosed	*13*	*Nil*	*13*
Total	38	6	44

TABLE 5: METHODS OF TRANSLATION OF NON-BANKING COMPANIES FOR INCOME STATEMENTS OF THEIR FOREIGN SUBSIDIARIES

Method Of Translation	Total	Method Of Translation	Total
Transaction Date Rate	*5*	Yearly Average	*14*
Daily Average	*2*	Weighted Average	*4*
Monthly Average	*6*	Not Disclosed	*13*

The companies having foreign subsidiary apply different method of translation for their company and their subsidiaries. The results show that both monetary/ non-monetary method and current rate method are applied by the most of Indian as well as foreign companies for the purpose of translation of the assets and liabilities of their subsidiaries. For translating the items of income statement, most of the companies follow yearly average rate system. Some of the companies apply actual rate prevailing on transaction date whereas some of the companies also apply average rate systems where the average rate can be daily average, monthly average or weighted average rate.

EFFECT OF METHOD OF TRANSLATION ON TRANSLATION EXPOSURE OF NON-BANKING COMPANIES

Usually it is presumed that the method of translation has an impact on their translation gain or loss. The results of the study show that Indian and foreign non banking companies have adopted different methods of translation of their financial statements. To study the impact of method of translation on their translation exposure the following hypothesis has been formulated. The results of ANOVA are depicted in table 6.

Null Hypothesis: *There is no significant effect of method of translation on translation gain or loss faced by the non-banking companies.*

TABLE 6: EFFECT OF METHOD OF TRANSLATION ON TRANSLATION EXPOSURE OF NON-BANKING COMPANIES

Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	*3.467(a)*	*2*	*1.733*	*2.473*	*.090*
Intercept	*254.372*	*1*	*254.372*	*362.953*	*.000*
Method of Translation	*3.467*	*2*	*1.733*	*2.473*	*.090*
Error	*67.281*	*96*	*.701*		
Total	*447.000*	*99*			
Corrected Total	*70.747*	*98*			

a R Squared = .049 (Adjusted R Squared = .029)

The results of the study show that the value of p is 0.090 which is higher than 0.05 (at 5 % level).So, null hypothesis that there is no significant effect of method of translation used by the non-banking companies on their translation loss or gain is accepted.

MANAGEMENT OF TRANSLATION EXPOSURE

As translation exposure can have an adverse impact on consolidated financial statements of any MNC, company must consider its translation exposure seriously. On one hand, some of the companies consider the management of translation exposure as an essential activity, on the other hand, some of the companies ignore it completely. For the purpose of study, management policy of companies has been divided into three categories; no management, regular management or active management. Three-point scale has been used for the purpose of study where 3 represents active management, 2 represents policy of regular management and 1 represents no management. Companies from different sectors have different attitude toward management of translation exposure. The results of survey for management of translation exposure by companies from different sectors are depicted in table 7.

TABLE 7: MANAGEMENT POLICY FOR MANAGEMENT OF TRANSLATION EXPOSURE

S. No.	Sector	Management			Total Responses
		Yes		No	
		Active	Regular		
1	Auto	*0*	*1*	*10*	*11*
2	Pharma	*0*	*5*	*8*	*13*
3	Oil	*1*	*0*	*10*	*11*
4	Cement	*0*	*0*	*3*	*3*
5	FMCG	*0*	*1*	*2*	*3*
6	Chemicals	*0*	*0*	*1*	*1*
7	Steel	*0*	*3*	*11*	*14*
8	IT	*0*	*1*	*6*	*7*
9	Textile	*3*	*1*	*3*	*7*
10	Nuts	*1*	*2*	*3*	*6*
11	Consumer Durable	*0*	*0*	*3*	*3*
12	Electricity & Energy	*0*	*1*	*1*	*2*
13	Paper & Paper Products	*0*	*0*	*1*	*1*
14	Banking	*7*	*4*	*1*	*12*
15	Miscellaneous	*0*	*0*	*1*	*1*
Total		12	19	64	95

The results of the study show that 67% of total respondents are not managing their translation exposure at all. Only 33 % companies are managing their translation exposure. It shows that only 13 % of companies are actively managing their exposure. So, very few companies in India manage their translation exposure seriously.

COMPARISON OF MANAGEMENT POLICY OF BANKING & NON-BANKING COMPANIES

Banking and non banking companies have different attitude towards management of their translation exposure. RBI has issued guidelines for risk management for banking companies in India. This may be one of the reasons for difference in their attitude. The result of the survey for comparison of attitude of banking and non- banking companies has been depicted in table 8.

TABLE 8: TRANSLATION EXPOSURE MANAGEMENT BY BANKING & NON-BANKING COMPANIES

Companies	Management			Total
	Active	Regular	No	
Non Banking Companies	*5*	*15*	*63*	*83*
Banking Companies	*7*	*4*	*1*	*12*
Total	12	19	64	95

The results show that the companies in some of the sectors are more active in managing their translation exposure as compared to other sectors. Most of the banking companies are managing their translation exposure either actively or regularly. On the other hand, most of the non- banking companies are ignoring their translation exposure.

COMPARISON OF MANAGEMENT POLICY OF NON BANKING COMPANIES HAVING AND NOT HAVING FOREIGN SUBSIDIARIES

Non banking companies having or not having foreign subsidiaries also have different approach for management of their translation exposure. The result of the survey has been depicted in table 9.

TABLE 9: COMPARISON OF TRANSLATION EXPOSURE MANAGEMENT BY NON-BANKING COMPANIES HAVING & NOT HAVING FOREIGN SUBSIDIARIES

Companies	Management			Total
	Active	Regular	No	
Companies Having Foreign Subsidiaries	*3*	*10*	*31*	*44*
Companies not Having Foreign Subsidiaries	*2*	*5*	*32*	*39*
Total	*5*	*15*	*63*	*83*

The results of the study show that most of them are not managing their translation exposure at all. Even those non banking companies which have foreign subsidiaries are not so serious about managing translation exposure. Only a few of the companies under survey are managing their translation exposure actively.

COMPARISON OF MANAGEMENT POLICY OF INDIAN AND FOREIGN NON BANKING COMPANIES HAVING FOREIGN SUBSIDIARIES

Indian and foreign companies have different attitude towards management of their translation exposure. It is usually observed that foreign companies are more serious in their management policy as compared to Indian companies. The results have been presented in table 10. A comparison of Indian and foreign companies has been made with the help of AVOVA at 5 % level of significance where management of translation exposure is dependent variable and origin of company (Indian or foreign) is independent variable. For the purpose of study null hypothesis has been formulated and tested. The results of ANOVA have been presented in table 11.

Null Hypothesis: *There is no significance difference between Indian and foreign companies having foreign subsidiaries regarding their attitude towards management of translation exposure.*

TABLE 10: COMPARISON OF TRANSLATION EXPOSURE MANAGEMENT BY NON-BANKING INDIAN & FOREIGN COMPANIES HAVING FOREIGN SUBSIDIARIES

Companies Having Foreign Subsidiaries	Management			Total
	Active	Regular	No	
Indian	*1*	*8*	*29*	*38*
Foreign	*2*	*2*	*2*	*6*
Total	*3*	*10*	*31*	*44*

Out of total 44 non Banking Companies having foreign, 38 companies are Indian and 6 are foreign companies. Most of the foreign companies are managing their translation exposure. Some of them have regular management of their translation exposure whereas some of them are also following the policy of active management. On the other hand, Indian companies are not so serious about the management of their translation exposure. Most of the Indian companies are not managing their translation exposure. Only a few of them are managing it on regular basis.

TABLE 11: EFFECT OF ORIGIN ON TRANSLATION EXPOSURE MANAGEMENT

Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	*.957(a)*	*1*	*.957*	*4.902*	*.032*
Intercept	*43.685*	*1*	*43.685*	*223.703*	*.000*
Origin of Company	*.957*	*1*	*.957*	*4.902*	*.032*
Error	*8.202*	*42*	*.195*		
Total	*83.000*	*44*			
Corrected Total	*9.159*	*43*			

a R Squared = .105 (Adjusted R Squared = .083)

The results of the study show that the value of p is 0.032 which is lesser than 0.05 (at 5 % level).So, null hypothesis that there is no significance difference between Indian and foreign companies having foreign subsidiaries regarding their attitude towards management of translation exposure is rejected. The results of the survey show that there is significance difference between Indian and foreign companies regarding their attitude towards management of their translation exposure.

EFFECT OF MANAGEMENT OF TRANSLATION EXPOSURE MANAGEMENT ON TRANSLATION GAIN/ LOSS OF NON-BANKING COMPANIES

Management of translation exposure has an impact on translation gain or loss. Usually it is assumed that the companies who manage their translation exposure are able to reduce their translation loss and they may even enjoy translation gains. On the other hand, companies who do not manage their translation exposure face huge translation losses. For the purpose of the study null hypothesis has been formulated and tested. The results of study of effect of management of translation exposure on translation gain or loss faced by companies have been reflected in table 12 and table 13.

Null Hypothesis: *There is no significance effect of management of translation exposure by non-banking companies on translation gain or loss faced by them.*

TABLE 12: EXISTENCE OF TRANSLATION GAIN/ LOSS IN NON-BANKING COMPANIES

Origin of Company	No.	Manage But Suffer Loss	Manage & Don't Suffer	Manage & Enjoy Gain	Don't Manage & Suffer	Don't Manage & Don't Suffer	Don't Manage But Enjoy Gain
Not Having foreign subsidiaries (39)							
Indian	*32*	*2(Little Loss)*	*5*	*1*	*3*	*14*	*7*
Foreign	*7*	*Nil*	*Nil*	*Nil*	*3*	*3*	*1*
Having foreign subsidiaries (44)							
Indian	*38*	*2*	*2*	*5*	*9*	*8*	*12*
Foreign	*6*	*2*	*1*	*1*	*Nil*	*2*	*Nil*

TABLE 13: EFFECT OF TRANSLATION EXPOSURE MANAGEMENT ON TRANSLATION GAIN/ LOSS

Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	*.017(a)*	*1*	*.017*	*.029*	*.865*
Intercept	*267.342*	*1*	*267.342*	*455.418*	*.000*
Management of Translation Exposure	*.017*	*1*	*.017*	*.029*	*.865*
Error	*47.549*	*81*	*.587*		
Total	*404.000*	*83*			
Corrected Total	*47.566*	*82*			

a R Squared = .000 (Adjusted R Squared = -.012)

At 5 % level of significance, results of ANOVA table show that, the value of p is 0.865 which is higher than 0.05. So, null hypothesis that there is no significant effect of management of translation exposure on translation gain or loss faced by the non-banking companies is accepted. Some of the companies are not even managing their translation exposure and even then they have enjoyed translation gain. It may be one of the reasons for non-banking companies not taking their translation exposure so seriously.

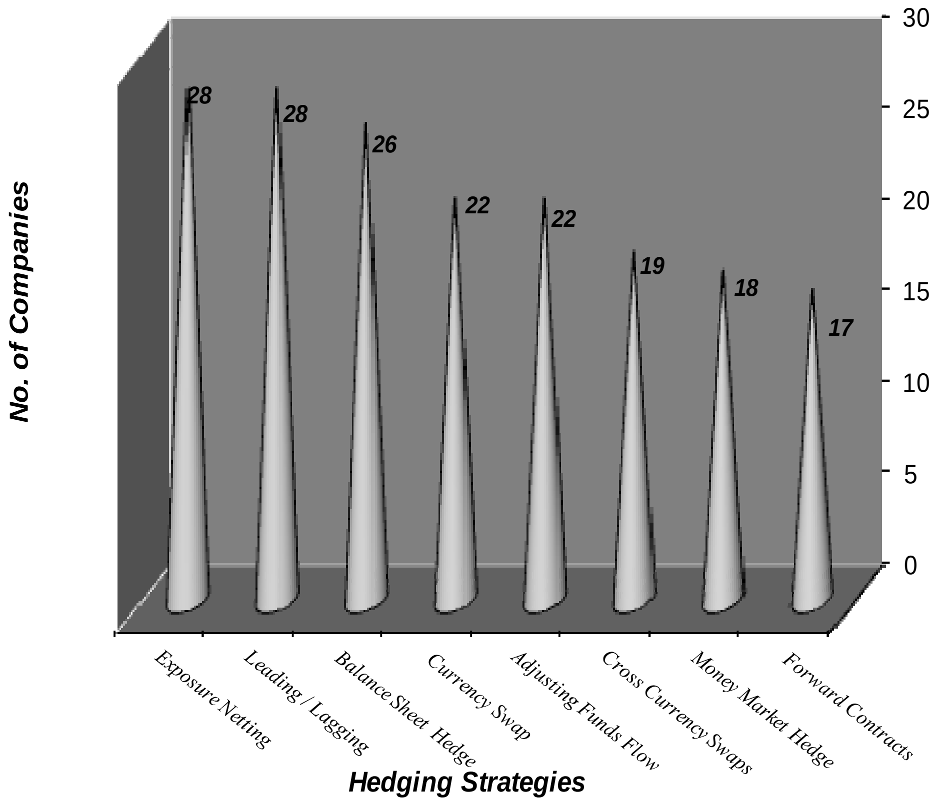
STRATEGIES USED FOR MANAGEMENT OF TRANSLATION EXPOSURE

Various internal and external strategies can be used for the purpose of management of translation exposure. In this study, popularity of various strategies has been studied in detail. The results have been depicted in table 14 and figure 1.

TABLE 14: STRATEGIES USED FOR TRANSLATION EXPOSURE MANAGEMENT

S. No.	Strategies	Non Banking	Banking	Total	% age
1	Exposure Netting	*18*	*10*	*28*	*90*
2	Leading / Lagging	*17*	*11*	*28*	*90*
3	Balance Sheet Hedge	*15*	*11*	*26*	*84*
4	Currency Swap	*12*	*10*	*22*	*71*
5	Adjusting Funds Flow	*12*	*10*	*22*	*71*
6	Cross Currency Swaps	*10*	*9*	*19*	*61*
7	Money Market Hedge	*11*	*7*	*18*	*58*
8	Forward Contracts	*10*	*7*	*17*	*55*

FIGURE 1: STRATEGIES USED FOR TRANSLATION EXPOSURE MANAGEMENT



The results of the study show that out of 31 companies managing their translation exposure, majority of companies are using techniques of exposure netting, leading and lagging and balance sheet hedges. Usage of derivatives is very less as compared to other hedging techniques for management of translation exposure.

CONCLUSION

All the foreign companies operating in India have their own currency of origin as their reporting currency. Most of the Indian companies having foreign subsidiaries prepare their consolidated financial statements in Rupee. All of the Indian companies follow Indian accounting standards for the preparation of their consolidated financial statements. Some of the Indian multinational companies like; Bajaj Auto, Bharat Heavy Electricals, Cadila, Dr. Reddy, Infosys and Wipro also prepare their financial statement on the basis of US GAAP in order to facilitate international comparison.

Results of the study show that monetary/ non monetary method has been most popular method among companies under survey for the purpose of translation of assets and liabilities. For translating the items of income statement, some of the companies apply actual rate prevailing on transaction date. But most of the companies follow yearly average rate system. Some of the companies are also applying other average rate systems where the average rate can be daily average, monthly average or weighted average rate. Companies in some of the sectors are more active in managing their translation exposure as compared to other sectors. Most of the banking companies are managing their translation exposure either actively or regularly may be due to strict guidelines of RBI. On the other hand, most of the non- banking companies are ignoring their translation exposure. Only a few of them are actively managing their exposure. The results also show that there is no significant effect of method of translation and management policy of the company on their translation loss or gain. Some of the companies are not even managing their translation exposure yet they have enjoyed translation gain. It may be one of the reasons for non-banking companies not taking their translation exposure so seriously.

There is significant different between the attitude of Indian and foreign companies towards management of their translation exposure. Most of the foreign companies are managing their translation exposure. Some of them have regular management of their translation exposure whereas some of them are also following the policy of active management. On the other hand, Indian companies are not so serious about the management of their translation exposure. Most of the Indian companies are not managing their translation exposure. Only a few of them are managing it on regular basis. Majority of companies are using techniques of exposure netting, leading and lagging and balance sheet hedges for the management of their translation exposure. Usage of derivatives is very less as compared to other hedging techniques in India.

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