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REGIONAL CURRENCIES

Forex Fears

INDIAN RUPEE

Rupee per US$

THAI BAHT

Baht per US$

PHILIPPINE PESO

Peso per US$

Source: Oanda.com, *CFO Asia* analysis.

ASIA'S CFOS MAY HAVE DODGED A BULLET LAST SUMMER WHEN THE WORST OF the credit crisis passed them by. But many have taken a direct hit from another side—the continued fall of the U.S. dollar and the sharp rise of local currencies. Since the start of the year, the Thai baht is up 12 percent against the dollar, the Philippine peso has risen 10 percent, and the Indian rupee is up 10 percent. Other currencies, including the won, the ringgit, and the Taiwan dollar are also more expensive.

Of course, currency appreciation partly reflects good news for Asia: local economies are vigorous and attracting foreign capital. But that's little consolation for exporters. The pain is particularly acute for service providers with foreign clients. Unlike manufacturers—who can usually offset currency losses on the export side with gains from imports—service businesses have fewer natural hedges. "The rupee is a very major worry for us," says S. Mahalingam, CFO of Tata Consulting Services (TCS). "Even though we have some operations overseas, a one percent rise in the rupee translates into 35 basis points in terms of margin impact for us."

How should CFOs cope? There's financial hedging, of course. Forwards are readily available, as are options in many flavors. But like other insurance, forex hedges are expensive—particularly at a time when the currency in question is already moving skyward. And they are better suited to large companies with ample buying power. "If you aren't big enough, you have to use the retail market with its high fees and spreads so wide that it may not be the effort," says Tim Pagett, a partner with PricewaterhouseCoopers in Beijing.

Still, hedging has proven valuable for many companies, particularly in India, where the rupee has been on the rise for years. That's true for TCS. The company's hedging program—which

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looks forward two years—employs options to protect it from upward spikes in the rupee but also allows it to book gains from a depreciation. Indeed, gains from hedges contributed to an expansion of the company's margins in the past quarter.

But financial instruments provide only part of the answer. CFOs are grasping a number of levers, ranging from cost cutting to efforts to improve pricing. At Chemtex Global, an engineering firm based in Mumbai, CFO Jimmy Spencer is exploring ways to lift output per employee. The company is putting in new technology (such as machines that print engineering drawings more quickly) and using critical path analysis to trim time required for projects.

Spencer, who oversees HR, has also found ways to put new employees to work faster. Previously, it took 12 weeks before a new hire started producing revenue—that time has been cut by half. "We want to get them earning for the company rather than have them be overhead," says Spencer.

Companies will also need to consider higher prices. TCS is looking at expanding into areas of consulting that offer fatter margins, such as knowledge process outsourcing, which involves not just processes, but certain low-level business decisions, too. Coats Thread Malaysia, a subsidiary of a U.K.-based textile producer, is weighing whether some prices will need to rise. According to CFO Tan Chee Wan, some of the company's customers are starting to drag out payments in expectation that a rising ringgit will lower their bills. "If the appreciation is too much, we'll have to renegotiate," he says. Still others, including SM Investments in the Philippines, are responding to currency volatility by refinancing some of their debts in their local currency.

As unlikely as it seems, stronger currencies may ultimately strengthen Asian businesses. In much the way that a heavy debt burden focuses a manager's mind, slimmer margins due to currency appreciation can force new rigor. "Our industry has been quite undisciplined—when the rupee was depreciating you could just keep accumulating inefficiencies," says Mahalingam, who is embarking on a range of cost control efforts at TCS.

—DON DURFEE

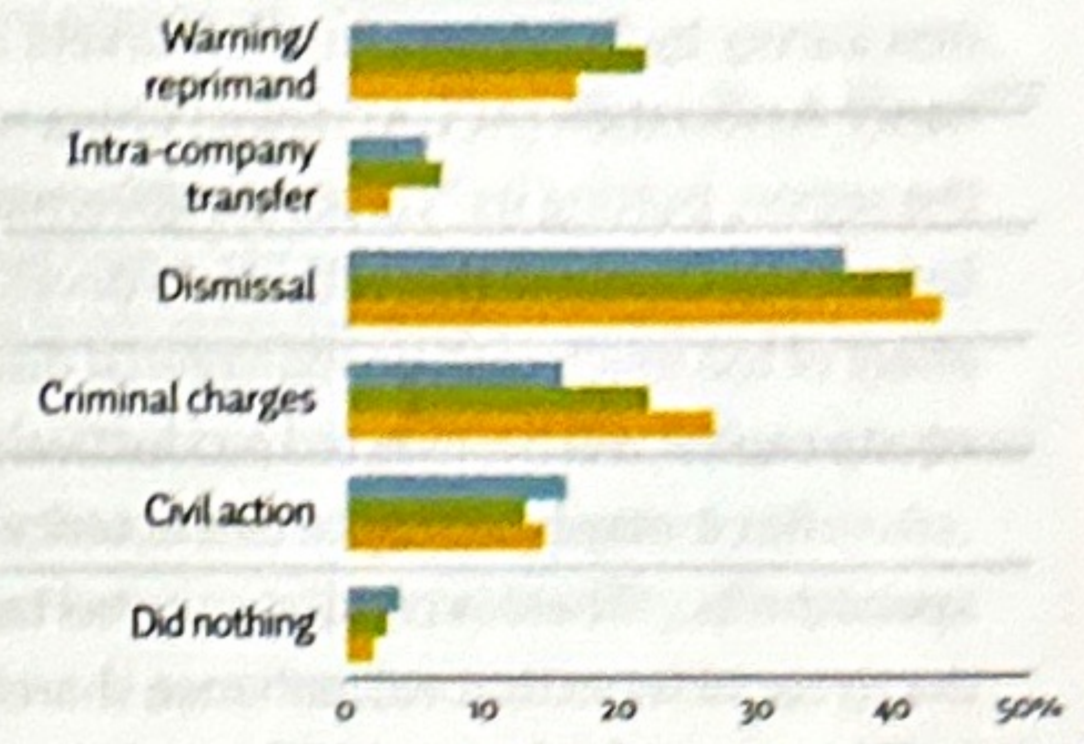
Melyn R. Acosta/epa/Corbis

MORE SENIOR, MORE HARM...

% companies reporting damage from fraud

...BUT LESS PUNISHMENT

% cases where companies act against perpetrators



■ Senior management ■ Middle management ■ Other grades

Source: PricewaterhouseCoopers

WHITE-COLLAR CRIME

Criminal Injustice?

CRITICS OF CRIMINAL JUSTICE IN countries ranging from the United States to Korea have long complained of a glaring imbalance: white-collar criminals typically receive far greater leniency than other crooks. Could a similar inconsistency exist within companies?

A new study of economic crime suggests that it does. PricewaterhouseCoopers surveyed 5,400 companies globally and found that when corporations discover employee fraud, they deal more harshly with middle managers and lower-level employees than with their top managers. For example, they are more likely to file criminal charges when low-level employees were involved.

There's an irony here: the same study finds that the more senior the employee, the greater the damage to the business.

John Donker a PwC partner in Hong Kong, argues that such inconsistency sends the wrong message to employees. "The ethical tone in an organization is very important for dealing effectively with economic crime," he says. "If senior executives are being punished less, that's clearly a problem."

—D.D.