

# CA

magazine

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May 2011



# GEN GAPS

Navigating cohort culture in the workplace today



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## Differences won't f-f-fade away

Every generation has its day, and every generation thinks it's got the answers. So how can we all just get along?

How would you feel about a young, just-hired accountant asking for a leave of absence to play basketball in the Czech Republic? Your response would depend on what generation you belong to, it seems. Today's workplace is crowded with cohorts — traditionalists, boomers, gen Xers and gen Ys — and the research is clear that generational differences in attitudes, personality traits and behaviours abound. Is this a recipe for conflict and misunderstanding? How can differences be managed and how are they playing out in the CA profession?

Roberta Staley reports in "Talkin' 'bout my generation" (p. 22) that miscommunication is the outcome of having diverse generations rubbing elbows in the workplace. "The challenge for accounting organizations big and small is finding ways to maximize the skill set of each generation while managing the conflict points." Her account of the attempts to find common work ground among these generations is more than reportage; it is also a guide to navigating the territory.

When companies grow, buying opportunities often present themselves, and many companies can't resist the urge to loosen the purse strings. Often the price is right, the financing is not a problem and the timing seems perfect. But does this mean purchasing is a good idea? "The answer uncovers a complex formula," writes Yan Barcelo in "The real deal" (p. 28). Price is an "important ingredient but not overwhelmingly so. Many people focus too much on that aspect and end up leaving a lot of value on the table." Learn what pitfalls to avoid when purchasing, according to experts in the area.

Your favourite columnists are also present — Marcel Côté writes about charitable and nonprofit organizations: he reminds us that their economic contribution is often underestimated and suggests that the Canadian government invest in them (p.52). Jim Carroll writes about innovative opportunities: one of the key trends in the corporate and scientific worlds today is that thinking broader will will make us see more opportunities for change (p.12).

The regulars this month are on practice management, fraud, assurance and legal issues. Finally, I would like to notify readers that our next issue (June-July) is a special one celebrating our 100-year anniversary (p.6). This issue will be an entertaining and informative package that will reproduce some of the best that this magazine has written in the century of its existence. We expect readers to cherish it, keep it as a collectors item, and refer to it from time to time.



Okey Chigbo, Editor-in-chief (interim)

## upfront

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BY ROBERTA STALEY

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Caught in the game of growth, some companies cannot resist a buying opportunity. But how can you tell when a good deal is good?

BY YAN BARCELO

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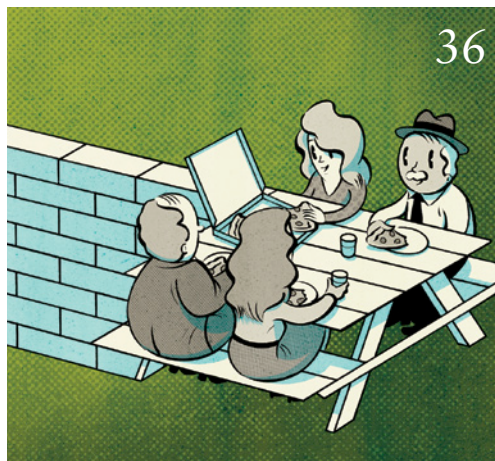
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# Mailbox

## DO YOU HAVE "IT"?

I read "CA 'it' factor" (January/February) with great interest.

I am a retired chartered accountant and was a public practitioner for 35 years. In my opinion, besides having good basic CA skills, an accountant with the "it" factor practises the following:

- when a client asks a specific question, the CA finds out why the question was asked and what the client really wants to achieve;
- is proactive and takes a hard look at the client's affairs. Even if the client doesn't ask a question, the CA finds out what the

client wants to achieve;

- examines details. Details are like pieces of a puzzle. The big picture is mostly formed by these pieces and is important;
- understands the client. Is he or she a risk taker or conservative? Linear-thinking or more creative? Likes new ideas or shuns change, etc.?
- learns about the client's life outside the business. Family life and other social activities can often help the CA understand why the pieces of the puzzle are the way they are. The understanding of the enterprise and its owners is a must in order to sell an idea and develop a strategy for the implementation of a plan;

- instills the CA's confidence in the client;
- bills appropriately and values his or her ideas and skills.

These practices will serve the client and practitioner well.

**Robert L. Katz, CA**  
South Surrey, BC

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## Profitable producer



**CA Thomas Walden cofounded Behind the Scenes Services, a one-stop shop for independent Canadian film productions**

Growing up in a northern Ontario mining town with access to only four TV stations, Thomas Walden would watch old black-and-white movies after school and dream about becoming a film producer. Today the 53-year-old CA runs a business affairs and film production company in Toronto with several feature film and TV productions to his credit. He most recently served as executive producer on comedian Dave Thomas' animated series *Bob & Doug*, featuring those iconic Canadian beer-swilling characters, the McKenzie brothers. "I always wanted to be in this business but living in Atikokan I had no idea how to do it," says Walden.

After landing a job at Cineplex Odeon and developing its first electronic ticketing system, Walden moved to the music business, orchestrating the financials around the world tours of the Rolling Stones and Paul McCartney. A stint with Atlantis Films (later Alliance Atlantis) led him to his business partner, a lawyer with whom he founded Behind the Scenes Services Inc. This one-stop shop for independent Canadian film productions handles the business affairs for about 40 projects a year spread over 20 clients. "We're a virtual back office for clients," he says, adding that he's had clients in production for decades who had never collected a single tax credit. "We've found hundreds of thousands of dol-

lars for our clients where before they were told they didn't qualify."

Walden says producing his own projects, some of which have gone on to win awards at film festivals worldwide, also gives him a competitive advantage. "I've dirtied my hands and been on set for 16 hours so I know what it takes." It also makes his workday anything but typical. "I could be on the set of a show, visiting a client or at my desk looking over a tax application," he says. "It certainly makes life exciting."

Rosalind Stefanac

### Résumé

- 1984** obtains CA designation (Ont.)
- 1988** joins Cineplex Odeon, becomes controller
- 1991** becomes tax auditor, Revenue Canada
- 1994** joins Atlantis Films as director of finance
- 2002** starts Behind the Scenes Services Inc.

## Happy 100th birthday, CAmagazine

Break out the bubbly — your magazine is turning 100. July marks a century since the first edition of the then-titled *The Canadian Chartered Accountant* came out in 1911, beginning as a modest quarterly of 32 pages. "It's fascinating to see how the magazine has changed over the years and how far we have come as a profession," says Cairine Wilson, publisher of *CAmagazine*. "We are proud to reach this great milestone that only a very few Canadian magazines have achieved."

To mark the occasion, next month's June/July special centenary issue will feature an eye-catching decade-by-decade retrospective of the magazine, by popular Numbers Game contributor, Steve Brearton. "For 100 years, this magazine has provided readers with informative and insightful articles," says editor-in-chief Okey Chigbo. "Our celebratory issue reflects all the wonderful variety and change that has happened within these pages."



## ELECTRONIC UPDATE

**A**lmost all CA firms are communicating at least some information to their clients electronically, according to the CICA's most recent Managing a Public Practice (MAPP) survey on computerization.

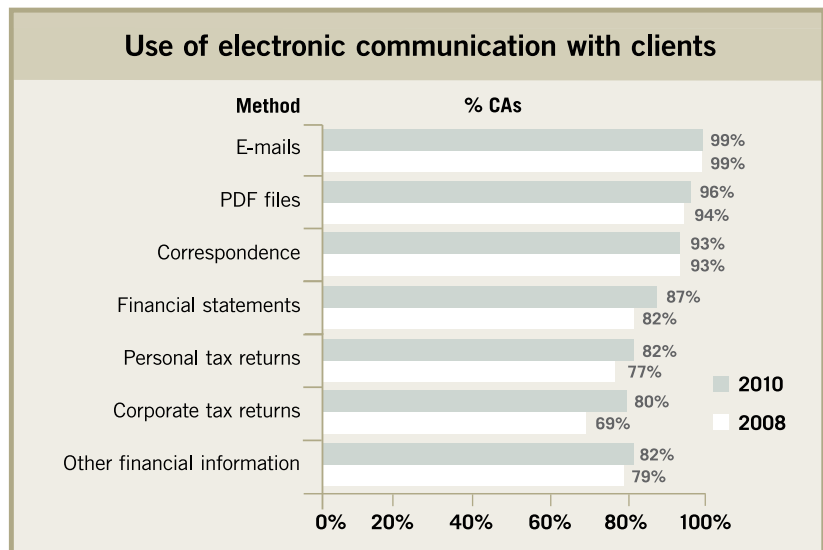
Nearly all firms represented in the survey send e-mails (99%), PDFs (96%) and other correspondence (93%) to their clients electronically. In all cases these percentages are consistent with the 2008 MAPP study.

Four out of five firms (80%) send corporate tax returns to clients electronically, up from 69% in the 2008 study. Personal tax returns (82%) and financial statements (87%) are also sent electronically by more than 80% of firms responding to their clients. In both cases the proportion of firms sending this information electronically has increased since the 2008 MAPP study.

The results are from a broader three-part MAPP CA practice benchmark survey conducted biannually with the partners of CA firms across Canada. The survey provides invaluable information on firm revenues, expenses, billing practices, pro-

ductivity, etc. Part 3 of the MAPP survey, conducted in winter 2010/2011, focused on computerization. Part 1 of the next MAPP survey will be launched this spring and will benchmark firm billing rates, compensation and benefits. There is no cost to participate and the detailed results are not sold or made available to those who do not participate.

Paul Long is CICA's manager of marketing and marketing research



### ASK AN EXPERT

#### WHAT'S THE BEST WAY TO HANDLE EMBARRASSING MOMENTS AT THE OFFICE?

Nearly everyone has had an embarrassing situation at work — such as spilling coffee on your boss, calling someone by the wrong name or tripping on the stairs.

Although these moments can be awkward, occasionally showing a little vulnerability on the job can make you appear more accessible and approachable to colleagues.

Here are four tips for rebounding from embarrassing work mishaps:

**Remain calm.** It's easy to lose your nerve after a slipup, but try to keep your composure. Take a deep breath and collect yourself.

**Own up.** Acknowledging a blunder before someone else does can alleviate any awkward

tension that may arise. If appropriate, address the situation in a humorous way to make everyone feel more at ease.

**Make amends.** If your accident affected another person, immediately apologize and take steps to ensure a similar mistake does not happen again.

**Move on.** Rather than dwell on a misstep, focus on getting back on track. The faster you recover, the less memorable the incident will be.

Robert Hosking is executive director of US staffing service OfficeTeam ([www.officeteam.com](http://www.officeteam.com))

# #NUMBERS Game

**1** Number of women in the *Globe and Mail's* Report on Business 2010 executive compensation survey of Canada's top 100 companies by market capitalization.

**1.2** Pay in millions interim Enmax Corp. CEO Charles Ruigrok said in early 2011 would not be sufficient if he was made permanent in the position.

**5** Compensation in millions earned by First Marathon Inc.'s Lawrence Bloomberg, Canada's highest paid CEO in 1993. In 2007, Bill Doyle, CEO of Potash Corp., earned more than \$320 million.

**6.6** Average 2009 compensation in millions earned by Canada's 100 best-paid CEOs — 155 times the pay of the average Canadian worker, according to the Canadian Centre for Policy Alternatives.

**Earnings statement** The Ontario Securities Commission is studying whether shareholders should have more say on executive compensation. The state of pay among Canada's business leaders:



**50+** Percentage of Canadian CEOs who stated in 2008 that large pay differences between workers and CEOs were "wrong."

**70** Percentage of companies that revised executive pay packages in 2009 as a result of the economic downturn.

**1993** Year the Ontario Securities Commission first required disclosure of total compensation, including pension and stock benefits, for CEOs and the four

other top-paid execs at Ontario listed companies.

**300,000+** Amount less in dollars the most senior federal civil servants were paid when compared with similar private sector jobs by a government advisory committee. Deputy ministers earned just more than \$400,000. Steve Brearton

## Going Concern



**SAMUEL DERGEL, CA**  
**SENIOR PARTNER,**  
**CFO2GROW**

**COMPANY PROFILE:** Financial professional recruitment firm CFO2Grow, in operation since 2000 and with offices in Montreal,

Toronto and Calgary, operates with a staff of 10 and that number is slated to grow to 15 employees shortly. The company has survived two economic downturns — the one following the terrorist attacks of September 2001 and the more recent financial crisis of 2008-2009 — but revenue bounced back last year to pre-recession levels with the turnaround in the economy.

**HOT FACTOR:** For the past year, company founder Samuel Dergel has used social media platforms such as Twitter, LinkedIn and a company blog to engage financial professionals about industry and personal issues affecting the CFO and his or her team.

**COOL PROJECTS:** The firm's traditional bread-and-butter business has been the recruitment of mid-level financial professionals, serving the gamut from oil and gas firms in Alberta to financial and manufacturing companies in Ontario. Last year, however, CFO2Grow launched a specialized CFO search practice, which places top financial executives for clients such as TSX mid-level companies. With the new initiative, the company has created a 100-day "onboarding" program for new CFO hires designed to ensure the organization's new top financial executive takes on his or her role as seamlessly as possible and that the expectations of directors, the CEO and the financial team are met or exceeded.

**IN HIS OWN WORDS:** "The role of CFO is very interesting because in some cases the CFO is the right hand of the CEO and in some cases the CFO is put there by the board to watch the CEO. CFO search is not cheap, but the cost of hiring the wrong CFO is huge. It has an impact on share price if the company is public and it has an impact on the entire company. This is a key leadership role." Paul Brent



**Use of mobile devices leads business IT challenges**

The proliferation of smart phones, tablet computers and other mobile devices in the workplace emerged for the first time as the top business technology concern for accountants and financial executives, according to the 2011 Top Technology Initiatives Survey by the American Institute of Certified Public Accountants.

“The surging use of smart phones and tablets means people are doing business, exchanging sensitive data wherever, whenever they want to,” says Ron Box, co-chairman of the AICPA task force that produces the survey. “What was once as simple as losing your phone could now create an enormous security risk for organizations.”

Respondents were also asked to predict the technologies they foresee rising in importance in the future, which included the implementation of touch-screen technology, deployment of faster networks and voice-recognition technology.

Top technology initiatives for 2011
Control and use of mobile devices
Information security
Data-retention policies and structure
Remote access
Staff and management training
Process documentation and improvements
Saving and making money with technology
Technology cost controls
Budget processes
Project management and deployment of new technology

Source: American Institute of Certified Public Accountants, 2011

**Who do you trust?**

About half of North American workers don't have confidence in those who occupy the corner office, according to an international study by US-based consulting firm BlessingWhite. Employees are much more likely to trust their immediate managers (72%) than their organization's senior leaders (52%) — in part because it's harder to build trust with people you rarely see or have never met, says BlessingWhite CEO Christopher Rice.

These findings could spell bad news for employers, as the study also reveals that trust in executives has a stronger correlation to employee engagement than does trust in immediate managers.

“Individuals can enjoy their work and have a sense of accomplishment, but if they don't trust their boss or their boss's boss they'll begin to question how they fit in with the company and have less pride in the organization overall,” says Rice.

**WASTE WINNER**

Ontario tax collectors are the unfortunate recipients of a Canadian Taxpayers Federation annual award for government waste. The provincial employees were singled out for receiving a maximum of \$45,000 each in severance for “losing” their jobs as Ontario PST collectors only to become federal HST collectors.

**RELATIVE SUCCESS**

Family businesses in this country are outpacing their global counterparts, finds a PwC report. Two-thirds (66%) of Canadian family businesses say they experienced modest to significant growth in demand for their products/services in the past year, compared with 45% of those in other mature markets worldwide.

**HE SAVES, SHE SAVES**

Canadian men and women save money differently. Responding to an RBC poll on saving and investing habits within the past year, more men (44%) said they set money aside for their retirement than women (33%), while women (79%) were more likely than men (73%) to save for more immediate priorities.

## Seven traits of top audit executives

**A**s president of the Institute of Internal Auditors (IIA), I often am asked about what it takes to build a world-class internal audit activity. And when I respond by sharing what I've seen

during my more than 30 years of experience, it is common to discover the real question on the inquirer's mind: "What attributes must I have to become a sought-after chief audit executive [CAE]?"

Over the years, I've made a mental list of critically important assets displayed by the best CAEs. Interestingly enough, the results of a recent study conducted by the IIA's Audit Executive Center and the Korn/Ferry Institute virtually mirror my list. Following are the seven personal attributes that I see as essential to top CAEs.

### Trait 1: Superior business acumen

Today, CAEs must be able to swim in sometimes turbulent waters to ensure they help keep the organization and the internal audit team afloat. In essence, the best CAE is an excellent business person and a model of strong leadership.

### Trait 2: Dynamic communication skills

Few roles call for better skills in communicating than that of the CAE. To be effective in the role, a CAE must be an attentive listener, an influential presenter and a knowledgeable and credible reporter, in whom executive management and the audit committee will have confidence.

### Trait 3: Unflinching integrity and ethics

Top CAEs are known for their deep and abiding ethics. They are schooled in recognizing red flags and questionable behaviour, and apply their independence and objectivity as they delve in search of the truth. An example of this is Cynthia Cooper, past vice-president at WorldCom, who adhered to her own ethical code to blow the whistle on the largest financial fraud in US history.

### Trait 4: Breadth of experience

Many modern-day CAEs have a track record that includes serving in diverse roles in different industries. Such experience prepares them to be strong leaders with a big-picture perspective on risk management, operations risk, compliance issues and financial reporting.

### Trait 5: Excellent grasp of business risks

As changes continue to arise throughout organizations, so do the risks. The best CAEs have the vision to anticipate those risks from an enterprise-wide perspective and the expertise to provide strategic consultation to the audit committee.

### Trait 6: Gift for developing talent

In the past, there was a lot of mystery around internal auditing. After the high-profile corporate frauds of the past decade, however, followed by the passage of the Sarbanes-Oxley Act of 2002, the function suddenly took centre stage and interest in the profession, as well as the demand for talent, escalated dramatically.

Today, even though the public has a better understanding of the internal audit profession, some CAEs still have

## Top chief audit executives have the courage of their convictions and the courage to call it as they see it

a challenge in building strong teams with the appropriate skill sets. The best CAEs, however, have an infectious enthusiasm for the profession and the discernment required to recognize raw talent.

Currently, the idea of rotating professionals into internal auditing from other areas of the organization is gaining ground. Then when a person with diverse experience reaches the CAE level, he or she is confident enough to sit in the boardroom, face to face with the audit committee.

### Trait 7: Unwavering courage

Internal auditing is not for the faint of heart; it requires courage — real courage. Doing the right thing is not always easy, especially when pressured by circumstances and those holding the power. And yet having courage is one of a CAE's highest callings.

The top CAEs have the courage of their convictions, the courage to call it as they see it, and the courage to step out and step up with a proactive approach to both existing and anticipated risks. They are integral to their organization's decisions, their executive management's knowledge and their audit committee's confidence and peace of mind.

Richard F. Chambers, CIA, CGAP, CCSA, is president and CEO of the Institute of Internal Auditors Global Headquarters

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## From bombs to beauty

**M**arch was an interesting month for me. One day I was in Dayton, Ohio, opening the annual leadership meeting for the US Air Force Research Laboratory. In the room were senior military officers, scientists and researchers who control virtually all the research spending for the entire air force. The next day I was in West Palm Beach, Fla., as the closing speaker for the Personal Products Council, with senior executives from the cosmetics, toiletries and other personal-care products industry.

Talk about going from one extreme to another. But it certainly provides insight into one of the key trends sweeping the corporate and scientific world today. There's a belief that if we think broader — observe what is occurring in other industries, for example — we might see more opportunities to change what we do and how we do it, rather than continue to think in narrow terms.

So what's my role? As a CA who started out 30 years ago auditing chicken cooperatives, fish plants, small municipalities and small retailers throughout rural Nova Scotia, perhaps I — and many other CAs — see the world in extremely broad terms rather than through a narrow industry lens. This is a critical and important skill that bodes well for the future of our profession. As young CAs, we find ourselves immersed in a wide variety of complex circumstances in a vast range of industries. We quickly develop the capability to observe key issues within those industries, assess different strategies and come up with solutions to complex problems.

So it is with the corporate and government world today. People find themselves in a place where change is occurring at a blinding pace. New ideas, business models, industries and products are launched faster than ever. And it's by learning how to observe and understand change from a variety of perspectives that organizations can get ahead.

Consider the world of defence spending, where there is a great deal of budgetary pressure to continue to move forward but to do so with new spending restraints. Organizations ask themselves questions such as, what can we learn from other organizations outside the defence in-

dustry that have scientists and engineers? How are they generating innovation ideas? How are they responding to similar pressures?

Sometimes the concept of customer-oriented innovation plays a role. Maybe, goes the thinking, we'll find one customer using a product in a unique way that no one else is thinking about, and we could take that idea to the rest of our customer base.

Then there is the issue of innovation within the consumer products sector — such as cosmetics and beauty products. Today, customers are more vocal with opinions; fashion tends to evolve faster; new ideas go from the runway to the shelf much faster. In this case, we've got an industry looking around to see where the next marketing, branding, product or customer-support ideas might come from. And they're influenced by other industries — there's a marriage of technology, healthcare and beauty for example. Imagine a new piece of jewellery in the not-too-distant future that doubles as a medical monitoring device.

In both cases, we've got groups of people who, five years earlier, might have based their progress on how things looked inside their organization or industry. Today, they've realized they've got to look wider; not narrowly, but from a very broad perspective. That's why concepts such as customer innovation, open innovation and other new models for idea generation are becoming so important.

CAs are pretty good at that, so we've got lots of new opportunities to come.

Jim Carroll, FCA, is a well-known speaker, author and columnist. Reach him at [jcarroll@jimcarroll.com](mailto:jcarroll@jimcarroll.com) or log on to his website at [www.jimcarroll.com](http://www.jimcarroll.com)

### INNOVATIVE OPPORTUNITIES

**Open Innovation Community**  
[www.openinnovation.net](http://www.openinnovation.net)

**Customer-inventors: the next step in open innovation** [www.futurelab.net/blogs/marketing-strategy-innovation/2008/07/customerinventors\\_the\\_next\\_ste.html](http://www.futurelab.net/blogs/marketing-strategy-innovation/2008/07/customerinventors_the_next_ste.html)

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# Work in process

BY MICHAEL BURNS

USING TECHNOLOGY TO IMPROVE THE WAY YOU DO BUSINESS

## CRM survey 2011

**W**hat's new in customer relationship management (CRM)? Time to find out. As with our other recent surveys, such as ERP, you can complete an online questionnaire about your requirements, then view the 10 best systems for your needs based on percentage fit calculations. You can also drill down for more details on each system. For the link to the survey, visit the online version of this article.

In April 2010, when we ran our last CRM survey ([www.camagazine.com/crmsurvey2010](http://www.camagazine.com/crmsurvey2010)), cloud computing and social networks (Facebook, LinkedIn, Twitter, etc.) were the leading trends. This year, vertical solutions, mobile applications, xRM (which means CRM for everyone, not just customers), document management, analytics and aggressive pricing are making waves. I asked Jonathan Taub, CA, president of Rimrock Corp., which provides consulting services for Microsoft Dynamics GP (Great Plains) and Microsoft CRM, to offer his thoughts on these specific trends and some of his insights are included here.

**Vertical solutions:** CRM vendors are pushing their business partners who implement their products to extend CRM to specific verticals or industries. This approach makes a lot of sense because each industry has unique requirements that are not available out of the box without some consulting work. The business partners will use the same software tools as the developers so the extensions have the same user interface and database as the CRM system.

**Mobile applications:** these applications ensure your key contacts are always close by on your mobile device/cell-phone, and you can also add notes, schedule a meeting, see all related e-mails and even place an order. These applications require a Web-enabled user interface that has been optimized for small screens on a mobile device. As there are so many different types of mobile devices, don't expect the CRM developer to support all of them. There is a slew of companies that specialize in developing and extend-

ing CRM applications specifically for mobile devices. **xRM:** CRM is something of a misnomer as it is not just for customers. It can include suppliers, referral sources or even projects. It is therefore morphing into xRM, providing a platform to track and control relationships with anyone or anything.

**Document management:** this function has also been added to the mix as documents need to be tracked and searches conducted on both structured and unstructured information in the database or documents.

**Analytics:** users of CRM systems crave analytics/business intelligence on their customers. Ideally, key performance indicators (KPIs) are available on a dashboard and these vary according to the role of the person using the system.

**CRM is often sought out by the sales and marketing team as an exciting way to grow the business**

Analytics get tricky because some of the information that needs to be included in the KPIs may be in CRM but other data might be in the ERP system or a website.

**Aggressive pricing:** there are a lot of CRM products on the market, which is good news for buyers but not so good for the implementers or value-added resellers of these products. They have seen their revenue model change as deep discounting has caused margins to shrink.

CRM is often sought out by sales and marketing types (rather than the accountants) as a potential revenue generator and an exciting way to grow the business. But ERP, which contains a lot of accounting, is often considered boring by these same people. Let's hope the accounting and sales pros get together to ensure an integrated solution.

For the online version of this article and the survey chart, please visit [camagazine.com/crmsurvey2011](http://camagazine.com/crmsurvey2011).

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## Canadian accounting profession in a globalized world

**T**he financial crisis of 2008 was a rude awakening to how pervasive and powerful globalization had become. The ability of US mortgage lending activity to bankrupt Iceland demonstrated the depth of impacts that could be felt across industries and between countries. Economic, regulatory and social change is now difficult to contain within any one set of borders or one industry. Whether it is the financial crisis, or the spread of political protests from Tunisia to Libya, the lesson is clear: the world is interdependent and no industry or country is completely autonomous. The Canadian accounting profession is not immune to this phenomenon.

Globalization has reached a tipping point where it now colours how business people respond to issues and how governments relate to businesses inside and outside their jurisdictions.

Multinational businesses are seeking systems that facilitate multijurisdictional business transactions. In response, the development of international law, international accounting and auditing standards, and changes to some countries' tax systems have provided a more consistent basis for business. Meanwhile, countries seeking new investment and economic growth work to reduce trade barriers internationally and within their borders.

### The accounting profession in a global market

The accounting profession has also been changed by globalization, in particular when it comes to standard setting and shifting needs in the marketplace.

Many countries at one time unilaterally set their own accounting standards. In recent years, however, the globalization of business and the capital markets has resulted in national standard setting being replaced by the need for an international global accounting language and global audit standards. Prime examples are the global march to international financial reporting standards, which have been implemented in most of the developed world, with the US as the last major holdout, and international audit standards developed by the International Federation of Accountants.

Canada's reputation for excellence in domestic standard setting has long enabled us to "punch above our weight" at

the international level. However, as powerful bodies such as the International Accounting Standards Board (IASB) evolve to meet the demands of globalization, it is possible that emerging players such as China and India will carry greater influence in the standard-setting process. In fact, political manoeuvring may play a greater role as globalization takes hold. Perhaps this is reflected in the recent appointment of the new chairman of the IASB, who is a senior politician and regulator, but not an accountant.

### Accounting in Canada

The Canadian accounting profession is operating in today's global environment with multiple designations and jurisdictions and fragmented global connections. There are three

## National accounting bodies around the world are striking alliances to enhance service to members and address other impacts of globalization

accounting designations, operating with the same accounting and assurance standards, but setting their own professional standards and operating under different licensing regimes across Canada. Each is legislated provincially, with the legislation differing between provinces. And each has a separate training system.

The structure of the Canadian accounting profession can work against it in this global environment. When standards were set nationally, having multiple voices across the country generated productive dialogue as standards were set. This conversation is now happening around an international table, which requires a strong, unified voice to effectively represent Canada's needs.

### The marketplace

Accounting firms operating globally today are structured to take advantage of standardized practices, enhanced movement of professionals and a superior flow of information. Other firms have sought out global alliances to help them better compete as globalization takes hold. Even firms with smaller clients have had to become conversant with cross-border tax issues, outsourcing to other countries and import/export complexities. As businesses become more global, their

service providers — including their accountants — are forced to shift their perspective to properly service the needs of the business community.

As borders have become less relevant for business, so too have they become less relevant for professionals.

Canada's CAs have reciprocity arrangements with premier accounting bodies worldwide. In fact, the Canadian CA profession has considerable expertise in determining substantial equivalency of foreign qualifications in a manner that is fair, consistent, transparent and timely.

However, we are not alone in seeking such arrangements. To address today's globalization, accounting bodies elsewhere have moved to create reciprocity agreements that denote similar training and education between systems. And other alliances are also being struck to strengthen the relevance and value of accounting organizations.

Last year, CAs in Australia and New Zealand announced such an alliance. More recently, in March, the American Institute of Certified Public Accountants (AICPA) and the London-based Chartered Institute of Management Accountants (CIMA) announced a proposed joint venture that would promote a new globally recognized management accounting designation. Subject to approval by the governing bodies of both organizations, the proposed designation would be issued by the joint venture on behalf of the AICPA and CIMA, with membership remaining with the existing organizations. In the Americas outside the US, non-US CPAs would be able to obtain the new designation as AICPA international associates after a rigorous assessment process. In the rest of the world, new designation holders would be able to become members of the Chartered Institute of Management Accountants after the same assessment process.

These are examples of the way in which globalization is affecting our profession. National accounting bodies around the world are either considering or striking alliances to enhance the services they offer to members and to address the other impacts of globalization. Doubtless there will be more changes down the road as the

accounting bodies come to grips with globalization and position themselves to best service their members and the business community.

With this greater demand for alignment and a continued need for professional mobility comes pressure for a global designation. Such a designation would formalize the loose alliances that exist



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# News from the profession

A SUMMARY OF CURRENT CICA PROJECTS AND INITIATIVES

and create the opportunity for great brand building, but given countries' different regulatory regimes a global designation is likely a long way off.

## Looking ahead — designation of choice

The two existing designations that are globally dominant are CA and CPA. The CA designation is particularly strong in the Commonwealth network. The CPA designation is strong in the US, Japan, Hong Kong, China and Australia.

Looking at this landscape, it is difficult to predict which one will emerge as the premier designation — if one does emerge at all. The Canadian CA has always enjoyed a special relation-

ship with CPA and with the other CA designations around the world. This natural affinity has led to meaningful cooperation over the past decades. However, we need to take action to ensure Canadian CAs are in the best possible position should the global profession start consolidating into either CA or CPA.

At home and worldwide, the accounting profession sits at a crossroads. The forces of globalization and integration will continue and the balance of power will keep shifting. However, where the Canadian accounting profession ends up in a decade will be determined by decisions made now.

Kevin Dancey, FCA, is president and CEO of the CICA

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## Members invited to participate in two key benchmarking studies

### Member compensation survey

Every two years, the Canadian Institute of Chartered Accountants (CICA) and the provincial institutes/ordre conduct a profession-wide compensation survey. The survey results are a valuable tool for members to benchmark their salaries against other members in their region and they are also used to promote the profession to students across Canada.

In early June members will receive an e-mail invitation to participate in the CICA Member Compensation Survey from iTracks, one of CICA's research providers. Participants will receive an advance copy of the results in early September. The complete results of the study will be available to all members by mid-October.

The CA compensation survey is hosted on a secure site and all information entered is kept strictly confidential. Results will be reported in aggregate form only.

If you have questions regarding the survey, please contact Paul Long, manager, marketing and marketing research at paul.long@cica.ca. Results of the 2009 CA Compensation Survey can be found at [www.casource.com/memberGlobal/initArticle-SearchAction.do?id=3&catId=9](http://www.casource.com/memberGlobal/initArticle-SearchAction.do?id=3&catId=9).

### Managing a public practice, part 1

All CA firms are encouraged to take part in the latest Managing a Public Practice (MAPP) survey, conducted by the CICA and the provincial institutes/ordre. Part 1 of the survey will be launched late May and will focus on billing rates, compensation and benefits. The survey is part of a broader three-part survey. Part 2, which covers firm revenues, expenses, billing practices and productivity, and Part 3, which surveys technology used by CA firms, including hardware, software and security, were last conducted in 2010 (see "Electronic update," p. 7).

MAPP survey results are not available to nonparticipants. Only partners and sole practitioners of CA firms that participate in the survey gain access to this valuable information. Invitations to take part in MAPP surveys are sent by e-mail to CA firm partners and sole practitioners from iTracks, one of our research providers. MAPP surveys are hosted on a secure site and all information entered is kept strictly confidential. Results are reported in aggregate form only.

For more information regarding the MAPP survey, please contact [MAPPSurvey@ica.on.ca](mailto:MAPPSurvey@ica.on.ca).

## Notice to members — 2011-2012 CICA member fee

THE CICA BOARD OF DIRECTORS has set the CICA member fee for the 2011-2012 fiscal year at \$460. *Member fees are due and payable as of April 1, 2011.*

Member fees account for approximately 53% of the total revenues generated by the CICA to fund its activities. *The member fee has remained unchanged since April 2009.*

## Accounting standards for private enterprises — new online tools

**W**ith new accounting standards for private enterprises (ASPE) now in effect, the Canadian Institute of Chartered Accountants (CICA) continues to add to its series of transition tools.

Generally speaking, the new standards will result in simplified accounting and less disclosure, but experts caution against expecting time and cost savings in the initial year. Careful consideration should be given to assessing available options and alternatives, and to making the required changes to processes and other systems.

ASPE must be adopted on a retrospective basis, which will require comparative financial information for 2010 as well as an opening balance sheet as at January 1, 2010 (assuming a calendar year-end).

The new CICA tools include:

- **Conversion to accounting standards for private enterprises: basic transition steps.** This concise booklet outlines seven basic steps companies adopting the new standards should consider, including selection of accounting policy choices and preparing the opening balance sheet.

- **Accounting standards for private enterprises: a guide to understanding transitional exemptions and accounting policy choices.** The publication explains the accounting policy choices that managements will have to make and the exemptions available when applying these standards. The guide also illustrates how these choices will likely impact a set of financial statements, including a practical case study.

- **Accounting standards for private enterprises: transition considerations for a non-complex entity.** This document outlines issues that a noncomplex entity should take into consideration in the transition process. It is intended to raise awareness on possible changes that might affect typical line items in a set of financial statements.

- **Accounting standards for private enterprises — a case study: financial statement comparisons.** The publication presents an example of financial statements prepared in accordance with prechangeover accounting standards (XFI version) and financial statements restated in accordance with accounting standards for private enterprises.

The tools are available for free download at [www.cica.ca/PE](http://www.cica.ca/PE).

# it takes one to know one



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# Standards digest

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## RECENTLY ISSUED PRONOUNCEMENTS

<b>CICA Handbook – Accounting</b>	<b>Date issued†</b>
Amendments to Preface and Introductions to Parts I, II and III	March 2011
Amendments to IFRS 1 regarding Severe Hyperinflation and Removal of Fixed Assets for First-time Adopters (Part I)	March 2011
Amendments to IFRS 9 regarding the Fair Value Option for Financial Liabilities (Part I)	March 2011
Amendments to IAS 12 regarding Deferred Tax: Recovery of Underlying Assets (Part I)	March 2011

<b>CICA Handbook – Assurance</b>	
Conforming amendments to Sections 7050 and 7200 regarding the adoption of ISAs as CASS	May 2011
Clarification of recent Handbook changes	May 2011

<b>CICA Public Sector Accounting Handbook</b>	
Government Transfers, Section PS 3410	March 2011

## RECENTLY ISSUED DOCUMENTS FOR COMMENT (to April 30, 2011)

<b>Accounting</b>	<b>Comment deadline</b>
ED Annual Improvements regarding Accounting Standards for Private Enterprises	June 21, 2011
EDI Financial Instruments: Impairment	April 1, 2011
EDI Offsetting Financial Assets and Financial Liabilities	April 28, 2011

<b>Auditing and Assurance</b>	
EDI Assurance Engagements on Greenhouse Gas Statements	April 18, 2011
ITC Disclosures	April 11, 2011
ITC Review Engagements	April 11, 2011
ED Commenting in a Comfort Letter on Pro Forma Financial Information	June 17, 2011
ED Standards Affected by Changes in Canadian Securities Regulations	June 17, 2011

### WATCH FOR

#### Documents for Comment

IASB proposals regarding Consolidation — Investment Companies; Annual Improvements 2009-2011; Three-yearly Public Consultation on Technical Agenda

#### Legend

ED – Exposure Draft

DII – IASB Draft Interpretation

EDI – ED based on IFRS/ISA

ITC – Invitation to Comment

RVI – IASB Request for Views

† Refer to each Handbook pronouncement for the effective date and transitional provisions. *The information published above reflects best estimates at press time. Please visit our website for the most recent information.*



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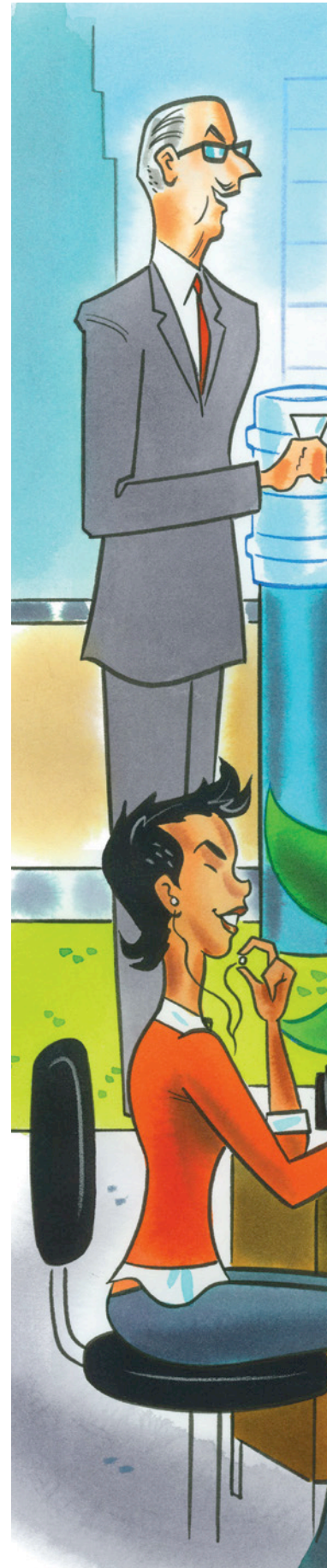


Traditionalists. Boomers. Gen X. Gen Y.  
With a little understanding, can't we all get  
along and work together? By Roberta Staley

# Talkin' 'bout MY generation

Erica McGuinness folds her tall frame into a chair in a 23<sup>rd</sup> floor boardroom of Ernst & Young's downtown Vancouver office, the North Shore Mountains looming in the distance. E&Y's chic decor — blond maple wood set off by pale fern-green walls — is a dramatic contrast to the navy backdrop of tall peaks with their coronet of low-lying, rain-drenched cloud. A staff accountant in E&Y's assurance practice, McGuinness' dynamic smile is another counterpoint to the blue-gray West Coast palette. And why wouldn't McGuinness be sunny on this cold, wet Vancouver day?

illustration by MAURICE VELLEKOOP







As a card-carrying member of generation Y, 26-year-old McGuinness is part of a demographic cohort born between 1981 and 2000 that has received concessions and accommodations that would have been unthinkable during the reign of the traditionalists — those born from 1922 to 1945 — who founded a legacy for these young adults to inherit.

It is a truth universally acknowledged that those who don't evolve don't survive. But in a twist of Darwinian logic, a discombobulated business environment finds itself having to juggle the unique needs and wants of the various generations, including such whip-smart gen Ys as McGuinness. A basketball player in secondary school who became an all-star guard at the University of British Columbia, McGuinness studied for a commerce degree off court. After graduating with honours, she was hired at E&Y as a staff accountant in September 2008. A month later, she received a call to join a women's professional basketball team in the Czech Republic. "I communicated that this was important to me and E&Y was very encouraging that I take the opportunity," says McGuinness, who played one season on European soil. Both her parents and her fiancé's parents expressed surprise that E&Y was "so accommodating, which shows you the difference in generations," McGuinness says.

That a new employee could pack her gym bag for an extended leave so soon after being hired is indicative of a profound cultural change that has occurred within organizations due to seismic economic, demographic and societal shifts. CA Marc Belaiche, a consultant on staffing strategies and president of the Internet job board TorontoJobs.ca, says that during the bullish years of this nascent century, loyalty became an anachronism among 20- to 29-year-olds, who would jump for a couple thousand dollars more to a competing firm. The recent recession helped instill some humility, causing younger workers to place more value on stability. However, Belaiche says their perceived idiosyncrasies — exacerbated by gaping differences in technological know-how and work/life balance expectations — have resulted in miscommunication between the generations currently rubbing elbows in the workplace. The challenge

for accounting organizations big and small is finding ways to maximize the skill set of each generation while managing the conflict points.

Easier said than done, of course.

Elena Shalygin, senior manager, human capital at Deloitte Consulting in Toronto, muses on the disharmony that is rooted in the younger group's ease with technology. The acceleration of technological change and the emergence of the digital age with its Hydra heads — e-mail, cellphones, PDAs, GPSs, Wi-Fi, MP3 players, Twitter and iPod and iPad apps — is a mixed blessing in the workplace. Gen Y embraces the latest gadgetry and software programs. Gen X, born between 1965 and 1980, tries to stay current with technology while baby boomers, born from 1946 to 1964, attempt to adapt, says Shalygin. But as the boomers look over at yet another 20-something tweeting during a meeting, they might be heard muttering, "Generation why?"

Lenard Boggio, a 56-year-old senior partner at PricewaterhouseCoopers in Vancouver, is as at ease with the digital world as any of his peers. Age, however, has given Boggio the gift of perspective. Relying upon technology can supersede the most important tool within an organization: verbal communication. Boggio says he will watch eight or 10 youthful staff members working together and, rather than asking questions out loud, they will query each other via instant messaging. To Boggio, there are both positives and negatives to this mode of communication. "The reasons they don't do this is so they don't bother the other people and they are comfortable with technology. That's OK, but if the people around them don't hear the question, they don't learn either."

Boggio warns of technology's potential dark side while recalling his own struggles in the mid-1980s. "I was in the era when I had to design my own spreadsheets. Now I see students do things in hours that would have taken me three days to accomplish." The challenge, then, has shifted from coping with unwieldy, time-consuming processes to ensuring that technology doesn't usurp critical thinking. "When you build artificial intelligence into programs, people sometimes don't learn the

## Management styles

	TRADITIONALISTS	BOOMERS	GEN Xers	GEN Ys
<b>Definitions</b>	Command and control	Participative	Collaborative	Hypercollaborative
<b>Behaviours</b>	Rigid: do what I say, not what I do	Political: do what we've all agreed upon	Straightforward: do what we need to do to get results	Personal: do what each of us is best at and wants to do
<b>Expectations</b>	Micromanagement	Flavour of the month management — newest management trend	Performance-based management	Just-in-time management

Source: *Loyalty Unplugged — How to Get, Keep & Grow All Four Generations*, Adwoa Buahene, Giselle Kovary

# As the boomersaurus look over at yet another 20-something colleague tweeting during a meeting, they might be heard muttering gently, “Generation why?”

reasons for doing what they are doing. Technology is an enabling tool. We still need to realize that it’s the brain — not the computer — that needs to make the decisions about the service we provide our clients,” Boggio says.

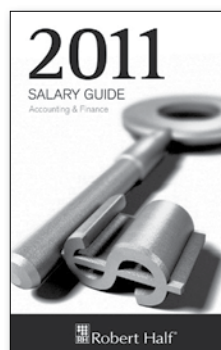
The older cohort has much wisdom to impart; Boggio warns against throwing the baby boomer out with the bath water. “Whether it’s providing tax advice, consulting or auditing, professional skepticism is very important and that is the skill we have to transition from our generation to the next.” But skepticism is a learned skill, and without it, auditors can get burned, which can be “disastrous for a career.” As a result, PwC has instituted a formal program whereby junior staff members are present at meetings with clients. Called Enhanced Working Practices, the program encourages all staff to help junior members develop their professional skills. This may involve attending a meeting with a partner or a manager, where the junior staff discusses the objectives of the meeting beforehand, observes or

contributes during the meeting if the situation presents itself, and debriefs afterwards. Senior staff also discusses audit and accounting issues as they arise, to help less experienced staff understand how these issues are considered and ultimately resolved, Boggio says.

There is no truer Delphic axiom of modernity than “the medium is the message.” But, like the ancient Greek oracle, the method of delivery may obfuscate what is being communicated, creating riddles that are misinterpreted, says Belaiche. For example, an older worker may think that the typical terse idiom of a younger colleague’s e-mail is negative in tone, while a boomer’s formal e-mail diction may be perceived as stuffy and condescending. Belaiche says younger employees ignore formalities, communicating the bare necessities via tweets, instant messaging or e-mail. “I respond accordingly — with one line. Mirroring helps alleviate that communication problem,” Belaiche says. “It’s learning to speak in their way: put smiley



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faces and 'u' instead of 'you.' You adapt to their style and, from a manager's point of view, it lets you talk to them in the way that they want to talk."

Gen Y also exhibits a nonchalance towards management that is anathema to boomers and even causes gen Xers to cock an eyebrow. Many gen Ys learned on the playground that participation — not winning — was the priority. They didn't receive negative feedback and they weren't allowed to fail. Everyone brought home a trophy, no matter who triumphed in the playoffs. As a result, gen Ys are guileless self-advocates as well as team players, able to shoulder a captaincy — or challenge it with equanimity — unimpressed by status and experience. "Gen Ys focus on credibility," Shalygin says. While boomers' and gen Xers' communication styles lean towards the "town hall meeting where senior executives stand and announce a change in strategy," gen Ys want to ask questions and receive answers — now. Their preferred channels of communication are tweets, Facebook missives, instant messages and e-mails to their network of friends in and outside the workplace. "They want the opportunity to ask questions; they want an immediate response and if the leaders don't respond, they don't accept that. They want the leaders to have blogs," Shalygin says. Such characteristics should not be interpreted as negative. "It's a very innovative generation, so using that mind-set and the level at which it leverages technology into new products to engage customers will be really powerful if done right."

Giselle Kovary, managing partner and cofounder of n-gen People Performance Inc., a Toronto-based training company that designs strategies to improve workplace performance, says such self-advocacy has caused a flap in the office. It opposes an entrenched cultural belief that the workplace is an honoured institution where personal needs are subsumed by corporate needs. It was an ideology that baby boomers cut their teeth on and gen Xers first began to challenge. "There are some funny anecdotes, such as a gen Y, after not getting promoted, going out and getting drunk and calling his or her manager and berating him or her," Kovary says. "And there are the cases where the parents of a gen Y will call."

Kovary relates how an interning gen Y e-mailed the CEO because she couldn't find something she wanted on the organization's intranet site. By the end of week one, says Kovary, the young upstart had sent a company-wide e-mail to several thousand employees articulating her ideas about how to improve the organization. The company did not keep the intern. To be fair, Kovary says, it was not the young woman's fault that she overstepped an invisible but solid Berlin Wall of office etiquette. "She would have been coached by her parents and sports coach and school to be innovative and a go-getter and make a contribution. Then the organizations go, 'what's going on here?' Professional firms are still often functioning in a very hierarchical, traditionalist manner."

The ambitious gen Y intern may have been wrong for the firm's entrenched culture, but her self-confidence and innovation may have resulted in an unexpected return on investment for the company down the road. Kovary says that tailoring management styles to fit the needs and desires of each generation influences the bottom line. "There is a business case for why you

## The four generations

Four generational cohorts make up the modern workforce, although only a few traditionalist stragglers remain behind as executive figureheads, consultants or short-term contractors. According to Statistics Canada, about 518,300 traditionalists were still in the workforce in 2010, although most in the accounting sector have retired. The rest of 2010's 16.9 million-strong workforce was made up of three cohorts. Baby boomers — those born between 1946 and 1964 — have also started retiring. Generation X — unfairly maligned in the 1990s for a slacker attitude and rebellious outlook — is the smallest cohort, born between 1965 and 1980. Gen X smoothed the way for Gen Ys, many of whom are still in the formal education system. This is the generation reared on Google, Myspace, Facebook and YouTube who have entered the workforce happily entwined in the social network, thumbs keyboarding a BlackBerry as nimbly as a ballerina dancing *Swan Lake*. —RS

should care — it has a direct impact on performance, which is linked to the bottom line. Highly engaged workforces produce, on average, annual revenue growth of 1% to 2% above industry average," Kovary says. So, how should an organization handle such swagger? Not, Kovary says, by making the upstarts with their unquenchable team spirit and ingenuity walk the plank.

Kovary says that gen Ys strongly benefit from workshops and training that teaches them how to deal with what they may perceive as negative feedback, having often been protected from such slings and arrows during their tender years growing up in a culture in which building self-esteem was the focus rather than results. Since gen Ys are accustomed to a peer-to-peer relationship with authority figures, they come across as being brash and rude, Kovary says. Yet they appreciate it when their organization involves them in orientation programs that allow them to understand the corporate culture and what the behavioural expectations are. "They say, 'I didn't intentionally mean to tick off my manager, I just didn't know.'"

Boggio adds that, due to a lifetime of positive feedback — win or lose — younger staff members have the expectation they will be recognized for doing things that the older generation would have taken as a natural part of the job. "They expect special recognition, so the challenge is to understand that," Boggio says.

Boggio, who has three gen Y offspring, says that doting boomer parents planned every hour of their kids' days when they were growing up. Since a firm's future is dependent upon keeping gen Xers and gen Ys happy enough to stick around, this nurturing attitude must be brought into the workplace. "If that means shortening their work week to achieve a better work/life balance and organizing events to socialize with the other people they work with, then that's what we need to do," Boggio says.

## The generations' unique attributes

Even though traditionalists have ceased to stride the hallways, their nose-to-the-grindstone work ethic — cast by Depression-era and Second World War experiences — permeated corporations to the bone. When Canada's 9.5 million baby boomers eventually spilled into the workforce, individuals were grateful simply to have a job, tipping the balance of power in favour of demanding employers, says Giselle Kovary, managing partner and cofounder of Toronto's n-gen People Performance. "It's hard to negotiate when there are 15 people lined up at the door," Kovary says. Incentives were a monetary bonus or a gold watch following 40 years of dedicated service that sometimes involved up to 80-hour work weeks. "The employee got a job — that was their win," she says.

After the assiduous boomers came 6.8 million gen Xers, according to Statistics Canada, whose worldview was moulded by the recession-tainted 1990s. (X described the lack of identity that this generation felt.) High unemployment, soaring personal debt and falling business profits created a tight job market that ensured gen X never developed the same blind faith in the omnipotence of Father Firm. As gen Xers listened for the nth time to Nirvana's 1991 anthem for disenfranchised youth, "Smells Like Teen Spirit," while scouring newspaper employment ads, they couldn't help thinking, "Smells worse than that."

Elena Shalygin, senior manager, human capital at Deloitte Consulting in Toronto, says that such historical factors have huge implications for managing employees. Generally, says Shalygin, baby boomers live to work. "They believe in putting in 'face time' and separating

work and life. I remember in the early days, I was taught to leave my life at the door when I came into work." Moreover, boomers appreciate and are motivated by status, titles, plaques and promotions that elevate them up the corporate ladder, as well as personal expressions of appreciation and recognition.

If gen Xers didn't love the workplace, it's because the workplace didn't love them back. These independent-minded individuals had no qualms about putting their Doc Martens down. No, they would not work 80-hour weeks. No, the workplace would not be their priority — they had a life. Yes, new fathers would take paternity leave. Yes, they would skip out of work early to take little Briony to dance class.

"Gen Xers tend to take a more work-to-live approach," says Shalygin. "Work does not define who they are, nor does it define their lives." Gen Xers nurtured their careers rather than the companies they worked for. It is not surprising, then, that entrepreneurial gen Xers' motivators include time off as well as opportunities for development, showing a predilection for adding acronyms such as CA, MBA and LLB to their names, Shalygin says.

On the other hand, gen Y — 3.4 million 20- to 29-year-olds were in the workforce by 2010 according to Statistics Canada — tends to "crave opportunities for learning and development," says Shalygin. Playing video games, texting, blogging and Facebooking while relying upon the Internet for information has resulted in this immediate-gratification cohort being dependent upon a technology-based social network that is inseparable from work. "Gen Ys seize the latest technological tool and implement it into every aspect of their lives," says Shalygin. —RS

KPMG has caught the nurturing bug. Toronto's Mario Paron, tax partner and chief human resources officer at KPMG, says that the firm helps employees by developing them both as professionals and as people. KPMG emphasizes leadership and education, including refining speaking and writing skills, "everything that contributes to being a polished professional. It's about helping them reach their full potential," says Paron. "I hate to use the cliché 'the war for talent' but you do have to put a compelling proposition in front of people to join an organization. It's a circular process. The more we invest in our people, the more they believe that staying here to get that development is good for them — then the clients have a better level of service."

Despite the differences between the generations, there are also many similarities. All desire flexibility and choice; it is how they define these things that sets them apart, says Shalygin. An older generation may want the flexibility to take care of elderly parents; for gen X mothers with young children it may mean telecommuting; for gen Y, whose personal lives tend to morph

fluidly with work, it may be honouring a personal interest, such as McGuinness' desire to play professional basketball in the Czech Republic. And this is the challenge for all CA firms: building management practices and operating models that allow the generations to "create an environment in which they can flourish and contribute to the organization," Shalygin says.

The dual concepts of integrity and service — always the highest priority at CA firms where professional reputation equals survival — now extends to staff, no matter the generation. In the war for talent, the best way to engage in battle is to ensure that all the cohorts' needs and desires for education and development are met. As Paron points out, this will only enhance relations with clients. But rest assured, the war between the generations will never disappear. When gen Ys are stodgy old accountants — and that time will come — they, too, will find themselves muttering, "What's up with kids these days?"

Roberta Staley is a freelance writer based in Vancouver

CAUGHT IN THE GAME OF GROWTH, some companies can't resist a buying opportunity. The price is right, financing is there, the timing ripe. But is that enough to evade the pitfalls of deal making?

BY YAN BARCELO



# THE **real** DEAL

**A few years ago when Quebec-based Camoplast Solideal Inc., which specializes in rubber and tires for the off-road industry, acquired a competitor that manufactured parts for recreational vehicles, its aim was to dominate that market segment. But what seemed at the outset a beautiful deal went down the drain two years later.**

The competitor and its technology were good and Camoplast Solideal had paid a fair price for it, however the market for the acquired product collapsed and the company ended up with too much manufacturing capacity. It had to terminate units, lay off people and eventually closed down the acquired company. “The

assumption that the market would always be there proved false and that created the mess we went through,” says Mario Bouchard, Camoplast Solideal chief development officer.

When is a good deal good? The answer uncovers a complex formula. Price is obviously an important ingredient, but not overwhelmingly so. Many people focus too much on that aspect and end up leaving a lot of value on the table. What makes the formula complex is that a deal proves itself to be good — or bad — only long after it has been completed: weeks, months or even years later. Many companies,

illustration by **KEN ORVIDAS**



such as Camoplast Solideal, thought they had closed a great deal, only to discover later that the new entity was a risk to the operations of the whole company.

### Empty number

Because events such as market downturns can't be predicted, many parties take the approach of concentrating on a deal's price and cranking it down as much as possible to cover any future downside. But when is a deal's price good? On the buyer's side, is it when the price negotiated is what the buyer is willing to pay or lower? Is it when it is much lower than the average industry price?

"Some buyers are adamant; they will not pay above their price and will simply walk away," says Ed Giacomelli, managing director at mergers and acquisitions specialists Crosbie & Co., in Toronto. "Others are so enamoured that they end up getting into a bidding war and giving away key elements of the deal. The conventional wisdom is that you're better not to get into a bidding war; the status quo has less risk than taking action."

But price in itself is a meaningless number unless you relate it to key underlying elements such as value and objectives. Focusing on price can make both seller and buyer lose sight of essential components.

"I had a client company that had always paid a very low price for its acquisitions," says François Tellier, managing partner, transaction advisory services for Quebec at Ernst & Young, in Montreal. He describes the client as a bottom fisher. In one case Tellier's client had its eye on an acquisition target that didn't want to deal with the client company because the target was certain the client would never meet its price. "But I managed to bring both parties to the table," says Tellier, "and my client ended up paying a much higher price than what it was used to, and ended up being the preferred buyer for the business. The client told me this proved to be the best acquisition it had ever made."

This transaction changed that buyer's way of looking at acquisitions. "These guys were always asking if they weren't paying too much," says Tellier. "Yet it seemed obvious they were simply paying for the right value of their target, in line with prices paid in other equivalent transactions."

There is no such thing as too high a price in itself. Price is meaningful only in relation to the value purchased. And what determines value are the objectives of the deal. In other words, are the two parties partnering to expand geographic reach? Does one want to increase its client base while the other wants to get hold of an exclusive technology? Does an acquirer want to upgrade its engineering staff?

"A good deal is one that allows the attainment of strategic objectives, whether you are the buyer or the seller," Tellier says. "The way you justify a good deal is not just limited by price — meaning is it expensive or not expensive — it's about what you get back." Once you have decided on your strategy, a number of paths open up, says Kristian Knibutat, Canadian deals leader at PricewaterhouseCoopers, in Toronto. "You can do a simple licens-

ing agreement to acquire the right to use a brand or a technology, then you can make a buy decision. You can do it on your own or partner with a player who's already established in a market, or you can acquire him."

So, the short formula: a good deal is one that gives maximum value at the lowest price in pursuit of the right objective through the right channel.

### The devil and the details

And then the fun begins: because the devil is in the details and the details can be overwhelming. That's why many mergers and acquisitions don't work well. Take the results of a survey

**"Some buyers are adamant; they will not pay above their price. Others end up getting into a bidding war and giving away key elements of the deal"**

by Mercer Management Consulting involving more than 300 M&A cases worth \$500 million-plus. At the time, in 1997, 48% of the mergers carried out in the '90s failed to produce value to shareholders. The sample taken from the fusion craze of the '80s painted a more dismal picture: 57% failed to deliver value. And in the case of the really big mergers, where revenue of the acquired company represented at least 30% of the acquirer's, the failure rate was 75%.

A study by global management consulting firm McKinsey & Co. showed that, over a period of 10 years, only 23% of mergers covered their costs. A study by the American Management Association, which analyzed 54 major acquisitions in the '80s, revealed that half the deals showed negative results either in productivity or in profit, or both.

That concerns only M&As — granted, they represent the most complex types of deals a company can engage in. But if we look at partnerships — more specifically, attempted partnerships by North American companies with Chinese companies — the record is not convincing. While statistics are not readily available, Tellier, who has been involved in many deals and is familiar with others, is categorical: "You try to find a partner to expand your market in China and after two years you discover that you've been copied and that you've developed the market for someone else. Frankly, I haven't seen a company enter the Chinese market successfully. And that's why most players only use China as a sourcing platform."

Many things can cause a deal to turn sour, but mistakes fall under a few categories, the most important of which is judgment error. Giacomelli describes it as not doing one's homework. Such an error stands at the start of a deal, often before talks or due diligence have been carried out. "Some fundamental assumptions may be incorrect," Giacomelli says. "Is it the right time to make a deal? Is the business well positioned in its market? Does it have strong management and will management stay on board?"

The greatest of these mistakes happen "when markets are frothy," Giacomelli says. "Companies sense that they need to





make a deal to keep up with their peers, that they have to create a bigger entity on the assumption there will be synergies or a substantial gain in increasing company size. Sometimes, those synergies can be very real, but often they are imagined and not accurately quantifiable.”

He relates the case of a Canadian private equity firm that discovered a problem while carrying out due diligence on a target. It decided to make a fuss over it and then just walked away. “A principal of the firm later told me that he wished the firm had shown more judgment,” Giacomelli says. “It had remained fixated on an area of risk and lost view of the opportunity.”

#### **Systematically, thoroughly, diligently**

Thorough due diligence is crucial. One executive, who requested anonymity, learned the importance of covering all the bases the hard way. A number of years ago his company was interested in a small company specifically for a product it had developed. Every part of the due diligence process added up, and the deal went through.

Before the transaction, the executive’s team had checked the target company’s inventory and made sure it was in impeccable condition. However, it forgot to push the investigation up to the distribution channel. It turned out that the pipeline had been full and the distributors were unable to sell as expected. For a full year they refused to buy more products and as a result a year of potential sales was lost.

“We had carried out our due diligence on the whole company, but we neglected to go up to the market,” says the executive. “Today, you can be sure that we go upstream to suppliers and downstream to clients,” looking at all sides of the value chain. And the company checks out everything: human resources,

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**“Culture is a series of attitudes and values. When we carry out due diligence we question the company’s attitudes and mindset and we explore not only its formal but also its informal decision-making processes”**

information systems and information technology, accounting, equipment, building, patents, level of dependence on suppliers and customers. Luckily, the transaction was relatively small, so it did not compromise the health of the whole company. But it was a valuable lesson: negligence is always costly. “If the transaction had been bigger, we probably would have been more vigilant,” says the executive. “You have to keep your eye on the ball, whatever the size of the transaction.”

#### The heavy stuff

Another essential component of a deal is its financial structure, which is crucial to a company such as Northland Power in Toronto. Northland has no interest in M&As. Its business is to develop, build and own power plants; this may involve buying power plants. Part of the firm’s business involves finding clients — big, enduring and credit-worthy clients such as Ontario Power Authority or SaskPower — and selecting contractors that can build a power-generating unit. Northland also finds banks to finance the deal. Currently, in addition to plants in operation, the company has \$1 billion worth of plants under construction, \$1 billion worth of plants in development and a number of plants in early stages of development. In a business

such as Northland’s, setting up the right contract is key. On the client side, it needs to set a supply price that will hold for 20 years with different built-in escalators that account for variations in costs. On the contractor side, it has to determine the plant’s design and building schedule and define penalties in case the contractor neglects certain aspects or falls behind schedule. As for dealing with banks, Northland must set up nonrecourse financing, ensuring that any single project stands on its own. “If something goes wrong with the project, the bank can take it over and operate it by itself or hire someone to operate it,” says John Brace, Northland’s CEO.

Its first project taught Northland the value of a solid deal structure. “We did business with a contractor we thought knew what he was doing,” says Brace. “But he went bankrupt.” The company hit a steep learning curve, multiplying mistakes. It made errors defining the project, its scope, its requirements; but greatest of all, it forgot to ensure that the contractor was financially sound.

That mistake could have cost them dearly, but luckily they made sure the contractor had bonded his project. “We survived the ordeal,” says Northland’s CFO Tony Anderson, “and it made us stronger.”



## CAmagazine’s 100th Anniversary

CAmagazine is 100 years old this year — a major milestone in the Canadian publishing industry. Starting in 1911 as a journal called the Canadian Chartered Accountant, Official Organ of the Dominion Association of Chartered Accountants, the magazine evolved over the years into the informative, award-winning magazine CAs have come to know.

To mark this historic occasion, CAmagazine is dedicating the June/July 2011 issue to the centennial.

### Lighter stuff

One aspect often overlooked is what might be considered the soft stuff: culture, values and management style. A company's personality is composed of countless tiny ineffables that range from style of dress and the way assistants address their bosses to the number of meetings required before a job gets done. Such details are not easily changed and companies with clashing styles can end up with groups of employees engaging in covert trench wars.

Of course, in a manufacturing company such as Camoplast Solideal, these traits have less weight, but they are an aspect Bouchard does not dismiss. "Culture is a series of attitudes and values, and our values have to do with discipline, integrity, teamwork, entrepreneurial initiative. It's clear that when we carry out our due diligence, we question the company's attitudes and mindset and we explore not only its formal but also its informal decision-making processes."

For London-based multinational engineering firm AMEC, which has about 7,000 employees in Canada, culture and values are foremost. "You're only as good as your employees in services like ours, so people are crucial, and engaging them after the deal is key," says François-Philippe Champagne, AMEC's strategic development director in London. Faced with an acquirer that doesn't give due consideration to the "lighter stuff," employees don't just sit there and grin. They call headhunters and mail out résumés. Yet, the last thing a company initiating a merger needs is a brain drain.

Because of the astronomical sums they often siphon, M&As get a lot of attention, but partnerships can prove less costly and can offer legitimate access to the same goals. And nailing the right terms of a partnership follows a logic very different from the one presiding over M&As. "In an M&A, after the deal is done, each participant usually goes his own way," Knibutat



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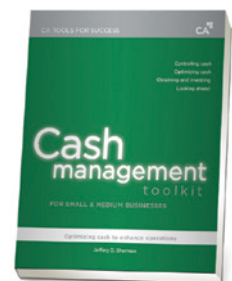
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says. “In a joint venture, you have an ongoing need to deal with the partner.”

That brings on another set of preoccupations. Trust in a partner is critical, but at the same time you need to formalize the relationship: what share of the profits does each get? What are each one’s rights and legitimate controls on the other? How do you get out of the agreement? “Clarity is of the essence,” says Champagne. “Who will have control when there is a deadlock, for example? And the endgame is crucial, because people change and evolve: is the partnership an end in itself or is it a transitory step to a full-blown acquisition?”

Knibutat speaks from experience: “We’ve seen instances of companies that have not thought through all the consequences of their venture. Everything is buddy-buddy at the outset, but then it deteriorates.”

### Stars aligned

Deals and their many details. It’s a wonder when things go well, yet when they do, the benefits are great. Take another deal Camoplast Solideal signed acquiring a small division from a large US equipment manufacturer in 2002. The division had revenues of about US\$50 million, barely a blip in the large manufacturer’s US\$14-billion sales. But acquiring the division of the company was a major move for Camoplast Solideal. “We could have set up a research program to develop an equivalent technology,” Bouchard says, “but it would have eaten up a few years of activity. And it could have failed. By buying this division, we could immediately verify the validity of the technology.”

Time has proven Camoplast Solideal’s initiative a huge success. “All our working hypotheses were confirmed, and a lot more. We took control of an exclusive technology, we acquired the company’s clients and it brought us new clients,” Bouchard says.

An attempt by Alimentation Couche-Tard to acquire US chain Casey’s General Stores last year may have failed, but it is only one setback in the Quebec retailer’s successful string of transactions.

One successful alliance it has developed over the years is with New Brunswick’s Irving Oil Ltd. The first deal, struck in 2001, brought 56 of Irving’s Circle K convenience stores to the Couche-Tard empire that today holds 5,874 stores, corporate and franchised. The terms were straightforward: Irving supplies petroleum and rents its premises to Couche-Tard, which operates the stores in Quebec.

Then in 2008 at Christmas, Couche-Tard’s president, Alain Bouchard, sent a season’s greetings card to the Irving family. Bouchard expressed his satisfaction with their alliance and mentioned

it would be nice to increase its reach. “A few weeks later we received a phone call,” says Raymond Paré, Couche-Tard vice-president and CFO. “Irving Oil said it would probably not be a bad idea.” Within a few months, Couche-Tard added 250 Irving Oil locations to its network in the Atlantic provinces and the northeastern US. All Irving stores were rebranded to Circle K.

“Why was this a good deal?” Paré asks. “The Circle K and Irving brands are strong and the locations are excellent. Trying to develop something equivalent to the actual network in Atlantic Canada would have taken a lot of time, effort and money. The deal was good for both sides.”

### Good people, good deals

Ultimately, Brace captures the essence of a good deal when he says: “Good deals are done between good people. Good deals are where the parties work cooperatively and both win. Good deals are deals where lawyers don’t run amok.”

We’ve seen these types of deals that are led by lawyers, not by management, says one industry observer. “Contracts are loaded with clauses that attempt to plan the impossible and you get constantly mired in imbroglios to solve issues of commas and periods. We just shelve those,” he says.

The formula of a good deal might be a bit complex, but the basic equation is very simple: win-win.

Yan Barcelo is a Montreal-area journalist

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## Razing silos and slabs

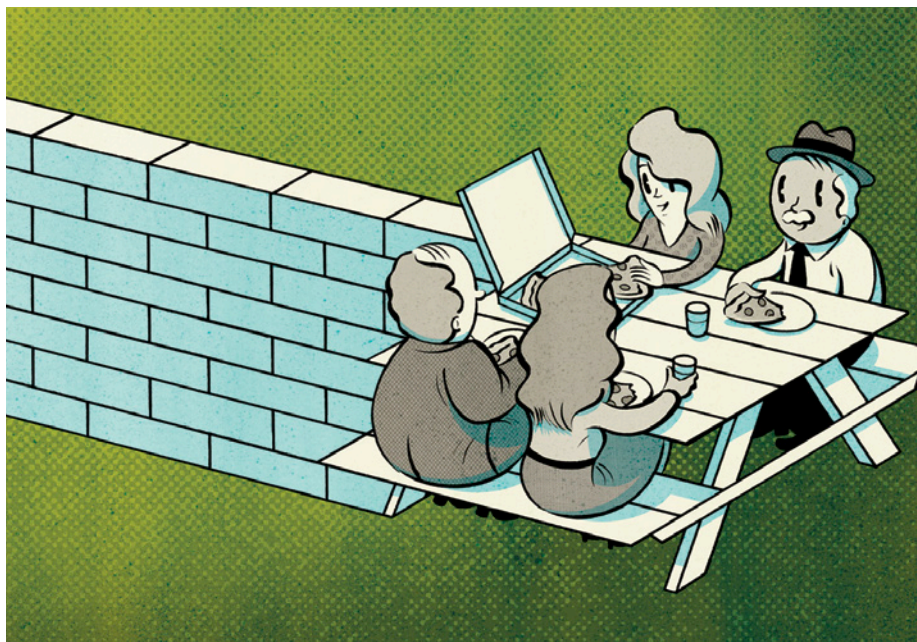
Growth sometimes leads to divisions, but for professional service firms it's important to present a united front

**P**rofessional service firms are a special breed when it comes to their organizational structure. As the firms' professionals gain experience in their field and master their craft, the firm grows, resulting in the need for a new organizational structure. In an accounting firm, auditors are often grouped with auditors, tax specialists with tax specialists, consultants with consultants. This is commonly referred to as creating silos and slabs. The silos are the vertical lines in an organizational chart; the slabs are the horizontal lines. As a firm grows, so do the silos, and as that happens, there is less interaction between the various divisions. But creating silos hurts three stakeholders: the professionals, the firm and the clients.

### The professionals

With the growth of silos, professionals might find it difficult to keep up with information. Knowledge sharing

becomes difficult. Silos are like walls, making it hard for professionals to share best practices, leadership insights and ideas. The silos can also cause disengagements. From a management point of view, it becomes more challenging to circulate important corporate messages within the organization. Furthermore, professionals are competitive and self-driven; recognition of their talent and the value they bring to the table is an important source of motivation. As the silos strengthen, they can shift the competition from the marketplace to the organization. While competition is a great way to get professionals to put forth their best efforts, internal competition and a gap between the various divisions of an organization can turn healthy competition into negative performance competition. The concept of the "one-firm firm" as described by David Maister in a *Sloan Management Review* issue, which promotes collective behaviour within a firm rather than an individualistic one and where professionals are focused on the firm's collective success, on collaboration and engagement, makes healthy competition a goal hard to achieve.



### The firm

From a business development point of view, there is a danger lurking in silos. Partners from different divisions or different teams in the same division may step on each other's toes, unknowingly, to land the same client. Of course, client relationship management (CRM) software helps, but precautions are not always taken. Professionals can be so busy that it is impossible to keep up with who is working on what file and who is targeting what business for their pipeline. The wider the gaps between the divisions and the bigger the silos between teams of the same divisions the more likely it is that such a situation will happen, creating conflict and damaging the unity of the firm.

Professional-service firms work hard to capture the attention

of the market. Getting prospects' attention is time-consuming and can be costly. The old Pareto law of the 80-20 rule, where 80% of your business is generated by 20% of your clients, is still true today; yet most actively look for new leads. However, clients are not always informed of the relevant services the firm offers (referred to as cross-selling), a missed opportunity both for client retention and the bottom line. A firm is responsible for facilitating information sharing and the flow between the practices.

### The clients

Professional firms offer clients services that add value to their business. They want clients to hold the reins of their business while providing technical expertise, bringing in financial back-

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ing and guiding them through important strategic decisions. But how can firms do this when they are confined by silos and professionals working independently?

Another negative impact of silos on clients occurs when a firm is successful at bundling services and offering different areas of expertise. In large organizations, this can become a source of tension between the client and the professionals; clients are serviced by many professionals, but in different ways. As the firm grows, the standardization of service gets weaker and can become nonexistent. Each partner, team and silo service their clients in a unique way, hence different billing practices, response times or reporting mechanisms emerge. However, the one-firm firm and a standardized service should always be as close as possible to what the client is used to.

### **Beyond silos**

There are many strategic initiatives taken by organizations to minimize the effect of silos and maintain growth without conflicts and disjointed client service.

Firms could establish a lunch time or a happy hour for employees to socialize. Giving staff a chance to interact without an agenda helps bridge the gap between divisions and allows them to chat about their challenges. Easy-to-execute ideas such as pizza Fridays, wine-and-cheese Thursdays and coffee and fruit in the morning may seem a waste of billable hours and unprofessional but they work.

### **Break the slabs**

Slabs are physically represented by floors in a building, e.i., one floor each for audit, tax, consulting and support staff. As floors are not easy to cut through, one of the best practices is to mix professionals from each division on every floor. Having various departments share public areas or the print room helps increase communication.

### **The adhocracy style**

Any project that brings professionals and employees together, especially one that eliminates hierarchy, will help break silos. For example, RSM Richter Chamberland holds an annual community day in which approximately 80% of its members collaborate on community projects. This has been a success both from a feel-good point of view and because it eliminates titles and generation gaps, as employees, support staff, professionals and partners interact for a common purpose. It is a good way to break through the silos and slabs. Projects outside of the day-to-day activities of a firm act as adhocracies. They have a beginning and an end and get people with various skills together. Other projects can include green committees, social committees, social-responsibility committees or sports committees.

### **The client-centric approach**

Traditionally, firms let each partner go into the market and do his or her own business development. Others, however, adopt the real one-firm firm approach and process new mandates through a client-centric committee. In most cases, clients are serviced by the partner who brought them into the firm and by the team

managed by that partner. Although this is not wrong, the client is in a silo. The best practice in place for this client, and the challenges and learning from this file, remains in the silo. Having a client-centric committee ensures that a client's needs will be met by proposing the services of the individuals who fit these perfectly, whether it be from a personality, technical or even cultural background.

Multidisciplinary teams working together increase interaction between professionals and silos disappear; knowledge is shared amongst the members of the organization and the client gets the best team for its needs. The client-centric team also results in higher revenue per client, as an array of services can be proposed more easily.

### **Intranet**

Most firms have intranets, but they may not be used to their full potential. Many information technology service organizations have embraced the intranet 2.0 models, which enable employees to break down silos, the barriers to innovation, and connect with employees, content and communities. The intranet should be as interactive as possible so best practices and ideas can be shared by all members of the firm. Blogs can be used internally so that practitioners of one division can ask questions of other professionals. Wikis serve a similar purpose.

The intranet can be great for sharing firm and technical information, but one of the most popular sections on a firm's intranet is the employee profile. For example, every two weeks an employee shares facts about his or her personal life such as hobbies, favourite books or restaurants.

The intranet and the activities that go into recognizing the professionals of the firm also help in increasing their engagement level, a key success factor for any firm that wishes to retain its best professionals.

### **Find the glue. Strengthen the culture**

Professionals are often independent workers. They spend years attaining expertise in their field. However, leveraging their individual strengths and getting them to share knowledge and ideas are huge value drivers for an organization. Unfortunately, the way most mid-sized to large firms operate and are structured today has put many barriers in place, and they are now confronted with an obvious loss of potential.

The solution is simple. Remember how things were before growth, when the firm was more fluid, interaction easier and collegiality greater. There should be no trade-offs between growth and a collaborative work environment. Tools such as CRMs, knowledge-sharing platforms and 2.0 intranets are available. But ultimately, finding ways in which people can interact in a nonperforming manner is the glue that unites the talent and positions a firm as an innovative and driven business partner.

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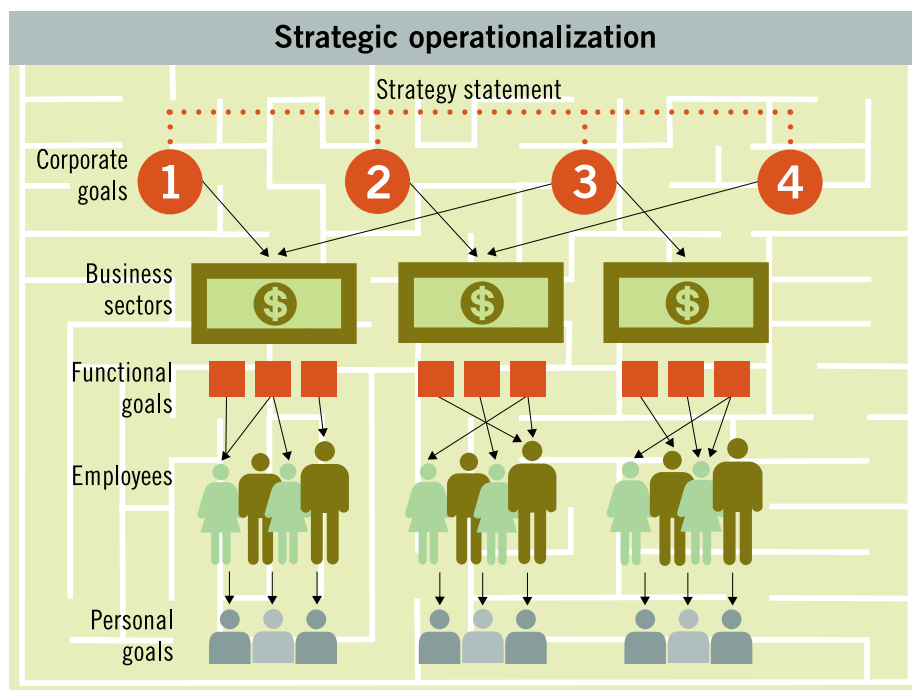
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Technical editor: Stephen Rosenhek, FCA



## A strategy for all

Failure to have a business plan that works across all sectors can be a serious risk, but one that good governance can offset



**W**hy do some organizations draft their business strategy at the beginning of the year, only to realize at year-end that it has veered off in an unexpected direction? Strategic operationalizations, making a business strategy work across all operations, can be a challenge for companies given the risks involved.

**Types of management** To effectively communicate an organization's business strategy and encourage employee buy-in, many governance models align employee compensation with strategic goals. This has often been used as an example in management literature. Yet the most serious frauds and financial scandals in recent decades were directly tied to methods of remuneration that pressed for employee performance to drive the achievement of specific goals. The end result was that instead of implementing the organization's business strategy, managers focused on

achieving qualitative results that would guarantee them more money in their pockets and advance their careers.

So what can be said about a management style that ties employee performance objectives to strategy implementation? Is it too risky? Are employees really encouraged to work toward achieving the strategy?

Part of the problem is a lack of control and followup on goals. Strategic goals are usually announced at the start of the year and seldom reviewed until the following year. Moreover, since the strategy and its implementation are adapted to respond to major changes affecting the company, management doesn't know whether the strategy has paid off until the actual business results are compared against the anticipated results.

That's why performance objectives are an important and recommended management tool. However, used on its own, this tool can become a double-edged sword. Other related management tools are also recommended for sound business strategy operationalization.

**Breaking strategy into goals** First, management has to break its strategy into various components, then assign responsibilities to the company's different sectors. Each sector is entrusted with responsibilities that, in turn, must be broken down into employee objectives. Employees will then be aware of the goals underlying their evaluations. To motivate the workforce, compensation and advancement may often be linked to the achievement of these objectives.

**Performance measurements** Ideally, to help employees achieve goals, management should adopt effective performance measurements for evaluation purposes. In some cases, an inappropriate measurement may lead an employee to adopt behaviour A rather than the expected behaviour B. Human resources managers often hold focus groups with employees to determine which performance measurements are most likely to motivate them to pursue the organization's goals. And who is in a better position to determine the potential impact of a measurement than the person who will have to apply it?

**Followup** Like overall performance, functional performance must be monitored throughout the year. But what about the goals communicated to employees? These are typically followed up at the end of the year. Yet a department will often change course but forget to amend its employee performance measurements and objectives accordingly, thus creating an inconsistency that can be demotivating. When departmental goals are changed, employee objectives should also be adjusted to make sure that everyone is in step with the business strategy.

**Variations** The performance evaluation process may reveal variations that require different sectors to take remedial action, which in turn could alter established objectives. And that's the time to question performance measurements. First, it should be determined whether the variance could stem from a performance measurement that triggered a particular behaviour. Then employees' performance and ability to achieve the objectives should be assessed. If some behaviour is unsatisfactory, corrective measures should be implemented without delay.

**Other strategic operationalization tools** The above process does have some flaws, however. For one, followup only occurs when objectives are not met. A regular monitoring procedure would be preferable so if problems crop up, followup and review processes would already be in motion to ensure a better outcome. The inefficiency and lack of rapid response associated with delayed followup can mean the difference between exceptional and acceptable performance.

To address potential deficiencies in matching strategy with performance evaluation, additional tools may be needed. These are designed to complement the process and reduce delay between adapting the strategy to changes impacting the organization and employee response. This is where corporate culture, i.e., a system dictating the procedure and diagnostic and interactive control systems, will help steer employees toward a clear goal.



**Corporate culture** Corporate culture is like a roadmap. It indicates the values and behaviours the company encourages, somewhat like a map indicates what roads to take. Statements of values are one way to transmit corporate culture, but communicating them only verbally or in writing isn't enough.

Managers and employees have to put these values into everyday practice. Management/employee meetings should be held to discuss business decisions. During such meetings, management should explain why a particular option more effectively reflects the organization's values and encourage employees to adopt the organization's culture.

The impact of employee/management meetings is too often underestimated. They should be frequent, interactive and help achieve tangible results in employees' eyes. Employees will then be better positioned to understand the corporate culture and incorporate it into their day-to-day work. A company without a corporate culture could run into serious problems.

**Code of conduct** A code of conduct defines actions that are unacceptable within the company. The code should be periodically reviewed to limit the impact of changes on the company's target markets. An ethics committee makes it possible to review contentious issues without losing sight of the organization's strategic goals.

Take the example of a private company that delivers medical services and owes its success to its excellent customer service. Without an appropriate code of conduct, a company intent on meeting customers' needs may offer services not yet approved by medical regulators. This approach could cost the company its operating licence, despite its motivation to provide better service. Had there been a code of conduct, the issue would not have arisen.

**Diagnostic control system** A diagnostic control system involves the follow-up of strategic goals as they have been adapted to the organization's various departments and sectors. Rather

than concentrating on meeting goals, a diagnostic control system assesses whether the achievement of goals has fulfilled the strategy. Often this step is implemented too late in the process, when everything has gone wrong. A scorecard is the tool of choice for diagnostic control monitoring.

For example, the key goal of a growth company whose strategy is to become the top seller in its sector may be to increase sales. To measure its success, it could count the number of new customers it acquires. A diagnostic control system not only addresses the achievement of goals in terms of new customers, but also how these customers affect the implementation of the strategy over the year. The measurement is therefore assessed against other goals management wants to achieve that are more aligned with the organization's business strategy.

**Interactive control system** An interactive control system encompasses the key components of the strategy. Certain variables could have a considerable impact on the strategy's success. These controls are more often discussed in meetings than summarized in a scorecard. It may be a question of monitoring fuel costs for a transportation company or the provincial budget for a hospital.

Controls often take the form of frequent followups and periodic analyses of market shifts that can impact the business strategy.

While diagnostic controls frequently address past events, interactive controls focus more on an organization's future and

the factors it needs to keep in its sights if the organization wants to maintain or gain a competitive edge in its industry.

**Risk management** Failure to operationalize its strategy is a risk for any company, but sound governance can offset this risk. Recommended tools are directed toward corporate governance and management of business risk, which must be managed across all company sectors.

The alignment of evaluation methods with business strategy may become a real threat if it isn't accompanied by a code of conduct that is recognized and approved at all levels of the company, diagnostic controls itemized in a scorecard, and interactive controls to detect potential problems and threats. These management tools leave room for creativity while limiting the organization's exposure to risk. When the environment presents difficulties or, conversely, compelling business opportunities, sound business risk management can strengthen strategic operationalization.

In short, the comprehensive use of risk management tools can motivate employees to work toward achieving an organization's business strategy.

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## Gambling on fraud

Employers should play their cards right when dealing with any employees who exhibit signs of a gambling addiction

**O**n October 26, 2010, 53-year-old Randy Zinna of Baton Rouge, La., pled guilty in US District Court to defrauding the Louisiana Municipal Police Employees' Retirement System, a statewide pension fund, of US\$1.2 million over a five-year period. In a plea agreement unsealed in early February 2011, Zinna agreed to a restitution order for that amount as well as almost US\$350,000 owed to another state pension plan that was not part of his criminal case. Awaiting sentencing at the time of writing, Zinna faces up to 20 years in prison and fines of US\$2 million.

According to news reports, Zinna, who served as a contract lawyer at three statewide pensions, diverted funds from clients and business vendors from about November 2004 through October 2009, in part to pay sports gambling debts.

Prosecutors discovered that Zinna had diverted more than US\$5 million from the funds over time but had repaid US\$4.2 million. Some of the money he put back

into the pension funds had come from an 83-year-old widow, who had given him US\$570,000 to invest on her behalf. The state's auditor found that at the time of his plea he still owed her US\$546,352 and a police pension fund US\$434,164.

Zinna was by no means the only person in recent times to commit fraud to fund a gambling habit or defray debts incurred at casinos.

In late January 2011, Tina Sammons of Victoria was sentenced to three years in prison for having faked several life-threatening illnesses to raise money to feed her gambling habit. The 37-year-old defrauded friends and relatives, including her husband's parents, her brother-in-law and sister-in-law and her husband's best friend, of \$350,000, almost all of which was spent in casinos.

Sammons, who was charged with four counts of fraud, had spun various stories of her need for treatments related to cancer, heart surgery, a kidney transplant and other medical problems. Because she was an American citizen, she explained, she didn't have health coverage. She went as far as to fake seizures, shave her head, apply pale makeup to her face and stay in bed for long periods while her 71-year-old mother-in-law took care of her child and cleaned her house. Her schemes, which spanned 18 months, came to an end in November 2010 after her brother-in-law hired a private investigator to check into her claims.

About the same time as Sammons was being sent to jail, a former Canadian Football League quarterback was once again in serious trouble because of his gambling addiction. Art Schlichter, 50, who played briefly for the Ottawa Rough Riders in 1988 following a few unremarkable years in the National Football League, had been a star at Ohio State University, leading his team to an undefeated season in 1979. His gambling problems had begun in high school and escalated quickly once he signed a professional contract. After his playing career ended he got involved in fraud and forgery schemes to finance his gambling, for which he served 10 years in prison between 1995 and 2006. During his incarceration he was caught placing bets and spent four months in solitary confinement.

After he was released, Schlichter founded a non-profit organization, Gambling Prevention Awareness,



SUSANNA DENT

to help others overcome their addiction. However, in February 2011 he was charged with a felony in connection with an alleged multimillion-dollar ticket-selling scam involving the Super Bowl and Ohio State games. One of his victims was Anita Barney, the widow of Wendy's CEO Robert Barney. Broke thanks to Schlichter, she was about to commit suicide for having brought her family and friends into the scheme when her son stopped her. If convicted, Schlichter faces many more years behind bars.

A powerful addiction, gambling can lead some normally respected and productive individuals to commit acts of fraud and other forms of wrongdoing. A case in point is Jack Budgell, 67, who in February was sentenced to 15 months of house arrest for defrauding more than \$100,000 from his employer, the Gander (Newfoundland) Area Community Business Development Corp., where he served as executive director. Crown prosecutor Doug Howell said that Budgell, who had a gambling addiction, submitted false travel expenses and "also removed funds from various accounts" over a 10-year period.

Another example is more dramatic, although in this case the perpetrator didn't commit fraud. Rather, Kevin Pinto, 39, went from being a respected Bay Street compliance officer, earning about \$250,000 a year, to a bank robber. Known as "the exchange bandit" because he would ask tellers for the US exchange rate just before handing them a holdup note, Pinto admitted to robbing 10 banks in the Toronto area between January 2002 and September 2008. The reason? He had a sports gambling problem that was out of control.

In early October 2008, his criminal career ended after a coworker at Paradigm Capital, who was looking at a police picture of the suspected "exchange bandit" on the Internet, sent the link to Pinto remarking how much the suspect looked like him. Two days later, knowing he had been unmasked, Pinto turned himself in to police. His first phone call after his arrest was to his bookie to place a bet. The following year he was sentenced to six years in prison less time served.

The number of Canadians with a gambling problem is hard to determine. The Centre for Addiction and Mental Health (CAMH) says gambling is the largest entertainment industry, bringing in more than \$15 billion in revenue, about the same amount as movies, TV, recorded music and professional sports combined. CAMH estimates that 3.2% of adults in Canada suffer from moderate to severe problem gambling. However, a December 2008 Canadian Press story pegs the number of problem gamblers in Alberta alone at 8%.

No matter the number, there's no question some people can't control their gambling addiction, which can be harder to overcome than alcohol or drug abuse, according to David Hodgins of the Alberta Gaming Research Institute. "What we're discovering is, if anything, a gambling addiction is as difficult if not more difficult than any other type of addiction," he says. That point is echoed by San Francisco therapist Michael Halyard, who believes one reason is that many gamblers don't perceive they have a problem until it is too late.

In the past most employers didn't have to worry about prob-

lem gamblers possibly defrauding their company to pay for their debts or to fund gambling sprees. The Internet has changed that, of course, and as a result gamblers no longer have to go to casinos. Now they can indulge in their obsession at home or even at work.

Because a gambling addiction can be all-consuming — it's not uncommon for a family to discover the addict has re-mortgaged the house to borrow money for his or her habit — a problem gambler will often turn to crime to generate funds. In 1998, Henry Lesieur, a criminology professor at Illinois State University and a world expert on gambling, told the US National Gambling Impact Study Commission that while some problem gamblers commit street crime, the overwhelming majority of them are committing embezzlement, forgery and fraud. He also noted that almost two-thirds of compulsive gamblers surveyed have engaged in illegal activities to pay debts or continue gambling.

Those statements came prior to the boom in online gambling and the deluge of poker programs on North American TV.

How can a company protect itself from problem gamblers possibly turning to fraud or theft at work? Gambling is referred to as the hidden addiction for a reason — it's hard to detect. A chronic drinker or drug abuser often shows telltale physical signs of the

## **In this day and age when gambling is more prevalent in society and easily accessible online, a clear policy on gambling should be part of a company's code of conduct**

problem. But gamblers might not betray any obvious indicators of their compulsion.

The first step, of course, is to ensure the firm has an effective overall fraud prevention and detection program in place and that the controls are implemented and not allowed to be overridden. It's also important to ensure that if the staff is reduced no one with the authority to sign cheques or make payments to vendors can do so without obtaining a second signature.

More to the point, however, in this day and age when gambling is more prevalent in society and easily accessible online, a clear policy on gambling should be part of a company's code of conduct.

A written document that all personnel have to sign annually should clearly state that gambling is prohibited in the workplace at all times, including breaks, and spell out the consequences for violating the policy. It should make clear that employees are forbidden to access online gambling sites or to engage in any form of gambling other than activities sanctioned by the company.

The latter is a debated point as some managers believe a prohibition should also extend to office pools, such as those involving hockey or football. That kind of interdiction is a decision for each firm to make. However, there's no apparent connection between those types of pools and gambling addiction. The pools tend to foster positive morale in the workplace as long as the amounts involved are fairly small.

The policy should not have a scolding or negative tone. It should note that most people gamble for social enjoyment and do not experience any negative consequences. At the same time

it should clearly state that some people do get in over their heads. The policy should outline what resources are available for anyone who reaches this stage. If the overall tone is understanding and supportive, it increases the possibility an employee will seek help, especially if the company has a confidential employee assistance program.

It's important for employers to know that since 1980 compulsive gambling has been included in the American Psychiatric Association's Diagnostic and Statistical Manual (DSM) of mental disorders. The DSM observes that a pathological gambler has likely "committed illegal acts such as forgery, fraud, theft or embezzlement to finance gambling."

Although codes of conduct are vital to fraud prevention, they can only do so much to deter someone for whom gambling has become an obsession. Employers need to be aware of signs that an employee is gambling to a degree that is possibly problematic.

CAMH advises employers to keep an ear out for employees who continually talk about gambling or become heavily involved in organizing betting pools or casino trips. More of a concern is any evidence that an employee is borrowing money from coworkers. This is a common occurrence with problem gamblers as they are almost always in need of a cash flow that exceeds their means. They don't always lose, so it's also important to observe if someone is constantly flashing large amounts of cash or bragging about winning money.

Many problem gamblers suffer from depression and numerous studies indicate they have a high rate of suicide. CAMH says that in 2006, the last year statistics were available, 12 people in Ontario who had gambling debts or addiction killed themselves. If an employee suddenly becomes depressed for no obvious reason, it could be connected to gambling.

Needless to say, employers need to be cautious about jumping to conclusions about an employee's behaviour. If there is sufficient evidence to suggest someone at work does have problems with gambling, any confrontation must be conducted with

the utmost tact and professionalism. The assistance of a professional who knows how to communicate with a problem gambler is highly recommended.

It should also be noted that both genders can be problem gamblers.

There was a time when problem gamblers were most likely to be male. That is no longer the case. According to comScore, a US company that gathers data on the digital world, in 2010 women over 55 spent more time on online gaming, including gambling, than men by far.

The Ontario government plans to introduce legal online gambling sometime next year. If this transpires, the need for companies in Ontario to become even more diligent about introducing and implementing workplace gambling rules will become critical.

In 1998, Durand Jacobs, a psychologist and president of the US National Council on Problem Gambling, called gambling "the addiction of the '90s." He added that the problem was especially on the rise with teenagers.

In the years since Jacobs made those observations, gambling has become far more entrenched in society. And those teenagers he mentioned have grown up with online gambling and televised poker events, sometimes with their favourite celebrities taking part. Those teenagers have also been in the workplace for some time and some have brought an interest or addiction to gambling with them.

Addicted gamblers, of any age, are a potential threat to a company, as the need to finance their compulsion can be such that fraud and other crimes once unthinkable can be seen as the only solution to their debts or need to play. Gambling is likely the addiction of the present, not just the '90s, and employers would be wise to play their cards right when it comes to dealing with it.

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## Sorting out the jargon

Good lease management can be a complex area for tenants, but thanks to audit professionals it can be easily sorted out

**M**ost North American commercial leases for office space, retail businesses or industrial premises contain additional rent clauses requiring tenants to pay a share of the operating expenses and property taxes of the buildings where their offices are located. Sometimes several pages long, these clauses are usually drafted in legal jargon and are generally extremely complex, both to understand and to administer.

The audit of additional charges in commercial leases, commonly called a lease audit, consists of performing a detailed review of a tenant's occupancy costs to ensure consistency with the lease provisions. The purpose of this process is to ensure that rent billing is accurate and compliant with the provisions of the lease in order to identify and recover amounts a landlord may have overcharged the tenant.

Year after year, many tenants of commercial spaces pay more rent than they should. In some cases, the amounts are substantial (see table below).

### Why does this happen?

Good lease management by tenants means more than paying rent on time, paying the annual adjustment for additional rent billed by the landlord and exercising your rights and fulfilling your obligations within the deadlines specified in the lease. Lease clauses setting out additional rent, or pass throughs such as a share of heating and maintenance costs, are varied and complex. In many cases, tenants lack the expertise to understand lease clauses, measure their scope and verify how they are being applied by landlords. As a result, tenants are often at a disadvantage.

Landlords, on the other hand, know their buildings inside out. They have a sound grasp of the real estate market and the administration of additional rent inherent in a lease. Even though additional rent clauses are drafted with the utmost care, the nature of these provisions can lead to different interpretations, depending on each party's understanding. Since these clauses are always administered by the landlords, they are often interpreted at the tenant's expense.

Some landlords tend to use aggressive accounting poli-

**Reviewing the rent**

Building location	Type of building	Square footage	No. of months audited	Amount claimed as overpayment	Claim per sq.ft./year
Brampton, Ont.	Commercial power centre	121,779	60	\$249,253	\$0.41
East-central Montreal	Office	186,000	36	\$128,949	\$0.23
Mississauga, Ont.	Commercial power centre	157,200	24	\$ 94,852	\$0.30
Old Montreal	Office	20,500	22	\$ 81,888	\$2.18
Old Montreal	Office	18,878	36	\$ 77,968	\$1.38
Old Montreal	Office	17,500	72	\$ 58,177	\$0.55
Downtown Vancouver	Office	52,543	9	\$ 58,075	\$1.47
Old Montreal	Office	9,510	48	\$ 48,407	\$1.27
Vancouver	Office	57,026	12	\$ 37,359	\$0.66

cies in order to collect the tenant's share of recoverable operating expenses without delay. In addition, since their accounting staff doesn't always have the time to fully understand every lease under management, they tend to simply bill tenants for additional charges according to standard leases proposed by the landlord, even if in reality leases often include specific clauses arising from negotiations between the parties.

Lastly, since only a minority of tenants actually opts for lease audits, landlords will often interpret and administer the additional rent clauses to their advantage, with no fear of being challenged by their tenants.

### The most common mistakes

Below are some examples of pass-through billing errors that may be detected during a lease audit:

- disbursements included outright in operating expenses when they should have been capitalized and amortized over their useful life;
- certain charges included in operating expenses when they were specifically excluded under the lease;
- landlord's general administrative and operating expenses included in the building's operating expenses, when administrative fees are already included and payable to cover these general expenses (cost duplication);
- tenant's proportionate share calculated improperly;
- building's operating expenses include costs that should have been billed directly to one or more tenants;
- amortization periods that are too short for capital projects given their useful life;
- common-area expenses allocated improperly between the various components of building complexes;
- accounting entries for year-end accrued expenses in excess of actual costs;
- cut-off errors; and
- gross-up calculation errors for certain expenses that vary based on building occupancy rates.

### Advantages of a lease audit

A lease audit enables tenants to benefit immediately from often substantial savings on rent-related pass-through charges.

What's more, the errors identified during a lease audit will often have an impact over several years, which will in turn mean lower occupancy costs for tenants later on. Furthermore, since landlords will expect their leases to be audited again by the same tenants, they tend to manage them less aggressively. If the audit is performed at a strategic moment during the term of the lease, it could also serve as significant leverage for the tenant when negotiating benefits or concessions the landlord may previously have been unwilling to grant. In other words, a lease audit will level the playing field between the parties and compel the landlord to show more respect for the tenant's control environment and governance practices.

### Exercising the right to conduct a lease audit

As with most cases of personal remedy, exercising the right to conduct a lease audit is normally subject to a limitation period,

which varies from province to province. Generally, this period begins on the date the tenant receives the building's annual financial statements from the landlord.

• Ideally, the lease should include clear and specific clauses respecting the tenant's right to conduct a lease audit and how to exercise that right. Even if some leases contain no such clause to that effect, some landlords will in good faith open their books to their tenants. Should this not be the case, tenants in Quebec could try to force their landlord to do so based on certain clauses set out in the Civil Code of Quebec. Under the code, contracting parties are required to act in good faith and with loyalty, to cooperate and inform, and to refrain from infringing upon each other's rights.

• Tenants in other provinces can also try to force their landlords to open their books under common law — case law exists to this effect.

### Using the services of a professional

Few enterprises have had their leases audited. First of all, most of them simply don't realize that this service exists. Others are unaware of their rights in this regard or that they are entitled to examine the pass-through charges billed by their landlords. Some tenants worry about poisoning their business relationship with their landlords, even though these landlords may charge them more rent than what was agreed upon when they signed the lease.

Lease audit professionals have real estate expertise and the necessary resources and can help tenants secure their right to conduct a lease audit if their leases are not clearly worded. They can help maintain a good business relationship with the landlord by acting as an intermediary between the tenant and landlord. They also will be able to obtain greater refunds from the landlords than the tenants could themselves. In addition, they can negotiate with landlords and determine how credible their arguments are. Professionals know the ins and outs of the real estate market and commercial leases and can train tenants' lease administrators so they can more effectively manage their leases in the future.

Note that some professionals do not invoice for their services but are compensated on a basis contingent upon a percentage of the amounts refunded by the landlords.

A competent lease auditor must have an in-depth knowledge of the following:

- commercial real estate;
- lease management;
- financial and legal interpretations of the various lease clauses;
- accounting and accounting standards;
- external auditing;
- management and administration methods used by landlords; and
- negotiations.

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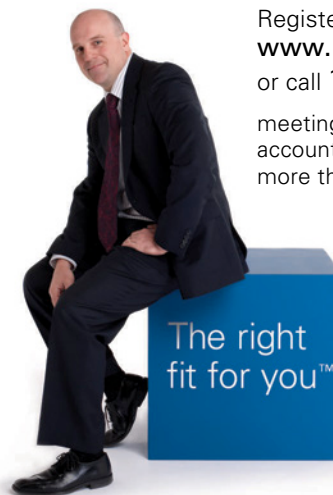
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# Outlook

BY MARCEL CÔTÉ

WHERE ECONOMICS AND POLITICS MEET

## Imagine a better world

**T**hese days, we are constantly being solicited to support “good causes” — be they cultural activities, the poor, the sick or youth. The charitable and nonprofit organizations (CNO) devoted to such causes are always seeking donors and volunteers. Canada could do much more for them, and our society would be better off for it.

The economic contribution of CNOs is often underestimated. Even excluding the health and education sectors, CNO activities account for 4% of the GDP, or as much as the farming industry and slightly more in terms of job creation. Many sectors of society rely heavily on CNOs, particularly our social safety net programs.

Culture is very dependent on philanthropy and volunteerism. Sports and community recreation rely greatly on volunteers. Most people working for CNOs are volunteers, and those who are paid usually accept a low pay. In short, without the contributions of time and money of millions of Canadians, there would be gaping holes in our social safety net.

Canadians could do more to support CNOs, especially financially. A recent study by Britain's Charities Aid Foundation suggests that philanthropic donations relative to GDP are twice as high in the US as in Canada. And the 2008-2009 recession made that worse, significantly impairing charitable giving even though needs increased.

Canadians donate less than 1% of their disposable income. Moreover, only a quarter of taxpayers currently declare charitable gifts, and 90% of donations come from merely 10% of all donors. These numbers are insufficient and unacceptable.

The Canadian philanthropic sector has been calling on government for better tax measures to stimulate donations and increase the number of donors. CNO umbrella organization Imagine Canada (of which I am a director) has recommended that Ottawa raise the tax credit to 39% from 29% on any increase in charitable donations by a taxpayer. The Finance Minister has been mulling

over the proposal for three years now.

It seems the federal government is more worried about creating tax loopholes. As a result, it is slow to act when it comes to fostering philanthropy. The concern about possible abuse is reflected in a private bill voted on by MPs who seek to prevent the misuse of donations by charitable organizations, in the wake of a scandal over the generous severance paid to a departing executive director of a Toronto hospital. Bill 470 places significant restrictions on compensation policies of any organizations receiving tax-deductible donations. No private enterprise would accept such constraints. The most galling aspect of Bill 470 is that most of its restrictions treat the 5,000-employee hospital on the same footing as the five-employee community

**Only 25% of taxpayers declare charitable gifts, and 90% of donations come from only 10% of all donors**

organization. You have to wonder if these MPs ever did any volunteer work.

Our governments are investing significantly to stimulate private-sector activities. They should do the same for CNOs. In particular, small nonprofits should be entitled to the same assistance programs as small businesses. Ottawa should also consider CNOs as true partners specializing in providing health, education, social development, recreation and cultural services. It's clear that in the field CNOs are more efficient than government agencies, doing more with less.

The federal government should set philanthropic objectives. Why shouldn't Canada become a model for citizen involvement through donations and volunteerism? There is no reason why we should give less than our US neighbours. The percentage of Canadian taxpayers who claim a deduction for charitable donations could surely reach 40%, even 50%, instead of the current 25%.

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Marcel Côté is founding partner at SECOR Consulting in Montreal

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