START LEAN innovate and win

A novel set of business principles promises to lift the fog of uncertainty surrounding a new venture’s products or services — and test its odds for success.

Find out how innovation accounting is a game-changer

SUSTAINABLE DEVELOPMENT Four accountants who are devoted to the cause P. 24  The next wave in green financial reporting P. 30
From The Boardroom To The Courtroom
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Accounting for productivity

The lean model is less about nascent financials and more about giving triage on startup mortality rates.

Traditional accounting practices work for all types of businesses. But are there situations where it is best to try something else, some other, perhaps more radically different, approach? It appears so, and it is called “innovation accounting,” a way of measuring the viability of startups. The term was coined by entrepreneur Eric Ries to describe the form of measurement that best works for the constantly changing environment of the startup business.

In “The lean model” (p. 18), writer Robert Colapinto tells us that the ‘accounting’ in innovation accounting is not about the business’s nascent financials. Though crucial, historical financial statements take a backseat to … triage on startup mortality rates that top some 90%. [Innovation accounting] … attempts to ‘account’ for product viability.

Colapinto examines startup situations that have used this method — known as the lean startup — and provides working examples that show how and why it works. “Conventional accounting policies and procedures are given rather short shrift in the lean world. In fact, some see traditional accounting metrics as potentially harmful and time-wasting to the process of innovation.” This is a story that challenges conventional wisdoms and is an intriguing must-read.

Sustainable development (SD) has been part of what accountants have been doing for more than two decades. What have they done in that time? What are they doing now? We sent writer and editor Yan Barcelo to find out. The result is two highly informative stories. Barcelo tells us that accountants are not only jumping on the bandwagon, they are building it too. All the big firms have an SD practice now, writes Barcelo. In “Sustaining the cause” (p. 24), we are told about people such as Mike Harris, who began the SD practice at PwC in Toronto from scratch and now it’s one of the larger SD practices within PwC globally. Valerie Chort, national leader of sustainability and climate change at Deloitte, says SD “has links to many other practices such as audit, mergers and acquisitions and enterprise risk.”

In the second story, Barcelo describes how the requirements of SD are transforming accounting principles and practice. “Although environmental accounting concepts had been around since the 1970s, by the early 1990s SD and SR reports were still few and far apart,” he writes. “And they were often sketchy and superficial. However, momentum picked up rapidly, and today, more than two-thirds of the Fortune Global 500 produce some type of sustainability report.” If you wish to be informed about where green accounting is going, please read.

Okey Chigbo, Editor
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A combo of common sense and cutting edge, innovation accounting is the latest strategy to test a startup’s odds for success

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Sustainable development has gained a foothold in many arenas, and accountants have been front and centre at the scene

BY YAN BARCELO

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First there was expense and profit accounting, then green accounting came along. Now, get ready for value accounting

BY YAN BARCELO

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Less work, more flow.

Leverage the power of Taxprep to achieve more with CCH Scan and AutoFlow.

This year a record number of accounting firms added CCH Scan and AutoFlow to Taxprep, achieving a seamless integrated workflow. Results were dramatic: reduced time, improved accuracy and higher volumes.

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David Straughan, CPA, CA
Partner | MacGillivray

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ONLINE
People on the move: our new magazine, slated for launch in the new year, will include a section on people moving from one company to another. If you have any announcements to make, please contact Darcey Romeo at dromeo@cpacanada.ca

Your biggest faux pas: have you ever said or done something so inept that you still remember all the details? If so, we would love to hear from you for a future feature. Go to camagazine.com/fauxpas

Coming in December: The results of our ERP customer survey
Introducing the Scotia Momentum® for business VISA® card

You work hard. And your money should, too. The Scotia Momentum® for business VISA® card gives Small Business owners 3% cash back1 at gas stations, restaurants, office supply stores and on recurring bill payments. Plus you get 1% cash back on everything else. It's our way of saying job well done. scotiabank.com/cashbackforbusiness

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A Parent’s Guide to Raising Money-Smart Kids explains WHY it’s important to help children become financially literate and describes HOW to do it.

The easy-to-read book addresses children at different stages on five key aspects of money management — EARN, SAVE, SPEND, SHARE and INVEST.

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Order today at castore.ca/moneysmartkids or kobobooks.com
FIGHTING THE NEXT WAR

Regarding Marcel Côté’s column, “Fighting the last war” (August), to the soldier, items of equipment are not “toys,” they are life-support systems. Battle is a balance of steel and blood in inverse proportion; more and better equipment makes for fewer casualties.

I have no idea what preparations our military is making for cyber warfare, and I would be worried if I did. That is a hand that must be played very close to the chest.

A couple of millennia ago in *The Art of War*, Sun Tzu wrote, “He will win who has military capacity and is not interfered with by the sovereign.” Then as now, where economics and politics meet, the military understandably becomes nervous.

After all, generals usually end up having to fight the war their country is least prepared for.

Jim Robb, CMA, CA
Moose Jaw, Sask.

SOMETHING’S MISSING

I was disappointed to see that, despite all the information regarding use of the CPA designation, the masthead on page 1 shows all the various contributors without use of the CPA.

Surely our major publication should be a leader in this movement.

Douglas J. Hicks, FCPA, FCA
Don Mills, Ont.

Editor’s reply:
We were aware of it and were working on getting all the changes right. The October issue reflects the change. Thanks for pointing it out.

Correction
In the September feature “Top 10 tech initiatives” an incorrect figure appeared in the table on page 28 (“How would you rate the general performance of the cloud-based application you use?”). The first figure under the 2012 column should in fact be 27%.

CA magazine welcomes letters to the Editor. Please write to us at 277 Wellington Street West, Toronto, Ontario M5V 3H2
Email address: letters.editor@cpacanada.ca
Letters may be edited for space and clarity.
Standing a shade over five feet, Toronto artist Won Lee is a small man, but his personality — he laughs lustfully and often — and his art — including massive public sculptures in Singapore, Mexico and the Democratic Republic of Congo — are truly outsized. Focusing primarily on the human figure, Lee's works have recently been exhibited in shows in Milan and Madrid, and this month he will be the feature artist in a major show in Jalisco, Mexico, which coincides with the International Sculpture Symposium.

It's a particular triumph for the 66-year-old artist who, after moving to California from his native South Korea in the early 1970s to study painting (“Sculpture was too easy for me,” he boasts), ditched it all for the business world for two decades. “I was a bohemian back then,” he says of his initial years in California. “I was poor, but I actually liked being poor.”

When he married in 1977, however, he felt the need to be a responsible husband. Although he thought he might return to art once on more solid financial footing, he made a clean break. “I destroyed everything,” he says. “My brushes, my canvases, anything that related to my artistic life.”

He relocated to Vancouver to study commerce at the University of British Columbia, articled at Deloitte and Touche in the early 1980s, and eventually moved to Toronto to set up a private accounting practice, primarily to service the large Korean community in the city. It wasn’t until the early 2000s that he started to think about art again.

He went to Vermont to study fine arts and dedicated himself exclusively to sculpture. “I knew that’s where my talent was,” he says. While he initially split his time evenly between accounting and his art, he now spends the majority of his time, up to 85% by his measure, working at his studio.

As Lee sees it, there is no incongruity between art and accounting. “With both, you first need to learn the mechanics of how to do your work,” he says. “Imagination and the ability to feel things helps me in both disciplines.”

John Shoesmith

Résumé

1982 obtains CA designation (BC)
1984 opens private practice, Toronto
2002 studies sculpture, Johnson State College, Vermont
2007 first Canadian art show, Muse Gallery, Toronto
2013 feature artist, International Sculpture Symposium, Mexico

Larger than life

Won Lee thought he left his artistic life behind when he married and became an accountant. Now, more than three decades later, he’s making waves internationally for his super-sized sculptures.
**NUMBERS**

**Game**

Cashing out  Thirty years ago, employees routinely received annual raises and cash bonuses. Rewards today are less conventional:

12  Workers comprising Ottawa’s JetForm Corp.’s “employee satisfaction council” in 2000. The group picked fellow workers for quarterly bonuses, including an extra week of vacation.

20  Minimum dollar amount employees can distribute in bonuses through Bonus.ly, a peer-to-peer website encouraging colleagues to pick top performers and reward them with cash.

50  Suggested dollar value for a five-year service award in 2004. Consultants recommend $10 for each year employed. Royal Bank sends paperweights to staff on their second anniversary.

82  Percent of Canadian companies linking bonuses to performance in 2004 — a figure that had doubled in 10 years. “There was a time in the financial industry when the 13-month salary was expected,” noted one management expert. “Those days are long gone.”

100  Shares in Canadian Pacific that a bellman at Ottawa’s Chateau Laurier receives in 1990 as CP Hotels & Resorts’ employee of the year. He also gets a paid family trip to Hollywood.

250  Estimated value in millions of dollars of the Canadian incentive travel industry, which rewards star employees with free travel, in 1984. “If an employee receives a cash bonus one year and not the next, he feels the boss has taken it away. Travel [makes] a longer-lasting impression,” says one expert.

1990  Year Merrill Lynch Canada pays annual staff bonuses in Herbies — a “conditional promissory note” linked to profits of the US parent company. Merrill workers coin the name in reference to Herbert Allison, the firm’s head of compensation.  Steve Brearton

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**Working File: DEALING WITH A DISRESPECTFUL DESK MATE**

**THE SCENARIO**

Like many of us, Reshma Singh* works in an open-concept office. Her desk faces Bryan’s and the two share a table and filing cabinet. While she likes working alongside Bryan, Reshma fears his habits will eventually wreak havoc on their work relationship. “It’s like he forgets he’s in the office and not home,” she says. “His music is too loud, he heats up foul-smelling food in the communal microwave, and, probably worst of all, he goes to the office gym and leaves his gym bag open to air out — right beside my computer.”

**HOW IT PLAYED OUT**

“Since Bryan and I are in the same space, I don’t want to make things uncomfortable for us but his habits are getting on my nerves,” she says. Reshma’s coworkers suggested she leave an anonymous note for Bryan asking him to put away his gym bag, but she’s not sure that’s the best way to handle it.

**THE EXPERT WEIGHS IN**

“Offices with closed doors are few and far between, so it’s important to deal with issues that affect your productivity,” says Karen Cleveland, an etiquette adviser in Toronto. If your coworker plays his country twang on the loud side, offer ear buds, she advises. “It’s the best $5 you’ll ever spend. You could say, ‘I have the attention span of a flea and I’m distracted by your awesome playlists, so I picked these up for you.”

As for smelly foods, get over it, she says. “Lunch doesn’t affect anyone’s productivity — that’s just being precious.” Regarding the gym bag, however, Cleveland suggests offering Febreze, and being diplomatic. “Let him know you want to make your space work for each other. He’ll hopefully either find a new home for it in the locker room or stow it [zipped up] under his desk.”  Lisa van de Geyn

*Name has been changed

Have you faced a tricky work situation? Tell us about it at: tsatov@cpacanada.ca Names can be changed for anonymity
FRIENDLY ADVICE
Here’s something to consider before you reach out on Facebook. In a survey for staffing service OfficeTeam, a majority of senior managers say they are uncomfortable being “friended” by their clients (74%), their bosses (68%) and their employees (62%). Just less than half (49%) feel the same way about friending coworkers.

LOW RATES VS. REWARDS
Canadians are in two camps when it comes to credit cards, finds a survey by card comparison service GreedyRates.ca. Those earning less than $50K prefer low-rate credit cards but also avoid buying on credit. Whereas those earning more than $50K prefer rewards cards and use them as much as possible.

GRASS NOT ALWAYS GREENER
White-collar professionals or executives are no more likely than blue-collar workers to be satisfied with their pay, boss, job security or the recognition they receive, according to a Gallup poll of US workers. White-collar workers were, however, more likely to be satisfied with the safety conditions at work than were blue-collar workers.

HEALTHY EXPENSE
A study on Canada’s healthcare system reported our “free” system costs families thousands of dollars in taxes annually. The Fraser Institute says the expense of care for all family types increased 53.3% before inflation since 2003.

Average annual healthcare costs

<table>
<thead>
<tr>
<th>Family Type</th>
<th>Average Income</th>
<th>Healthcare Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>One parent with two children</td>
<td>$49,372</td>
<td>$3,387</td>
</tr>
<tr>
<td>Two parents with one child</td>
<td>$108,609</td>
<td>$10,989</td>
</tr>
<tr>
<td>Two parents with two children</td>
<td>$113,247</td>
<td>$11,320</td>
</tr>
<tr>
<td>Single individual</td>
<td>$39,039</td>
<td>$3,780</td>
</tr>
</tbody>
</table>

Know your worth
A surprising number of workers are leaving money on the table by failing to negotiate hiring salaries, a survey for US recruiter CareerBuilder finds.

While 45% of employers are willing — and expect — to negotiate salaries for initial job offers, almost half (49%) of new hires accept the first offer given to them.

So who is the most likely to negotiate? Here’s what the poll of 3,000 full-time, private-sector US workers and more than 2,000 hiring managers and human resources professionals discovered.

With age, wisdom: 55% of workers 35 or older typically negotiate the first offer, versus 45% of those age 18-34.

Man up: men (54%) are more likely than women (49%) to negotiate salary.

Pro advantage: workers in professional and business services are the most likely to negotiate initial offers (56%), followed by those in IT (55%), leisure and hospitality (55%) and sales (54%).
Want to know the real value of a property before moving forward with a transaction? Bring an AIC-designated Real Estate Appraiser on board. AACIs and CRAs are the real value experts, providing accurate, up-to-date valuations on all property types based on current and emerging market trends. You’ll thank them—and your clients will thank you.
PERSONAL ACCOUNTS

Why I race cars

Aarron Dowler, CPA, CA, racecar driver

The Dowler name is known at every track in Alberta — my dad, brothers, cousins and brothers-in-law are all racecar drivers. My uncles and sister used to race, too. There used to be about 20 races a year; now there are just four each summer. One of my family’s best seasons was in 2006: I came in fifth, my dad was third, my brother was second, and my cousin was the champion — we made up four of the top five places.

I started racing at 18 but I’ve always worked on cars. I have a stock car built with a small-block Chevy motor and a fiberglass body — it’s like nothing you’d see on the street. When I’m not racing, I drive a Ford F150, and I’m very respectful of the road both on and off the track, though I recently got a few photo radar speeding tickets. I obviously haven’t been on the track enough lately.

Racing is a competitive outlet for me. Even being in the shop working on cars — trying to make yours the fastest — is competitive. And it’s a great excuse to hang out with my dad.

As told to Lisa van de Geyn

QUOTABLE

Keep it simple

When Steve Jobs
Invented the first mouse
It had a single button
Point and click...
Work down design to
The smallest mount of buttons
Minimum required to ship
Don’t you know oh my
Darling complexity will kill you
Your users they’ll be
gone in a blip

Former Groupon CEO Andrew Mason, in his song
K.I.S.S. (Keep it Simple, Stupid)
In July, Mason released Hardly Workin’,
a seven-track album offering management advice

YEARS AGO THIS MONTH

Compiled by Steve Brearton

From the November 1968 issue of our magazine

No more burned copies

“Three copiers are currently being marketed by Smith-Corona Marchant. According to the manufacturer, these units make clear, clean copies from any type of original ... [and] because no heat or fusing is needed to produce copies, there is no possibility of seared or scorched originals or copies.”

New products and services

Personnel pitfalls

“The first prerequisite in conducting a successful [talent] search is to know all about the job to be filled; the second is to determine what is needed to fill it effectively; and the third is to ascertain in specific terms where it fits within the organization. Too often, the personnel department is simply given a requisition to fill a position without being aware of the job requirements or main specifications. Such a request usually ends up in frustration, conflict or total confusion.”

*Searching for management talent,* by William Lalonde, P.S. Ross & Partners

45 YEARS AGO THIS MONTH

Compiled by Steve Brearton

No more burned copies

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Personnel pitfalls

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*Searching for management talent,* by William Lalonde, P.S. Ross & Partners
Marc Bédard, cPMP, President, Lion Bus

Founded in 2008 and located in Saint-Jérôme, north of Montreal, Lion Bus primarily manufactures school buses, but also commercial buses for universities, drop-in centres, daycares, etc. Lion Bus has 45 employees and its sales totalled $15 million in 2013, a figure it hopes to triple next year.

Hot Factor: The company has an engineering department and operates a 40,000-sq.-ft. plant. It only assembles the vehicles, outsourcing its other activities, resulting in 300 spin-off jobs in Quebec. With a distribution network that covers 15 US states, Quebec, Ontario and Alberta, Lion Bus also plans to expand further into Western Canada and the West Coast of the US.

Company Profile: Founded in 2008 and located in Saint-Jérôme, north of Montreal, Lion Bus primarily manufactures school buses, but also commercial buses for universities, drop-in centres, daycares, etc. Lion Bus has 45 employees and its sales totalled $15 million in 2013, a figure it hopes to triple next year.

In His Own Words: “We revolutionized the school bus industry by capitalizing on our product and listening to users. While still remaining innovative, we never compromised on child safety, which meets the needs of children and drivers alike.”

Marie-Josée Boucher

Must Haves by Alan Vintar

Samsung Galaxy Gear

Samsung joined the world of wearable devices last month with the introduction of the Galaxy Gear. This stylish smartwatch boasts an 800MHz processor, 512MB RAM and 4GB storage. The 1.63-inch display is bright, crisp and responsive to the swipe gestures of the user interface. There’s also a built-in speaker, two noise-cancelling microphones and a 1.9-megapixel camera with lens in the wristband that can record short video clips in 720p HD.

As of press time, the Galaxy Gear is only compatible with the new Galaxy Note 3; however, updates will soon be available for older devices. Once connected, it will display notifications and messages, control music, make and receive phone calls and more.

Price: $299
www.samsung.com/global/microsite/galaxynote3-gear

Going Concern

MARC BÉDARD, CPA, CA President, Lion Bus

Cool Projects: Four industry leaders, including Lion Bus, share the $3-billion North American school bus market, selling 30,000 school buses each year. Here’s what sets Lion’s buses apart: diesel fuel efficiency, corrosion-resistant vehicles made with a fiberglass composite, a 10- to 15-year useful life compared with conventional vehicles, low maintenance costs, seatbelts, an 18-inch-wide centre aisle (compared with the usual 12 inches) and better visibility for drivers. Lion Bus also plans to launch the first electric school bus in the fall of 2014.

In His Own Words: “We revolutionized the school bus industry by capitalizing on our product and listening to users. While still remaining innovative, we never compromised on child safety, which meets the needs of children and drivers alike.”

Marie-Josée Boucher
Community Connect program boosting financial confidence

Community Connect has a simple goal: provide free, unbiased, straightforward information sessions to any group or organization that requests a session. There are no commissions, fees or referrals. In fact, it is a priority to ensure each session is as neutral as it is helpful. “People want advice from someone with integrity and who is unbiased,” says volunteer Gord Higgins, CPA, CA.

CPA Canada has produced materials to assist the volunteers interested in presenting a seminar. There are eight sessions to choose from: Are you a good financial role model?; How to teach your kids about money; Ten healthy habits of financial management; Effective tax strategies; Identity theft protection; Saving strategies; Planning for your retirement; and Estate planning.

A session is about 45 minutes long, so it fits easily into a lunch and learn, or an educational, cultural or hobby environment. Past participants have been impressed. Their comments have shown a real appreciation for the practical advice they have received.

“Financial literacy is good for individuals, families and businesses. It creates prosperity for our entire society,” says volunteer Arun Mathur, CPA, CA.

More information can be obtained by emailing communityconnect@cpacanada.ca.

The New CPA Practical Experience Requirements: information for upcoming CPAs and employers

Many university students who will qualify for entry into the CPA Professional Education Program (PEP) will begin their work experience under the new CPA practical experience requirements (CPA PER), which will be published in early 2014 and take effect Sept. 1, 2014.

CPA students and candidates who start employment and register with a provincial legacy body before Sept. 1, 2014, will be able to complete their experience requirements under that legacy system. Those who start employment and register with a provincial body on or after this date will be required to follow the CPA PER. Transition information, including the specific date when all legacy students and candidates will be required to meet the CPA PER, will be published in early 2014 as well.

To meet the CPA PER, upcoming CPAs must complete a term of no less than 30 months, with allowances for time off (for example, vacation, illness or study). Regulations in Quebec are still being developed and therefore the term of practical experience has not been finalized.

Employers can confidently extend employment offers to university students for start dates on or after Sept. 1, 2014, knowing positions that were previously recognized by a legacy body will meet the registration criteria for the purposes of practical experience. This includes offers for full-time, co-op or summer placements. However, experience obtained will have to be assessed in its entirety to determine whether it will meet all the CPA PER. If changes are required, provincial bodies will work with employers and/or CPA students and candidates as needed.

A summary of the CPA PEP schedule is available at www.cappro.ca/become-a-cpa. Information will be updated as it becomes available. Provincial bodies will also continue to be updated.
Corporate reporting is sexy one night a year
But the hard work never stops

The 2013 Corporate Reporting Awards will be presented at a gala in Toronto on Wednesday, Dec. 4.

CPA Canada thanks the 2013 judges for their hard work and dedication in reviewing the 63 public companies and Crown organizations that entered the competition this year.

“Our volunteer judges are tasked with the important job of identifying the CRA winners,” says Kevin Dancey, FCPA, FCA, president and CEO of CPA Canada.

“In addition, they contribute to improving overall financial reporting in Canada by providing all entrants with feedback and suggestions for improvements. This is no small undertaking, as the competition attracts companies that already place a high priority on providing financial information that is relevant, understandable and reliable,”

2013 CRA Panel of Judges

LEAD JUDGES

Crown Corporations
Jon Dervin, CPA, CA, CPA (Ill.), Ernst & Young LLP
Jim Keates CPA, CA, MBA, principal, CPA Canada

Financial Reporting
Bill Buchanan, FCA, CPA Canada
Jane Maciel, CIRI
Ashley Smith, senior administrator, CFA Society Toronto

Electronic Disclosure
Gerald Trites, FCA, CPA, CISA, Zorba Research Inc.

Corporate Governance Disclosure
Mike Harris, FCPA, CIA, ICD.D, partner, PwC

Sustainability Development Reporting
Valerie Chort, partner and national leader, sustainability, Deloitte
Pamela Campagnoni, CPA, CA, CPA (Ill.), principal, CPA Canada

JUDGES

Rhylin Bailie, vice-president, communications and investor relations, J. Proust & Associates
Christopher Barltrop, FCPA, FCA, retired partner, BDO Canada LLP
Matthew Batterton, CPA, CA, Ernst & Young LLP
Jackie Beith, CPA, CA, Ontario Lottery and Gaming Corporation
Carolyn Beniuk, associate, PwC
Etienne Boucher-Labelle, CPA, CA, Ernst & Young LLP
News from the profession

A SUMMARY OF CURRENT PROJECTS AND INITIATIVES

2013 CRA Panel of Judges (continued)

Lorie Brière, The Works Design Communications Ltd.
Mark Burnes, CPA, CA, director, PwC
Daniel Callejas, associate, PwC
Andre Charbonneau, CPA, CA, CPA (Ill.), Ernst & Young LLP
Kate Charlton, consultant, climate change and sustainability services, Ernst & Young LLP
Courtney Craib, president, Craib Design & Communications Inc.
Catherine Crofton, vice-president, sales, Q4 Web Systems Inc.
Jennifer D’Aoust, manager, climate change and sustainability services, Ernst & Young LLP
John Desjardins, CA, partner, KPMG LLP
Kim Drenner, MSc, associate, climate change and sustainability services, Ernst & Young LLP
Jacob Dwytie, senior analyst, NERA Economic Consulting
Tracy Ewing, consultant
Johanna Field, CPA, CA, Grant Thornton LLP
Gerry Fields, LLB, JD, Cornerstone Group
Alex Fisher, CPA, CA, Canada
Dana Fountain, consultant, sustainability, Deloitte
Kelly Freeman, CMA, director, investor relations, Potash Corp. of Saskatchewan Inc.
Wesley Gee, MSc, AIEMA, The Works Design Communications Ltd.
Suzie Gignac, CPA, CA, Ernst & Young LLP
Bruce Grantier, BASc, MBA, CFA, CAIA, ICD.D, managing director, Arith Inc., founder, InvestorLit
Meghan Harris, senior manager and western market leader — climate change and sustainability services, Ernst & Young LLP
Nancy Hoo, CPA, CA, Four Seasons Hotels and Resorts
Emily Huang, CMA, MBA, team lead, PwC
Deepak Jaswal, LLB, associate, PwC
Sheryl Joyce, vice-president, marketing and communications, Q4 Web Systems Inc.
Aaron Kabucis, CFA, TMX Equicom
Bill Kessels, CPA, CA, Ernst & Young LLP
Philip Koven, principal, Koven & Associates
Craig Mass, CA, Ivanhoe Energy
Jeff Mazzer, CPA, CA, Ontario Lottery and Gaming Corporation
Carolyn McGill, MBA
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Abel Medrano, CIA, team lead, PwC
Allison Metzak, MA, associate, Women in Capital Markets
Jason Moore, CPA, CA
Jesse Moran, MBA, senior associate, PwC
Kathryn Morrison, Sustainalytics
Dirushan Naidu, CPA, CA, Ernst & Young LLP
Eva Oloumi, MBA, associate, PwC
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Jessica Pavân, MBA, associate, PwC
Andrew Perro, RGD, senior art director, Craib Design & Communications Inc.
Stephanie Poon, CFA, LLM, Scotiabank
Natalia Pereskokova, MBA, director, PwC
Answerd Ramcharan, CFA, Investment Industry Regulatory Organization of Canada
Suzette Ramcharan, St Andrew Goldfields Ltd.
Christine Rhodes, CISA, manager, climate change and sustainability services, Ernst & Young LLP
Stephen Rigassio, MBA, associate, PwC
Agnieszka Rum, associate CSR adviser, Canadian Business for Social Responsibility
Todd Scalaletta, MBA, FCMA, C.Dir., CPA Canada
Mark Schmeer, MA, CFA
Benjamin Seto, senior associate, PwC
Ryan Shacklock, CA, CTP, manager, investor relations, Potash Corp. of Saskatchewan Inc.
Susan Sheehan, MBA, CSR-P, Leapfrog Sustainability Inc.
Nick Slade, associate, PwC
Peter Smalley, consultant, The Delphi Group
Joe Solly, senior manager, sustainability, Deloitte
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Jennifer Vieno, Fidelity Investments
Alan Willis, CPA, CA, Alan Willis & Associates
Viren Wong, CPA, CFA, FRM, portfolio manager, Full Cycle Energy Investment Management
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Legend

- ED – Exposure Draft
- EDI – ED based on IFRS/ISA
- SOP – Statement of Principles

† Refer to each Handbook pronouncement for the effective date and transitional provisions.

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A combo of common sense and cutting edge, INNOVATION ACCOUNTING is the latest strategy to test a startup’s odds for success

By Robert Colapinto

What with the WikiLeaks debacle and an epidemic in email and Facebook hacking, Tony Abou-Assaleh was confident his idea for military-grade encryption software for sending and storing documents had real traction. After sweating out 2011-’12 writing nerdy digital code, his TitanFile program looked promising. Yet, he resisted going to market.

Instead, Abou-Assaleh hit the streets in search of a frank critique of the product. Customers balked at some applica-

Illustration by MIKE CONSTABLE
When Saeed El-Darahali was developing TitanFile, a file-sharing service that moved from concept through pilot or prototype development to marketable widget, he was faced with the need to test whether the idea was viable. 

He became wedded to this great idea — as entrepreneurs do — you want to get it out there with all its winning bells and whistles, but by what metrics are you basing that crucial decision? Lean principles insist that you test the waters first, before betting the farm. “You've become wedded to this great idea — as entrepreneurs you want to get it out there with all its winning bells and whistles,” El-Darahali says. “Imagine the cost if we had launched a flawed service. We would have surely sunk without a trace.”

The lean startup attempts to “account” for product viability as it moves from concept through pilot or prototype development to marketable widget. 

The ability to test for innovation accounting metrics is what truly resonates for Saeed El-Darahali, founder of web-based marketing and communications company SimplyCast.com in Dartmouth, NS. “Lean startup and its innovation accounting feature pretty much forces you to be more aware of how your product is going to be received by your clients before you fully commit to its often very expensive rollout,” El-Darahali says. “You've become wedded to this great idea — as entrepreneurs tend to do — you want to get it out there with all its winning bells and whistles, but by what metrics are you basing that crucial decision? Lean principles insist that you test the waters first, before betting the farm.”

For TitanFile’s Abou-Assaleh, receiving and gauging potential customer feedback allowed him to refine his product. The company, based in Halifax and Ontario’s Kitchener/Waterloo high-tech corridor, discovered that lawyers and accountants, his focus clients who send and receive confidential electronic documents, required that the service’s platform be intuitive and idiot-proof because computer literacy for many professionals remains a nagging problem. No plug-ins, upgrades to computers or other confusing techno-hardware could be contemplated. All would be taken care of and maintained in the confines of the cloud. Done. They also voiced a need for the transmission of very large files — files well beyond the capacity of regular email attachments. And what about the ability to know who opened the sent file and when? Done again. And, his client base insisted that encrypted file-sharing was not enough; clients wanted a collaborative capability that would allow for secure communication. With a little frantic computer-code retrenching — as well as expense in time and money — done, yet again. “Without testing your hypotheses about your product, you can't understand the what, how and why of its strengths and weaknesses,” he says. “Imagine the cost if we had launched a flawed service. We would have surely sunk without a trace.”

Conventional accounting policies and procedures are given rather short shrift in the lean world. In fact, some see traditional accounting metrics as potentially harmful and time-wasting to the process of innovation. The reasoning for this is that most fledgling enterprises have no effectively measurable operating history, even less revenue and their cash-burn likely exceeds any revenue. These conditions are quite specific and defining to two types of companies: those that are failing and early to mid-stage startups. The former are clearly on life support, but the latter entities may not be. Income and cash flow statements, balance sheets and other standard key performance indicators do little to speak to the actual value and progress of a new and untried product or business. “By standard financial metrics, you've got a real loser on your hands,” says Bonnie Foley-Wong, CA, CFA, founder of Vancouver-based startup Pique Ventures. “But they are the wrong measurement, the wrong way to assess a startup’s potential. They’re not telling you anything about the viability of the product or service.” Foley-Wong christened her firm in 2012 as a “lean-minded” startup looking to create a dual network of investors and early-stage innovators who share in the movement’s vigorous pursue-pivot-or-perish philosophy. “The idea is to meld my no-nonsense accounting knowledge with the lean world, inform and educate investors and then foster entrepreneurship by matching money with innovation.”

By no means does Foley-Wong ignore traditional accounting and her clients’ financial models. “As an investor,” she says, “this model is crucial as I assess what you believe will be your future moneymaking business model. And then, just like any mature company, you'll need this bookkeeping to actually operate and to keep a finger on the financial pulse of your [hopefully] successful business model.” What Foley-Wong and her investors
do not need to see when she meets with startup founders is the obvious: “Not just an income statement. Chances are it’s going to be zeroed out, running a deep red. The entrepreneur should be back at work innovating, not wasting time playing with numbers that explain so little about what’s going on.”

El-Darahali kept a keen eye on his financials, but never at the expense of his evolving business model. He did not offer an actual MVP during development back in 2009 - 10, but he did know his hugely successful online marketing application, which won loyal customers in 175 countries, was a test to see if his July launch of SimplyCast360 — a highly praised product that connects 15 channels of communication (Twitter, Facebook, emails, text, fax, etc.) through a single interface — was going to be a winner. “We spent most of what we earned from our early products and wrote millions of lines of code for 360,” he says. “But the ‘experiment,’ years in the making, worked.”

In the end, the lean venture folds its vision and metrics into a business model, not a business plan. “The business plan is both a necessary and moribund duty for all new businesses. But its usefulness in the lean world is pretty thin,” says Tomasz Popiel, finance and audit manager at Startup Canada, an entrepreneur-led, volunteer-run organization supporting the new-venture community. For Popiel, an enthusiast of all things accounting — he also runs a popular blog for UFE candidates — the business plan is required by the entrepreneur, bankers and investors, but its traditional five-year financial blueprint does not account for the lean innovation’s continuing evolution and the likelihood of one or more disruptive pivots as MVPs and experiments define the final product. It is a necessarily static and unchanging plan, he says. “Problem is, it’s all too detached from the idea,” he says, “because thus far it’s only that, an idea. The entrepreneur makes the pitch to investors with all the plan’s forecasts, and there’s little to prove any of its assumptions about the product will ever be realized.”

In today’s lean world, Popiel insists, new businesses have to embrace the more dynamic and relevant business model — the device that has tested and accounted for the company vision.

Emulating lean principles, the Startup Canada team recently completed a cross-country series of meetings with new enterprises in order to gauge how the organization might better educate and support entrepreneurs. “We’re a startup ourselves,” says Popiel, “and it was important for us to take the pulse of what is essentially our marketplace.” Startup Canada found an entrepreneurial world — or “ecosystem,” as they call it — that was fragmented and unaware of how to effectively access programs, strategic alliances, risk capital and educational resources. “It was clear that our entrepreneurs need a national
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“Entrepreneurship is often a very insular and lonely journey, as you obsess over your work. Hopefully, we can foster a more collaborative and dynamic environment for these innovators”

voice to help them identify possibilities and leverage the networks that are out there,” Popiel says. “Entrepreneurship is often a very insular and lonely journey, as you obsess over your work. Hopefully, we can help foster a more collaborative and dynamic environment for these innovators.”

Such a vision is important, given that 48% of Canadians work in small businesses, and 4.7% of these businesses are said to be high-growth ventures that generate an astounding 45% of all new jobs. Eugene Bomba, a partner at PwC and its Canadian emerging company services (ECS) leader, knows these numbers well. A proponent of running lean, he agrees that social, educational and tricks-of-the-trade brainstorming entrepreneurial groups are crucial to the empowerment of Canada’s pre- and early-stage innovators. “They can read seminal works by Ries and others, but entrepreneurs need to get together, play off each other, work their MVPs, have a little fun monkeying with their models’ metrics, and get peer feedback,” he says. “At ECS, we offer a lot of practical advice and formal services to young companies, but it’s invigorating to sit with like-minded innovators and talk war stories.”

Bomba has hands-on experience in this world as a startup CFO at a listed medical tech company. “Our startup saw some excellent results: a couple of rounds of financing; several acquisitions; and, in just two years, we went from 20 employees to 150 as I helped scale up revenues by a factor of $10 million to a run rate of $20 million.” But looking back, he admits it would have been more fulfilling were he to have had access to members of the lean movement and its guiding principles. In the mid-2000s, coffeehouse-style meet-ups and more structured forums and mentorship groups were few in Canada. “Entrepreneurship is so dynamic, you want not only to share,” he says, “but also to find affirmation and a sense of camaraderie amongst the like-minded.”

Formal affirmation of running lean can be found by way of new curricula based on the movement’s principles at a number of business schools in the US and Europe. And in 2013, the Sobey School of Business at Halifax’s Saint Mary’s University inaugurated its masters of technology, entrepreneurship and innovation (MTEI) program based on Ries’ Lean Startup. “It’s both common sense and cutting edge,” says the program’s creator, Prof. Dawn Jutla, “so I thought it reasonable to give the MTEI a go.” Jutla, who teaches in MTEI, adds a good mix of standard accounting, finance, economics, marketing and information technology to lean startup’s innovation accounting, business modeling, MVP, pivoting and customer validation. “The concept is evolving, which is natural for anything new,” she says. “And what we’re doing is testing it all by applying lean to these other subjects and to the best practices we see from actual operations in real businesses.” Jutla is convinced that running lean has, in its few short years, morphed from egghead coffeehouse blogging philosophy to a quantifiable business standard.

“It all comes down to finding ways to put a damper on entrepreneurship’s high mortality rate,” she says. “Innovation is crucial to the health of our economy, and any concept that helps spur ideas and allows entrepreneurs to fully exercise their vision has got to be taken very seriously.”

Robert Colapinto is a freelance writer in Toronto
OVER THE YEARS, sustainable development has gained a foothold in many arenas, and accountants have been FRONT AND CENTRE at the scene.

By Yan Barcelo

Sustaining the CAUSE

ALAN DeSOUSA HAS DEDICATED HIS CAREER TO SUSTAINABLE development issues, first as mayor of Ville Saint-Laurent, a Montreal borough, then also as an executive committee member in charge of sustainable development under former Montreal mayor Gérald Tremblay.

His eureka moment happened at the 2002 World Summit on Sustainable Development in Johannesburg. “Ten years after the Rio ’92 summit,” he says, “participants were very disappointed with results to that date. ‘Nice plans,’ they observed, ‘but very little implementation.’ ”

So “implementation” became DeSousa’s working motto. “It’s somewhat my accountant’s training that gave me the idea that for each policy element,” says DeSousa, FCPA, FCA, “if we wanted to be credible, we needed goals, actions, an accountable executive and specific measures of success and timelines.”

Illustration by MIKE ELLIS
Accounting, it might be said, leads to many things, sustainable development (SD) among them. As the imperatives of SD grow in both society and the economy, accountants are jumping onto the bandwagon. Some have even contributed to building the bandwagon.

THE PIONEER Mike Harris, FCPA, FCA, senior partner for consulting and leader of the BC public sector practice at PwC in Vancouver, became involved in SD in the early 1990s as a lead manager for MacMillan Bloedel. "It was an age when environmentalists and other stakeholders were voicing their concerns and ramping up their pressure," Harris says.

In this context, MacMillan Bloedel, a major Canadian forestry player bought out in 1999 by US giant Weyerhaeuser, wanted to make sure its case was heard over the media noise and fury. The company needed ways to report on its forestry practices with the certification of a public accountant's report. "No other forestry company in Canada was doing that at the time," Harris says. "The company worked with us and called on our services to provide a report. It gave us the opportunity to be pioneers in such forestry practices."

Harris went on to other similar mandates in BC until 2001 when he moved to PwC's Toronto office. "There was no SD practice in Toronto," he says. "I developed it from scratch. Today, we have six practitioners in Toronto and 30 or so across Canada. It's become one of our larger SD practices within PwC globally."

SD has become a major practice at other big accounting firms. For example, at Deloitte, it keeps more than 40 full-time consultants busy, not counting the fact that SD "has links to many other practices such as audit, mergers and acquisitions and enterprise risk," says Valerie Chort, partner and national leader, sustainability and climate change, at Deloitte. "For example, in a merger and acquisition deal, you need to understand the environmental and social impacts involved."

At EY, Sam Whittaker, CPA, CFA, is somewhat of a newcomer...
to SD. “Three years ago, I joined our climate change and sustainability services group and became national leader for the practice this last year. At the beginning, I was just dipping my toes, since I had occupied other leadership roles in the firm,” he says. “But the more I got involved, the more excited I got. It touched on a passion to change the world. And this area is growing by leaps and bounds.”

What kind of involvement do these big firm consultants have? On one hand, says Whittaker, there are assurance services for companies that produce, for example, corporate social responsibility reports — a part of sustainable development that is growing in importance — or reports on greenhouse gas emissions.

Then there are advisory services involving “strategic consulting with companies to help them decipher all the SD pressures, identify priorities and projects, and develop SD strategies,” Whittaker says. Another major area is life cycle assessment (LCA), which aims at measuring the environmental footprint and energy consumption of a product from cradle to grave. “It’s just a fantastic approach,” he says.

One exemplary mandate was the development by Harris of an SD strategy and practice for Bombardier five years ago, one that he describes as the high point of his career, and a strategy for which the company was applauded by many outside stakeholders.

When Harris started his collaboration with Bombardier, firm and client “had a few SD initiatives. But these operated in separate silos and showed little coordination,” says Daniel Desjardins, Bombardier senior vice-president, general counsel and corporate secretary, who directs the social responsibility and SD efforts.

When Pierre Beaudoin became president and CEO in 2008, he designed a business strategy around five points, including social responsibility. The first task, with Harris’ help, was to develop an SD action plan, something the company didn’t have. “We needed a long-term vision,” Desjardins says, “with annual and triennial objectives, in order to become a champion in social responsibility.”

The plane and train company, with 80 production and engineering sites worldwide, made outstanding progress. It started following and accounting for key performance measures, many of which now show impressive numbers. For example, in six years, the company has reduced its energy consumption by 18% while increasing revenue by more than 14.3%, to $16.8 billion from $14.7 billion. And annual energy costs are $16 million lower.

In health and safety matters, a social responsibility area of which Desjardins is particularly proud, accidents have come down from one in every 200,000 work hours to one in every 400,000, a performance “that is best of class,” claims Desjardins.

Bombardier also took LCA seriously. “We can demonstrate that more than 90% of our train components can be recycled at the end of a train’s useful life,” Desjardins says. And many features contribute to make its train engines the least energy hungry in the market. For example, battery packs are recharged while the train brakes, lightweight materials cut on weight, aerodynamics are optimized and software-assisted systems help conductors accelerate and decelerate more efficiently, allowing energy savings up to 50%.

The company’s SD effort was recently recognized by the Dow Jones sustainability index, which crowned Bombardier industry leader in aerospace and defence, ahead of giants Lockheed Martin, United Technologies, BAE Systems, Embraer and Rolls-Royce. But the best part of SD, says Desjardins, is that “it is good for business and for everybody: the company, shareholders, partners, suppliers, employees, the environment and society.”

THE BELIEVER Another Canadian company on the SD track is Vancouver’s Westport Innovations, founded in 1995 with the aim of contributing to a more sustainable future.

A spinoff of UBC, Westport’s founding technology was the brainchild of Philip Hill, professor of mechanical engineering. “He thought there was great potential for natural gas to replace petroleum in applications traditionally based on diesel,” says Elaine Wong, an executive vice-president who runs the applied technologies group at Westport and sits on CPA Canada’s Sustainability Advisory Board.

Hill’s solution was to develop alternative fuel, low-emission technologies that allow engines to operate on clean-burning fuels such as compressed natural gas, liquefied natural gas or hydrogen. Westport’s technologies revolve around a high-pressure direct injection system that allows a manufacturer to make a motor that burns diesel, for example, run just as efficiently on natural gas.

Westport works with transport companies, notably car makers GM and Ford, for example, developing natural gas versions of Ford 150 and Ford 350 trucks. The company’s sustainability mission is turning it into a major venture, generating sales of about $156 million last year with 900 employees in Vancouver; Detroit; Lyon, France; Gothenburg, Sweden; and Beijing among other cities.

Westport is clear on its mission and makes sure it is not just working on new SD equations from a traditional business model. It also tracks and reports on its SD and social responsibility initiatives, just as Bombardier does.

“We track how we’re doing within the community, with environmental measures, with our carbon trading program, with how much natural gas we use, with how much voluntary work our employees contribute,” says Wong. “But this happens within traditional financial reporting. We don’t do triple bottom-line reporting with integrated financial, social and environmental issues. We’re not there yet. We don’t have the resources to be leading edge there.”

But that’s not what counts for Wong — buying into the dream does. “We’re taking on big oil and big auto,” she says, “and I don’t think you can last 12 years if you don’t carry the belief.”
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without knowing that I wrote my master’s thesis on sustainable development in 1977,” he says. “When I took the job, I wasn’t in unknown territory.”

Throughout his career Fortin has promoted SD principles, including an involvement in citizen pressure groups and counselling engineering firms in Quebec. Fortin has taken aim at big players whose activity is not sustainable. For example, he was involved in the shale gas issue in Quebec, a controversy that led the provincial government to table a bill in May placing a moratorium on shale gas exploration and production in the St. Lawrence lowlands. Proposed regulation would also require companies to carry out hydrogeological studies before undertaking oil or gas drilling.

Fortin also co-chaired a government-sponsored forum on mining taxes. He observed that players in the shale gas and mining industries don’t account for the hidden costs of their activities. “How much would insurance companies charge companies for the risks their operations pose to ground water? I’ve read in an annual report that such a risk can’t be insured. But that would certainly allow us to evaluate the true wealth that is being taken from citizens.” And in Fortin’s mind, there is no way shale gas extraction can be made safe. “We have a hard time keeping a roof from leaking in a house,” he says, “so imagine trying to secure a pipe 2,000 metres deep. Rock is fractured, tremors propagate, and chances of breaking the pipe are very high. Science is sufficiently advanced to make sure that we can put a dollar value on such risks.”

Yan Barcelo is a Montreal-area journalist
the key drivers of a potentially long-term transformation of accounting principles and practice.

To date, sustainable development (SD) has brought about changes in certain areas of financial reporting, but they remain somewhat marginal. However, one major development is what some companies refer to as a corporate social responsibility report; others, a sustainable development report.

SD has not yet penetrated to the very heart of accounting and financial reporting, and often accountants are not involved in the production of such reports. But that could change. Transformations originating from so-called integrated reporting, and which are supported by the Big Four accounting firms, are starting to percolate in the corporate world.

And judging by how quickly SD and social responsibility (SR) notions have penetrated company reports, the concept’s underlying integrated reporting could land in accountants’ laps before they know it.

**Illustration by MIKE ELLIS**
A recent past
Although environmental accounting concepts had been around since the 1970s, by the early 1990s, SD and SR reports were still few and far apart.

And they were often sketchy and superficial. However, momentum picked up rapidly and today more than 3,000 companies worldwide, including more than two-thirds of the Fortune Global 500, produce some type of sustainability report, says Sam Whittaker, national climate change and sustainability services leader at EY in Toronto.

And over the years the reports have become more detailed and substantial. Metrics have become more precise and the number of items discussed has mushroomed. “When I started in environmental accounting in 1972,” says Jacques Fortin, FCPA, FCA, professor of accounting at HEC Montréal, “we couldn’t even measure carbon emissions spewing out of a coal-generated plant. Today, we can make an exact particle count, determine the impacts on human, animal and plant life, and evaluate the costs of decontamination.”

As an example, the Telus Social Responsibility 2012 Report delves into details Fortin could never have dreamed of in the ’70s. The report quantifies greenhouse gas emissions in buildings Telus owns and leases and also measures emissions produced by employees when they travel by air.
In the recent Lac Mégantic train catastrophe, “if people had realized the real cost of petroleum transport, maybe they would have planned differently. The owner of the train would probably have found a massive ‘externality’ in its financial report”

“Over the years, performance has improved; reports are getting more comprehensive and meaningful and, in general, Canadian companies are producing some very good quality reports,” says Marie-Andrée Caron, professor of accounting at the Université du Québec à Montréal’s school of management. “Everything that was not regulated was simply not taken into account.”

In the November 2013 CA magazine, Caron explores externalities in financial reporting and relates the concept of contingent liabilities to pollution and other social issues, “which is driven by the expectations of institutional investors, by rating agencies, for example the Dow Jones sustainability index, by peer pressure, consumers and environmental agencies,” says Caron. There is also the increasing realization by companies and organizations that SD reporting “is good for business,” says Daniel Desjardins, senior vice-president, general counsel and corporate secretary, who directs the social responsibility and SD efforts at Bombardier.

All those factors combined are leading up to the potential next phase — integrated reporting (IR). Why integrated? Because to date, financial reporting and sustainability reporting remain two distinct solitudes with little overlap. Of course, there are a few points of intersection. For example, when Bombardier’s evaluation of its carbon footprint leads it to such social issues as occupational health and safety, training and education, labour relations, child labour and grievance mechanisms for negative impacts on society.

 Corporations self-propel

At their outset, SD and SR reporting were driven by government regulations because many environmental and social issues were considered externalities in corporate financial accounting. The basic equation was very simple, says Caron: “Everything that was not regulated was simply not taken into account.”

Today government regulation still plays a large part in the propulsion forward of SD and SR reporting, but increasingly the impetus is coming from the corporate world, which is driven by the expectations of institutional investors, by rating agencies, for example the Dow Jones sustainability index, by peer pressure, consumers and environmental agencies,” says Chort. There is also the increasing realization by companies and organizations that SD reporting “is good for business,” says Daniel Desjardins, senior vice-president, general counsel and corporate secretary, who directs the social responsibility and SD efforts at Bombardier.

Yet there’s a need to make it trustworthy in the cases where people who collect it also have an interest in it.”

Externalities and liabilities

A prevalent reference for SD reports is to be found in the guidelines produced by the Global Reporting Initiative, a nonprofit organization that promotes economic, environmental and social sustainability. Its guidelines, used by organizations around the world, outline approximately 150 key indicators SR reports can focus on, ranging from economic criteria such as indirect impacts and procurement practices; to environmental criteria dealing with issues such as energy, water and carbon emissions; to social issues such as occupational health and safety, training and education, labour relations, child labour and grievance mechanisms for negative impacts on society.

For each category, the guidelines suggest key elements to report on. For example, under the heading “Significant indirect economic impacts,” they propose to include, where applicable, “economic development in areas of high poverty, economic impact of improving or deteriorating social or environmental conditions, availability of products and services for those on low incomes, enhancing skills and knowledge amongst a professional community or in a geographical region, jobs supported in the supply chain or distribution chain, stimulating, enabling, or limiting foreign direct investment,” among others.

Considering that an accountant or an SR officer could feel overwhelmed by the profusion of details, this set of guidelines (now in its fourth version), “stresses the importance of a materiality assessment,” says Chort, meaning a company should select to report on only those elements that make a difference for the company. For example, some companies operate in areas where child labour is an issue. However, determining whether these companies should report on greenhouse gas emissions could require some reflection.

A crucial concept in SD accounting is “externalities.” Soil contamination or ground water pollution has little bearing on the bottom line, and that’s why most SD or SR accounting items are considered as externalities. Why? “Because there is no monetary transaction, and the current accounting model is based on transactions,” says Marie-Andrée Caron, professor of accounting at the Université du Québec à Montréal’s school of management.

That is, until the company has to settle a legal suit for environmental damages directly impacting profit. In the recent Lac Mégantic train catastrophe that razed a complete town centre in Quebec, “if people had realized the real cost of petroleum transport, maybe they would have planned differently,” Caron says. “And the owner of the train, Montreal, Maine & Atlantic Railway, would probably have found a massive ‘externality’ in its financial report.”

Which brings up the concept of “contingent liabilities” that prompts stimulating questions for the accounting profession, says Fortin, who faced just that when he worked as an accounting adviser for an engineering group hired to evaluate the environmental liabilities caused by the contaminated soil at bases for the Canadian Ministry of Defence in the late 1980s. “Contamination measures had been made by engineers, so we knew how much remediation would cost,” Fortin says. “But at what moment do you recognize the liability when a contaminated site is 500 kilometres from any population centre and you know that nature will have done its decontamination after 25 years? Do we have a liability? And if the site is near Montreal or Toronto, do we have one?”

Such situations, he says, also raise audit and verification theory issues and system procedures to deal with this information. “How do you make it trustworthy in the cases where people who collect it also have an interest in it?”

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Of course, there are a few points of intersection. For example, when Bombardier’s evaluation of its carbon footprint leads it...
to reduce its energy consumption, that saving directly impacts the company’s profit and loss statement. But such intersecting points are the exception. The financial, social and environmental reports “remain parallel and accountants don’t invest themselves very much in them,” says Caron. “If change is going to happen, it will be through the integrated report.”

This new initiative is lead by the International Integrated Reporting Council, whose objective is to develop an internationally accepted IR framework by 2014. Formed in 2009, the council is still young and the framework it put forward in 2011 is in its pilot phase. Nevertheless, more than 100 companies, including 50 institutional investors, the Big Four accounting firms and corporations such as Coca-Cola, Microsoft, Unilever and Volvo, have joined and are experimenting with features of the framework.

An old-fashioned future
The key concept underlying IR is quite old-fashioned: the creation of value. But value creation goes beyond financial elements into dimensions currently reflected only in SD and SR reports. “Integrated Reporting provides an interesting change in perspective on companies,” according to IIRC’s Pilot Programme 2012 Yearbook. “Many people see sustainability as separate to company behaviour and success. However, it is about how companies are run and their longer term viability, resilience and ability to deliver value. Behind IR is a desire to combine sustainability with more mainstream financial aspects. In the long run, companies that behave well, do well.”

The new report model IIRC is putting forth would eventually replace the traditional financial report and is centred around six key “capitals” that would be well identified and quantified: manufactured capital, human capital, intellectual capital, natural capital, social capital and, of course, financial capital.

Though all these capitals are essential to the value creation of any company, many fly under the radar of the traditional financial report. One obvious area is human capital. In the IIRC’s yearbook Microsoft gives an eloquent example. “Microsoft’s balance sheet currently accounts for less than half of the company’s market value. Its financial statements show virtually none of its intangible assets. Bob Laux [director of accounting and reporting] suggested that the focus of companies that largely depend on human and intellectual capital is actually more on financial and manufactured capital in reporting. This reflects a legacy of resistance to change in US businesses that have implemented reporting infrastructure designed for a manufacturing economy. Laux explained: ‘Financial reporting hasn’t kept up with the shift to an IT-based economy. When scandals emerge, such as the dot-com bubble in 1995-2000 and the financial crisis in 2007-2012, Band-Aids are put on problems.’”

In traditional financial reporting, human capital, which is crucial to value creation, is not treated as capital. It is an expense. It is little wonder that a company such as Home Depot missed a key driver of its value creation when a new president decided to change the generation mix of its employees.

“At Home Depot, we were served by older employees who knew by experience about handy work and renovation,” says Fortin. “They gave me precious advice, and they were really motivated to serve me.” When the new president took over, Fortin simply stopped shopping there, like many clients, and he thinks this policy caused Home Depot to lose a lot of value in the stock market.

“When you fiddle with human resources as if they were numbers and objects that you can shift around, you quickly pay the price,” says Fortin. The market knew that value, but the president did not. He was just moving expense items in his spreadsheets. Since then, according to Fortin, the company corrected its error and now employs a mix of ages.

That is the type of error IR aims at avoiding by having a company’s accounts reflect and quantify human capital and other capitals that drive its value creation.

Yan Barcelo is a Montreal-area journalist
Don’t get hosed by the waterlogged

Thinking of buying a used car or truck? Make sure you do your due diligence before putting down the cold cash.

Many dramatic images captured the effects of the record rainfall that deluged Toronto during a seven-hour storm on Monday, July 8, but perhaps the picture of the abandoned luxury car was the most memorable. The 2010 light blue Ferrari California, which retails for almost $300,000, was submerged in water up to its roof in an underpass in downtown Toronto.

What contributed to the image going viral — the mark of notoriety in today’s age of social media — was the decision by the car’s owner, Toronto employment lawyer Howard Levitt, to leave it unattended. He had a valid reason: he had to catch a plane to Ottawa at the nearby Billy Bishop Airport to attend a hearing the next morning on behalf of a client.

Levitt’s car, which is built very low to the ground, had become stuck in fairly shallow rainwater that other cars had easily maneuvered through. As he struggled to move forward or reverse, a water main broke, sending a seven-foot geyser of raw sewage cascading into the underpass. Two other geysers soon followed. The shallow water quickly became a dangerous flood.

“When the water reached the bottom of my window, I thought if this continued I was going to drown,” Levitt says. He grabbed his suitcases, now slightly wet, and struggled to get out of his car. The contaminated water rushed into his luxurious vehicle.

A police officer arrived and told Levitt he could leave. “He said he’d arrange for my car to be towed away on a flatbed truck. By the time I left, the water was up to my roof.”

The city by this point was in chaos and Levitt felt he had little chance of hailing a taxi. But a Good Samaritan cabby, seeing him walking through the water with two suitcases, convinced his passenger to let Levitt share the ride. After dropping the first man off, the cabby went to the downtown airport, only to discover it had been closed.

Levitt booked the last seat available to Ottawa on a 10:30 p.m. flight from Pearson Airport. The cab took him there. After some weather-induced flight delays, Levitt arrived at his Ottawa hotel close to 3 a.m. However, he still had his weekly column to write for the National Post, due that morning. Levitt finally grabbed a few hours sleep before representing his client in a private employment law matter a few hours later.

When floods occur — and they seem to be happening at an increasing frequency in recent years, possibly due to climate change — it is commonplace that cars and trucks of all makes and values suffer some degree of damage from being submerged in water. It is also true that some of those vehicles are subsequently sold to consumers without the buyers being told of the car’s history and the potential problems that could ensue from it having been waterlogged.

Although this form of fraud has existed to some degree since the onset of the automobile age, it rose to prominence in the aftermath of Hurricane Katrina. Hitting landfall in late August 2005, Katrina was listed as the sixth strongest Atlantic hurricane ever recorded. It ravaged the Gulf Coast, with New Orleans suffering the most severe consequences.

The focus of concern in the months and years after the storm, understandably, was the...
terrible loss of life and the destruction of so many homes and buildings. With almost 2,000 people killed and damages exceeding US$80 billion, it was not surprising that the fate of scores of flooded automobiles garnered scant attention.

It is estimated that 600,000 cars were badly damaged by Katrina. “[They] should have gone to the junkyard, but instead are making their way to the sales lot,” Seattle’s KOMO News reported about a year after the storm. “It’s taken a while for some of these cars to show any problems, but now a lot of people [in the northwest] are slowly starting to realize they bought a Hurricane Katrina car that should have been junked.”

Some unscrupulous car dealers and individuals took advantage of the lack of attention the Katrina cars received. Many purchased the vehicles at a salvage auction, at which the cars’ history was fully disclosed. In the US, however, not all states keep track of that information, so the purchaser could avoid having to inform consumers that the car on the lot had been submerged in water by moving it to another jurisdiction. Some Katrina cars (and those from other floods: it’s estimated more than 200,000 cars were damaged in Hurricane Sandy, the 2012 storm that battered the northeast US) made it into Canada.

“When it’s resold, the next buyer wouldn’t know its history,” says Philip Reed, senior consumer advice editor for the auto information website Edmunds.com. “We have 50 states and not all of them talk to each other. Sellers take advantage of that.”

Reed notes that some sellers also failed to disclose a vehicle’s past when conducting a private sale. “You could have a car that sat in standing water and then the owner tries to turn around and sell it,” says Reed. “There will be no documentation of this, so the subsequent buyer would have to detect it by physical evidence on the vehicle itself.”

Although Katrina likely damaged the most cars in one storm, any flooding disaster will result in many water-damaged vehicles being sold fraudulently. “Each year, about half the vehicles savaged by floods and hurricanes wind up on used-car lots across the country,” says AARP (formerly the American Association of Retired Persons). “That can amount to tens of thousands in a typical year.”

The same is likely true in Canada. Following the floods that beset parts of Alberta this past summer, Calgary Police Chief Rick Hanson warned the public about being scammed by car fraudsters. “[Hanson] expects a rise in fraudulent used-vehicle sales in the weeks and months ahead,” CBC reported, “urging anyone buying one to get it properly inspected before forking over cash.”

“Predators will try to buy those cars and then turn them around and try to sell them back to people without disclosing the flood damage,” Hanson said. “You don’t want to be driving 120 [km/h] down the Deerfoot [Trail] and find out your brakes don’t work properly.”

Although a flooded car or truck can be cleaned up to mask...
vice that provides Canadians with a car’s complete history, also Kelley Blue Book.

“It’s almost a ticking time bomb in terms of what’s going to go wrong,” says Alec Gutierrez, manager of vehicle valuation at Economical Insurance, a large Canadian property and casualty insurer.

That’s how Diane Zielinski of Quakertown, Penn., describes what happened when she bought a used Pontiac Grand Am for US$3,500 for her son, Nate, in 2000. “It looked good. It ran good when we did the test drive,” she says.

Three weeks later, however, something terrible happened. Nate was driving on a dark country road about 9 p.m. when he heard a loud bang. The car’s engine had blown apart.

“I went to make a left hand turn and all of a sudden there was oil and pieces of engine block all over the place,” Nate says.

Fortunately, he was not injured. But it could have been worse. “I think I’m being careful putting him in something safe, when I was actually putting him in a time bomb,” Diane told a TV station.

After the accident, Nate found Carfax.com, a website that for a fee provides “vehicle history reports to individuals and businesses on used cars and light trucks for the American and Canadian marketplaces.”

When Nate entered the Grand Am’s vehicle identification number, he learned it had been flooded in New Jersey during Hurricane Floyd, a 1999 storm that struck the northeast US. The vehicle “had been declared a total loss and given a salvage title,” DailyFinance.com reported. “Somewhere along the line after that, a clean title had been forged.”

Consumers should conduct due diligence before buying a used car, although it’s likely that many bypass this step. Obviously, taking the car to a mechanic before agreeing to purchase a used car or truck is a wise investment. Some purchasers invest in the cost of an appraisal but many don’t, relying on their own gut reaction. If the price is especially appealing, which is typical when a flood-damaged vehicle is up for sale, the temptation can be too much for some buyers to resist.

AutoTrader.ca, an online car-selling website that offers a service that provides Canadians with a car’s complete history, also lists things a consumer can do when inspecting a used car, especially if there’s a concern it’s been damaged in a flood:

• check under the carpets or floor covering for mud or rust, as well as the trunk;

• give the underside of the carpets a sniff test. Do they smell like mildew?

• look for mud and debris in hard-to-clean spaces, such as under the hood and in the trunk;

• mud and debris on the underside of panels and brackets is another good sign the car has been under water; and

• rust on the heads of any exposed screws under the hood, around the doors or in the trunk indicates exposure to excess moisture.

Prospective buyers are also urged to make sure all gauges and systems such as the cigarette lighter, radio and windshield wipers are working.

Although consumers are warned to avoid flood-damaged cars, not all agree with this policy. In May, Philly.com reported that Clarence Hamer, a Brooklyn resident, bought a Sandy-damaged Lexus listed on Craigslist for a great price. Hamer says he has some knowledge of cars and after he inspected the four-month-old Lexus he could see that the water damage was minimal. He noticed the fuse box and the unit below the seat that holds the car’s computer were unscathed. “If those things are untouched or not damaged, the vehicle is probably fine,” he says.

“A New York City auction house, which recently auctioned off hundreds of abandoned flood-damaged cars, reported one sold for US$300 while another went for US$10,000,” Philly.com reported.

“Just because a vehicle is titled as flood-damaged doesn’t mean it’s inoperable,” auctioneer David R. Maltz said in published reports.

Levitt received two calls inquiring about his Ferrari. He was unable to negotiate with the callers, however, because his insurer had deemed his car unrecoverable and refused to allow it onto the marketplace.

This seems to be in compliance with what the US Registrar of Imported Vehicles says on its website: “Licensing jurisdictions in Canada consider vehicles with a ‘salvage/flood’ brand or bearing a supplementary designation of ‘flood’ or ‘water damage’ as non-repairable. This also applies to vehicles where evidence of water damage is observed by a border service officer during inspection of a vehicle when presented for entry into Canada. These vehicles cannot be licensed for road use anywhere in Canada and can only be imported into Canada for scrap or parts via the RIV parts program by declaring the vehicle’s entry using a Vehicle Imported for Parts Form.”

While insurers such as Levitt’s do the right thing, there are still too many others, such as dealers and individuals, who try to pawn off a flood-damaged vehicle without providing its provenance. Consumers offered a great deal should stop to ask why the price is so right and, if they don’t like the answer or the mouldy smell emanating from the car, be willing to walk away.

As for Levitt, he has another Ferrari on order and is driving a Dodge Viper until it arrives. As for his case in Ottawa — he won. “It was a great ending in that respect,” he says, “just not for my car.”

David Malamed, CPA, CA•IFA, CPA (Ill.), CFF, CFE, CFI, is a partner in forensic accounting at Grant Thornton LLP in Toronto. He is also CA magazine’s technical editor for Fraud.
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Meetings — who wants them?

How to stop spending mind-numbing hours around a table and start loving those once-dreaded meetings

Sam, the CFO of a manufacturing company, was stressed and frustrated. The industry was evolving and his company had reorganized to drive more innovative change. Sam endorsed the change, believing his team's role was to support the turnaround and help the company remain financially strong. He also wanted his team to shift from being what he termed “gatekeepers” to “trusted advisers.” It was a delicate balance. For assistance, he turned to Joe, an executive coach, who was recommended by a colleague. Joe and Sam worked on a number of things to help Sam and his team make this shift. One of the most critical overhauls was the way Sam structured meetings.

Sam, who detested meetings, had planned to reduce the number of scheduled team meetings. “I spend far too much time planning, nothing gets accomplished and more work is created,” he said.

Sam’s complaint is a common one, and fair. Many of us have endured several mind-numbing hours around a boardroom table when our time could have been spent better elsewhere.

But there was a better way. “Before you announce any changes,” Joe said, “I’d like to sit in on a meeting.” Sam agreed and invited Joe to the next scheduled meeting. Afterwards, they debriefed.

“Is that a typical meeting?” Joe asked.

“Yes,” Sam said. “I present, try and drive discussion, no one says much. I leave with a longer list of to-dos.” Joe noted that during the meeting Sam made many statements but asked few questions, and that he was the
only one who made a presentation. He also saw that one person at the end of the table was on his smartphone during the entire meeting. Also, there was no wrap-up to the meeting, it just fizzled out — and later than the designated time.

Fair enough, Sam said. “But even if I improve my meetings, I can’t see how they’ll help with the changes we’ve planned.”

If run well, meetings are an important mechanism to drive change. But they also must be relevant.

In other words, only those people who need to be there should be included. If you are booking a meeting to only relay information, send an email. There’s no reason to bring an entire team into a meeting unless you want a discussion. And you should not be the only one presenting.

As for reducing the number of meetings, it was suggested that Sam schedule more, not fewer, meetings. The key, he was told, was in how one structures a meeting.

Joe broke meetings down into four specific categories described in Patrick Lencioni’s book Death by Meeting — daily check-in; weekly tactical; monthly strategic and quarterly off-site review. He pointed out that when meetings are categorized this way, a team connects and works on shared goals, which, in turn, drives change.

Sam was given a number of other tips to ensure his meetings were successful:

• state your objective — determine your objectives for the meeting beforehand and state them at the start of the meeting;
• have an agenda — this forces you to plan upfront, focus on your objectives and what you wish to accomplish. An agenda also keeps the meeting on target and eliminates off-topic discussions that waste time. If something arises that should replace an item on the agenda, do so. Otherwise move it to another time;
• start and end on time — this sends a message to your team members that you value their time and that you expect the courtesy to be reciprocated;
• stay in charge — keep the meeting moving forward by redirecting or stopping conversation as necessary, noting action items and ending the discussion at the allotted time;
• ask others to present/contribute, when appropriate;
• promote discussion — plan open-ended questions and include them in the agenda. Discuss the controversial issues;
• don’t ask for feedback if you don’t want it — if you are informing, let your team know;
• next steps — when the meeting ends, finish with a wrap-up section on all agendas. Use this time to summarize what was agreed to, by when, and who is responsible. Have someone take notes and send these actions to the team. Build these action items into the next meeting agenda.

Sam implemented the four-meeting structure. He started with a quarterly off-site review — two days and one night at a local inn — where he unveiled his vision of the role he and the finance team would play in the company’s turnaround strategy. He supported his goals with research but remained transparent about his concerns. Aware that good meetings revolved around good questions, Sam gave a nod to the finance department’s reputation to hold the purse strings tight, and then got to the crux. “How,” he asked the team, “can finance be better strategically positioned to say ‘yes’ and thereby effect positive company-wide change while meeting the need to be somewhat cautious?”

Next he outlined his thoughts and invited his team to challenge him with questions, concerns or comments. He especially encouraged the team to offer feedback regarding its role in the company’s future.

That first evening, they enjoyed a meal at the inn’s restaurant. The following morning, the meeting continued. After a pleasant lunch, the team checked out for an early start on the weekend.

The off-site meeting was a success. “I feel I accomplished what I set out to do — to educate my team, receive critical feedback and bring the team onside with our strategy,” Sam said.

Sam decided that, in his case, daily check-in meetings weren’t necessary. Instead, he caught up with the entire team at the weekly tactical meeting. Again, he expressed to Joe that the new meeting structure shifted the way the team interacted. “Rather than dreading that 45 minutes, I look forward to meeting. We review activities, metrics and several times we’ve resolved some tactical issues that directly affected our goals. It’s been really helpful to discover what’s been happening, troubleshoot if need be, assess what we’ve accomplished and what’s left to do.” As a result Sam admitted he and the team were energized, and that the change in their dynamics was palpable.

When it came to his regular monthly meetings, Sam was equally enthusiastic. “We spend about two to four hours brainstorming and analyzing the critical issues that could impact our long-term success. Because these sessions are more in-depth we keep the agenda to one or two items. I make sure I’m well-prepared. But the best part is the way the team members are interacting now. They’re challenging themselves and each other.” Sam was convinced that the spirited but healthy conflict that had evolved in these meetings was responsible for their progress.

The first year was demanding. Sam’s team balked at some of the changes he implemented, but slowly, through perseverance and focus, the finance team’s reputation within the company shifted from gatekeeper to trusted adviser.

While Sam said there were still days when he hated meetings, he knows change can be challenging and takes time. “In our case, it took almost two years to accomplish our goal. I have to say, I couldn’t have done it without meetings.”

Sandra Oliver is an executive coach and owner of IMPACT, a global coaching firm. She is also CAmagazine’s technical editor for people management (sandra@impactconsultinginc.com)

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Leveraging social media

Initially it may seem complicated, but the trick is to carefully evaluate the opportunities and the risks social media offers to the business world.

Almost everyone today uses at least one social media platform — Facebook, Twitter, LinkedIn or YouTube. New technologies, in particular smartphones, have driven the phenomenal growth in social media in the past five years. Social media is now an integral part of the business environment and organizations need to be aware of the influence it wields.

Yet at a recent conference on social media, company directors claimed to have a limited understanding of social media and assigned little importance to it in business strategies. But to what extent is social media used and what are the inherent risks that make this strategic component somewhat unpopular?

In March, Richter surveyed 33 large Quebec organizations to determine whether their audit committees showed any interest in social media and its associated risks. Surprisingly, only one internal audit department had addressed the issue, and four said they had plans to do so in the future. In other words, 85% of the organizations surveyed placed little or no importance on the inherent risks of social media.

Board members, in collaboration with senior management, need to incorporate the business opportunities and risks arising from the use of social media into their business strategies. And internal audit departments can play a key role in this process.
Social media basics
In just a short time, social media has revolutionized how people communicate, combining technology, social interaction and content creation. According to an April article in Maclean’s magazine, more than seven in 10 Canadian Internet users logged on to social media sites at least once a month in 2012. The increase in social media users from 2007 to 2012 clearly shows how phenomenally popular social media have become: Facebook: 50 million to 1.2 billion; Twitter: six million to 500 million; YouTube: 300 million to one billion; LinkedIn: 10 million to 200 million.

Social media is not limited to the major players. Other sites specialize in social and professional networking, blogs and microblogs, image and video sharing, business localization or book-sharing sites and other means of communication. One of the characteristics of such media is that information is exchanged in the form of text or audio or video files.

Business opportunities and reviewing current practices
The rise of social media is a trend that can be qualified as compelling. The spectacular growth in smartphone sales continues: in 2012, 62% of mobile phone users in Canada used smartphones, a 17% increase over the previous year. Surveys have shown that social media use on smartphones is almost twice as high as email use. This reality boosts business opportunities and provides senior managers with a new means of communication. Social media can be used to support the achievement of many strategic objectives and further business processes.

Examples of how social media is being used include:
- increasingly close client communication and relationships make it possible to adjust supply to user demand, thereby generating new business opportunities;
- this relational approach aligns marketing activities, along with the launch of new products and services, with consumer needs;
- business strategies generally adapt more quickly to new trends. However, for a successful rollout, new strategies need to be synchronized with procurement services and the supply chain;
- organizations that allow responsible use of social media by their employees are attracting an increasing number of candidates. Creating internal communication tools, such as Facebook-like networking intranets, helps establish ties among employees;
- the advent of social media has led to unprecedented focus on communications and crisis management. Daily public affairs and communications tasks have evolved into monitoring activities that are in sync with an organized crisis management process. In addition, there are now many ways of expressing opinions, which can originate externally and internally. The challenges associated with managing communications are therefore much greater;
- information technologies also have their own set of challenges: information security and confidentiality are increasingly important and these issues are managed in relation to critical risks and internal client needs. In 2012 the Information Systems Audit and Control Association (ISACA) published a guidance document describing the main social media risk categories.

These few examples of how organizations can adapt to new business opportunities represent a small part of what social media has to offer, and they depend on the organization’s social media strategy.

Social media governance framework
As in the case of other critical business practices, the essential components of social media management must be subject to a governance framework. (Please see table on page 41, which illustrates the main components to be considered, i.e., the various aspects of the governance framework, control activities for mitigating primary risks and the types of internal auditing actions required to sustain the organization’s operations.)

Initial discussions should focus on what the organization expects to achieve through the use of social media. Is the goal to be reactive or proactive? The answers need to be built into a global social media strategy, be aligned with strategic objectives and incorporate the organization’s mission, objectives and means of achieving its objectives. The next step involves developing a policy defining the rules for the use of social media by employees.

A notable risk-related feature of social media is the speed at which risks materialize, including the interaction with risks not directly related to social media
Richter asked its survey respondents if they had a social media strategy: 54% said they did, which seems high given that the phenomenon is so new. More in-depth discussions with the respondents revealed that although most of the organizations did indeed have a social media strategy in place, it was not necessarily global in reach.

The organizations had a number of mechanisms in place — for example, a monitoring process and a policy on the use of social media — but they had yet to answer two essential questions for establishing a true social media strategy: why use social media and what are the organization’s objectives?

Risk associated with the use of social media is another important issue. The ISACA’s 2012 risk guidance document divides them into four categories: data, technology, people and the organization. There are also external threats tied to the organization’s reputation and unsatisfied customers. These risks need to be properly assessed and controls applied where appropriate. Also, opportunities identified in developing strategies need to be addressed.

A notable risk-related feature of social media is the speed at which risks materialize, including the interaction with risks not directly related to social media. In real-time communications, response time is often minimized. Identifying the risks upfront is therefore essential.

The governance framework also includes key minimum control activities, i.e., monitoring what is being said about the organization on social media sites, the communication process...
used by the crisis management committee, training employees on the safe use of social media, and information technology control mechanisms for ensuring the security and confidentiality of the organization’s data.

Role of internal audit
Internal audit can play an essential role in setting up an appropriate governance framework and managing social media risks. Depending on the processes set up for social media, internal audit can perform two types of mandates: it can provide traditional assurance on one or more components of the governance framework, or it can offer support services that could for example involve reviewing the social media strategy, benchmarking among similar organizations to develop a social media policy or identifying social media best practices.

Internal audit and audit committees need to consider the value of undertaking these mandates and select the option that best optimizes their support for the direction the organization has chosen. The risks associated with the use of social media abound and could have a significant impact on the organization’s activities — all the more reason to include social media in the internal audit plan.

Conclusion
In light of the discussions held with a number of organizations from all sectors, clearly many questions regarding social media use remain. The high volume of information exchanged and the large number of sites and types of social media platforms call for vigilance.

The board or audit committee may initially consider social media to be complicated and pointless. However, the anticipated expansion of its use in business environments in the years to come should encourage organizations to leverage social media as a communications tool. The trick is to carefully examine how this tool can be used and identify the opportunities and risks it represents. Internal audit can definitely help clarify the social media issue for the organization.

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You are in Dubai, the most populous emirate in the United Arab Emirates. With two million people living there, it’s hard to believe that only approximately 15% are Emiratis. Islam, the dominant religion, informs the culture; however, with so many people from all over the world, there is some leeway in observing cultural traditions. But exemptions will only go so far.

Here are a few things you should know when conducting business in Dubai.

Mixing and mingling: Some Muslims will not touch members of the opposite sex to whom they are not related or married. So when being introduced, watch the other person. If he or she offers a hand, shake it; if not, just make eye contact and nod.

Separate but equal: At a convention or a meeting, you may see tables designated “women only.” Although women don’t have to use these tables, men must find another table to allow women to sit separately if they choose. At formal dinners, women and men may be seated at different tables or on different sides of the room.

Rude gestures: While some well-intended cultural gaffes may be amusing, there is nothing funny about such gaffes in a business setting. Offensive gestures to avoid: crossing your legs in front of an important guest; pointing your finger (if you must, use the whole hand); offering alcohol to a Muslim guest.

What not to wear: It goes without saying for business situations, but in social situations as well, one should dress modestly. Cover up cleavage and wear clothes that don’t accentuate the shape of the body.

What not to wear: It goes without saying for business situations, but in social situations as well, one should dress modestly. Cover up cleavage and wear clothes that don’t accentuate the shape of the body.

But it’s medicine: Possessing banned substances is serious business, even in trace amounts. According to the BBC, a British man received a four-year jail term after 0.003 grams of cannabis was found in a cigarette in his shoe tread. Even over-the-counter medications may be illegal. Check with the UAE’s ministry of health before you go.

If you stick to rules of courtesy and respect (and wipe your shoes), you should have no trouble fitting in in Dubai.

Yvette Trancoso

Where are they now? Vishal Misra

Accountants don’t get many opportunities to be creative — arguably for good reason. But Mississauga, Ont.-based accountant Vishal Misra, 40, has gotten around that wisely. The internal auditor for Glencore Canada Corp. in Toronto indulges his creative side through art. An established visual artist, Misra paints and sketches every chance he gets. “Wherever I go I take my sketch book with me. On the GO Train or the TTC, you’ll see me sketching away.”

When CAmagazine first profiled Misra in 2008 (People, November), he was audit manager at Cinram International, a CD, DVD and audio-cassette manufacturer in Markham, Ont. After stints at TD Bank and Xstrata, he landed at Glencore, a Swiss-based natural resource producer/marketer with mining, oil and agricultural operations in Canada and abroad. There, the Mumbai-born Misra specializes in curbing other people’s creativity, so to speak — he spends much of his time routing out fraud, corruption and bribery.

Misra’s artistic output has changed with his job title. Previously his work leaned toward the abstract and his boldly coloured canvases naturally found a home in corporate settings. Two years ago, however, Misra began working on a series of sketches inspired by the Kama Sutra, “but in a more contemporary form.” Misra admits that images of men and women locked in passionate embrace may not suit his corporate clientele. “This would be totally inappropriate for an accounting setting,” he jokes.

Instead Misra, who has exhibited his works around the world, hopes to see his new subject matter exhibited in India. It would be fun “to have a Canadian perspective on something that’s expected to be so very Indian,” he says.

Although his art career is flourishing, don’t expect Misra to give up accounting soon. He enjoys the contrast between the two. Art offers him freedom from “rules and regulations,” while accounting keeps him “rational and sane.”

The balance appears to be paying off. “What I paint is typically sold,” he says. “I don’t have that much of a body of work left at home, which is a good problem to have.”

Flannery Dean
BRENDA VAN BERKOM
Brenda van Berkom is the owner and managing director of van Berkom Professional Corp. in Ottawa. She oversees a range of auditing, accounting and taxation services for small to medium owner-managed businesses and nonprofit organizations. Over the years, van Berkom has worked for Thorne Riddell (now KPMG) and as a partner at a small accounting firm. After obtaining a BComm degree from Queen’s University, van Berkom earned her CA designation in 1985. A member of the Professional Conduct Committee of the Institute of Chartered Accountants of Ontario, she is also treasurer of the Canada Dance Festival. Once a Highland dancer and teacher, her hobbies include alpine skiing, cycling, golfing and snowshoeing. Here’s a snapshot of the items you’ll find in her office.

RENDERING OF THE RIDEAU CANAL
“I have an artist’s print of the Rideau Canal with skaters on it. There’s a summertime one, too, but it’s the winter one that’s more special to me. When I’m putting in the long hours in busy season, it helps me realize it’s time to get my skates and get out.”

FAMILY IN ACTION
“I have a picture of my husband of 30 years and myself hiking in the mountains (near their ski chalet in Mont Ste-Marie, Que.). I also have a picture of my daughter, who is an alpine ski racer, and that has been a very big part of our life. We still try to go to her races in Quebec as much as we can. And I have a picture of my son who loves [riding] his ATV in the mountains.”

CLOCK
“I have a clock that has the Glengarry Highland Games tartan on it (a big event in her hometown of Maxville, Ont., with pipe bands and Highland dancers). It’s framed by the tartan and incorporates the emblem of the games. [It reminds me] of my Scottish and Maxville heritage.”

SWEET TREATS
“I have a chocolate drawer. It’s actually in a little cabinet just outside my door. My staff love it. I try not to go to it too often, but it’s amazing how often I have to replenish it. It’s nice to have a little treat because everyone works very hard.”

WORKOUT GEAR
“I’ve got my workout bag. I go to the gym most mornings at 6:30 on my way to work. Even though Ottawa is a smaller city, the traffic is bad and it just works for my schedule to get up, leave and then just get ready for work at the gym and come to the office. It’s great for health and great for balance. Then I’m ready for the day.”
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One night a year – corporate reporting is sexy
What’s it worth?
An overview of the valuation landscape, highlights and metrics

BY STEPHEN COLE + BRANDON LEWIS

The second quarter continued to see the strong rise in multiples for healthcare businesses, industrials and consumer-based businesses on the back of more clarity on US healthcare reform; stable North American manufacturing, particularly relative to Europe and Asia; and improved consumer spending and residential realty values. Retail spending from April to May grew by nearly 2% — the largest monthly gain since March 2010.

Why are multiples rising more generally?
- Both public companies and private equity are pushing multiples higher and paying up to buy market share in light of European and North American organic growth being flat.
- On a relative basis, and especially where bond risk is high and yields are low, the risk versus reward ratio in both private and public businesses seems better value for money.

SUM OF THE PARTS: CARVING UP BLACKBERRY’S ASSETS

If value is indeed prospective, meaning it’s based on the present value of all future benefits anticipated, what does this mean for the value of BlackBerry? With BlackBerry platforms having difficulty gaining traction with consumers, many analysts and investors are looking beyond the current BlackBerry business model in an effort to find value. With future sustainable earnings in question, to a strategic buyer or buyers, the true value of BlackBerry may lie solely in its assets — cash, IP not integral to the business and, of course, the business itself. The question is, what is the sum of its parts and value to whom?

In late August, BlackBerry shares were trading on the basis of sum of the parts, $12.24 a share. Some analysts suggested that value could be in the range of $14 to $20 a share based on the sum of the parts. One analyst estimated cash at $5.90 a share, patents at $4.26 a share, and “business value or going concern value” at $4 a share.

By late September, Fairfax, BlackBerry’s largest shareholder, had emerged as the front-runner to acquire the beleaguered company at $9 a share. There were others in the race to acquire BlackBerry in August; however, several picked other horses in the interim — Microsoft bought Nokia’s patents for US$7 billion (both were prospective BlackBerry contenders). Are there sufficient horses left to make a race? Hence the question, value to whom?

Where the sum of the parts is the valuation basis, discounted cash flow or multiple-based valuation techniques do not capture the whole story, only part of it. Recently, Loblaws spun out its realty and added 23% to its share value and Hudson’s Bay acquired Saks for a price of which 38% was for the realty. The related multiples would not make sense without bifurcation of the parts.

As noted, the multiples we have provided reflect surplus cash and all the assets inside the companies and therefore they are inflated as a basis of valuing the core operating businesses. Capital IQ or Bloomberg provide the data to individually adjust for this effect.

Visit camagazine.com for additional current valuation metrics for both Canada and the US by industry and multiples of net income, not just EBITDA.

Stephen Cole is a managing director at Duff & Phelps Canada and is CAMagazine’s technical editor for business valuation. Brandon Lewis is a senior associate at Duff & Phelps Canada.
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