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HOW well



do you perform?

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Going beyond tradition

“Performance competitive” is the theme of businesses today and they are using more sophisticated tools to accomplish this

In this tight economic climate it pays to be able to spot potential business opportunities. Some firms such as GE Capital do this by measuring everything and using the data to predict sales and manage the performance of their sales force. This business performance-oriented approach is integral to keeping such companies “performance competitive.” Performance management is a top-10 management issue and has been for a while. That’s why in 2005 and 2007, we ran features reporting on surveys conducted for CAmagazine on aspects of PM. The first survey revealed poor balanced scorecard usage; the second, a formal poll, showed that only 35% had implemented a balanced scorecard, and performance management results were generally not impressive. How have things gone since then?

In “Follow the leaders” (p. 20), Robert Angel, author of the previous two features on the topic, reports on CAmagazine’s 2010 Performance Management Survey of CICA members in industry, which was designed to find out what progress has been made on the issue. Angel tells us that “performance competitive is the main theme in the findings” and “more competition-minded organi-



zations such as GE Capital are going beyond traditional financial measurement in their performance management approach. They are integrating it into a broader business context, using more sophisticated tools and are getting better than average business performance results.” This year’s survey also shows gradual improvement in indicators such as performance sophistication and satisfaction with results.

While many small businesses have been devastated by the recession, some have anticipated the positive signs of relief by implementing plans to expand. What steps have they taken, or to be more general, how does a small business expand at the tail end of a recession? Writer Robert Colapinto investigates and reports that slowly and cautiously are the watchwords according to the experts. In “Way to grow” (p. 28), he speaks to small business owners and experts on small business management and gives readers valuable information on the detailed planning necessary to carry out expansion successfully.

In this issue, Netwatch columnist Jim Carroll discusses e-publishing (p. 12), and there are Regulars on Personal financial planning (p. 34), Standards (p. 36), Fraud (p. 40) and Technology (p. 44). The Fraud regular is particularly eye-opening and eyebrow raising — it is about the role extramarital affairs play in corporate fraud. In Outlook (p. 52), the always provocative Marcel Côté writes about the paradox of a Canadian economy with lower productivity than the US but with equal profitability. He calls for an overhaul of our innovation policies to improve productivity.

PAUL ORENSTEIN

Okey Chigbo, Editor-in-chief (interim)

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For Sandy Tam, the adrenaline rush comes at every wedding — every wedding she shoots, that is. The Toronto-based CA has turned a passion for photography into a successful full-time career as a wedding photographer

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More competition-minded organizations are going beyond the traditional financial measurement in their performance management approach. What are the leaders doing to keep themselves performance competitive and what can others learn from them?

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All of a sudden you find that you have more clients than your business can handle and you think it may be time to expand. But investing in growth can be risky. For small business owners looking to expand, there are a few things to know

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Mailbox

WARRANTS DISAGREEMENT

“Warrants are not stock options” (Standards, August) suggests that the volatility input in the Black-Scholes option pricing formula (BSOPF) can be based on observed price volatility of traded warrants. I disagree with this suggestion. The BSOPF simply applies the dynamic replicating portfolio model, also known in its open form as the binomial model. Accordingly, all inputs in BSOPF, including volatility, shall be the same inputs that one would use in the dynamic replicating portfolio model (or binomial model).

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In summary, the dynamic replicating portfolio model demonstrates that one can maintain a dynamic portfolio that will yield the same return as an option on stock X by 1) providing a calculated amount of upfront cash; 2) borrowing a calculated amount of money; 3) use the cash from steps 1 and 2 to buy stock X; and 4) re-equilibrating the portfolio at each period based on the movement in the price of stock X. Assuming that the market will not allow for arbitrage, the value of an option on stock X shall be equal to cash outflow required in step 1, as both approaches will yield the same return. To perform each of the four steps in the right proportions, it is crucial to estimate the future price volatility of stock X (i.e., by how much the price of stock X will go up or down in each period). Therefore, the price volatility of an already traded warrant on stock X is irrelevant in maintaining a dynamic portfolio that replicates the return of an option on stock X and thus cannot be used in BSOPF to value and option on stock X.

Louis-Éric Vallée, CA, CBV
L'Ancienne-Lorette, Que.

ALL FEES SHOULD NOT BE EQUAL

It's that time of year when we remit our annual membership fees to the CICA and I am reminded of just how little value I receive for the fees I am required to pay. As a CA working as an investment adviser, I am also governed by the rules of the Investment Industry Regulatory Organization of Canada, which prevents me from engaging in any CA-related activities. As a result, the only direct benefits I can identify are being able to use the designation in correspondence and conversations and receiving *CAMagazine*, which makes it seem quite expensive.

I believe the CICA needs to introduce

a reduced-fee category to recognize members such as myself who aren't fully able to utilize their CA designation. I realize my career choice is my own, but after doing a cost-benefit analysis, I have considered resigning my membership. I am sure I am not alone and I doubt the institute would want to lose any members this way.

Dave Sinclair, BBM, CA, CFP, TEP, FMA
Thornhill, Ont.

The Institute of Chartered Accountants of Ontario's reply:

You may be underestimating the true value of your CA designation. How are investment advisory services not CA related? While you may not be signing audit reports, you are certainly using competencies acquired in your CA education and training. The CA behind your name provides your clients with assurance as to your level of expertise and security in the knowledge there is a professional body regulating how you use that designation. Institute costs of regulation and training (to mention two areas) are ongoing — both before and after you get your designation — and membership dues are necessary to fund much of those costs. Note that Ontario members in public practice pay an additional practitioner fee in recognition of the services the institute provides that are specifically tailored to that sector.

Ingrid Enhagen, CA
Director of member services, ICAO

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"But the real money-saving consequence of SYSPRO is that we can now do more with fewer people – and that makes us more competitive. I would definitely recommend SYSPRO to any manufacturer."

Bill Allan, President, Higginson Equipment.

HIGGINSON EQUIPMENT & SYSPRO

Headquartered in Burlington, Ontario, Higginson Equipment was founded in 1945 as a manufacturer of pneumatic and hydraulic NFPA-style cylinders, and as a distributor of fluid power and industrial product lines. In addition, the company manufactures "Economax" corrosion-resistant cylinders for the trucking industry, custom designs and builds special cylinders for a variety of uses, and leverages its expertise in pneumatics to create C-frame air presses.

In 2009, Higginson decided to part ways with its 15-year-old business software. "There were three factors motivating our decision," says company President Bill Allan. "First off, we'd been with our old system for 15 years. It was simplistic, and it didn't have a materials resource planning (MRP) component. The writing was on the wall. Secondly, the recession – we needed to increase our productivity without increasing our manpower. Finally, we received funding, in the form of two government grants, one through the Yves Landry Foundation, and the other through the Canadian Manufacturers & Exporters' SMART Program. I was already a big believer in ERP. With government assistance I couldn't say no."

A 20-person company, with revenues in the seven-million-dollar range, Higginson recognized the necessity of optimizing itself for the future. "We've been steadily growing," says Allan, "but we needed something to help us get to the next level. We wanted to eliminate the inefficiencies and bottlenecks in our processes, and in doing so, we wanted to build a solid base for improvement and growth."

To facilitate its strategy, Higginson engaged its long-time VAR to perform an assessment and recommend an approach. "Our company-wide processes were analyzed in detail," says Allan. "As a result we were advised to implement a new, more advanced ERP system. After doing due diligence, and on their recommendation, we chose SYSPRO."

When it came time for implementation, Higginson did it with alacrity. "We took what is usually a six-month process," says Allan, "and did it in two months. We spent late nights, inventing on the fly, even made some rash decisions. Fortunately, the VAR that sold us SYSPRO gave us amazing support, and at the end of the day we got what we wanted."

As Higginson implemented its new ERP, says Allan, most of the old, inefficient processes were funnelled into one of the following categories:

- Automated functions available in SYSPRO (e.g., automated work order creation from Sales Order; automatic serial numbers generation for manufactured parts)
- Product Configuration (to automatically define product specifications, Bill of Materials and cost at the time of quotation)
- Integration with office productivity tools (such as Microsoft Office)
- Electronic faxing and remote connectivity.

"SYSPRO has made us much more efficient," says Allan, "especially as far as the Bill of Materials (BOM) and work orders are concerned. We used to have to do an excel spreadsheet for every job, and then more spreadsheets to calculate cut-lengths of different materials. Now we just put the model number in and SYSPRO calculates everything for us."

Before SYSPRO, adds Allan, Higginson's system supervisor, a highly skilled machine operator, sat at his desk three hours a day doing repetitive calculations. "Thanks to SYSPRO," says Allan, "he's now gained three hours a day in production time. We've also managed to eliminate a good number of mistakes. Occasionally, in the past, we'd cut a batch of tie rods incorrectly – not anymore."

Because of SYSPRO's modular nature, one can add efficiencies to work-flow as time and energy allows. "One thing we want to do more of is load leveling," says Allan. (Load levelling is the process of evenly distributing demand, in terms of orders or schedule, over a given period of time.) "We haven't quite figured out how to take advantage of it, but load levelling will give us a bird's-eye view of production. That will help us smooth things out, and see problems that might be coming down the road. It's a nice feature that we still have to leverage completely."

Asked to consider SYSPRO's ROI, Allan gives thanks again to the government-sponsored grants. "The grants considered," says Allan, "SYSPRO is going to pay for itself in a year. The company is out-of-pocket approximately one person's yearly salary. For a relatively small amount of money, we automated our business processes and removed the repetitive paperwork. But the real money-saving consequence of SYSPRO is that we can now do more with fewer people – and that makes us more competitive. I would definitely recommend SYSPRO to any manufacturer."

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UP FRONT

News, people, briefs, trends + tips

Photo opportunity



Toronto CA Sandy Tam saw a chance to follow her passion and took her shot. Now she's a successful wedding photographer

You could say life for Sandy Tam is picture perfect these days. The 31-year-old CA is making a living doing what she loves most: taking wedding photos. “Photography has been my passion since university but I never imagined changing it into my full-time career,” says Tam, who made the switch when her CA position in due diligence at Meyers Norris Penny in Toronto was phased out last year.

At the time, Tam had a side job working with a photographer she met at her best friend's wedding a year earlier. “He had seen me with my camera and told me he was looking for an assistant,” she says. “I had never shot a wedding before so he spent the summer of 2008 mentoring me.”

Now that she's running her own show, Tam says she still gets an adrenaline rush with every wedding she shoots. “The environment is so uncontrollable so it's about anticipating what's going to happen to get that great shot,” she says. “On top of the photography, which I love, I develop these huge relationships with my clients so it doesn't feel like work.”

Tam, who remembers being self-conscious making client calls in front of colleagues, says her CA training gave her the confidence to start a business that centres on interacting with people. It also gave her the skills to develop a proper business plan and make realistic decisions about pricing. She targets the mid-level market because she can relate to these

clients and says she's fortunate to get all her business through referrals. When she isn't shooting a wedding, she's taking engagement photos or designing invitations and wedding albums.

Working out of her home office in Markham, Ont., Tam admits to taking a pay cut to pursue her passion, but has no regrets. “I love working for myself and I don't have to earn as much to make as much,” she says. “I only want to remain creative and not fall into the trap of becoming a cookie-cutter photographer.”

Rosalind Stefanac

RUTH KAPLAN

Islamic finance course comes to Canada

A Toronto college is now offering an international designation in Islamic finance. Centennial College is the first Canadian accredited training provider of the Islamic Finance Qualification from the UK-based Chartered Institute for Securities & Investment. Drawing from the Qur'an and other sources of Islamic law, the online course teaches the basics of Islamic banking — which, among other stipulations, does not allow the charging of interest. Mortgages, for example, could be set up using a lease-to-own payment structure in lieu of interest.

“Islam does not allow one to make money from lending money but certainly allows the person to conduct business for profit,” says Centennial instructor Rehan Saeed. “The outcome of a transaction from an interest-bearing loan or a simple trade-based transaction can be exactly the same, but the mechanics are different.”

Résumé

- 2001 joins Deloitte, Toronto
- 2004 obtains CA designation (Ont.)
- 2006 joins Groupe Dynamite, Toronto
- 2008 joins Meyers Norris Penny, Toronto
- 2009 starts own photography business

WORK-LIFE BALANCE STILL MAIN CONCERN FOR CAs IN INDUSTRY

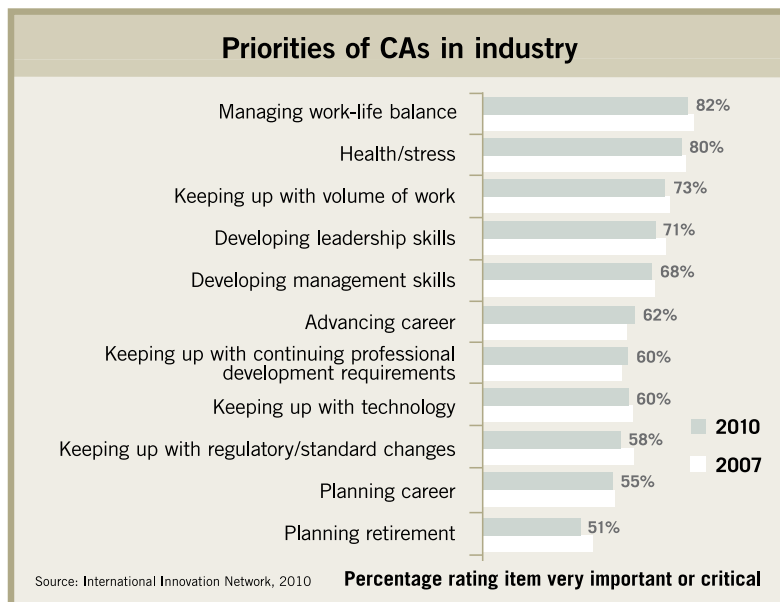
Managing work-life balance is the top priority for CAs working in industry, according to the Canadian results of the 2010 International Innovation Network Members in Industry Survey. This finding is consistent with the Canadian results from the benchmark survey conducted in 2007, which also found that managing work-life balance was the top priority for CAs in industry. Indeed, despite the recession and three years passing, the overall 2010 survey results show that all the priorities of CAs in industry are virtually identical in ranking to what they were in 2007.

With 80% of the response, health/stress was the next most frequently cited priority, followed by keeping up with the volume of work at 73%. Keeping up with continuing professional development, technology and standards/regulatory changes also ranked on the list.

Most of the other priorities of members in industry relate to career management and advancement. This includes developing leadership skills (71%), developing management skills

(68%), advancing career (62%) and planning career (55%).

Results of the survey, conducted among accountants in seven accounting associations around the world, show that priorities of accountants in business are consistent regardless of country. John Tabone is CICA's manager of member value and research services



ASK AN EXPERT

HOW CAN I BE MORE COMFORTABLE PRESENTING IN FRONT OF AN AUDIENCE?

Many accountants enjoy the process of writing out, point-by-point, what they are going to say but few understand the power of an off-the-cuff, natural delivery. Remember, it's not only what you say, but how you say it. Here are a few tips:

Use the power of three. Your talk should have a clear introduction, body and conclusion. Introduce no more than three key points or the audience may lose interest. Provide three easy-to-understand examples to explain your points.

Gesture freely. Keep your hands out of your pockets and uncrossed. Use your hands naturally while you are explaining your points. Your overall body language will display confidence.

Project enthusiasm. To sound upbeat, vary your pitch, volume, pace and tone. Notes are

excellent but, if overused, excitement in the room will die. This is also true if PowerPoint slides display too many words or are used to hide from the audience.

Display eye contact. Eye contact is a powerful way to form a connection with others. Practise dividing the room into three sections (right, centre and left). Take time to focus on participants who lean in toward you, smile or sit patiently as you speak.

Leave your audience satisfied. To create a stronger conclusion, repeat your three key points and answer the questions, So what? Why did I deliver this presentation today? and What do I want my audience to do as a result?

Nicole Attias (www.nicoleattias.com) is a presentation coach who has worked with accountants in the area of effective public speaking

#NUMBERS Game

2 Naked streakers who interrupted a rugby match between Australia and New Zealand in 2002 with the word Vodophone painted on their bodies. The company was forced to apologize and donate \$70,000 to charity.

5 Months in jail a Montreal man was sentenced to by a Greek court after jumping into the pool at a 2004 Olympic diving competition while wearing a tutu and with the name of an online casino written on his body.

25 Height in feet of a popsicle created by Snapple in 2005 intended to break the record for the world's largest. It melted prematurely in New York's Union Square leading police to close streets covered with melted pink goop.

38 Number of electronic billboards promoting a Cartoon Network program dropped on Boston streets in 2007. The devices

Mad men, irate officials At the World Cup in June, two women were charged with "ambush marketing" for displaying a beer logo on their scant clothing. More guerilla marketing gone sour:



incited fears of a terrorist attack and led to closed streets and bridges and a US\$2-million settlement from Turner Entertainment Group.

1,000 Dutch soccer fans required to remove orange lederhosen printed with a Bavaria brewery logo and watch a 2006 World Cup match in their underwear due to FIFA's policy to deny nonsponsors publicity.

10,000 US dollars Cadbury Schweppes donated to Boston's Granary Burying Ground following a promotion that led treasure hunters to search the historic site for a hidden coin.

The cemetery was closed to prevent desecration of the graveyard.

120,000 US dollars paid by IBM to the city of San Francisco in 2001 for cleaning, after the company promoted a new operating system by spray-painting local sidewalks. Steve Brearton

Going Concern



**MICHAEL HANNAN, CA
PRESIDENT,
VIAD TRAVEL & RECREATION**

COMPANY PROFILE: Canadian-based Viad Travel & Recreation is the "fun" part of US parent Viad Corp. Comprised of Brewster Inc.

in Banff, Alta., and Glacier Park Inc. in East Glacier Park, Montana, the travel unit operates nine hotels, a fleet of 80 luxury motor coaches, the Banff Gondola and provides accommodations and lodging throughout the Glacier and Waterton-Lakes National Parks. Employing 1,000 people, the travel group is Viad's star division, remaining profitable despite the recession and high Canadian dollar. As of June 30, revenue was up 29.1%, to US\$29.8 million from US\$23.1 million, compared with the same period in 2009.

HOT FACTOR: The travel division's hottest attraction is one of the world's coldest. The Columbia Icefield, discovered

by explorers in 1898, has since attracted more than 10 million visitors. The largest body of ice in the Rockies, the Columbia Icefield covers 325 sq. km, is up to 365 metres (1,200 ft.) deep and melts into three oceans. The company operates 21 Canadian-built, 56-passenger all-terrain Terra Buses on the icefield. Between the icefield operation and the Banff Gondola the company attracts one million visitors annually.

COOL PROJECTS: Founded 118 years ago, Brewster continues to grow. It purchased the Minnewanka Lake Cruise operation three years ago and, more recently, added the award-winning Vacations Canada website aimed at visitors from all over the world.

IN HIS OWN WORDS: "We've established a unique, competitive position with attractions, hotels and services in a national park that would be very difficult for any other party to replicate." Paul Brent

Longer hours, but more options

Turns out the regular full-time work week of 35 to 40 hours isn't so regular after all. Less than one-third of employees in Canada work these traditional office hours, according to a survey of 164 organizations by global human resources consulting and outsourcing firm Hewitt Associates. Responding companies indicated that 45% of their employees work one to five hours extra a week; 23% work five to 10 hours more and 1% work 10 to 15 additional hours.

To help balance out these longer work weeks, however, the majority of employers surveyed offer flexible work hours, telecommuting, extra paid time off for personal reasons, education leave and job sharing to some or all of their salaried full-time employees. "With so many employees giving up their personal time to their jobs, progressive organizations are willing to offer them a work schedule that enables them to better meet their personal needs," says Rochelle Morandini, a senior consultant in Hewitt Canada's organizational health practice.

Prevalence of work-life programs for Canadian salaried employees



Economic health redefined

It sounds counter-intuitive, but the poor economy may be making some workers healthier.

In an attempt to save money, 47% of US workers are packing a lunch more often and one in five has cut down or quit smoking, finds a survey by US recruiter CareerBuilder. Furthermore, 44% of smokers polled said they're more likely to quit given the current economy.

"Economic stress over the last year has caused some workers to reflect on their habits, and many of them have turned to healthier routines," says Rosemary Haefner, vice-president of human resources for CareerBuilder. "In addition to helping cut personal costs, employees who limit their smoking and lunching out habits are taking better care of their overall health."

Heavier workloads and added stress associated with downsized operations, however, can offset these health benefits.

NEW RULES HELP SMEs

The Canada Revenue Agency has introduced a simplified logbook for motor vehicle expense provisions. Business owners who use the logbook to record business travel for one full year can then use a three-month sample logbook to extrapolate use for the year, providing usage is within the same range (10%) of the base year.

OPEN SEASON FOR POACHERS

Half (52%) of North Americans polled say they were approached by another employer with a possible job offer within the past year. The survey of more than 3,000 workers, by human resource firm Right Management, found that managers and other senior-level staff were most in demand at 56%.

NO BULLS

Americans expect a long and slow return to economic growth, according to a Certified Financial Planner Board of Standards survey. When asked to describe the economy as an animal, respondents chose slow, lumbering animals such as sloths, bears, turtles and elephants.

CA to CEO

For CAs, it's only natural to wonder what it might take to become a CEO. But there's no map for getting to the top. Chief executives rise through organizations with a multitude of backgrounds. Former Xerox CEO Anne M. Mulcahy started off at the company with a degree in English and journalism and worked for 16 years as a sales rep before being named president in May 2000.

That said, a CA designation can definitely advance your prospects when the opportunity arises. A Canadian Institute of Chartered Accountants study (see "C-suite CAs continue to deliver returns," *CAMagazine*, June/July 2009, p. 7; www.camagazine.com/Csuite), noted that nearly 10% of CEOs and presidents of Report on Business 1000 companies were CAs. It says ROB companies with a CA at the helm also performed better on several key financial measures. (I actually went from working as a CA to being an entrepreneur to serving as president of an executive mentoring and coaching organization.)

Beyond financial savvy, what does it take to make the leap to the executive suite? Here are the two key elements of the role.

Create and deliver winning strategies, constantly adjusting for the current and future environments. As "America's Mayor" Rudy Giuliani of 9/11 fame once said, "Leaders need to be optimists. Their vision is beyond the present."

Lead by word and example. Great leaders foster honest two-way communication throughout the organization and offer simple, inspiring messages. Former US defense secretary Donald Rumsfeld motivated subordinates with memos that came to be known as "snowflakes." His most famous flake: "There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we now know we don't know. But there are also unknown unknowns. These are things we do not know we don't know."

Apple guru and co-founder Steve Jobs has also contributed his share of memorable Zen-like phrases. One example: "Design is not just what it looks like and feels like. Design is how it works."

In considering how to distinguish yourself in the hierarchy, you should observe your corporate culture closely, understanding its strengths and weaknesses. Think hard about how employees in the organization are treated. Keep in mind that the best leaders, such as Herb Kelleher,

co-founder of Southwest Airlines, serve their employees.

As you rise in the organization, ensure its values and guiding principles are reinforced with your actions. Mulcahy set the standard for Xerox values and principles, leading it to become one of the world's most profitable technology and service-based enterprises. And remember that there is a direct relationship between creating a winning culture and fostering great performance. Set clear performance goalposts for your team. Celebrate success by spotlighting achievers and highlight their success to others.

In leveraging your CA expertise as you prepare for the CEO/president's role, understand that communication is a key ingredient to your success. Take the test — can you listen to a colleague for more than 30 seconds before speaking?

To really ramp up on your upward trajectory, step outside the financial arena and engage in conversations and information gathering in other strategic business areas. Attend trade shows and conferences, join associations and

If you know deep down that you have the skills and motivation to become a CEO, nothing can stop you

chambers of commerce, talk to colleagues. Join peer groups. As one CA put it, "Continue to develop financial acumen but never allow it to block your ability to think outside of the box strategically." Says another: "I went from having a quarterly view of life to a more strategic long-term outlook."

Sadly, most leaders underestimate the amount of time needed to learn and develop skills. Richard "Virgin" Branson thinks of himself as a lifelong learner: "I see life almost like one long university education that I never had."

If you have that desire to become a CEO or president, start right now. Take the first step. Commit the time and energy to broaden your leadership capabilities. Not everyone is cut out for the role; in fact, discovering it's not for you could be the ultimate blessing. But if you are a CA who knows deep down that you have the people skills and the motivation, nothing can stop you. Your path to the top is one of the clearest there is — and I hope after reading this, you can see it more clearly ahead of you.

For an expanded version of this article, visit www.camagazine.com/leadership.

Leon Goren, CA (lgoren@peo.net), is president of PEO, Presidents of Enterprising Organizations (www.peo.net), a peer mentoring and executive coaching organization in Toronto



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Netwatch

BY JIM CARROLL

YOUR GUIDE TO BUSINESS & ACCOUNTING ON THE INTERNET

One for the books

In July, Amazon announced that for the first time ebooks were outselling printed works. Just a few months prior to that, I figured it was time to get a couple of my books out in electronic format — particularly when I obtained my first iPad and saw the fabulous iBooks application.

Where should I start? My wife, Christa, also a CA, works with me in the home office and took on the project of figuring out how to set up my book *Ready, Set, Done: How to Innovate When Faster is the New Fast* so it could be made available for sale on the new Apple iBookstore.

The key to the puzzle was to get our book files into the format that Apple has adopted for ebooks, known as ePub. This seemed fairly straightforward; the book was typeset in Adobe InDesign, a high-end publishing platform, and an ePub converter was available for the program.

However, our first attempts to produce a readable version of the book weren't quite successful; there were numerous challenges with fonts, layout and other design issues. The more we researched, the more we realized that while there might be a lot of momentum around ebooks, it's still early days in terms of ease of use.

So we decided to go with a two-pronged approach. We'd outsource the conversion of this book and continue working on how to do it on our own to directly release future books in digital format.

I signed into my Elance account (the online project outsourcing service described in "Skills for Hire," September 2004) and posted the project: I needed someone to convert my InDesign files to ePub format. Within days, I had about 20 submissions. I ended up awarding the project to Reality Info Systems located in Pune, India. Its winning bid came in at \$140 and I would get not only an ePub file for the iPad/iPhone, but also a separate PRC formatted version, which is the file specification used by Amazon for the Kindle.

With a little back and forth and in less than a week, I had some nicely formatted versions for both ebook readers. Now to get them online and ready for sale.

With Amazon, all I had to do was sign in to the Amazon

Digital Text Platform service with my Amazon account, provide some details about the book, upload the cover image and upload the PRC file. I then had to verify I own the rights to publish the book — which I can, because this particular book was self-published under my imprint, Oblio Press. Amazon then indicated it would be available for sale within 24 to 48 hours.

The situation with the Apple bookstore is a little more complex. Apple doesn't want to deal with thousands of independent publishers so, instead, it works with a series of book aggregators that act as the middle man between you and Apple. I learned about all this through an online article about how to publish on the Apple Bookstore.

Based on my research, I selected a company called BiblioCore. A few forms, a minor payment of \$135 and I will get all the royalties earned on the book after Apple deducts its standard 30%.

How long did this take? Less than a week. At this point, we're busy getting a few of my other books ready for sale in electronic format. I'm writing yet another book and will probably put it out in ebook format before it goes to print. Christa has almost figured out how to do the layout and styling, so I think we've successfully and quickly transitioned ourselves to this new, fast-paced world.

Jim Carroll, FCA, is a well-known speaker, author and columnist. Reach him at jcarroll@jimcarroll.com or log on to his website at www.jimcarroll.com

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Decisions Matter: taking the message to the next level

The Decisions Matter advertising campaign, which reinforces the CA profession's position as the leading accounting designation, is breaking through the noise. Our research shows the message is being heard and is shifting attitudes. With this solid foundation, the campaign now moves into a higher gear — continuing to push the limits and redefine the perception of the CA designation.

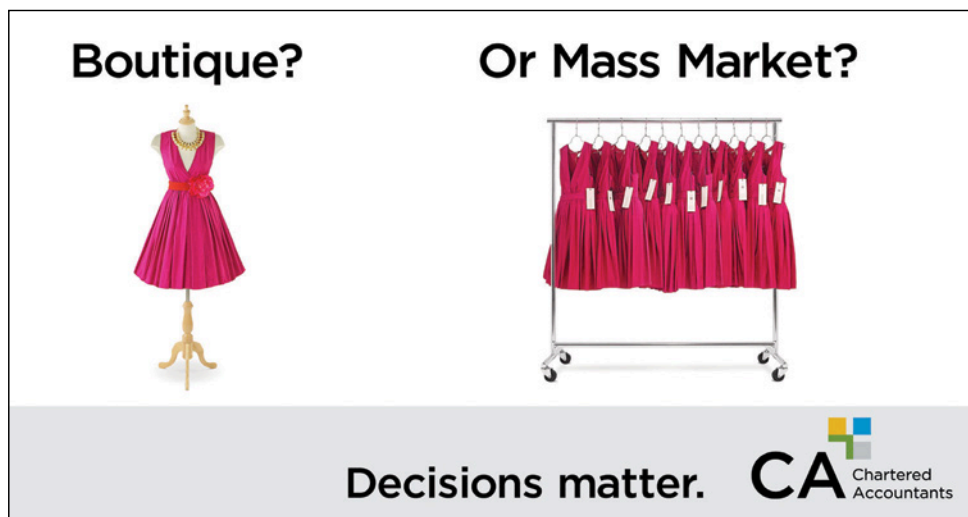
The latest research shows the CA profession is top-of-mind among the campaign's target audience: business managers, owners, professionals and executives (MOPE). In fact, the numbers show MOPEs are almost twice as likely to identify "CA" as the first accounting designation that came to mind as they were to identify either of the other two accounting designations. The results are a resounding reinforcement that the CA brand stands out among accounting designations.

The research also shows the campaign is changing the way CAs are perceived. When the Decisions Matter campaign was launched in 2008, MOPEs saw CAs as highly technical. Two years later, attitudes are shifting, with CAs now being more often associated with business expertise and insight.

Based on this success, the CA profession is taking its message to the next level. No longer content to be recognized as the premier accounting designation, this month new ads will be launched that are designed to establish CAs as the premier business designation. The goal, as set out in the CA profession's branding strategy, is to shift the perception of CAs from the traditional roles as auditors and tax accountants to accomplished business leaders with unparalleled capacity for decision-making.

The new ads have a more assertive tone, driving the Decisions Matter message with greater power. Using classic metaphors with hard-hitting business-relevant messages, the ads reflect real world situations that parallel a range of tough, business-changing scenarios.

Granted, not every business decision affects stock prices or makes the evening news, but the ads reinforce the fact that every single decision counts and smart businesses want quality leaders at the decision-making table. As the ads



Billboards such as this one will appear in high-traffic locations in major centres

point out, when you need to make a decision, a CA can help you make a better one.

The strategy remains powered by the tagline "Decisions Matter" and a solid brand link: Chartered Accountants help you make better decisions.

A targeted media plan is in place to reach our intended audience. Over the coming weeks, television viewers will see the 30-second commercials during primetime news, select primetime programs and on select specialty networks. The ads will play on news and talk radio stations across Canada and billboards will be visible in high-traffic locations in major centres. A number of complementary steps



Left: production of Decisions Matter TV spots.
Above: a young actress prepares to seek opportunities wherever they may be hidden

will be taken to build awareness and recognized value for the profession through media, government relations and other communications support.

There is also an important role for every CA to play. Each of you can promote the designation's reputation as business leaders with a few simple steps:

- include the CA designation on business cards and other communications;

has powered your achievements; and

- in interviews, introduce yourself as a CA.

The Decisions Matter message has evolved over time, but it is still grounded in the essential truth that CAs help businesses make better decisions. Our audience has given us permission to grow as leaders in the Canadian business environment. In an increasingly competitive marketplace, it is vital that we maximize that opportunity.

Financial Reporting Canada Week

In a matter of months, Canada enters a new era of financial reporting. Private and publicly traded companies both move to new accounting frameworks on January 1, 2011. The CICA is hosting an important conference in November to help CAs and the larger business community stay in front of the curve on standards changes.

Billed as Financial Reporting Canada Week, the event runs November 22 to 26 in Toronto, providing important information about international financial reporting standards (IFRS) and the new accounting standards for private enterprises. It includes a day-long session to help users of financial statements understand the changing environment and a luncheon that celebrates Canadian companies that set the bar for excellence in financial reporting.

“This event reflects the magnitude of change that accounting

professionals and corporate Canada are currently managing,” says Gord Beal, project leader for the CICA's implementation support strategy on the transition to IFRS and the new auditing standards. “Financial Reporting Canada Week offers something for everyone who is involved in standards change.”

The week begins with three days dedicated to IFRS. IFRS in North America 2010 is presented in partnership with the International Accounting Standards Board (IASB). Sir David Tweedie, IASB chairman, and Gord Fowler, AcSB chairman, will be joined by other financial reporting experts. The keynote speaker is Paul Tellier, IFRS foundation trustee and former Bombardier and Canadian National Railway CEO.

Delegates will receive information about the IASB/FASB talks aimed at converging IFRS and US GAAP, technical updates on proposed new IFRS and more. Preconference sessions on first-time adoption of IFRS, financial instruments, insurance contracts and extractive activities are offered.

News from the profession

A SUMMARY OF CURRENT CICA PROJECTS AND INITIATIVES



Following the IFRS conference, the CICA's 13th annual Financial Reporting and Accounting Conference (FRAC) begins. FRAC covers both IFRS and private enterprise accounting standards, and includes a session on the new Canadian auditing standards. IFRS implementation workshops for the mining industry, software/tech companies, real estate and manufacturing are offered this year.

The popular Corporate Reporting Awards (CRA) luncheon will be held Thursday, November 25. The CRAs have recognized excellence in financial and corporate reporting in Canada for more than 50 years.

Also on November 25, a one-day conference will be held to help users of financial statements understand how the move to IFRS will affect them. The conference will discuss how to differentiate changes in reported performance caused by the adoption of IFRS compared with those caused by actual changes in business activity. This conference is aimed at investment analysts, credit analysts, investors and investor relations professionals.

For more information on Financial Reporting Canada Week visit www.cpd.cica.ca

Efrim Boritz wins 2010 Bill Swirsky Innovation Award

Prof. J. Efrim Boritz, FCA, of the University of Waterloo School of Accounting & Finance has been selected as the recipient of the 2010 Bill Swirsky Innovation Award. This award is made in recognition of his prolific display of innovation in leading and developing projects, concepts, processes and procedures that directly impact upon the CA profession.

Prof. Boritz's record of contributing service on professional committees is second to none. It demonstrates his willingness to share his knowledge on IT-related matters and his innovative thinking for the benefit of the accounting profession in general and the CA profession in particular. He has been involved in numerous initiatives over the past 30 years that have expanded CA competencies and services related to information technology. The two most noted are in the areas of expanding assurance services and XBRL.

Actively involved in the profession's early attempts to expand its assurance services beyond the narrow focus on financial statements, Prof. Boritz initially served on the idea-generating task force on assurance services in both Canada and the US. Subsequently, he was asked to focus on the area of reports on system reliability, thought to be the foundation for future reporting initiatives such as continuous assurance and data level assurance. This led to his involvement with Trust Services and Data Integrity, which continues to this day.

Prof. Boritz was instrumental in developing the Trust Services framework and the services branded under the logo of SysTrust. He wrote the training materials for these services and continues to serve on the committee responsible for updating the services and aligning them with new international standards on internal controls over financial reporting at service organizations.

An early advocate of quality assurance of XBRL-tagged data, Prof. Boritz continues to serve on committees responsible for



J. Efrim Boritz, FCA, CA-IT / CISA

these innovations in the dissemination of financial information. In addition, his research has demonstrated the need for quality assurance and ways of studying XBRL to draw attention to these issues on the part of policy-makers, regulators and standard-setters.

Prof. Boritz is a prolific author and has undertaken numerous projects on innovative uses of technology to support and enhance professional assurance-related activities such as audit planning, risk assessment, fraud detection and other assurance procedures. His entire professional and academic career has focussed on maintaining and expanding opportunities for CAs as well as maintaining the quality of assurance services through technological innovations.

The formal presentation of the 2010 Bill Swirsky Innovation Award to Efrim Boritz will take place in Toronto in February 2011.



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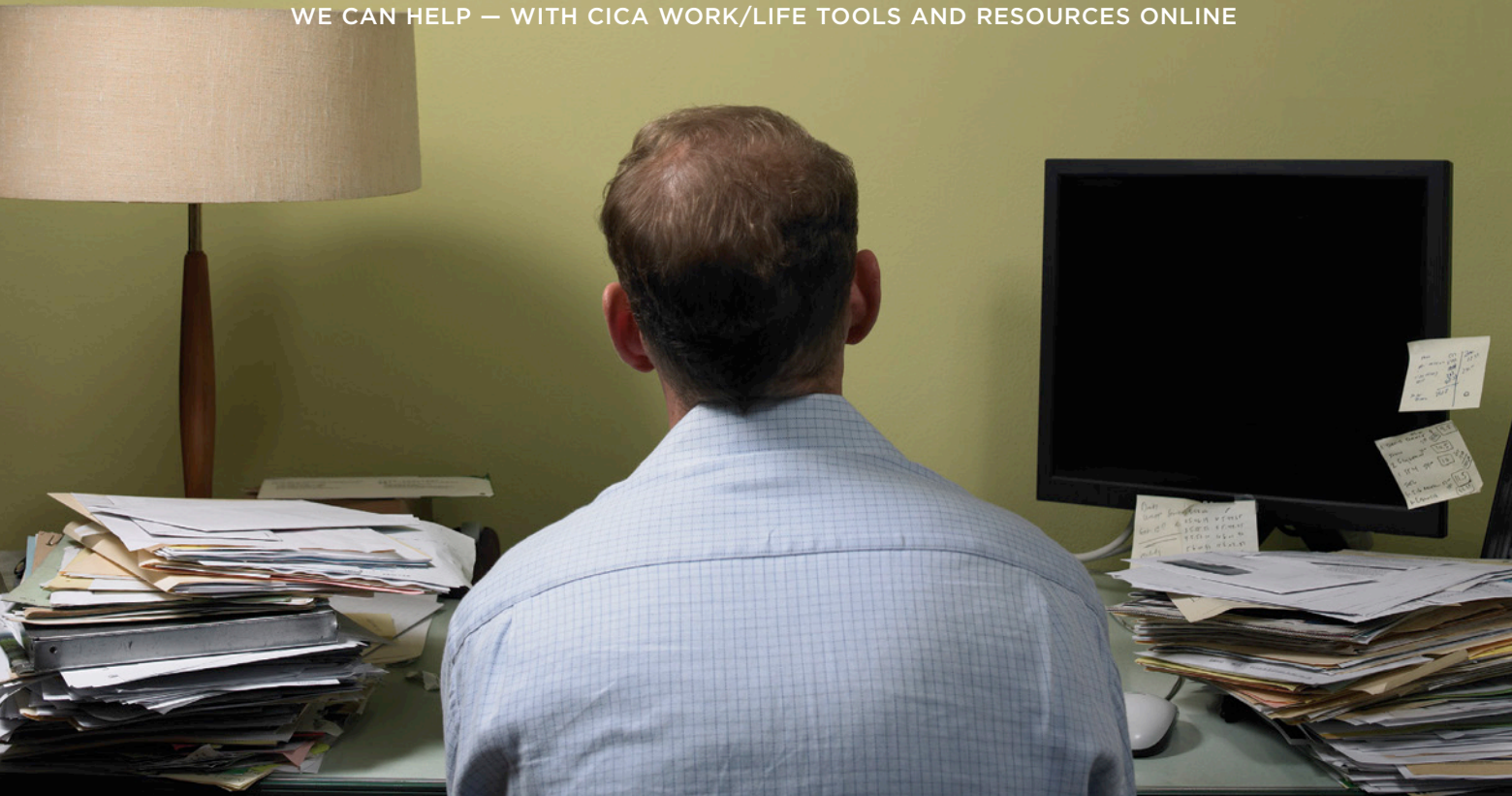
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Being performance competitive is a main concern for members in industry. What separates the top performers from the rest?

BY ROBERT ANGEL

Follow the LEADERS

AT GE CAPITAL CANADA EVERYTHING GETS MEASURED

— everything from the phone calls made to the deals done, explains Patrick Palerme, the CEO of the Montreal-based company. The point is not to track whether the company is doing better or worse but to spot potential business opportunities. In fact Palerme describes managing performance as his opportunities dashboard. And he turns the dashboard's data, much of it collected through the customer relationship management system, into predictions that help the sales force be more successful.

“The payoff is in being able to predict and tackle revenue generation and related risks more reliably over the different

Illustration by MIKE CONSTABLE





industries GE Capital serves,” Palerme says. “The result is a sales force that is able to hold 15% more customer meetings, with strategic and nonstrategic customers. This has helped GE Capital increase its win rate by close to this percentage and gain ground on the competition.” In other words, taking a more business-performance-oriented approach and using the data to connect more profitably with customers is integral to keeping GE Capital “performance-competitive.”

And performance competitive is the main theme in the findings of *CAMagazine’s* 2010 Performance Management Survey of CICA members in industry. The survey responses tell us that more competition-minded organizations such as GE Capital are going beyond traditional financial measurement in their performance management approach. They are integrating it into a broader business context, using more sophisticated tools and are getting better than average business performance results.

The linkage between approach and results comes out clearly in the survey, differentiating the top third of performers in Canada from the rest.

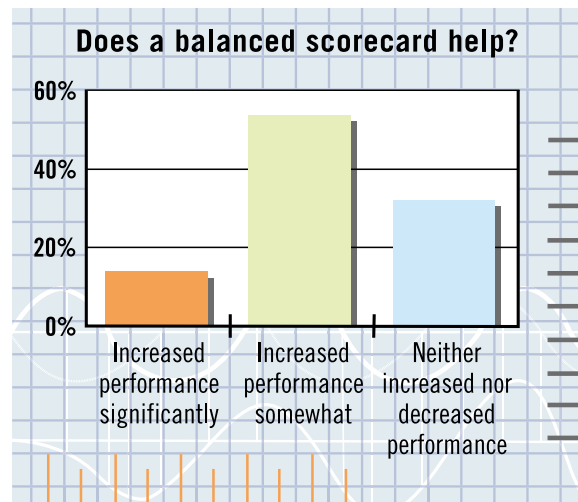
Fewer balanced scorecards but better results

The first performance management survey in 2005 (“Do scorecards add up?” May 2005) concentrated on balanced scorecard usage. Canadian CFOs revealed a story of spotty scorecard penetration and often disappointing results.

As this was significant for CA members, a formal performance management poll was conducted in 2007 (“Just do it,” August 2007). It showed that, of the CAs in industry who were polled, only 33% had implemented a balanced scorecard and performance management results, not just from scorecards but generally, were underwhelming for too many Canadian organizations.

This year’s survey shows gradual improvement in indicators such as performance sophistication and satisfaction with results. Only a third of respondents say their performance strategy is not supported by current actions and only one-quarter say this is a major factor limiting success.

Interestingly, in the past three years there has been a decrease in balanced scorecard penetration to 28% from 33%. Are



some organizations simply abandoning the balanced scorecard methodology, perhaps because of disappointment with results? Judging by anecdotal evidence, that’s not the case. It appears a number of organizations — either with homegrown, special-purpose scorecards or the full-fledged, strategy-oriented balanced scorecard model introduced by Robert Kaplan of the Harvard Business School and David Norton, president of Renaissance Solutions Inc., in the 1980s — have found that data volumes and complexity have outstripped the capabilities of manual spreadsheets and such organizations have installed new integrated enterprise operational systems, incorporating automated performance tracking and analysis.

Hewitt Equipment, a Pointe Claire, Que., heavy-equipment dealership, illustrates this point. Chief operating officer André Hudon and his team developed in-house scorecards to track market share, customer satisfaction and profitability. “We want to be among the best in our industry so we also look for — and find — a wealth of up-to-date industry data to show how we stack up against competitors. We must strike the right balance between customer satisfaction and profitability,” Hudon says.

The five enterprise performance maturity levels

Basic Using traditional financial reporting and operating budgets with mainly financial indicators — without a formal mechanism to link activities to strategy drivers and their strategic results and to bridge the gap between long-term strategies and day-to-day actions.

Beginning Starting to transform business needs into actionable plans — by defining key metrics and assigning ownership to them to increase accountability, and ensuring employees are focusing on tasks essential to strategy and aligned with day-to-day tasks.

Scorecards Using a spreadsheet-based performance management framework, e.g., balanced scorecard, Malcolm Baldrige, Six Sigma, to track performance against key performance metrics;

align performance measures with critical organization perspectives; and track cause-and-effect of under- and overperformance.

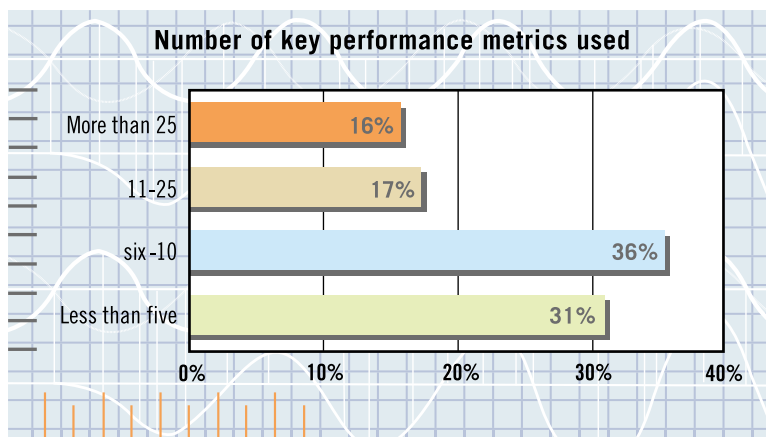
IT evolution Using a commercial application to manage the scorecards or other framework — using IT to help improve scorecard execution e.g., with automated data integration and online drill-down; and systematically communicating results periodically.

Advanced Improving accountability enterprise-wide — by instating a formal performance culture-change program; assigning ownership of individual measures across organizational boundaries and into the extended enterprise; and taking a collaborative approach to bring about a sustained high-performance culture.

The Gilford Group Ltd.

“However, the scorecards are no longer completely to my satisfaction as other challenges have grown in importance.” Hudon is in the planning stage of a move to an enterprise resource planning system.

Balanced scorecard usage may have decreased, but those still using them seem to be getting better value from them. In 2007, only 54% of those surveyed said their scorecard helped improve their organization’s performance somewhat or significantly. Today, things are looking up as 68% (see chart on page 22) of scorecard users now say their scorecard is helping to improve performance significantly or somewhat.



More organizations climbing the maturity curve

Respondents were asked to rank their performance sophistication over five maturity levels, which ranged from basic (traditional financial measurement) to advanced (business-driven enterprise performance management), as described on page 22.

The result shows a gradual shift from the bottom of the maturity scale to the middle (see chart below) — 22% of organizations are at scorecard level compared with 17% in 2007; 63% remain at the bottom two levels, a 12 percentage point decrease from the 75% at the bottom in 2007. The top two levels have also grown slightly.

Ambitions seem to have moderated slightly. In 2007, when asked where they expected to be in 18 months, 75% (mostly in the bottom two levels) expected to be at the top three levels of performance maturity. At the time, that did not seem realistic — and so it has been proven, with only 15% actually in the top two levels today. A slightly more modest 70% of respondents now say they will be at the top end of performance maturity in 18 months. It remains to be seen how many will get there.

Upgrading a performance approach from basic or beginning can take time and management commitment. Joyce Matthison, a former public sector manager at a large municipality in Ontario, described how for years her organization has relied on sectorwide standard municipal operating metrics. “This may be useful to compare similar organizations, but it is not nearly as helpful in managing programs internally, especially in an organization with

a very constrained budget spread thinly over a range of somewhat disparate services,” she says. “A performance manager function was set up more than five years ago to work with staff to develop internal measures and comparative measures used by a collective of upper-tier municipalities in the province,” she says. “A new performance manager has been appointed, which should lead to a stronger focus on development of performance metrics that will assist staff in managing service and program performance.”

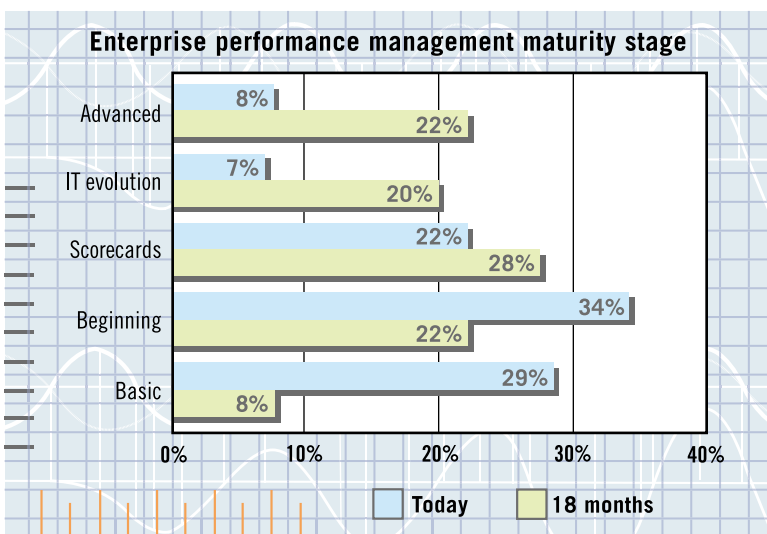
What about the remaining 29% still at the basic level? Most might think they are predominantly small companies, but this is not wholly the case. The survey shows that more than half are medium and large companies, a surprising finding given the intensity of competition today. It’s quite likely this means too many organizations are rooted in a bygone age of business-as-usual when competition was less complicated, innovation seemed less urgent and organizations faced fewer uncertainties. More importantly, basic organizations may be paying a price. The survey confirms that the higher an organization is on the maturity scale, the more likely it is to get superior business results.

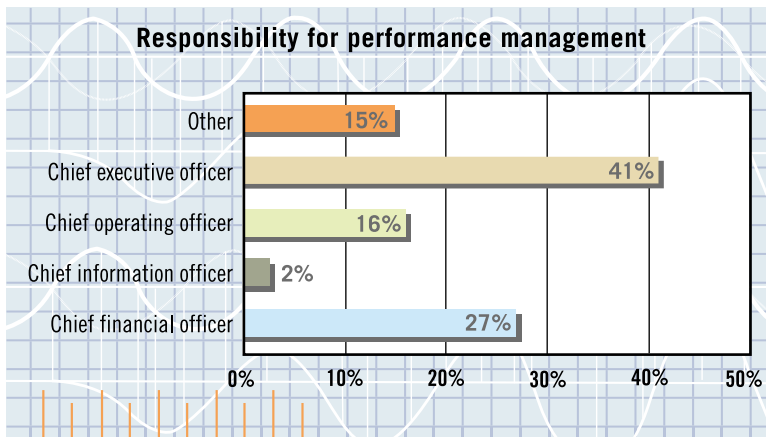
Trend to using more metrics

The survey highlighted that metrics are an important performance management consideration: two-thirds of the respondents reported their boards are asking for more effective performance metrics.

How many metrics do Canadian organizations use? Experts have long considered 10 to 20 metrics to be the maximum most organizations can manage, but this may have to be re-examined in light of the survey responses, which reveal a trend to increasing the number of metrics. The chart above shows 33% use more than 10 metrics (up from 23% in 2007) and 16% use more than 25 metrics (compared with 7% in 2007). Do more organizations share GE Capital’s measure-everything philosophy?

Pierre Galarneau, a Montreal-based entrepreneur and CA, suggests this may be the case. Formerly a divisional executive with a nationwide industrial supply company, he tracked more than 50 metrics locally and regionally. “This enables individual teams to benchmark their sales and operations metrics against other teams. It also helped





me track priorities across the division to make sure local actions link to divisional strategy,” he says. “To be the top organization in your field, you must be clear about objectives and where you need to adapt. This means setting measurable and objective divisional goals that define the responsibilities, scope and impact of each manager in each business unit.” As Galarneau puts it, the highest performing dealer also had the highest market share relative to competitors. “This was not an accident,” he says. “It was because everyone on that team knew what the company wanted to do.”

Expanding metrics across the business is also occurring at Keen Canada, a footwear manufacturer and distributor whose subsidiary is based in Brockville, Ont. It set up a multidisciplinary team, which takes in functional specializations such as multi-national business management, supply-chain effectiveness, quality and financial backbone. “We are expanding our metrics from half a dozen to as many as 100,” says Bob Hanna, director of finance. “My contribution is financial risk — metrics on foreign exchange, interest rates, credit exposures and financial productivity. I cover measures such as revenue and profit per employee, distribution system throughput, scorecard-driven activities, cost per unit shipped and financial ratios.” The second-level managers of the various functional areas have been included in metrics development for their respective disciplines to help get integrated performance metrics organizationwide.

One indication that metrics are aligned to broader business performance needs is the use of nonfinancial rather than financial metrics. One-quarter of respondents said they use more nonfinancial metrics than financial. “Our organization is in an industry where nonfinancial performance measures are far more important than financial ones,” one respondent explained, “although the financial ones are used to assess efficiency of delivering services and sustainability of the organization.”

But much work remains to be done: half of the survey respondents are still using more financial than nonfinancial metrics. The one-third who use less than five metrics are mostly using traditional financial measures — and noticeably underperforming the other respondents.

At Hewitt, Hudon has refined his metrics to have fewer key performance indicators that are more in line with the company’s strategy. Metrics range from health and safety incidents to return on sales. “One of our most critical metrics is the net promoter score, the likelihood a Hewitt customer will recommend us to

a potential customer,” Hudon says. Hewitt’s ranking against other dealers has improved perceptibly since introducing key performance indicators.

Performance culture getting broad recognition

Performance culture looms large in many performance management studies — and this survey is no exception. Two key findings from the survey illustrate the emphasis on culture.

When asked which major factors are limiting performance success, buy-in was the No. 1 choice, picked by 46% of those surveyed (lack of accurate data comes next, at 39%). There is concern that performance goals may be accepted at the executive level where they are formulated but not bought into at the department or individual levels.

A related concern is over incenting staff. A number of respondents stressed that this is essential as a cultural tool. “Over the long term, incentive compensation is critical for the culture and staff acceptance, to be able to link pay with performance,” says Palerme. GE Capital now pays sales representatives on profits, where previously incentives were tied to volume, leading to unplanned behaviours and unexpected consequences. Palerme attributes enabling representatives to see how they are doing to optimizing performance through the recession.

Hanna says that linking a significant portion of compensation to performance to motivate people is Keen’s reason for upgrading the performance system. “The second-level managers have been brought in to the system and really like it,” he says, “because they now understand what they are evaluated on and focus more on what we think is most important.” Hanna believes this has contributed to the annual growth rates of the company forging ahead at 25% to 35%.

Early analysis and operations trend recognition is how Don Evans, vice-president, finance and administration at Culliton Brothers Ltd., a Stratford, Ont., construction contracting company, monitors performance. “Most of our inputs are similar to our competitors’ so we need to be more focused on labour productivity. We used to be 50% through projects before we really knew how well the project was going,” Evans says. “Now, we break progress



down in much more detail and move quickly on a divergence from plan before chances of recovery disappear. We are also much more accurate on our quotations to customers.”

Evans credits team effort for improved results. “Operations have taken the lead in developing the productivity index,” he says, adding he would like to get more visibility for the productivity factor and bring the organization closer together around a clear, common purpose.

Giving a nonfinancial view of the cultural aspects of performance management, Joy Kosta, senior director of the talent development community at Washington-based The Human Capital Institute, says that paying attention to culture yields benefits higher up in the organization. “The CEO wants frequent checks of the company’s pulse in areas of deployment because this is where the link is most likely to break.” From her talent-performance vantage point, Kosta sees enterprise performance as a frequently recurring topic. Proactive companies in her view link enterprise performance and talent performance, for example by displaying finance, operations and human resources metrics side-by-side. She cites studies by the Malcolm Baldrige National Quality Program, a US public-private partnership dedicated to performance excellence, to make the point that the winners make this link. “The successful performers also tend to be those who move from traditional measures like turnover to more proactive metrics like engagement,” she says.

Performance culture also requires thinking about managing risks to performance. Dragica Grbavac, executive director of The International Centre for Operational Risk Management and former program director of the Centre of Excellence for Business Performance and Risk Management at the Schulich Executive Learning Centre in Toronto, says that people often are inhibited in taking innovative management actions. “Resilience is not articulated as a necessary component against which performance is measured in any other context than in significant business interruption,” she says. “Performance management, like risk management, needs to be first understood in terms of the elements that constitute performance, before a manager goes on to manage it. It can’t be managed as a whole until the parts are clearly aligned.” In other words, it needs to be managed by understanding the key contributing factors.

Performance-competitive taking hold — gradually

To what extent do the signs point to being truly performance-competitive? Certainly much of the survey data indicates a gradual shift in that direction — stemming from greater performance management sophistication and more emphasis on business performance rather than just financial measurement. However, some data show more ambiguity about progress.

For example, the CFO is losing performance management direct responsibility. As the chart on page 24 (top, left) shows, three-quarters of performance management programs are now the responsibility of the CEO, chief operating officer or other



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senior nonfinancial executives. Also, financial function involvement in strategic planning is declining. About half are involved moderately or strongly — but involvement has declined from nearly two-thirds in 2007. Innovation planning tells a similar story but at a slightly lower level: 45% of respondents set aside specific innovation funds, compared with 48% three years ago.

As the chart on page 24 (bottom, right) shows, one-third of survey respondents rated their organization's overall business performance (revenue, profit and operational measures relative to goals) below target. One-third of scorecard users also say their scorecard has had no effect on profit. Both findings are almost identical to 2007's survey. One can only conclude that the apparent investment to climb the maturity curve has not had an effect on performance for so many organizations.

There are also indications that performance technology investment decisions can be daunting. One participant summed up his experience of looking for a replacement to his spreadsheet approach: "Performance management software vendors are not explaining the technology benefits as well as I would like."

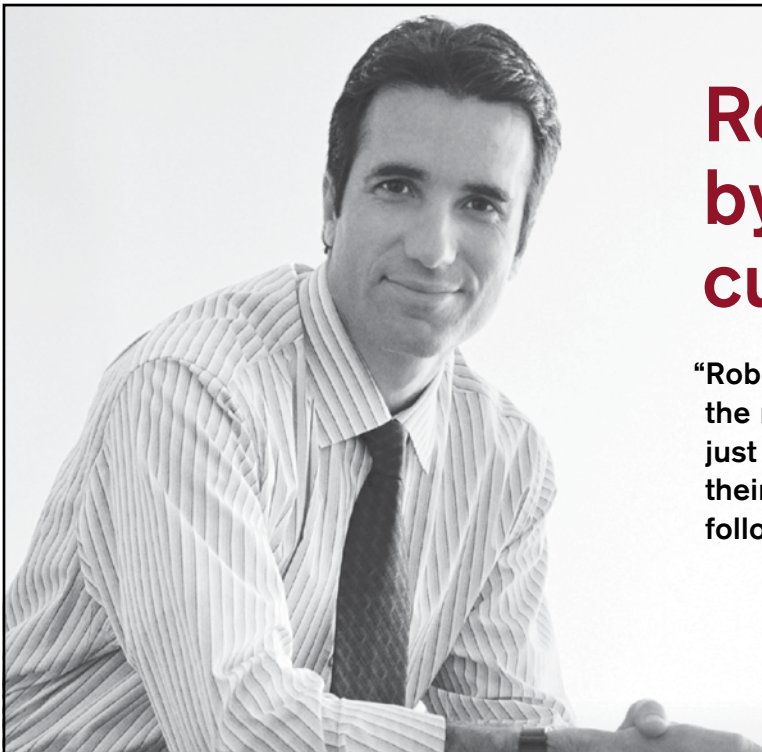
To this, Tina Schweihofer, performance management solutions specialist at SAS Canada, says, "Performance management return on investment often depends on the organization's level of maturity. For example, organizations currently using spreadsheets might look to improved accuracy and transparency of information, while organizations with larger data volumes and more advanced methodologies might realize productivity sav-

ings through automation." Ultimately, the carrot is becoming a more agile organization that is able to uncover or discover where problems exist, find the root cause of the problem and address the issue quickly, she says. "It is important to keep in mind that performance management is an iterative process. ROI will depend on where an organization is on that journey."

Her colleague, Gary Cokins, manager, performance management solutions with SAS, says, "The rate of adoption of performance measurement has historically been slowed by social and cultural obstacles such as people's natural resistance to change, fear of knowing the truth, and not wanting to be measured or held accountable."

All this carries a strong message for CFOs, not just the 27% who are directly responsible for performance management. As a CFO, how well is your role adjusting to reflect your organization's competitive performance needs? Bear in mind that the 2010 Performance Management Survey shows some organizations are moving forward, while some are standing still. And the prize goes to the ones moving forward, in the form of better than average performance.

Robert Angel, MBA, CA, is president of The Gilford Group Ltd., a Toronto-based marketing and performance management consultancy. He conducted the performance survey and compiled the charts based on the responses. For the report and more detailed findings, contact bob.angel@gilfordgrp.com



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Got more clients than you can handle?
Want to offer more products or services? If you think
it's time to expand, here's what you should know

By Robert Colapinto

Way to **GROW**

When SureShot Dispensing Systems,

a Lower Sackville, NS, manufacturer of dispensing machines for coffee-related products, decided to add three product lines, it was very careful in its preparations. “We looked at the extra space required, our capacity to run the new lines, training for the then 75 employees, and more importantly, whether the expansion’s early stages would adversely affect production on our other lines,” says Ian Tramble, CA, vice-president of finance. The new machines were part of a strategic

expansion plan that initially looked five years into a commitment to continuing investment in product development.

Investing in a business’ growth can be risky, of course, but there have been positive signs of relief from the recession. While some small businesses have been badly mauled over the past three years, others are pursuing business strategies aimed at expansion.

For any small business looking to expand, the first question it should ask is, how do you start? Slowly and cautiously,

Illustration by BRAD YEO





advises one CA. “Baby steps, careful and tentative until you get your footing,” says Jodie Wolkoff of Toronto’s Wintrip, Wolkoff, Shin Inc., a valuation and forensic firm. Wolkoff has seen a sharp up-tick in advisory work from clients seeking valuations of their businesses for the purpose of expanding, mergers or new financing. “And any first steps should always include a business plan,” she says. “It’s a road map of sorts that crystallizes what conditions exist in your business that almost demand expansion and how your strategies and financials answer those conditions. As a CA, these numbers are alive and if you let them speak to you, you’ll know whether the impact of that expansion is worthy of the risk you’re about to undertake.”

Knowing when to expand is equally as important as knowing how. Outgrowing one’s workspace and infrastructure can be a signal that an expansion is in order. Simple bricks and mortar alone — a company’s basic infrastructure — has to have the capacity to keep up with expansion. A new product or a new piece of machinery requires not just human expertise but room, upgraded electrical work, plumbing, perhaps even government OKs.

But an expansion where growth requires a major reconsideration and additions to the workspace can quickly become overwhelming if the company is ill-prepared for the changes. “Suddenly you’re not working calmly and rationally from a planned concept, but just reacting, trying to catch up,” says Bruce

Fischer, cofounder of small-business management consultants Fischer Group Inc. in Ottawa. “It’s odd, but sometimes success can be a runaway train.”

Keeping that train on track requires detailed planning for sales and marketing. No matter how meticulous a company may be in preparing for growth, all is for naught if its product or service is not complemented by a sturdy marketing plan and sales strategy. A business that’s looking to grow — even an established one — needs to have its finger on the pulse of its industry, including knowing its customer base, suppliers and the impact of past promotions and advertising. “A firm grasp on market research to support the expansion is often overlooked by companies that already have a proven track record,” says David Wilton, Scotiabank’s director of small business banking in Toronto and author of *Get Growing: Unlocking The Potential In Your Small Business*.

Martin Ritchie, formerly of KPMG Toronto and Ernst & Young Bermuda and now cofounder and CEO of Toronto-based Tenedos Energy Corp., which specializes in solar power, has spent the past four years developing renewable energy projects around the world within the relatively new clean-energy sector. “You have to almost revel in the risk and instability of it all,” says Ritchie. “And you can only do that if you’re ready for the move and confident in your plan.” His self-assurance is founded in his sales strategy, which is based on solid market penetration and the cutting-edge innovation of his product.

THE BUSINESS PLAN: EXPANDING FOR SUCCESS

Business plans, depending on the nature of the business and the proposed scale of expansion, can vary in length and detail. An updated plan should include the following:

Executive summary: this covers the existing business and expansion concept, the product or service to be provided and the management team in place to shepherd the primary objectives of the plan from concept to completion. It should include a marketing plan and strategy with identified target markets and why this expansion and the product/service will ensure the company’s competitive advantage in the marketplace. The executive summary should also contain a financial projections summary.

Business overview: describes the company’s history, present ownership and core-business objectives.

Expansion opportunity: if an opportunity to create or increase products or services or a merger or acquisition is being proposed, this section explains how the opportunity will be exploited and/or why it is necessary to expand the business’ infrastructure.

Products and services: describes the expanded opportunity or necessity to purchase or lease more space and/or machinery and hire employees, with emphasis on the benefits.

Industry overview: explains how the company will take advantage of expansion by describing the dynamics of the industry, its markets and the markets targeted in the expansion.

Marketing strategy: profiles target-market segments and differentiates the uniqueness of the product or service through the lens of competition. It should include a section on promoting the new business opportunity, with a discussion of product, price, place and promotion in relation to the business’ goals, target markets and competition.

Operations: profiles the owner and management team as they relate to how daily operations, infrastructure, human resources and production plans will change with the proposed expansion.

Financial plan: helps the business owner understand the full scope of the business’ growth objectives and financial challenges and provides lenders with a critical eye on the mindset of the company. It should include at least three years of projected financial statements (income, monthly and annual cash flow) linked to the financing that the business needs to complete the expansion, which will highlight the feasibility of the proposed expansion.

Source: Bruce Fischer, Fischer Group Inc.



“For a sole proprietor who needs half a dozen employees to realize his expansion plans, he could be overwhelmed with paperwork and forced to turn his attention away from the business”

Knowing the market and being able to identify where sales opportunities exist are key for any business but are especially important for one looking to expand. “Our analysis showed that we now have to look to a sales penetration strategy beyond Toronto and into southern Ontario if we’re going to access enough roof space,” Ritchie says. This industry also presents some challenges to be wary of, as competition and the possibility of takeovers are always looming in the background. Scores of competitors are on the prowl, looking to undercut or gobble up the small fry. This can leave a business with the decision to either merge with another business, buy it or sell to it and Ritchie has no plans to do the latter. “We’re not interested in selling to a larger player,” he says. “There’s going to be a lot of M&A activity in the next while, and if anything we want to be the ones acquiring.” And Tenedos has already followed the advice of many experts by reaching out to foreign markets. “We’ve looked at the competition, assessed opportunities and, as result, opened an office in the UK with plans to go global,” he says.

But when opportunities involve diversifying, a business would do well to proceed with caution. “Market diversification is one of the more dangerous moves in an expansion,” says Ken Ficocelli, CA, partner and small business specialist at BDO Canada LLP in Kelowna, BC. “You have the capital for product development, promotion and launch, and you better be reasonably assured there are customers out there for the new product or service.” Indeed, diversification, while widening a company’s market base, also places it in the territory of an untested startup. “You’re looking at a new client base, new product, new suppliers and likely new money,” says Ficocelli.

For SureShot, diversification was the logical next stage, says Tramble. “Sure we always want to broaden sales, who doesn’t?” he says. “But we created new products based on existing client needs. So we were lucky — we knew what the market wanted.”

Another sign that expansion is necessary is when a company finds itself in the position of having more clients than its owner and employees can handle. However, the financial impact resulting from hiring new employees during a spurt of growth can be easily underappreciated. Employment insurance, Canada Pension Plan, workers’ compensation and payroll tax obligations can be a burden if not clearly supported in the expansion strategy. “Administrative duties take up a lot of hours and can be costly to maintain,” says Marian Kneitz, cofounder and financial operations specialist at Fischer. “For, say, a sole proprietor who needs half a dozen employees if he’s going to realize his expansion

plans, he could easily be overwhelmed with paperwork and forced to turn his attention away from his core interest, the business.” In such situations Kneitz recommends that sole proprietors seek advisers in areas of weakness or for areas they are too busy to focus on. “Get a good CA, a management specialist and a lawyer,” she says. “Maybe not all, but whatever it takes to feel comfortable that you’re on top of internal operations so you can concentrate on the new work at hand.”

Getting advisers on board not only provides assistance in managing operations but also demonstrates commitment and shows that the owner has obtained expert perspectives on the business’ plan. “What we look for is that they have sought counsel in addition to that of a partner or significant other,” says Wilton. He feels more confident in qualifying a loan if he knows one or more experts have advised his client on a plan of attack. “It shows diligence and commitment to the work ahead,” he says. “Even if the business owner is a CA, I’d ideally want to see that he or she has sought advice in areas where he or she doesn’t have the expertise.”

Wolkoff’s firm not only advises small business but is also in expansion mode. One of her primary concerns is to avoid diluting the quality of her service by not having the time to give clients the attention they require and deserve. “That’s a sure-fire way of ensuring that your waiting room will soon be empty,” she says. Wolkoff’s strategy is to at least double in size over the next few years. For service firms, she believes one effective way

THE SWOT ANALYSIS

Planning for expansion without a thorough and honest self-audit of the company’s strengths, weaknesses, opportunities and threats (SWOT) can be very dangerous. SWOT is the first stage in the development of any truly effective business plan.

SWOT looks at internal and external factors and helps focus the enterprise’s goals in the short and long term. But like the business plan, this analysis should be revisited at least annually, particularly by companies that are in the process of expanding products, services, customer base or facilities capacity.

— RC

of reaching this goal is through contract help, not full-time hires. “Depending on your business, building a trusted network of specialty subcontractors can be a good move,” she says. Wolkoff often advises hiring project-specific CAs armed with specialized knowledge of the particular businesses. “It ensures that overheads remain low and simplified.” And if there is a run of new business, it’s easy to turn to these off-site resources without having to worry about the increased fixed costs that come with hiring new employees.

John Lunn, an Ottawa-based CA who specializes in small and medium-sized businesses, helps advise his clients by going over their business plan with a critical eye. “When we look at a business plan, we are obliged to pull no punches,” he says. He asks clients, Is this realistic? Can you really do this? Do you have a plan B, if we can show you that you really don’t have the processes in place to execute your proposed expansion plan? Lunn’s specialty is coaching and mentoring startups and existing businesses through the crucial borrowing phase. “I try to arm them with the tools needed to talk intelligently and on-point with the banker,” he says. If the particular business is highly dependent on marketing and PR strategies, he will ensure its business plan highlights every exigency in this area. “It’s knowing your industry and the challenges your business will face,” he says.

As a banker, Wilton wants to see that clients’ business expansion plans identify credible new markets or existing customers interested in the product. He insists his small business bankers get up close and personal with prospective borrowers. “We’re not just the moneybags, we’re advisers,” he says. “Ideas are a

dime a dozen. The difference between a good idea and a good business is the work that goes on between the idea and the proposed expansion.”

And expansion may not be as easy as some may think, as Wilton found out. Wilton, who interviewed business owners from across the country for his book, says, “One trap people fall into is that expansion will be a snap. It seems to make sense; you’re a success and you want to expand. And given that success, you must know your business very well. So hey, what could go wrong?” Hard lessons are often learned, he says, when factors such as cash flow, internal controls, marketing and sales strategies and ensuring the expanded business is properly staffed with a workforce at least as proficient as the one that made the initial business a success are not fully explored.

Tony Mastrangelo of North Vancouver’s Brazza Gelato and Coffee made sure he had all his ducks in a row before opening two more cafés. “A new location became available, so with the success of the flagship we went for it,” he says. But not half-cocked. For each new location a business plan was developed and tested. He took eight months to develop a business plan for his second café and four months for his third. Only when he had crossed every t — identifying a precise set of measurable and achievable business objectives, working out the capital expenditures requirements for design/build and machinery — and dotted every i — developing an accurate map of the marketplace and competition, pricing and financing — was he ready to proceed. “We thought about it, reviewed the new sites, did a bit of a test market to see if a customer base was there and made darn sure we had the capital in place.”

Among the myriad of factors involved in developing and realizing a workable expansion plan, securing enough cash — the lifeblood of any business — tops the list. “Being undercapitalized simply stops any growth in its tracks,” says Sylvain Vincent, Ernst & Young’s managing partner, Eastern Canada, who is based in Montreal. “No expansion can really be contemplated from genesis to stable completion if you are not reasonably certain you will have the cash to fuel that growth.” Wolkoff’s firm worked a mix of bank financing and personal savings to attack a valuation niche it believed was being underserved. Working with a private equity firm and several private deep pockets, Ritchie’s Tenedos Energy raised seed money to secure its rooftop solar platforms and is looking to European bank funding for its next stage — the engineering and construction work required to add this green fuel source to Ontario’s power grid. And for Mastrangelo, much of his financing came from the profits of each successive café.

Vincent believes the recent economic meltdown made companies much more

COMMON PITFALLS TO A SUCCESSFUL EXPANSION

Refusing to let go of the reins. Most expansions require at least a few more hands — often at the managerial level. Reluctance to delegate as the growth cycle begins can be costly in efficiencies and ultimate success of the expansion.

Where’s the money? From the obvious — cash to expand a facility or to develop, produce and promote a new product/service — to the hidden — unexpected administrative expenses, increased funding for day-to-day operations — cash is king. To be undercapitalized is the death knell to any expansion.

The paper trail. Record-keeping is not a chore but a necessary tool for tracking progress, knowing where one stands on receivables and payables, and the inevitable — your year-ends.

Growing pains. An expansive strategy has to be disciplined. Too often new opportunities are attacked before financing, human resources and marketing and sales plans are fully explored. This can result in severe cash shortages, aggrieved suppliers and unhappy old and new customers.

Competition, what competition? Before expansion, a small business may have had a few local competitors. But with growth, the company will likely come onto the radar of unforeseen competition — the big fish. The growing business must be prepared to confront this challenge with a flexible and elusive marketing and sales strategy.

— RC

focused. "Lessons were learned and these companies do not take success for granted as they did when the economy was booming," he says. They now study their markets with a critical eye on every assumption as they build their growth strategies. "In other words," he says, "they're working their brains out."

While working one's brains out may be viewed positively, it can actually be a pitfall to expansion. The work a business must do when growing, even when that growth is measured, can lead to stressors that can weigh heavily not just on the business owner. Tramble has had to struggle with the day-to-day pressures of a leaner workforce that has been asked to buy in to multitasking, both on the assembly floor and in the office. "It's a psychological strain on everyone," he says, "from the tool pusher fresh out of high school to the development engineers at their drafting tables to the executives in the corner office."

When stress affects the work environment, it can affect the business. That's why Lunn likes to visit clients on what he calls management by walking around. While the bottom-line financial health of his clients' enterprises is his primary concern, he thinks it important to focus on an assessment of their work environments. "If these owners are going to work themselves into such a frenzy that they have key people quitting, I want to know," he says. Just like a company's financials, life management also has to be kept on a leash. "I often have to look at the certificates on my office wall just to assure myself that they don't say psychologist," he says.

In the end, how does one measure success? Some say it's the combination of a fat bank account, a satisfying work-life balance and retirement at 55.

For Ficocelli, such objectives are only part of the equation. A strategic expansion plan also includes measurable goals throughout the business' lifespan that can be used to benchmark success and the continuing health of the business. "No one has a single goal," he says. "By benchmarking market growth against past performance and your competitors, and doing the same with sales, customer satisfaction and promotions, for example, you can literally determine where your expansion stands against the goals originally set out in your plan," he says. "Just remember that any plan should be fairly open to change as the business moves along. Your goals, strategies and mindset should never be set in stone."

Another measure can be a successful trial of a product or service. At SureShot, the new product lines caused little disruption and gained traction in the marketplace. So much so that SureShot is in the planning stage for yet another expansion of its product line.

As for Mastrangelo, success involves making that perfect cup of coffee one day. "That may sound a bit ethereal and artsy," he says, "but the goal of any expansion is to overcome obstacles, challenge expectations and exceed as much as succeed."

Robert Colapinto is a freelance writer based in Toronto

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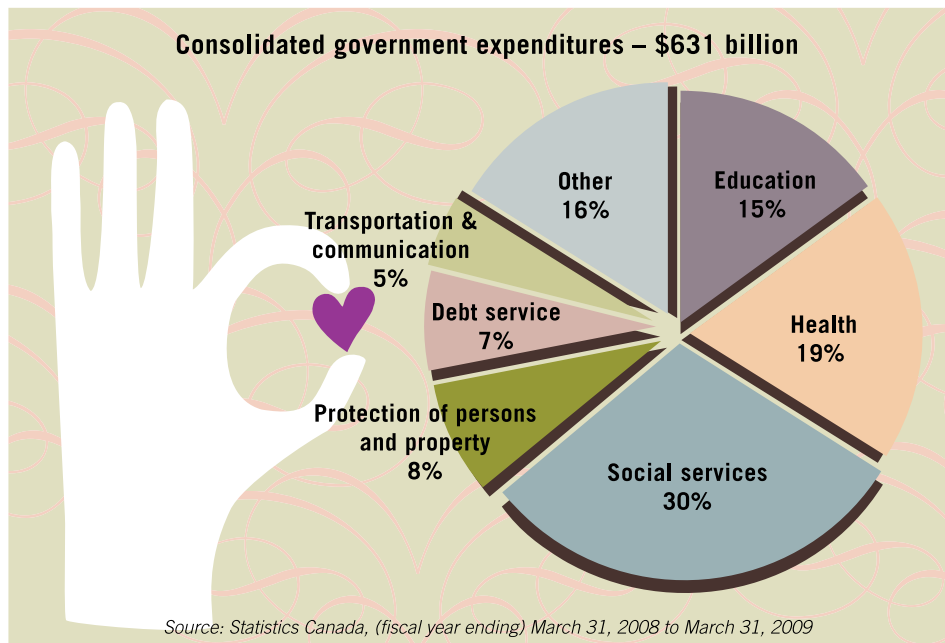


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Philanthropic planning

Canadians wanting to “disinherit” the tax man have a choice of financial planning strategies to do so



There is a belief that making a significant gift to charity means disinheriting your family and friends, sometimes referred to as “zero sum estate planning.” But nothing could be further from the truth. Including charitable giving in the planning process can be like adopting another child while disinheriting the tax man. The good news is the government agrees, having legislated what some would argue is one of the most advantageous tax environments to encourage charitable giving.

Webster’s Dictionary definition of “philanthropist” is: “A benevolent supporter of human beings and human welfare.”

But who is this? Is it someone who potentially gives up approximately one-quarter of his or her capital gains and/or up to almost one-half of his or her income to support the general welfare of our country? Of course, the answer is a taxpayer — or what we could euphemistically refer to as an involuntary philanthropist.

After reviewing details of how much and where our

three levels of governments collectively spend our tax dollars (see chart above) ask if this is how you would choose to spend your income and savings.

If the answer is no, and you would like to move away from involuntary philanthropy (also known as tax) toward voluntary philanthropy, there are numerous financial planning strategies from which Canadians can choose.

Here is one scenario. Ken and Doris Wilson are retired, aged 70 and 68. They have three children and 10 grandchildren. Before introducing them to the many voluntary philanthropic planning techniques, it is crucial to bring clarity to the Wilsons’ financial situation. Specifically, the question of whether they have enough money must be answered conclusively.

Using financial planning software, it is possible to determine the approximate dollar amount in assets needed to generate an inflation adjusted income that the Wilsons could never outlive. Only by zeroing in on this number is it possible to address the question of how much they would like to leave their family. Once this is taken care of, they can engage in a discussion about their social capital leg-

acy. In other words, those dollars that would have gone to tax now, instead, can be redirected to their favourite charities.

Ernest Becker in his Pulitzer Prize winning book, *The Denial of Death*, wrote, “What man really fears is not so much extinction, but extinction with insignificance.” So it should come as no surprise that a conversation regarding their social capital resonates with those who wish to make a significant difference in society.

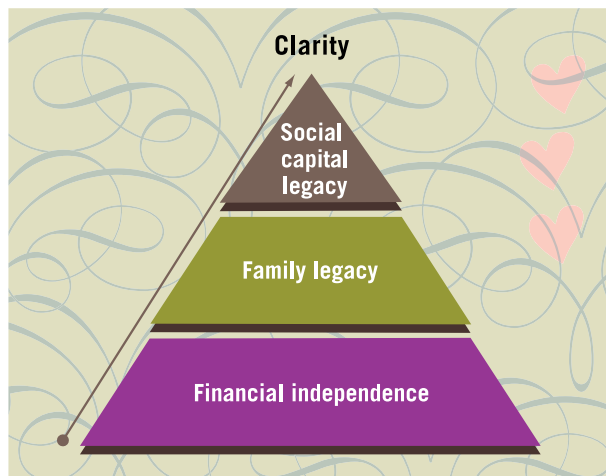
Assuming we have clarity with regard to the Wilsons’ financial situation, it is now possible to introduce them to the many financial planning techniques that could leverage their social capital and bring emotional significance to their lives. For example, assume that a number of years ago they invested in an obscure company with a great technology. Today their Research in Motion (RIM) stock is valued at \$100,000 with an adjusted cost base of \$20,000. The Wilsons are reluctant to sell, as would many individuals whose embedded capital gain is \$80,000. They find themselves in the highest tax bracket and selling their RIM position would result in a capital gains tax of approximately \$20,000. (This is based on a hypothetical situation, used for illustrative purposes only and is not meant to be treated as personal financial planning advice. The numbers used are rounded for ease of illustration.)

Fortunately, the Wilsons are philanthropically inclined and have also expressed the following objectives: minimize taxation whenever possible; convert a percentage of their growth assets to income generating vehicles; and leave as much as possible of their estate to family and friends.

It is possible to achieve all their objectives with a 50/50 strategy. The first step entails selling 50% of their \$100,000 RIM stock for personal use. The sale will leave them with \$40,000 after paying \$10,000 in capital gains taxes.

The second step is for the Wilsons to donate the remaining \$50,000 of their RIM stock to their favourite charity. This will result in a \$25,000 charitable tax credit being made available to them. As this is an in-kind stock gift to a registered charity, there is no capital gains tax to pay. Eliminating the capital gains tax on appreciated stock is another example of how our government encourages Canadians to give to charity. With part of this \$25,000 tax credit the Wilsons are effectively eliminating the \$10,000 in capital gains tax on the outright \$50,000 sale of their stock, and they still have \$15,000 of the tax credit remaining.

In the third step, with the full \$50,000 now available from the proceeds of the RIM sale, the Wilsons can invest in a second-



to-die life annuity, which will provide them with a \$3,400-a-year income stream for the rest of their lives. This represents close to a 7% guaranteed return on their \$50,000 investment.

So far, so good; but what about the Wilsons’ family? Hasn’t it been disinherited of \$100,000 with the sale and gift of the RIM stock? This is a touchy subject for many families, as it is generally thought that making any kind of gift to charity effectively negates those dollars that otherwise would go to family members.

Fortunately, there is a simple solution. The Wilsons still have a \$15,000 tax credit left over from the outright gift of \$50,000 of their RIM stock. Assuming their insurability, this charitable tax credit can now provide the funds to invest in a fully paid up second-to-die insurance policy that will pay out about \$100,000 to their estate on a tax-free basis.

Let’s revisit the objectives the Wilsons wished to accomplish.

- Minimize taxation whenever possible. By donating \$50,000 of their RIM stock they are completely eliminating the capital gains tax payable to the Canada Revenue Agency. At the same time they now have in their possession a \$50,000 charitable receipt issued by their favourite not for profit.
- Convert a percentage of their growth assets to income generating vehicles. By investing \$50,000 of their RIM proceeds into an annuity, the Wilsons are able to generate a \$3,400-a-year income stream (an approximate 7% return), fully guaranteed for the rest of their lives.
- Leave as much as possible of their estate to family and friends. This is done by taking advantage of the remaining \$15,000 tax credit to purchase a fully paid up second-to-die insurance policy, resulting in their heirs receiving the full \$100,000.

To sum up, the Wilsons are achieving their personal objectives, their family members will receive more money from the estate than they otherwise would have and a charity will have \$50,000 to advance its mission. In the end, if done properly, effective philanthropic planning can indeed be thought of as adopting a charity while disinheriting the tax man.

Keith Thomson, CFP, CIM is a managing director of Stonegate Private Counsel, a division of CI Private Counsel LP. He can be reached at kthomson@stonegatepc.com

Donation of appreciated shares

It is critical that when **appreciated shares** are **donated** they must be transferred “in-kind” to the charity’s custodian and **only then sold**.

If they are **sold first** and the cash is donated, the exemption on **capital gains** tax will be negated

Technical editor: Garnet Anderson CA, CFA, vice-president and portfolio manager, Tacita Capital Inc. in Toronto

Meeting today's environment

The new audit reporting model provides a range of options for general and special purpose financial statements



The new Canadian auditing standards (CAS), which are effective for audits of financial statements for periods ending on or after December 14, 2010, introduce an audit reporting model to Canada.

The new model will give auditors greater flexibility to report on a range of financial reporting frameworks, for both general purpose and special purpose financial statements, but only if the auditor first determines that the framework is acceptable in the circumstances of the engagement. This change affects reporting on financial statements in Canada.

General purpose financial statements

Current Canadian GAAS, Section 5400, The Auditor's Standard Report, provides guidance on the form of the auditor's report when expressing an opinion on financial statements prepared in accordance with Canadian

GAAP for general purpose financial statements, which are intended to meet the common information needs of external users. This section has worked well in Canada for many years as the majority of entities are required to use Canadian GAAP. However, developments in accounting standards, securities regulations and the need for auditors to report in a global context highlight that a variety of financial reporting frameworks are commonly used:

- the Canadian Accounting Standards Board has restructured its accounting standards to move away from dealing with a single financial reporting framework to include various frameworks within Canadian GAAP;
- Canadian securities legislation has for several years permitted Canadian public companies that are SEC registrants to report using US GAAP. Canadian public companies will soon be required to report compliance with IFRS, but Canadian SEC registrants will continue to be permitted to report using US GAAP; and
- some Canadian auditors are being asked to report on

financial statements prepared in accordance with other financial reporting frameworks, for example, in accordance with the accounting standards of a foreign parent of a Canadian company.

Canadian auditors have not had standards that permitted reporting on general purpose financial statements prepared in accordance with a non-Canadian GAAP financial reporting framework. But that is changing with the introduction of CAS.

Unlike Section 5400, which focuses on a single financial reporting framework — Canadian GAAP — the audit reporting model in CAS does not specify a particular framework for general purpose financial statements. Under CAS 210, Agreeing the Terms of Audit Engagements, the objective of the auditor is to establish whether preconditions for an audit are present. As part of doing so, the auditor is required to determine whether the financial reporting framework, to be applied in the preparation of the financial statements, is acceptable. So, how do auditors make such a determination? CAS 210 indicates that, currently, there is no objective and authoritative basis that has been generally recognized globally for judging acceptability of general purpose frameworks. In the absence of such a basis, financial reporting standards established by organizations that are authorized or recognized to promulgate standards are presumed to be acceptable for general purpose financial statements. To assist Canadian auditors in applying this guidance in a Canadian context, in finalizing CAS 210 the Auditing and Assurance Standards Board

added application material that describes the situation in Canada for private and public sector entities as to the frameworks to be used for general purpose financial statements.

In Canada, most entities are required by their incorporating or other governing legislation to prepare their general purpose financial statements in accordance with GAAP. Such legislation usually indicates that GAAP means “the standards set out in the *Handbook* of the Canadian Institute of Chartered Accountants.” Certain legislation and regulation permit entities to report using IFRS and US GAAP. In essence, frameworks that are acceptable for use in Canada are those within Canadian GAAP, including IFRS, and in certain circumstances US GAAP.

In the case where legislation does not specify the framework that the entity should use in preparing its general purpose financial statements, the accounting standards that are generally accepted are those within Canadian GAAP, which are promulgated by the Accounting Standards Board and the Public Sector Accounting Standards Board.

Where the basis of accounting to be applied by management is other than Canadian GAAP, including IFRS, or US GAAP, the auditor would evaluate the basis of preparation of the financial statements against the factors that are relevant to the determination of the acceptability of the framework. CAS 210 indicates that such factors include: the nature of the entity, the nature and purpose of the financial statements and whether law or



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regulation prescribes the applicable framework. For example, a Canadian entity might have broadly based shareholders who may request that the entity's financial statements be prepared using the accounting standards established by the standards setting organization in their particular jurisdiction. Another example may be where a Canadian entity looks towards another jurisdiction to raise capital and chooses to prepare financial statements using the accounting principles established by the standards setting organization in that particular jurisdiction. Adoption of the ISAs in Canada enables Canadian auditors to operate on a global basis and audit and report on financial statements prepared in accordance with other acceptable frameworks.

If the auditor determines that the basis of preparation of the financial statements is not acceptable in the particular circumstances of the engagement, the auditor cannot accept the proposed audit engagement except if the applicable framework is prescribed by law or regulation. CAS 210 addresses the rare circumstances where the auditor determines that the framework prescribed by law or regulation would be unacceptable.

Special purpose financial statements

Under current Canadian GAAS, Section 5600, Auditor's Report on Financial Statements using a Basis of Accounting other than Generally Accepted Accounting Principles, provides guidance on the form of the auditor's report

in circumstances when specific users require financial statements prepared using a basis of accounting other than Canadian GAAP to meet their information needs. Section 5600 applies only to financial statements other than general purpose financial statements that are prepared:

- in accordance with regulatory or legislative requirements to meet the specific information needs of the regulator, or
- in accordance with the provisions of a written contract.

The new audit reporting model takes a different approach. First, CAS 800, Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks, defines "special purpose financial statements" to be financial statements prepared in accordance with a special purpose framework. Second, it defines a "special purpose framework" as a financial reporting framework designed to meet the financial information needs of specific users. The approach in CAS 800 expands the types of possible financial reporting frameworks on which it is acceptable for auditors to report beyond the specific circumstances set out in Section 5600. Although most special purpose frameworks will continue to be based on legal, regulatory or contractual requirements, auditors will now be able to report in other situations as well, such as financial statements prepared using a cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors. The idea is that, in a world with an increasing need for information, auditors are given the flexibility to report on special purpose frameworks other than the limited conditions of Section 5600.

The auditor is required to determine whether the financial

reporting framework used in preparing special purpose financial statements is acceptable. The auditor would consider the framework's attributes, for example, whether the information provided in the financial statements is relevant to the nature of the entity and the purpose of the financial statements. CAS 800 and CAS 210 interact to provide guidance in this regard. The exercise of the auditor's professional judgment is integral to this process.

A common circumstance specifically addressed in CAS 800 is where a special purpose framework is based on a financial reporting framework established by an authorized or recognized standards-setting organization but does not comply with all the requirements of that framework. CAS 800 indicates that, when this is acceptable in the circumstances of the engagement, it is inappropriate for the financial statements (or the auditor's report) to imply full compliance with the established framework.

CAS 800 does retain the concept, already set out in Section 5600, that the auditor can't control the distribution of the financial statements upon which the auditor reports. Broader distribution of special purpose financial statements does not render

Unlike Section 5400, The Auditor's Standard Report, the audit reporting model in CAS does not specify a particular framework for general purpose financial statements

them general purpose financial statements. The auditor's report contains appropriate warnings, similar to those in Section 5600, alerting users that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. In addition, the auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users.

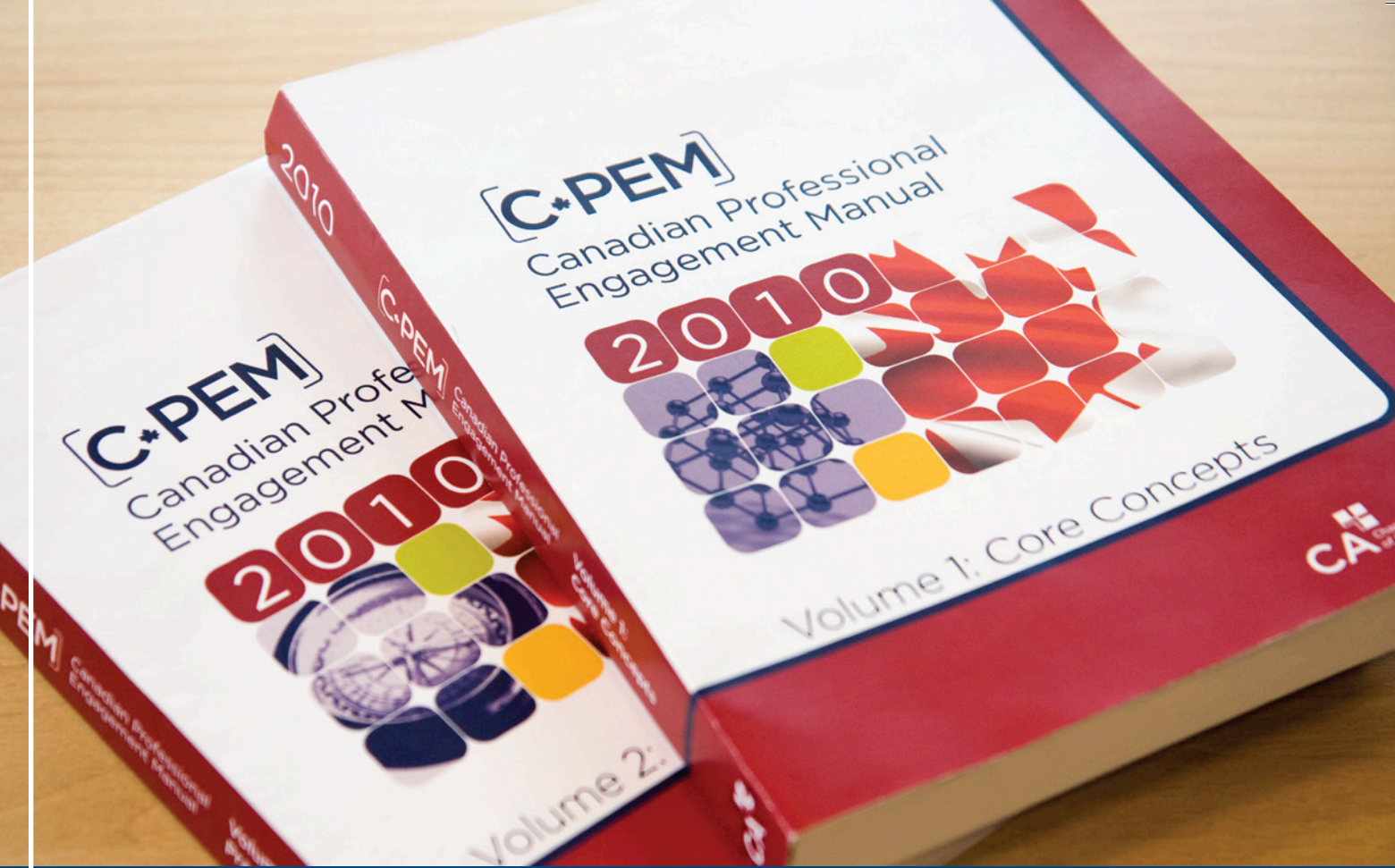
Summary

The audit reporting model in CAS provides a broad range of reporting options for both general purpose and special purpose financial statements. In most circumstances, Canadian entities will continue to prepare their general purpose financial statements in accordance with the standards set out in the *CICA Handbook — Accounting* in order to meet their incorporating and other governing legislation requirements. However, auditors may be asked to report on financial statements prepared in accordance with other financial reporting frameworks. The CAS provide appropriate guidance to assist auditors in exercising professional judgment in determining whether it is acceptable to report on these other frameworks.

The CICA provides additional guidance materials on its website that explain the audit reporting model in more detail and provides examples of auditor's reports.

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Sex and fraud

Not only can a company face financial losses because of sex scandals, it can also lose its reputation and business

A New Zealand man will spend four to six years in jail for defrauding wealthy clients of his employer, ASB Bank, of NZ\$17.3 million (\$13.3 million) over a nine-year period and spending a large portion of the funds on sex workers.

New Zealand's Serious Fraud Office (SFO) estimated that Stephen Versalko, a 52-year-old married father of three, had long-term relationships with two prostitutes. The SFO says he gave NZ\$3.34 million to one and NZ\$791,181 to another. The two women told investigators they also received large cash payments totaling NZ\$800,000. "Still more was spent at a variety of escort agencies around Auckland," the *Manawatu Standard* reported. "The SFO could not track all the payments because they included cash taken out using seven credit cards that Versalko had." His lawyer said Versalko was being blackmailed by one of the prostitutes for NZ\$1.2 million but the SFO found no evidence to support that claim.

Versalko was an investment adviser with expertise in options trading, futures and money markets. His fraudu-

lent scheme, which the SFO said was the largest it had ever dealt with, began after he lost a high-paying position in 1997 and had to accept a much lower salary with ASB. Two years later, burdened with credit-card and investment debts, he convinced an elderly client to invest in a too-good-to-be-true opportunity that cost her more than NZ\$500,000. Buoyed by the success of what became a Ponzi-style con, he did the same to 30 other clients, most of whom were elderly women who lived overseas and paid scant attention to their accounts and were unsophisticated about money.

According to the *Standard*, Versalko was a "master of using ASB's computer system to transfer money leaving no trace of the transactions. He also forged account statements, which he signed and sent to the victims to fool them into believing their investments were safe." He used NZ\$4.6 million to fuel the Ponzi scheme by paying the duped clients fake principal and interest, keeping more than NZ\$13 million.

According to the SFO, Versalko used that money to finance an opulent lifestyle that featured sex workers, international travel, a 1,200-bottle wine collection and sev-



eral expensive properties. He explained his sudden wealth as the fruits of his personal investments in complex derivatives. Because he was, in fact, an intelligent investor, his story was believed.

Versalko was unmasked after one of his victims watched a documentary on US fraudster Bernie Madoff. Concerned by similarities in Madoff's modus operandi to her dealings with Versalko, she contacted ASB to inquire about the NZ\$3 million she had entrusted with the banker, only to discover the bank had no record of her money. That call triggered an investigation and led to Versalko's subsequent arrest and conviction.

When confronted with evidence of the payments to the prostitutes, Versalko at first said he gave the money to several clients who were "down on their luck, on whom he took pity." Understandably, he was reluctant to admit the truth but soon realized his behaviour had been exposed.

Although the amount Versalko paid to finance his illicit sex life was unusually high, the fact that a fraudster used some or most of his ill-gotten resources to pay for a secret sex life is not uncommon.

One of the most egregious examples involved William Aramony, CEO of United Way of America from 1970 to 1992 who helped build the organization into one of the top nonprofits in the US. His reign came to an ignominious halt in 1992 when he was indicted on charges of fraud, tax evasion and conspiracy. Aramony was found to have taken US\$1.2 million from the charity over a 10-year period, and he used a significant amount to fund extramarital relationships, including one with a 17-year-old high school student almost 25 years his junior.

In 1995 Aramony was sentenced to seven years in prison. At a subsequent appeal, his lawyer, famed litigator Alan Dershowitz, claimed the accounts of his client's sex life were irrelevant to the case and had been used to provoke the jury against Aramony. Assistant US Attorney Randy Bellows disagreed, saying there was ample evidence that the primary motivation for the fraud was to subsidize Aramony's relationships. The appeal was denied except for two minor counts.

The fallout from the scandal was devastating to the United Way. Donations dropped significantly for several years. "Local United Ways disaffiliated themselves with the national office and filed name changes," reported the *NonProfit Times*. "When she was president and CEO, Betty Beene would refer to the early-to-mid '90s as 'The Great Unpleasantness.'"

About a decade after Aramony was caught, Nick Lysyk, a Bank of Montreal bank manager in Edmonton, was found to have defrauded his branch of more than \$16 million over a six-year period to fund

a lavish lifestyle for himself, his estranged wife, family members and 14 escorts. He accomplished this by creating and approving fictitious loans.

The fraud started when his wife left him and the balding, paunchy 53-year-old visited a massage parlor. The woman he encountered there was a bank customer. They started a four-year relationship during which time he gave her almost \$3.5 million. He gave another escort \$773,000. Lysyk, who claimed to have been suffering from depression, was sentenced to seven years and four months in jail. He served 13 months before being paroled.

In 2009, Kristin Davis, who had pled guilty to running one of New York City's largest and most expensive escort services, told ABC news program *20/20* that "Wall street lawyers, investment bankers, CEOs and media executives often used corporate credit cards to pay for \$2,000-an-hour prostitutes. Some of these guys, I was invoicing on corporate credit cards. I was writing up monthly bills for computer consulting, construction expenses, all of these things, I was invoicing them monthly so they could get it by their accountants."

Davis provided her client list, which included the CEO of one of the largest private equity firms in the US, a vice-president of a movie studio, a part owner of a Major League Baseball team, investment bankers at Lehman Brothers, JP Morgan Securities and Goldman Sachs, and managing directors at Merrill Lynch and Deutsche Bank. She said she had given this information to

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the Manhattan District Attorney's office, including that a "CEO ordered her to invoice him for roof repair on a warehouse to disguise the payment for prostitutes from corporate funds." The district attorney's office did not pursue the matter.

"That is fraud," former New York prosecutor Sid Baumgarten told *20/20*, saying the district attorney should have investigated. "Not necessarily just for the patronizing but for the use of these business records and credit cards to see what kind of fraud or tax fraud was being used. And if so, that is a major offence."

Other examples abound and lead to one central question: why is there often a connection between fraud and extramarital relationships and/or the use of prostitutes?

The reason likely has to do with two connected points: the need that most men (men are the overwhelming majority of the perpetrators of such fraud) have to keep their illicit activities a secret and the high cost of financing the relationships.

In many households, the finances are managed by the wife, who would have constant access to her partner's personal banking records and credit-card statements. Consequently, large regular cash withdrawals or unusual credit-card purchases could easily be detected. Even if the family's finances are handled differently, the possibility that a bank or credit-card statement was inadvertently left out or opened by the partner would make it too risky for the philanderer to chance.

As a result, the man would need a source of money that he alone controlled. For some that would not be a problem, but for others it could be a daunting challenge.

Aramony was making US\$300,000 a year at the United Way. While a great salary by most people's standards, it wasn't enough to wine and dine his conquests or to pay for his lover's trips to London, Paris, Cairo and other cities. His solution? Take the money from his employer.

Extramarital affairs or the frequent use of sex workers is usually an expensive proposition. Former New York governor Elliot Spitzer spent US\$80,000 on prostitutes in one year and was paying Alexandra Dupré, his primary escort, US\$5,500 a session. Davis said one real estate developer paid her firm US\$100,000 for escorts. During the trial of former CEO of Tyco International Dennis Kozlowski, who was convicted in 2005 of receiving US\$81 million in unauthorized bonuses, a former mistress who worked at Tyco said she routinely covered his personal expenses with corporate money.

How can a company protect itself from such fraud? It's a challenge due to the personal nature of the relationships. First, the relationship might not be apparent. And if it were, who would want to raise the matter with a senior member of a company? The use of escorts is easier to hide. But again, who would want to risk his or her career or face a defamation suit to bring up what, on the surface, would seem like a victimless crime (although that could be up for debate)?

However, it's well known there's a connection between lifestyle issues and fraud. A sudden change in a person's appearance, such as more stylish clothes or the purchase of a flashy car (when before he drove a conservative vehicle) is not proof of anything

other than the person may be undergoing a natural sprucing up, sometimes referred to as a midlife crisis. But if the changes are accompanied by other departures from normal routines, such as long nonbusiness lunches, the hiring of a new and perhaps underqualified female assistant (Aramony put his young girlfriend on the United Way's payroll at US\$89,000 a year), or absences from social events in the evenings on business trips (to spend time with his mistress), discreet investigation might be warranted.

Not only could a firm face losses from fraud, a sex scandal can hurt its image, as the United Way experienced, and could make it vulnerable to corporate espionage. Earlier this year the *London Times* reported that the "security service MI5 has accused China of bugging and burgling UK business executives and setting up 'honey traps' in a bid to blackmail them into betraying sensitive commercial secrets. Chinese intelligence services have also been known to exploit vulnerabilities such as sexual relationships and illegal activities to pressurise [sic] individuals to co-operate with them."

A senior executive, for example, could become vulnerable to blackmail to prevent news of his affair, especially if it involved

Why is there often a connection between fraud and extramarital relationships and/or the use of prostitutes?

One reason could be the high cost of financing such affairs

nontraditional sexual practices, from becoming public. In 2008, Max Mosely, powerful 68-year-old president of motor racing's governing body, Federation Internationale de l'Automobile, was caught on videotape eagerly engaging in a five-hour sado-masochistic orgy with five prostitutes in a dungeon flat in Chelsea, England. It's believed the sting, the video of which ended up on the Internet, was orchestrated by one of his corporate enemies. Or the executive could share sensitive information during pillow talk, perhaps with a lover who then passed it on to others or with a spy who has seduced him for that purpose. *The Times* noted that an aide to then British prime minister Gordon Brown had his BlackBerry stolen after being picked up by a Chinese woman who had approached him in a Shanghai hotel disco.

If reliable evidence exists that a senior executive is conducting an affair or frequenting sex workers and might be spending lavishly to do so, it would be wise for a company to find a way to ensure the source of the funding was not its coffers. Obviously erring on the side of caution and discretion would be paramount. A lot could be at risk if the suspicions were unfounded, including a constructive dismissal suit. But to ignore warning signs could be even riskier. Just ask the United Way. Or ASB. Following the publication of the Versalko scandal it suffered its first half-year loss in 20 years.

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The mobility shift

New technologies have not only redefined the traditional mobile employee but have also brought economic advantages

Over the past few decades, the world of information technology has seen some radical changes. In addition to the constant evolution of technology, we have had to deal with the arrival of mobility in daily operations. This mobility goes beyond simply receiving messages on a personal digital assistant (PDA). That is all in the past.

The recent innovations in the field of mobility, or “mobility 2.0,” impact internal controls and can create difficulties for information systems auditing teams. The difficulties are primarily due to a lack of understanding of these technologies, which complicates the implementation of adequate controls.

What is mobility 2.0?

The traditional mobility model is that of a user equipped with one or more devices such as a portable computer; a

wireless stick for Internet connection (in certain cases); a cellular telephone; and a PDA.

Traditionally, these users were on the road and only returned to the office once or twice a week to perform administrative tasks. They didn't have an office but shared common areas with their peers. Their work consisted of updating the company's internal systems such as customer relationship management (CRM), checking their customers' orders, submitting proposals to customers and preparing their expense accounts. This was the typical profile of company representatives and salespeople.

However, this profile no longer fits the reality of the new millennium. More and more companies have employees who work from home and who have a home office. In emergencies or unforeseen events, these employees need to work from their homes. Moreover, some cost-conscious companies no longer provide office space for those employees who are constantly on the road. It is clear that total access is not just desired, it's required. Employees need to be able to communicate with their company at all times and optimize their free time when on the road. Typical employees now need to be equipped with devices that allow them to access the company's systems and applications and to update the data in these systems. They need to access everything from e-mail to more critical applications such as enterprise resource planning (ERP) and CRM.

What has changed and what has caused these changes? What are the elements that redesigned the profile of the traditional mobile user?

Convergence of voice and data is one of the main causes of these changes.

Today, the use of so-called “smartphones,” such as the iPhone, BlackBerry, Windows Phone and the Droid, makes it possible to access applications that go beyond electronic messaging.

In addition to making it possible to send voice and data over the same connection, the implementation of IP telephony systems in place of traditional telephone systems has promoted transparency. For example, telecommuters receive calls as if they were in the office, and the management of infrastructures and



STEVE ADAMS

internal systems is simplified given that the telephone system becomes an extension of corporate applications.

Fixed mobile convergence (FMC) systems have pushed this mobility up a notch by making it possible to replace the office telephone with a PDA-type cellular phone. These multifunctional devices connected to a company's IP telephony system can, at the same time, use the frequencies of the company's wireless network infrastructure. Within a few months, these dual-mode phones will make it possible to use both systems (wired and wireless). Once connected, using the available network, users will be able to switch at any time from one network to the other without interruption of the communication and with an identical quality of service. This means they will now need only one phone, one phone number and one voice mailbox. From a single peripheral device, these users will be able to pick up messages left in their voice mailbox, receive e-mail and even participate in a videoconference for example.

The latest arrival in voice-data convergence is 4G, which stands for fourth generation wireless telephony, the successor of 3G. The 4G network brings together a number of performance criteria such as an actual data rate for the consumer in the order of 1 Mb/s and quality of service. Even though 4G is not yet available everywhere, its objective is to ensure maximum mobility for the user. The network will improve FMC systems since, for companies, the advantages of 4G are clear: it offers access to a

growing number of multimedia services as well as increased mobility and accessibility (multiple internet access points).

Another cause of change is cloud computing or software as a service (SAAS). Although the concept has been around for several years, hosting systems at a supplier site was surely the precursor. It differs from this supplier in that companies can purchase only the services they need, change these services as they evolve and pay for what they use.

Other important change factors include devices such as the iPad (barely 9 inches by 7 inches with all the peripherals — keyboard, screen, central processing unit — of a traditional computer integrated into a single portable unit), which have become multi-purpose tools that are changing the way users work; more secure wireless networks that are now used throughout companies; and the arrival of the "N" protocol (802.11n) for wireless networks is ensuring improved network performance.

Economic advantages

All these new technologies have redefined the profile of the traditional mobile employee and have brought about considerable economic advantages.

The convergence of voice and data will make it possible to reduce infrastructure costs. There are users who will only need some type of smartphone rather than a computer and traditional telephone.

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Being able to access the company's critical applications at any time translates into better customer service, improved response time to client requests and a reduction in the duplication of data entry. Such improvements result in increased revenue for the company and a reduction in operating costs, thereby creating a competitive advantage and an increase in employee productivity and efficiency.

When companies opt for a cloud-computing environment such as SAAS, they no longer need to keep their internal systems available on a 24-hour-a-day, seven-day-a-week basis, or to provide personnel to manage these systems. Cloud computing is different from traditional hosting as it is sold according to demand, generally by the minute or by the hour. It is elastic in that users can access one or several services at a given moment. The outsourced service is managed entirely by the supplier and only requires a computer and Internet access. The supplier provides the hardware and software infrastructure and interacts with the user via an entry-level portal. Services vary from Web-based e-mail to inventory control and database processing.

For example, Microsoft and Google are now offering e-mail software directly in SAAS mode and are extending their offering to office automation applications. Since the provider of these services is hosting both the application and the data, end users are free to access the service from anywhere.

As did convergence of voice and data, cloud computing is reducing the acquisition cost of equipment, licences and infrastructure maintenance. Furthermore, the need to continue to provide secure remote access through a virtual private network to internal systems is reduced to only those applications that are not part of cloud computing, since users can connect to these systems in complete security from wherever they may be.

The security of wireless infrastructure has improved with the new 802.11n protocol, the implementation of WPA2 with AES encryption, and the use of PKI systems for access between mobile units and corporate networks. The extended validation secure socket layer (SSL) protocol is more expensive than traditional SSL certificates, but it offers a higher level of security when necessary.

Conclusion

Despite the advantages resulting from these new technologies, we need to be aware of the risks they present. Companies keep fewer critical systems on site. Identifying these assets and their location to protect their contents is key to sound management. It is essential, therefore, that the risks associated with mobility be clearly identified and evaluated and that the controls to deal with any eventuality be implemented by organizations. Internal policies need to be established for the use of peripheral devices and employees need to be made aware of the risks associated with the use of such tools.

Wireless networks are proliferating. Such networks are deployed throughout organizations and the focus must be on the protection of data, internal or external. Controls that ensure confidentiality, authenticity, integrity and availability of data are crucial to the installation of wireless networks. Auditors need to be aware of technologies that make it possible to implement secure wireless networks to ensure that appropriate policies and procedures are put in place to mitigate risks.

It's essential that risks associated with mobility be clearly identified and evaluated and that controls to deal with any eventuality be implemented by organizations

Finally, cloud computing-type environments offer numerous advantages, but they raise questions that managers and auditors need to answer. The financial viability of the supplier, data ownership, access to confidential corporate information and compliance with relevant laws are but a few of these questions.

While they may be similar to traditional methods, risk management and the implementation of internal controls require IT auditing teams to have a solid understanding of these new technologies.

In a follow-up article, the risks will be examined in more detail, as well as the internal controls that need to be implemented in order to ensure new technologies provide the anticipated advantages to organizations, while reducing the associated risks.



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2 Partner Toronto CA Firm Interested in merging with another CA or CA

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Succession Arrangement (\$400,000 plus) - A retiring partner of a two partner Montreal CA firm wishes a succession arrangement with an experienced individual to assume a practice built-up over a 40 year period. The practice is fully staffed and well located. Please reply to Box 561, CAmagazine.

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Outlook

BY MARCEL CÔTÉ

WHERE ECONOMICS AND POLITICS MEET

Learn to innovate

In the past 150 years, Canadians' standard of living has hovered between 80% and 85% of that of our neighbours to the south, a structural disparity indicative of our country's lower productivity.

What's more alarming is that Canada's position has worsened over the past 25 years. In fact, Canada now ranks near the bottom of the list of OECD countries in terms of productivity growth.

Low productivity is perhaps our greatest economic challenge. Yet the problem is not attributable to the quality of our labour force (same as the US) or to a lack of investment, but rather to a lack of innovation. Canadian businesses are typically followers rather than innovators, as confirmed by the Conference Board of Canada ranking us 14th out of the 17 countries for which it measures innovation.

In 2009, I participated in an expert panel set up by the Council of Canadian Academies to examine the issue. Our report revealed that even though they are not innovation leaders, Canadian businesses manage to be as profitable as their US counterparts, and there's the rub. If Canadian firms are as profitable, why would they bother to invest in riskier and untested innovation strategies?

Their attitude can be explained by two structural factors. First, comfortable market conditions in Canada make innovation strategies less appealing in the service sector, which represents 70% of the economy. This sector is geographically parceled out in a large number of relatively small local markets where competition is less fierce than in the US. The effect shows up in the higher prices of Canadian consumer products and services, despite the parity of the Canadian dollar. Unfortunately, the resulting lack of innovation impacts productivity and our quality of life.

Second, the Canadian "goods" industry, primarily based on natural resources, is a long way in the economic value chain from the end-user stage where most innovation occurs. In particular, profits in the sector, a very important sector in Canada, are affected more by a fluctuating dollar than by innovation-based gains. As a result, Canadian indus-

try remains cautious and focuses its strategies on imitation.

Although the Canadian economy can't escape these two factors, governments could offset them with appropriate policies. But so far, their innovation policies have missed their mark, targeting innovation by subsidizing R&D. Federal and provincial governments spend \$15 billion a year supporting R&D, particularly in universities, which boast the highest rate of government-funded research in the world. Another Canadian irony is while having the most generous industrial R&D tax credits system in the world, \$5 billion a year, we also have one of the lowest levels of industrial R&D in the world.

Innovation results from addressing unmet needs with new effective solutions. R&D doesn't do that automatically.

It's time to overhaul Canada's policies on innovation, because they simply aren't working

In fact, our generous R&D subsidization policies reduce corporate costs and do not necessarily encourage innovation.

The most innovative countries use a different approach. Their policies target the demand for leading-edge products that are superior to those on the market. For instance, the Obama administration has issued numerous high-tech challenges to businesses, such as developing high-performance commercial solar cells and electric vehicles that can compete with conventional automobiles. In US and Europe, governments are quick to support national champions that are global market leaders and encourage the development of their business ecosystem. In Canada, governments are afraid to go that route, arguing that the market will sort out the winners. Moreover, our federal government is afraid of being accused of favouring one region over another. Subsidizing research is much less controversial.

Our low productivity constitutes Canada's main economic challenge. It's time to overhaul our policies on innovation because they simply aren't working.

Marcel Côté is founding partner at SECOR Consulting in Montreal

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