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# Management

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Lee Haldeman, CMA, associate vice-president, academic development, SAIT Polytechnic

**Improvement initiatives live and die with leadership**

**Project portfolio management**

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# Maintaining strong leadership

During one of my first editorial jobs, I was hired to lead a team of young, budding journalists. Just fresh out of school, I jumped at the opportunity and accepted the challenge. As I was getting settled into my new desk, I discovered a note of encouragement, left by my predecessor. Attached to the note was an inspirational story about Canada geese (the title and the author is unknown). Although I'm sure most of you have already come across this story throughout your professional lives, I thought it was worth revisiting, especially during a time of economic slowdown when leadership and teambuilding is so important to the success of an organization.

In a matter of seconds after Canada geese take flight, a line begins to emerge from the mass of brown feathers. This line eventually arches and bends to form a perfect V shape. Flying in a V formation allows the geese to move faster and maintain flight longer than any one goose flying alone.

"By flying in V formation, the whole flock adds at least 71 per cent greater flying range than if each bird flew on its own. People who share a common direction and sense of community can get where they are going quicker and easier because they are traveling on the thrust of one another. Whenever a goose falls out of formation, it suddenly feels the drag and resistance of trying to go it alone and quickly gets back into formation to take advantage of the lifting power of the bird immediately in front. If we have as much sense as a goose, we will stay in formation with those who are heading in the same direction as we are. When the lead goose gets tired, he rotates back in the wing and another goose flies point. It pays to take turns doing hard jobs. These geese honk from behind to encourage those up front to keep up their speed. We need to be careful what we say, especially when we honk from behind. Finally, when a goose gets sick, wounded, or falls, two geese fall out of formation and follow him down to help and protect him. They stay with him until he is either able to fly or until he is dead, and then they launch out on their own or with another formation until they catch up with their group. If we have the sense of a goose, we will stand by each other, protect one another and sometimes make new friends who seem to be going in our direction."

It's a simple story that stresses the importance of working together to achieve greatness in any situation. There are many rewards when a team works together to reach a common goal.

For each issue of the magazine, I work with a talented team of writers, many of whom contribute their time, talent and expertise to help *CMA Management* lead the way in editorial. On that note, I'm pleased to share some exciting news.

## A first for CMA Management

Each year, the Professional Accountants in Business (PAIB) Committee invites all International Federation of Accountants (IFAC) member bodies to nominate articles for its Articles of Merit Awards. Member bodies may nominate a previously published article focusing on the role of professional accountants in business from their print or online publications for the awards program. From the articles nominated, the judging panel selects articles and posts them on the IFAC website. For the first time in the history of the award program, professional accountants were invited to participate in the selection process. The PAIB Committee took these views into account when selecting the winning articles.

I am pleased to announce that all three articles nominated by *CMA Management* made it into the top 11, and one even achieved first place! The winning article for 2008 is *Black holes in accounting* by Ron Lutka, CMA. First published in our April 2008 issue, Lutka's article focuses on how professional accountants may better identify and address areas within their organizations that may be negatively impacting performance. It also aims to assist professional accountants in recognizing and preventing the causes of the problems within these areas. Third place, respectively, was achieved by Scott Miller, CMA, and his article *Pricing power: Using price strategy roadmaps and tools to maximize bottom-line results*, previously published in *CMA Management*, May 2008. Kevin Gaffney and Valeri Gladkikh placed 11th for their article *Solving the supply chain cost riddle*, previously published in December/January 2008. Congratulations to all!! The 2008 Articles of Merit is available for download, free of charge, from the IFAC online bookstore ([www.ifac.org/store](http://www.ifac.org/store)).



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**National  
Advertising Sales** **Dovetail Communications Inc.**

30 East Beaver Creek Road  
Ste. 202  
Richmond Hill, ON  
L4B 1J2  
Phone: (905) 886-6640  
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Insertion orders and advertising materials are to be sent to: Crystal Himes  
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Road Ste. 202, Richmond Hill, ON L4B 1J2, Fax: (905) 886-6640

## Circulation and Administration

For general inquiries, change of address notices, etc. please call:

Liliane Kenyon (877) 262-6622

[lkenyon@cma-canada.org](mailto:lkenyon@cma-canada.org)

**Subscriptions** Member: \$15.00 (plus GST)  
Non-members: \$15.00 (plus GST)  
U.S. and overseas: \$40.00 (U.S. funds only)

## Undeliverable Mail

Canada Post: send undeliverable copies to:  
CMA Management  
One Robert Speck Parkway, Suite 1400, Mississauga, ON L4Z 3M3  
email: [info@cma-canada.org](mailto:info@cma-canada.org)  
Telephone: (905) 949-4200  
PM 40064728  
PAP Registration No. 9858

CMA Management is a member of the Canadian Circulations Audit Board/Business Publications Audits International (CCAB/BPA)  
Indexed in Canadian Periodical Index ISSN 1490-4225.  
Issue Date: April 2009

CMA Management is published monthly, except December-January and June-July, August-September (combined issues), by CMA Canada. If you no longer wish to receive this publication, please contact CMA Canada.

Articles prepared by individuals associated with organizations advertising in CMA Management provide generic information on business topics, and do not promote specific products or services.

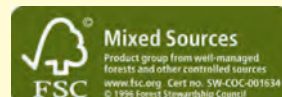
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We acknowledge the assistance of the Government of Canada through the Publications Assistance Program toward our mailing costs.

Printed in Canada by Web Offset Publications Ltd., Pickering, ON.

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# CMA Management

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In today's competitive business climate, change is crucial to a company's survival. Businesses understand that, if their competitors outpace their ability to adapt, change, and improve, they will suffer the loss of market share, profitability, and possibly, their jobs. If this change is so important, why do so many change initiatives fail to deliver the long-term sustainability and the expected results?

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Lee Haldeman, CMA, is a proponent of continuous learning. With four professional designations to his name, it's no surprise that he wants to help others grow academically and professionally.

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Cover Photo: mhphoto.com

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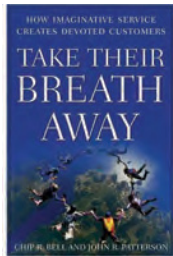
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# Rise above the competition

## Take their Breath Away



In a troubled economy, why are companies like Apple, Southwest Airlines, Nissan/Lexis and Zappos.com able to maintain growth while so many others are failing? According to Chip R. Bell and John R. Patterson, the key to excel in any environment is to provide one-of-a-kind experiences that turn “just satisfied” customers into lifetime advocates — regardless of climate or

competition.

*Take their Breath Away* explores how service experiences are not only about customer satisfaction, but customer devotion. The book provides 12 core, practical strategies and a detailed execution plan for building a customized, no-fail program, including: how “service greets” use unexpected touches to inspire customer devotion — from Walt Disney’s magic-making camouflage tactics to Nordstrom’s distinguishing concierge philosophy. The book also offers insider tips from the authors’ years as customer loyalty trainers and consultants to top-tier companies like The Ritz-Carlton, Universal Orlando, Harley-Davidson, and Victoria’s Secret.

Chip R. Bell and John R. Patterson. John Wiley & Sons.

## Business is Hard ... Failure is Optional

When a business turns sour, the CEO is usually the first to receive criticism from the public.



Known for his dramatic corporate turnarounds, Sam Khoury, managing partner of both RSK Enterprises and Risk Equity Partners, LLC, offers concrete reasons why small and large businesses fail, and why CEOs don’t have to. In *Business is Hard ... Failure is Optional*, Khoury reveals practical ways to help CEOs create extraordinary

results in just 180 days.

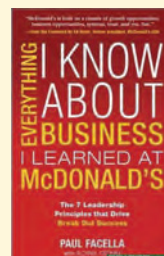
As a turnaround and crisis management specialist, Khoury and his partners have taken more than 24 companies from the brink of disaster to success in a variety of industries, including consumer products, industrial products, technology/software,

telecommunications, electronics, health care, and education/training. The book gives the reader a straightforward solution with the highest probability for the right outcome.

“Businesses fail because of the CEO’s mindset, skill set, and intentions,” Khoury says. “The business models may differ, but the fundamentals that make a business a success are the same regardless of whether you’re running a software company, a manufacturing company, or a service business.”

Sam Khoury. Thomson-Shore, Inc.

## Everything I know About Business I Learned at McDonald’s



McDonald’s is more than just burgers and fries. As the world’s largest restaurant chain, it’s recognized on every continent, praised for its work culture and studied for its attention to changing customer tastes and markets.

With decades of work experience beneath the golden arches, author Paul Facella distills the company’s

management strengths with exclusive interviews with executives, franchisees, managers, and vendors throughout the corporation, including company founder Ray Kroc.

Facella began his career with McDonald’s working behind the counter. He was eventually promoted to crew member and rose through the ranks to assistant manager, store manager, director of training, and direction of operations. By the time of his retirement with the company, he was a regional vice-president, responsible for more than 450 stores and \$600 million dollars in sales.

With his long experience and access to company insiders, Facella serves up anecdotes, stories, and recollections that offer “lessons learned,” applicable to every company, at every level.

Paul Facella. McGraw Hill.

*"The result of integrating our systems with SYSPRO has been a net savings in time. That's allowed us to channel our employee's intelligence and strength in other directions. Our inventory accuracy has improved; we've reduced costs, and been able to get product to our customers in a more timely fashion."*

*George Foleanu, Manager of IT & Engineering, Dupar Controls*

## Dupar Controls

Dupar Controls Inc. (a subsidiary of the Dewhurst Group), is a manufacturer and supplier of quality components for the elevator and ATM industries. Headquartered in Cambridge, Ontario, Dupar was founded in 1958 and currently employs approximately 45 people.

Three years ago the Dewhurst Group, and Dupar Controls with it, outgrew its largely ad hoc business platforms. After looking at a variety of enterprise resource planning (ERP) software, Dewhurst made the move to SYSPRO. "Before that," says George Foleanu, Dupar's Manager of IT & Engineering, "we ran the business on various ERP systems, some of them off-the-shelf. In general, we needed a more reliable platform, with more technologically advanced programs that would allow us to control our manufacturing environment, as well as control our costs more accurately."

Specifically, says Foleanu, the challenge was to improve both the time and accuracy of processing sales orders for highly customized products. "We're in the custom design and manufacturing business. Our huge variety of components compounds the complexity of our processes, and every product we create is essentially new. Before implementing SYSPRO, we literally had to sit down at the computer, look at a drawing, and create a Bill of Materials. Processing a job took up to eight hours."

With Dupar's CAD program integrated to SYSPRO, the sales order process is much simpler, and many times faster. "All we have to do now," says Foleanu, "is click a button to import the Bill of Material data from

AutoCAD to SYSPRO. After that, we go into the Quotations module in SYSPRO and find the already created quote, which contains the line items and their respective BOM's. From there we pick the customer the order is meant for and update the selling prices on every line. SYSPRO converts the quotes to a sales order, then prints the order acknowledgement and the factory documentation."

One of the reasons SYSPRO is right for Dupar, says Foleanu, is its out-of-the-box performance. "We didn't want to reinvent a computer system. We wanted some flexibility and control, but if we had too much latitude we might end up breaking it. We also appreciate the fact that SYSPRO supports Microsoft .NET, which itself has great advantages."

"Since implementing SYSPRO," says Foleanu, "we can process even the most complex job in about fifteen minutes. To tell you the truth, with SYSPRO it takes longer to print the paper, collate it and send it to the shop, than it does to create the sales order, related work orders and purchase orders."

"The result of integrating our systems with SYSPRO," says Foleanu, "has been a net savings in time. That's allowed us to channel our employee's intelligence and strength in other directions. Our inventory accuracy has improved; we've reduced costs, and been able to get product to our customers in a more timely fashion. We're extremely pleased with the result."

For more information on Dupar Controls please visit their website, [www.dupar.com](http://www.dupar.com).

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# News and views

New and noteworthy information you can use

## Managing online reputation during the job hunt

In a competitive job market, a polished professional reputation can make or break someone's chances of landing a coveted position. "As a growing number of employers search the Internet for information about job seekers, it's become more important for applicants to actively monitor and maintain their professional reputations online," Dave Willmer, executive director, Robert Half Technology, says. "The current economic environment has made hiring managers increasingly cautious, and any information that raises a red flag can quickly take candidates out of consideration for a job."

Willmer offers the following seven tips for managing your digital imprint:

1. **Take stock.** Discover what information about you, if any, is already online by performing a search using popular search engines. If you discover an item that you wouldn't want hiring managers to see, ask the person who posted the information or website administrator to remove it. Similarly, untag any inappropriate photos of yourself.
2. **Activate privacy settings.** If you belong to social-networking sites or have a personal blog, adjust your privacy settings so you control who has access.
3. **Exercise discretion.** When interacting online, be selective about which venues you participate in and who you allow into your personal and professional networks. If you regularly contribute to blogs or forums, give thought as to how your statements may be interpreted by those outside your community. Consider using a pseudonym if you wouldn't want a potential employer to see your posts. You can use BlogPulse or Technorati to track online conversations about you or your sites.
4. **Network wisely.** When using professional networking sites such as LinkedIn to look for job opportunities, behave graciously with everyone you encounter and follow posted protocols. Thank anyone who assists you, and be sure to return the favor when possible.
5. **Stack the deck.** Business information websites such as ZoomInfo allow users to post personal information, so consider including details about your professional involvement and qualifications on these types of forums.
6. **Share your insights.** Posting useful advice and commentary on industry forums and authoring online articles in your area of expertise can add to your credibility.
7. **Monitor the conversation.** Set alerts using Google or



other tracking services under your name so you receive an e-mail notification every time something new is said about you online.

"Professionals should always post prudently, not just when they're looking for work," Willmer adds. "The business world is more transparent than ever, which means people need to be aware that what they say and do online can have both positive and negative consequences."

### Management

#### Editorial Think Tank

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## Canada falls behind in productivity

Canadian companies need to improve workplace operations if they want to remain competitive, suggests a report released by Proudfoot Consulting.

*The Canadian Productivity Report* compares workplace efficiency in Canada to 11 other countries — U.K., France, Germany, Spain, Russia, South Africa, U.S., Brazil, India, China and Australia. Only 11 per cent of Canadian firms are experiencing productivity gains of 15 per cent or more (high performers) compared to 22 per cent of companies internationally. As well, Canadian managers say they could increase productivity by 13 per cent over the next two years, but expect to achieve gains of only 8 per cent — leaving 42 per cent of potential productivity gains on the table.

“This less-than-stellar performance in Canada can be attributed to a number of factors, including the low level of relevant training for both staff and managers, the slower speed of decision making, and problems with internal communications in Canadian organizations,” says Jon Wylie, Proudfoot’s managing director in Canada.

While Canadian companies identify a skills shortage as the primary roadblock to efficiency improvements, at the same time, they provide one of the lowest levels of training. Canadian workers receive an average of eight days of training per year, the second lowest level of the 12 markets surveyed.

Canadian managers also cite high staff turnover and low workplace morale as significant problems. “Recruitment, retention, and morale are closely linked to effective training and internal communications,” Wylie adds.



The good news is that Canadians are open to change. According to the study, only five per cent of Canadian managers identify a lack of desire of the general workforce to adopt change programs as a barrier to productivity. This level is lower than all other countries studied. Similarly, only five per cent of Canadian managers see a similar lack of desire to implement change among senior management.

“Enhanced productivity is critical if we want to continue to attract investment, grow our businesses and our economy, and provide a level of employment and a standard of living that Canadians want. Currently, we’re losing ground. We simply have to learn how to run faster in order to keep up,” he says.



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## Leaders play crucial role in retaining top talent in economic downturn

The current condition of the economy will be a critical test of Canada's corporate leaders and their ability to retain top talent in economic downturn.

"Seeing your organization through an economic downturn will require a healthy and vibrant corporate culture," Marty Parker, managing director, Waterstone Human Capital, says. "Leaders will need to continue to derive the best performance from their top employees — even when times are tough."

According to Waterstone's 2008 *Canadian Corporate Culture Study*, 81 per cent of Canadian executives surveyed said their current leadership has led to the creation of their organization's culture.

"Leaders should be hired because they're the right 'fit' with the existing values and behaviours of an organization, or, because they exhibit the traits of the evolving or desired culture of an organization," Parker adds. "And when times get tough, the true measure of a successful leader will be how he or she handles a crisis."

Parker suggests the following:

1. **Lead by example.** Leaders should exhibit the behaviours they expect from their own employees.
2. **Be clear and consistent in your communications.** What aligns employees to an organization's culture is clear and constant communication. Leaders should keep employees informed with regular communication, even if it's just a weekly e-mail.
3. **Invest in top performers.** The best employees are the most vulnerable in tough economic times. Leaders should use creative compensation schemes (such as short, medium and



long-term incentive plans) to motivate top talent and to ensure that in difficult times, top performers have new learning opportunities.

4. **Focus on the future.** Leaders should be clear about their vision for their organization and should give top performers new challenges, keeping them focused on what comes next.

5. **Take action.** An economic downturn is an opportunity to grow market share. Leaders should act with confidence, invest in their key customers and give top performers the opportunities to lead new and exciting initiatives.

"A corporate culture should be healthy enough to survive good and bad economic times," he adds.

### New Software

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### Simply Accounting 2009



# Creating a talent culture

Moving up the ladder is a premise that no longer exists in many organizations. It's either growth through an expanded role or lateral position, or more likely, talent in and talent out.

By Alan M. Patterson

In today's business environment, the pace of change is so much quicker. Change drives business growth and places tremendous pressure on the performance of key staff. Once upon a time, one would join a finance and accounting organization, start in a training program, and work up level by level under the guidance of a mentor. Moving up the ladder is a premise that no longer exists in many organizations. It's either growth through an expanded role or lateral position, or more likely, talent in and talent out.

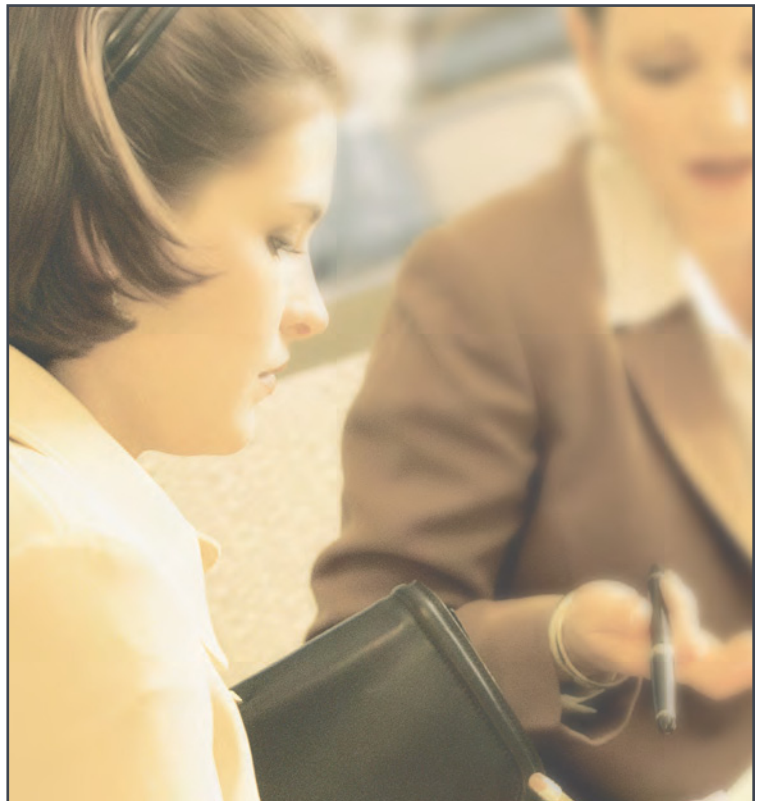
In addition, decades of short-term thinking, heads-down management and short-sighted behavior have created a crisis in leadership. With fewer role models and the impending loss of talent and experience on the horizon, due to the aging workforce, businesses need to address the "leadership void." In a 2007 study of 700 organizations, Bersin & Associates ([www.bersin.com](http://www.bersin.com)) determined that the biggest concerns for meeting the challenges of global expansion and rapid market changes are gaps in leadership from both a leadership development and succession planning perspective.

## Challenges facing financial organizations

These seismic demographic changes in the workforce will catch many public accounting organizations and finance and accounting functions by surprise. Their surprise, followed by their corresponding crises, will be fueled at two levels — by lack of a trained workforce and an emerging void in leadership.

The big question is, how will financial organizations of all types develop leadership capabilities in their emerging talent to meet this void, especially when the current emphasis is more on compliance and less on "leading" the business?

Many talented financial professionals are thrust into positions and expected to perform. Too often,



the most technically-talented performers are promoted into leadership positions. However, leadership competence is dependent less on technical expertise and more on relationship management and strategic thinking. In all cases, financial organizations must find ways to create strategies that improve the skills of their critical professionals and implement a process — a culture that builds both talent and leadership.

## Workforce planning to talent development

The 20th Century Model for most organizations was to recruit employees, then train and develop them as best as possible across a wide range of skill deficiencies. After years of toiling, the individual



would leave the organization. Workers on average had one or two careers and three or four jobs during the course of their lifetime of employment. This model dominated the workforce, but in recent years, this process has been further streamlined to a simple two-step process: recruitment and separation.

**Figure 1 — 20th Century Resource Management Model**



More recently, the 21st Century Model has been further minimized to meet the “pace of business.” Given the recent regulatory and compliance pressures, financial organizations, too often, fill a vacancy because they need a specific technical specialty or talent to meet a short-term goal. The justification is to stay lean, stay within budget, and focus on the next quarter’s growth. Matched against the expectations for challenging, rewarding assignments and on-the-job development, many post-baby boomers are dissatisfied and are looking for more rewarding opportunities elsewhere.

**The new reality**

The new reality of diminished workers and diminished talent in the workforce will require finance and accounting organizations to change and adopt a new approach.

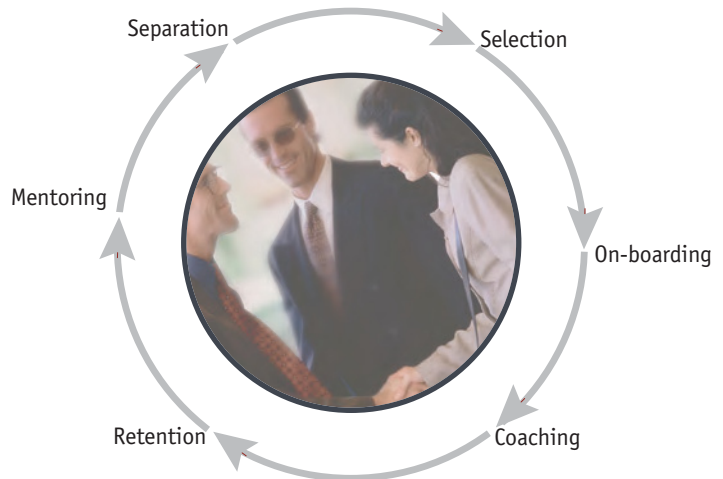
What are the strategies to respond? The successful financial organizations are those that create a talent development culture — one that incorporates specific, defined strategies for selecting,

**Figure 2 — Existing Model: 21st Century “Pace of Business”**



on-boarding, coaching, retaining, and mentoring its employees in order to achieve economic success. The leadership team (not HR) owns the process, and they understand that their future success is dependent on their ability to continually develop talent.

**Figure 3 — The New Talent Culture**



**The Importance of a competency-based approach**

Every culture needs a way to define acceptable and expected behavior. In a talent development culture, competencies define expectations for successful performance in a given position. Used as job standards, competencies serve a variety of purposes: selection criteria, training and development criteria, and as the foundation for implementing leadership development and succession planning. By laying out competency requirements across an organization, employees and their managers can create realistic plans for professional development and career enhancement.



### Selection

If organizations were to maximize the effectiveness of only one aspect of talent development, it should be the recruitment and selection process. Herein lies a Pandora's box of common mistakes ("I like that candidate because he thinks just like me") and missed opportunities (making a favorable first impression).

Best practices in this area begin with the use of competency-based selection criteria, those that are not easy or practical to train, such as adaptability or moral courage, or the skill sets and knowledge needed immediately, such as experience with specific compliance procedures or prior use of accounting software.

Also, there is a highly orchestrated selection process with an interview team and specific responsibilities and requirements for each step. For example, those who interview for competency usage are trained in behavioral interviewing techniques, asking candidates to describe actual situations such as a time they "had to sell senior management on a critical change" or "handle a difficult customer situation." Others may evaluate a candidate's technical competence, and still others look for a cultural fit between the candidate and the organization. Thus, when a candidate is selected, the organization has a good understanding of the individual's capabilities, how they match up to the requirements for the position, and that person's potential for adding more value and reaping greater experiences in the future.

### On-boarding

Second, there is a need to truly orient new staff — telling your new hires about their health benefits should not be the highlight of their orientation. If the selection process creates a favorable first impression in the candidate's mind, then on-boarding is a way to further orient the individual about the organization's culture — its values, goals, and priorities. This is a "honeymoon" opportunity where you, as an organization, create the picture for how this individual can make a meaningful and mutually beneficial contribution.

### Coaching: performance assessment and development

Ongoing coaching serves two purposes: to develop

individual technical and leadership skills and enhance the overall talent capabilities of the finance organization. The personal attention is critical, particularly for enhancing and retaining emerging performers. From an organizational perspective, the knowledge of individual strengths can be linked across the greater organization to create both leadership development and succession planning opportunities.

### Retention

It is important to understand the reality of today's workforce — the days of "one life, one job" are over and there will often be scenarios in which your organization and team invests time, energy and resources in an individual and then he or she leaves. The reality is, some will decide to leave no matter how much your organization did to train and nurture them. The lesson may be to do everything possible to enhance their talent and their pathway to success. Develop internal or utilize external resources that will take the emerging talent in your organization and give them the tools to become your organization's most valued resources.

### Mentoring

Mentoring is critical, particularly to take the pulse of your staff, to understand where they are and where they want to head in their careers. Mentoring is also a way to mitigate the "diving catches" made to save valuable employees who "suddenly" take positions outside the organization. It is better to invest the time and help guide an individual's professional development, even if it means taking an outside position, than to be caught by surprise at the loss of key talent.

### Separation

At some point, talented individuals will leave the organization. The key is to manage the process as much as possible. While some individuals leave for "better opportunities," many finance and accounting professionals leave for "other" reasons. In an effective talent culture, the separation of an employee should be for all the right reasons, that both the individual and the organization have gained from the experience, and that you, the organization, have not burned any bridges to allow those talented workers to return in the future.

Finance and accounting organizations who take on the challenge of creating a talent culture will have the strongest assets — a plethora of talented employees working in a shared structure to achieve a common goal. Today, businesses must face consolidations, threats and opportunities from a global economy, outsourcing, and a worker shortage, but the reality is, the organizations with the best thinkers will compete and the organizations that create a "talent culture" will win. <sup>11</sup>

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# Creating shareholder value in turbulent times

Despite current market conditions, it's a good time for business owners to look for opportunities to increase shareholder value.

By Howard Johnson, FCMA

The current economic environment has led to unprecedented challenges and uncertainties for many companies. Most business owners and corporate executives have adopted a “defensive” posture and are focused on controlling costs, managing cash flow and developing contingency plans in the event that the downturn gets even worse. While these things are important, business owners and executives should also be thinking about how the current economic environment is creating excellent opportunities for increasing shareholder value. This article introduces a few of the initiatives (summarized in Exhibit 1) that might help to achieve that goal.

## Exhibit 1 — Possible shareholder value creation initiatives

- Process and systems improvements
- Exchanging price concessions for commitments
- Supplier discounts
- Locking in key employees
- Employee share ownership plan
- Opportunistic acquisitions
- Estate freeze

### Process and systems improvements

The challenge that companies have when they are busy and growing is that everyone becomes focused on filling orders or dealing with immediate customer issues. This leaves little time for less urgent, but important initiatives, such as implementing “best practices” for the company’s



processes and systems. With the slower economy, companies should be taking the opportunity to implement process and systems improvements that will create efficiencies and improve customer satisfaction. This may include improvements in information systems, purchasing, logistics, management practices and other areas.

Process and systems improvements do not necessarily require significant incremental capital spending at a time when companies are trying to conserve cash. Rather, it speaks to the opportunity to use employees and other resources that may otherwise be underutilized.

Particular consideration should be given to process and systems improvements that will help the company in securing a differential advantage over its competitors (e.g. improving order accuracy or on-time delivery). A sustainable competitive advantage leads to greater customer “stickiness,” which in turn serves to enhance shareholder value.



### Exchanging price concessions for commitments

Many companies are being approached by their customers with requests for price discounts or extended payment terms. Business owners and executives should consider how their company can obtain longer term commitments from customers in exchange for such concessions. The ability to develop a diverse base of repeat customers will create shareholder value.

A word of caution is warranted here regarding extending payment terms to customers. In the case of a customer that has a very weak financial position, the extension of payment terms may just serve to increase bad debt write-offs. In addition, companies that rely on short-term operating loans may find that their banks are not willing to lend against accounts receivable that have been outstanding for more than 90 days. Therefore, companies that agree to extended payment terms must keep a close watch on the financial status of their customers.

### Supplier discounts

Some companies may find that their suppliers are struggling with cash flow problems caused by high levels of accounts receivable and inventories. This presents an opportunity for companies that have available cash or credit to obtain attractive discounts for early payment. A payment term of one per cent for 10 days/net 30 days equates to an effective annual interest rate in excess of 18 per cent. While most suppliers will not be enthralled at the prospect of offering such discounts, in some cases, those suppliers may have reached the limits of their operating loan arrangements and have few options available.

Ideally, business owners and executives should take the opportunity to negotiate attractive payment terms that will be in effect over the longer term by way of written agreement. This will result in long-term cash flow accretion for their company, and consequently, higher shareholder value.

### Locking in key employees

The current economic environment has

many employees feeling nervous about their job. It is important for companies to offer reassurance to their key employees (to the extent possible) in order to avoid having certain individuals leave the company in favour of a less attractive role that offers the perceived benefit of greater job security.

Where practical to do so, business owners and executives should take the opportunity to ensure that key employees are somewhat locked in, pursuant to an employment contract. Most employment contracts contain provisions that restrict the ability of the employee to directly compete against the company for a prescribed period of time. While the Courts generally will not enforce a broadly-worded non-competition agreement that limits a person's ability to earn a living, it might be possible to secure a non-competition agreement that applies to selected direct competitors. In any event, most employment contracts will contain provisions that prohibit

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the employee from disclosing non-public information, or soliciting the company's customers or other employees for a specified period of time following their departure. While such provisions only provide a limited amount of assurance, they can have some positive effect. Appropriate legal advice should be sought. While employers may have to offer employees an incentive to sign an employment contract, the related costs can be offset by the increase in shareholder value that results from having a base of committed employees and strong management depth.

### **Employee share ownership plan ("ESOP")**

Depending on the situation, and the personal and financial objectives of the business owner, the current economic environment may be an ideal time to launch an ESOP.

## **An estate freeze allows business owners to facilitate ownership succession to family members (usually children) or other parties.**

While there are many variations of ESOPs, most award key employees with options that vest over time which can be exercised to buy shares of the company at a specified "strike price," established at the option issuance date. Given the prevailing economic conditions, the strike price for a newly established ESOP would likely be on the low end. While this means that the business owner may be giving up some value when the options are exercised, the potential upside can be well worth the cost.

Employees who are presented with an opportunity to participate in an ESOP in today's environment will feel they are getting "in on the ground floor," and it will motivate them to perform well so that they can experience the benefits of share appreciation. ESOPs can also have a significant behavioural impact, as they encourage

employees to think and act like shareholders, and to look for ways to increase shareholder value. ESOPs can also increase shareholder value by helping to ensure the retention of key employees (particularly where lengthy vesting periods apply). Where properly structured, ESOP's can be a win-win situation.

### **Opportunistic acquisitions**

The current economic environment has created unprecedented opportunities for consummating strategic acquisitions. Many companies with strong business fundamentals (e.g. proprietary products or services, well-established brand names or a strong customer base) are finding themselves in a position where they require outside equity capital or have to sell. Business owners and executives should not only focus on negotiating an attractive purchase price, but also on how they can structure the terms of the deal (e.g. forms and conditions of payment) in order to offset some of the risk inherent in corporate acquisitions. Reduced risk leads to increased shareholder value.

An often overlooked source of excellent acquisition opportunities is small-cap and mid-cap public companies. Many quality companies have become attractive takeover targets because of the depressed financial markets. The benefit of dealing with public companies is that their financial information is readily available, and their negotiating position is somewhat constrained by the prevailing trading price of their shares.

### **Estate freeze**

An estate freeze allows business owners to facilitate ownership succession to family members (usually children) or other parties. It can also be an effective way of crystallizing the lifetime capital gains exemption (currently at \$750,000 per individual for qualifying companies) and to set the stage for multiplying that exemption among family members through trusts and other structures.

In most cases, business owners looking to undertake an estate freeze have a low value bias, in order to maximize the amount of wealth passed on to the next generation in a tax-deferred manner. Given the current economic conditions, this may be the ideal time for business owners to undertake an estate freeze in order to secure a lower valuation. The Canada Revenue Agency requires "reasonable efforts" at establishing business values for an estate freeze. This usually means obtaining a valuation report prepared by a qualified independent valuation expert.

Business owners should remember that there is a mandatory 24-month holding period for shares to qualify under the lifetime capital gains exemption rules. Therefore, proactive estate planning is required during challenging economic times in order to realize lucrative tax savings when the business is subsequently sold in more buoyant economic times. ▀

Howard Johnson, FCMA, is president of Veracap Corporate Finance ([www.veracap.com](http://www.veracap.com)) and Campbell Valuation Partners Limited ([www.cvpl.com](http://www.cvpl.com)). He is also a past chair of CMA Ontario.





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# Improvement initiatives live and die with leadership

In today's competitive business climate, change is crucial to a company's survival. Businesses understand that, if their competitors outpace their ability to adapt, change, and improve, they will suffer the loss of market share, profitability, and possibly, their jobs. If this change is so important, why do so many change initiatives fail to deliver the long-term sustainability and the expected results?

By Shon E. Isenhour and Doug Wilson, CMA

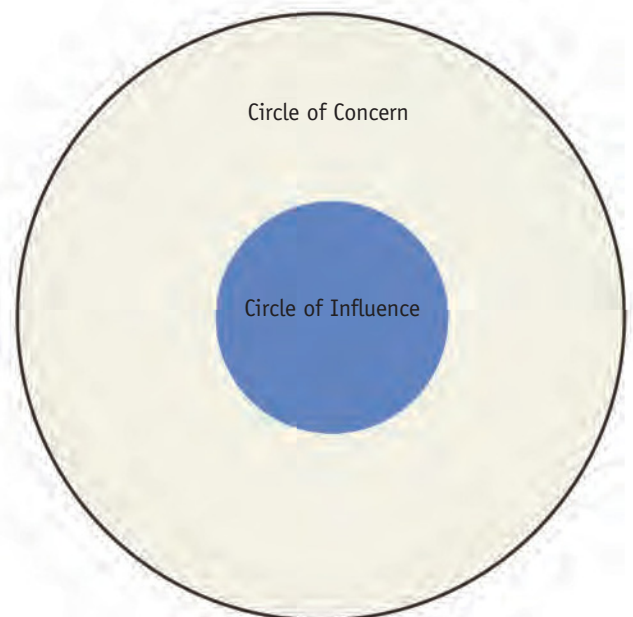


**Figure 1: Covey's model for Influence and Concern**

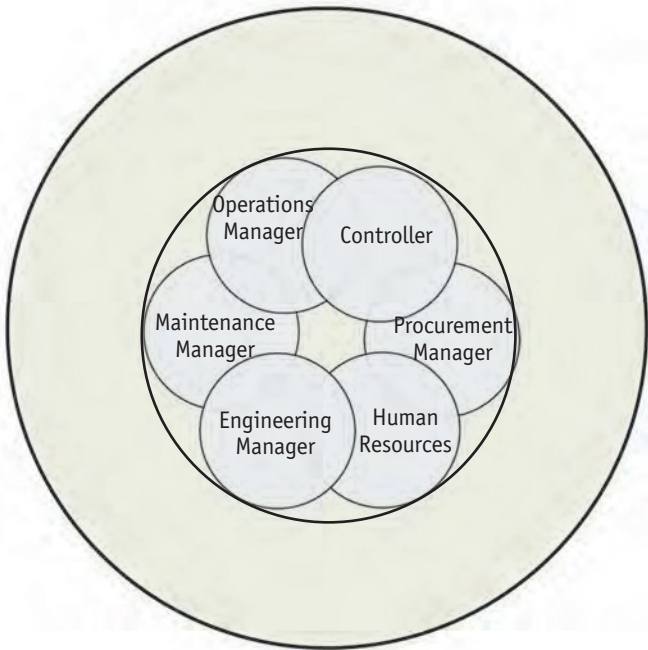
Improvement initiatives, or business process re-engineering, live and die with an organization's leadership. These could be anything from the introduction of a new business system, such as lean, to the transition to a new enterprise resource planning (ERP) system.

The following paragraphs describe a few ways a cultural change initiative could live or die through an adaptation of the Circle of Influence, Circle of Concern model from Steven Covey's *Seven Habits of Highly Effective People*.

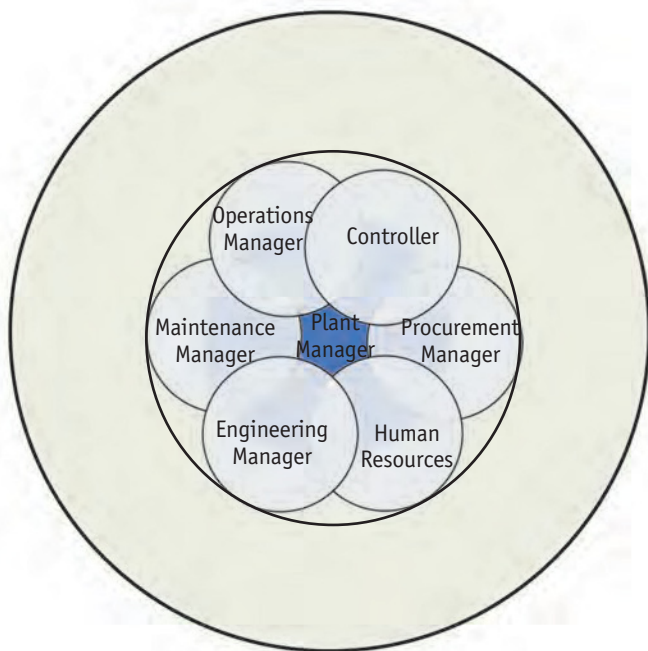
This concept can be applied anywhere in life. Covey stated, "Proactive people focus their efforts in the Circle of Influence. They work on the things they can do something about. The nature of their energy is positive, enlarging and magnifying, causing their Circle of Influence to increase. Reactive people, on the other hand, focus their efforts in the Circle of Concern. They focus on the weakness of other people, the problems in the environment, and circumstances over which they have no control. Their focus results in blaming and accusing attitudes, reactive language, and



**Figure 2a: Represents leadership team**



**Figure 2b: Illustrates the leader**

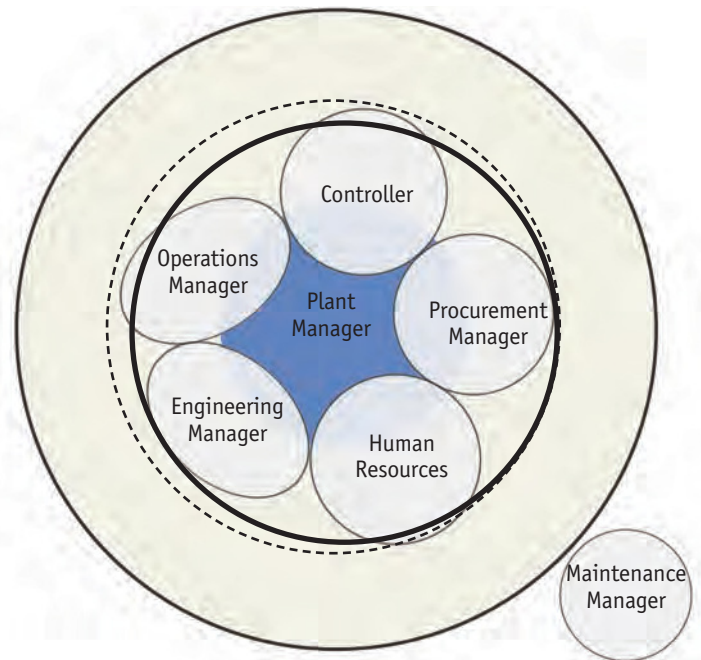


increased feelings of victimization. The negative energy generated by that focus, combined with neglect in areas they could do something about, causes their Circle of Influence to shrink.”

Let’s take this concept further as it relates to a change initiative sponsored by the senior team of a mill or company.

The area around Figure 2a represents all of the issues that affect the workplace. Each inner circle represents the Circle of Influence of each of the senior managers in the facility. Figure 2b adds an additional circle, the Circle of Influence of the plant manager. Notice that each individual Circle of

**Figure 3: Maintenance manager leaves the company**



Influence overlaps with the other managers and the plant manager’s Circle of Influence overlaps with each of his/her direct reports. The bold inner circle represents the senior teams’ overall Circle of Influence as it relates to the company’s cultural change initiative. Growing this overall Circle of Success is paramount to the attainment of the change.

As a team becomes more effective, their individual and collective circle of influence expands and supports the success of the change. Once the circle of success becomes a certain size, the change initiative reaches a tipping point and the culture adapts to the new way of doing business.

The process may sound simple, but why doesn’t this happen all the time?

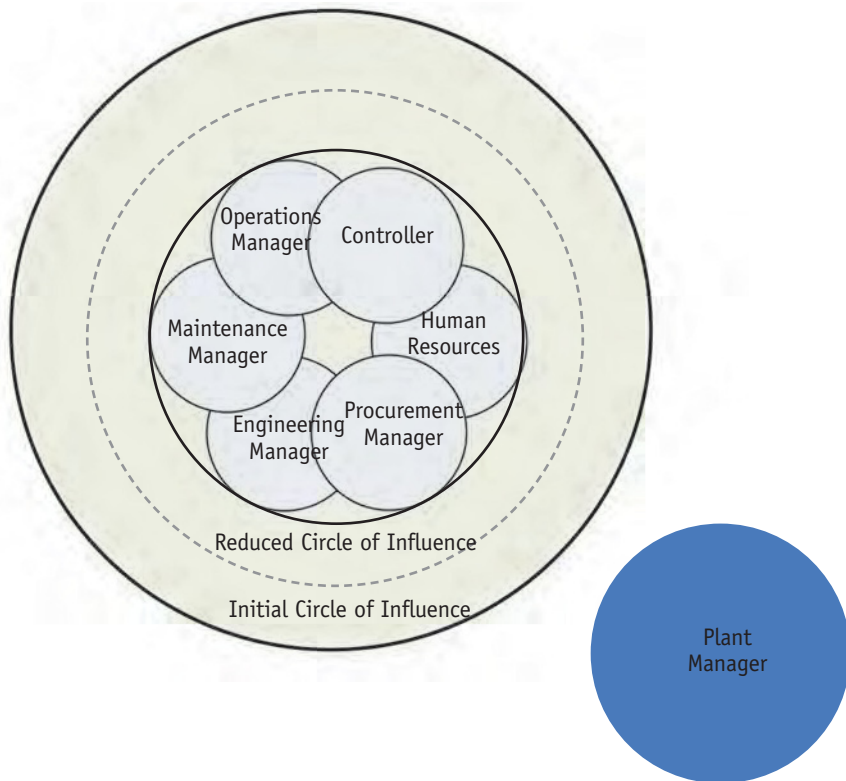
A few examples that negatively influence the overall Circle of Influence are:

1. Loss of leader or other senior manager.
1. Failure of the team to maintain balance, including: failure to act, poor communication of what has happened, is currently happening and what will happen next.

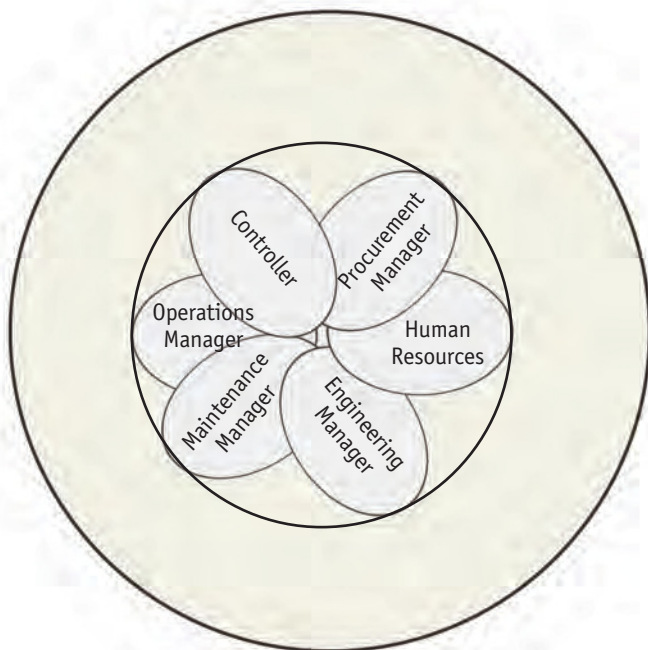
**1. Loss of the leader or other key player**

Let’s assume this company is making progress on its cultural change and the maintenance manager leaves to work for another company. In today’s competitive recruitment

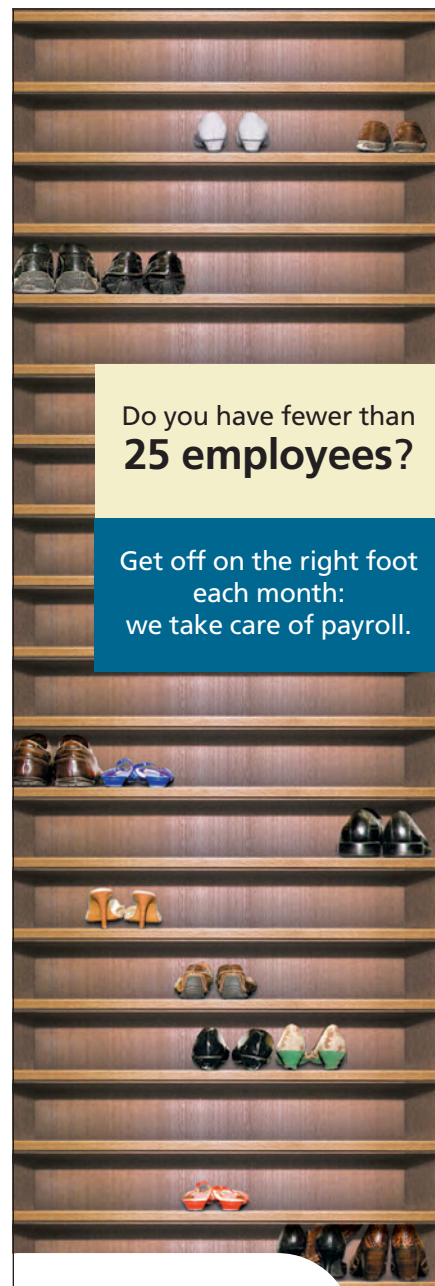
**Figure 4a: Loss of a leader**



**Figure 4b: Team compensates for loss of leader**



environment, it could take several months to find a replacement. Figure 3 shows the impact of this missing resource. The resources closest to this person, in this case the operations manager and engineering manager, need to stretch their Circle of Influence to help fill in the gaps left by the maintenance



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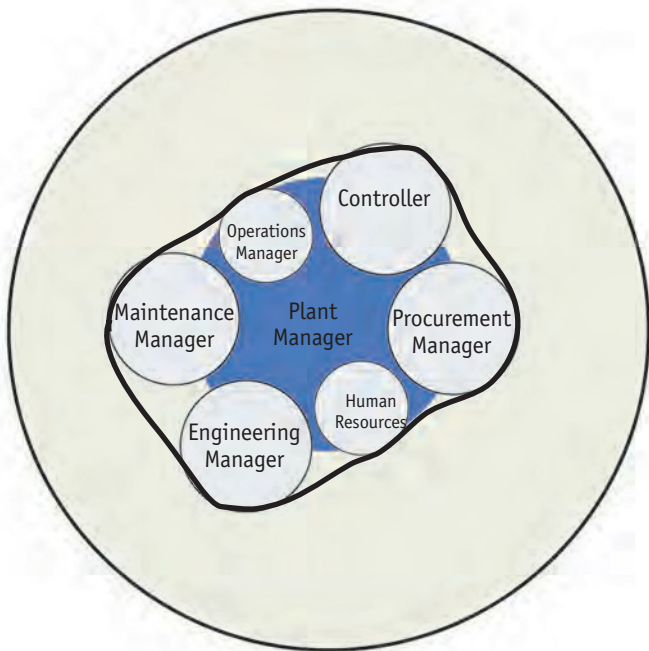
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manager in order to continue to make progress on the culture change. The problem is, if the company is still relatively new into the cultural change, these two individuals will be forced to contort their circle (in this case, to an oval shape), which diminishes the overall Circle of Influence.

Now let's assume the plant manager gets promoted to another division. As soon as the plant manager leaves, questions start to arise as to whether or not the culture change initiative has left with the plant manager. The team instantly loses influence with the facility (Figure 4a). If the cultural change had a true alignment with the remaining senior team, the Circle of Influence for each member will readjust to fill in the hole left behind by the plant manager (Figure 4b). This role stretching can lead to burnout and lack of focus. The team will require extreme cohesiveness in order for these circles to get back into position and start to grow again.

**Figure 5: Diminished support by team members**



The next step in this scenario is the impact the new plant manager is going to have on the company's cultural change initiative. Three scenarios can easily be played out with the new plant manager:

1. The new plant manager does not fully buy into the direction of the culture change and alters course (which would include a complete stop).
2. The new plant manager buys into the initiative, knows how to effectively delegate, build team morale and momentum, and the overall Circle of Influence grows

beyond the tipping point where cultural change happens.

3. The new plant manager buys into the initiative, but wants it done his/her way and micromanages the culture change. In this scenario, the team's Circle of Influence will actually diminish to the size of the plant manager's personal Circle of Influence. While this manager may have a naturally large circle of influence, the overall Circle of Influence of the team has a greater potential to reach the tipping point in less time and will have a higher probability of achieving sustainable culture change.

## 2. Failure to maintain balance

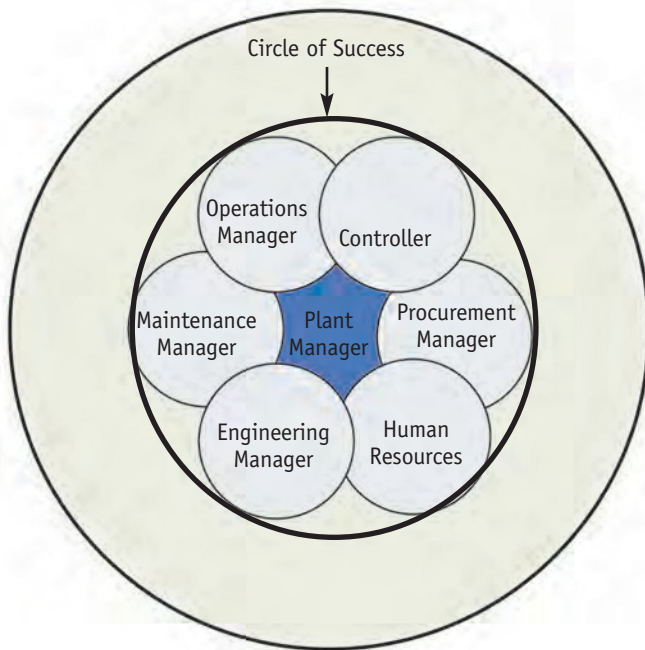
Failure to maintain balance in the overall Circle of Influence can happen in a number of ways. If a team member reduces his/her support for the change, the overall shape of the Circle of Success can warp. Common reasons for loss of balance are:

1. An individual team member starts to focus on the team's Circle of Concern and the sheer enormity of the remaining work that is in front of the team. This focus on concern issues, instead of influence action items, causes negative energy, which will spread through the organization like a cancer.

As a team becomes more effective, their individual and collective circle of influence expands and supports the success of the change.

2. Lack of alignment up front or the inability to maintain alignment throughout. In this case, the senior team will not be working effectively. Everyone needs to carry the torch every day, consistently.
3. Frustration with lack of execution. This is about the team not following the plan and holding people accountable.
4. Loss of open communication in the core team. This communication is essential every step of the way to ensure alignment is maintained. Issues will arise, disagreements on direction will happen, discomfort with the change the organization is trying to implement is inevitable.

**Figure 6: Healthy growth of Circle of Success**



Disaster will occur when one or more of the key management players gives up and stops supporting the culture change. Figure 5 shows an example of two managers losing focus on the initiative. The overall team’s circle of influence suffers and the circle starts to change. Once the staff on the floor sees this happening, their fears and discomforts for the change become rooted and the initiative falls apart over night. As long as the circle is maintained and supported, it remains strong and the momentum for the cultural change continues.

**Preventative medicine**

There are three elements that must be incorporated early and thoroughly to increase the probability of an organization’s success:

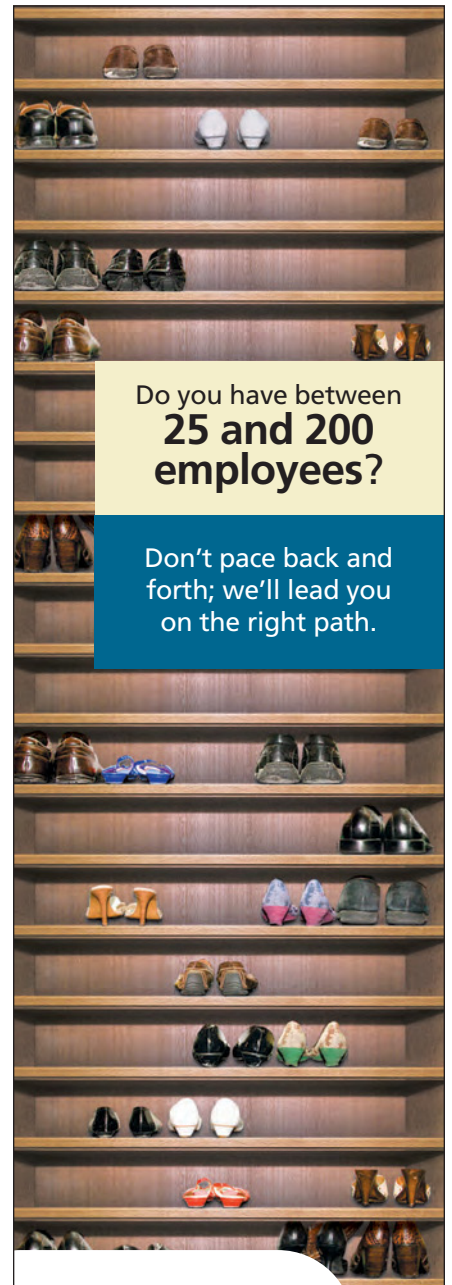
1. Define the culture — Create a company mission and vision statement.
2. Focused execution — Hold the entire team accountable to implement and execute the plan.
3. Communication — Create a thorough communication plan on how to effectively deliver/present changes that are happening within the company.

**Create your own Circle of Success**

With the proper training and the removal of key obstacles, a company can increase its chances for success. A company can focus on growing its Circle of Success (Figure 6) by ensuring that the entire team is working toward the same vision and mission. Each circle should grow as the team works together to accomplish the vision.

Remember, if leaders truly lead, the profitability of the initiative should follow on its own. ▫

Shon E. Isenhour, CMRP, is a business consultant with ABB Reliability Services. Doug Wilson, CMA, CMRP, is a continuous improvement manager with AbitibiBowater.



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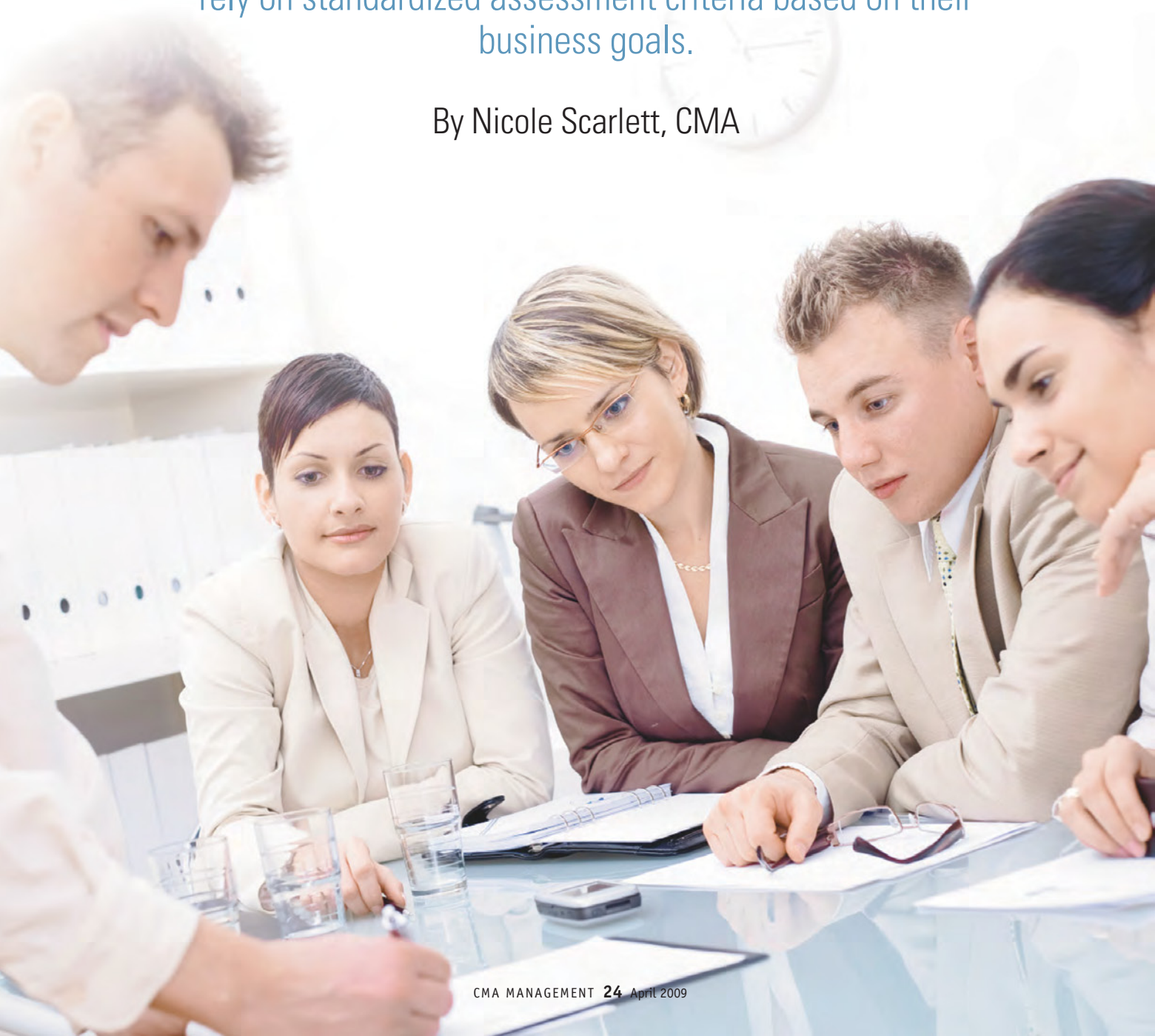
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# Five elements of project portfolio management for finance executives

Projects are undertaken for a variety of business and operational reasons, so when it's time to decide whether to invest in one initiative versus another, organizations need to rely on standardized assessment criteria based on their business goals.

By Nicole Scarlett, CMA





**W**hile having lunch with the vice-president of finance from a large Canadian financial institution, the conversation turned to the findings from a recent audit of the organization's project portfolio. The real costs of most of the initiatives were not well understood, and for many projects, the expected business benefits were unlikely to materialize. As a result, the organization was faced with the possibility of millions of dollars in write downs. The vice-president was at a loss to pinpoint exactly how this happened and more importantly, how to prevent it in the future.

According to a recent Deloitte survey<sup>i</sup>, 50 per cent of Fortune 1000 CFOs oversee information technology. With annual budgets averaging \$33.3 million<sup>ii</sup> and 71 per cent of projects challenged or failed<sup>iii</sup>, it is increasingly important for finance executives to be in the forefront of effective project portfolio management.


The following summary outlines five key elements that CFOs and other executives can leverage to improve returns and reduce the risk associated with their portfolio of projects.

**Element 1: Universal evaluation criteria**

Projects are undertaken for a variety of business and operational reasons, so


**Table 1**

Value Driver	Scoring (1 is poor, 3 is high)	Weight
Estimated return on investment	<ol style="list-style-type: none"> <li>ROI &lt; 10 per cent</li> <li>ROI between 10 — 25 per cent</li> <li>ROI &gt; 25 per cent</li> </ol>	30 per cent
Time to market	<ol style="list-style-type: none"> <li>Product launch &gt; 1 year</li> <li>Product launch between 6 months and 1 year</li> <li>Product launch &lt; 6 months</li> </ol>	25 per cent
Code leverage	<ol style="list-style-type: none"> <li>Production uses 30 per cent or less of current gaming code</li> <li>Production uses up to 60 per cent of current gaming code</li> <li>More than 60 per cent of current gaming code can be used in production</li> </ol>	20 per cent
Contribution to innovation	<ol style="list-style-type: none"> <li>Product not eligible for patent protection</li> <li>Some aspects of the product may be patented</li> <li>Product eligible for patent protection</li> </ol>	15 per cent
Operational effectiveness	<ol style="list-style-type: none"> <li>Project delivers less than 10 per cent savings from current state</li> <li>Project delivers between 10 — 30 per cent savings from current state</li> <li>Project delivers more than 30 per cent savings from current state</li> </ol>	10 per cent



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when it's time to decide whether to invest in one initiative versus another, organizations need to rely on standardized assessment criteria based on the goals of the business.

Effective criteria should include a mix of financial and non-financial indicators or value drivers, which can be applied universally to different types of projects such as revenue building, operational efficiency, or improving internal capabilities.

Once the value drivers are identified, scoring metrics and category weightings are applied to create an evaluation matrix (see Table 1).

## CFOs can play a key role in establishing appropriate value criteria based on the company's goals, helping to determine the scoring approach, and applying weightings by which investments can be assessed.

For example, assume Dynamic Corporation develops and manufactures computer games. Revenue generation is the top priority of the company, but production efficiency and innovation are also critical to its long-term success. The industry is highly competitive and Dynamic is determined to be the lowest cost, highest volume provider of games.

Dynamic's evaluation matrix may look something like Table 1.

Notice that the value drivers include non-revenue categories, however, these have a lower weighting which reflects Dynamic's revenue generation priority.

Value categories should be limited to 10 — 15 drivers that take into consideration such things as customers, financials, processes, capital, and internal operations (people and technology). Most importantly, the scoring should adhere to the SMART principles (specific, measurable, agreed upon, relevant and time based).

A well-thought-out evaluation matrix facilitates objective assessment and reduces the likelihood of funding based on intuition or influence. CFOs can play a key role in establishing appropriate value criteria based on the company's goals, helping to determine the scoring approach, and applying weightings by which investments can be assessed.

At the completion of a project, the same assessment criteria used for evaluation and approval can be applied to tracking benefits realization. This enables a consistency of evaluation and provides insights that support decisions and investment optimization in the future.

### Element 2: Full costing

There is an alarming trend in many companies to “cherry-pick” components of project costs when evaluating what initiatives should receive funding. For example:

#### Including

- 1 Contractor or consulting costs.
- 1 One-time or “build” costs.
- 1 Technology costs.

#### Excluding

- 1 Internal resources (business and/or technical).
- 1 Licensing and ongoing maintenance fees.
- 1 Marketing, customer service and support, or legal costs.

This practice compromises the investment evaluation and ROI as well as how the project may be managed.

#### Compromised ROI

Cherry-picking project costs during evaluation can put the organization at risk of selecting projects which do not produce the expected or maximum returns. At worst, the company could be funding initiatives that actually reduce overall profitability and value.

For illustration purposes, let's assume Dynamic Corporation is evaluating two projects. Their current practice is to include only one-time direct and incremental (net-new to the company) project related costs, excluding internal resources and any ongoing support or maintenance.

Both projects are expected to generate \$60,000 in

	Project A	Project B
Revenues	\$60,000	\$60,000
Software	(\$4,000)	(\$4,000)
Contractors	(\$10,000)	\$000
Total	<u>\$46,000</u>	<u>\$56,000</u>

revenues. Under the current evaluation practices, Project B will be selected because it generates \$10,000 more profit than Project A, which requires the use of contractors.

Now let's assume all the costs associated with these two opportunities are included in the assessment.

Although Project A includes contractor costs, Project B carries higher maintenance fees and is more dependent on internal resources. Project A results in \$8,000 more return than Project B when all the costs are taken into consideration.

	Project A	Project B
Revenues	\$60,000	\$60,000
Software	(\$4,000)	(\$4,000)
Contractors	(\$10,000)	\$0
Internal IT Resources	(\$10,000)	(\$25,000)
NPV of 5 Yr. Maintenance	(\$3,000)	(\$6,000)
Total	<u>\$33,000</u>	<u>\$25,000</u>

#### Compromised project performance:

Selective costing can also impact the actual performance of the project if the mix of costs or assumptions change.

Going back to the original example, Dynamic accounted only for external resource, and as a result, they selected

Project B. Two months into the initiative, the project manager finds that internal resources planned for are not available and many don't contain the right skills. The project manager must now choose to:

- a. Hire contractors and exceed the approved budgets.
- b. Delay the project until the right resources can be attained internally.
- c. Reduce functionality or compromise the quality of the deliverables.

If full costing had been used, the mix of costs would change, but the impact to the overall budgets would be less. This results in more effective decision making and reduces some of the risk of project performance.

CFOs need to ensure that all the costs, benefits and risks associated with a project are taken into consideration when making investment decisions. For companies wishing to differentiate expenses, this can be accommodated through supporting analysis and summaries.

### Element 3: Iterative release of funds

For most organizations, funding decisions are made when the business case is presented for approval. Once passing this gate, the project is monitored against the budgets.

Projects however, are not static and as they move through the cycles of initiating, planning, developing, controlling, and closing, more information is learned which impacts the budgets, scope, timelines and resources.

For most organizations, funding decisions are made when the business case is presented for approval.

To reduce the likelihood of over-runs and other risks, the business case should be revised and funding approved in a phased approach that matches the project life cycle. The recommended key milestones for business case updates and funding reviews include:

1. Initiation: The original business case presented before the project has started.
2. Business requirements: Once requirements have been signed-off by the sponsor.
3. Detailed design: Once the solution design has been completed by the appropriate areas and presented to the sponsor.

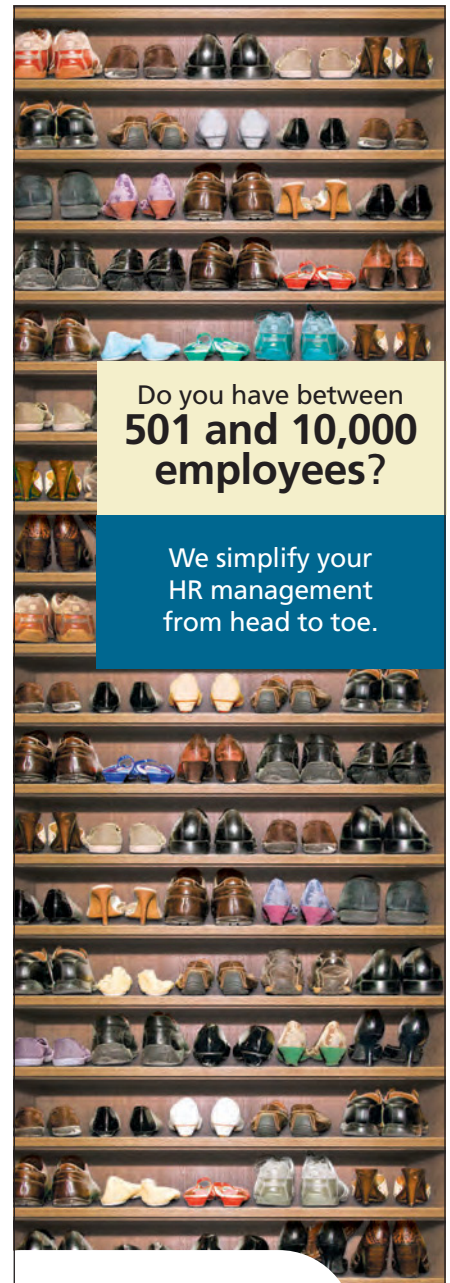
Incorporating an iterative approach to funding allows the project manager, sponsor and finance to work together in making decisions based on the best available data at the time, and as a result, reduce risk.

### Element 4: Sponsorship effectiveness

A sponsor is the individual who is 100 per cent accountable for ensuring the project delivers the business benefits it sets out to achieve. Effective sponsors have the power and authority to lead change and are active members of the project throughout its lifecycle.

CFOs need to work closely with sponsors for two main reasons:

1. Compliance with accounting regulations: Many projects and their costs are capitalized. Capitalization is dependent upon the likelihood of future benefits, which is the responsibility of the project sponsor. Furthermore, only certain components of project costs are eligible for amortization. Most sponsors and project managers are not experts in accounting practices so collaboration with finance is critical to ensure compliance.
2. Optimizing tax credits: Canada has one of the most robust tax credit programs in the world, with recoveries ranging from 20 — 35 per cent of eligible R&D costs<sup>iv</sup>. There is a common misperception that these benefits are available only to companies whose business is R&D



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intensive; however, many projects within the banking, manufacturing and retail sector also qualify for tax credits such as SR&ED. Finance is uniquely positioned to help identify eligible projects and their costs, and manage the data gathering and application process to maximize tax credit opportunities.

If a sponsor cannot be clearly identified, CFOs should consider that there is a good chance the project will fail to meet its objectives and the costs treated in accordance with this risk.

### Element 5: Reporting transparency and independence

Project reporting falls on the shoulders of the project manager who is also accountable for delivering the initiative within the time and costs approved. Because the delivery and reporting functions are managed by the same person, there is a greater risk that the information presented may be inaccurate or incomplete.

This isn't meant to imply that there is intentional misrepresentation by project managers. The issues are more often a case of unintentional biases, a misinterpretation of the facts, or a lack of budgeting skills.

Similar to the division of duties and other internal controls commonly found in the world of accounting,

finance can play a key role in reducing project risk by being an independent evaluator of project reporting. In addition to ensuring the quality and accuracy of the information being presented, if managed properly, this also helps build the relationship between technology and finance.

The best policies are those which remain current and relevant to the goals of the organization. Like all guidelines however, they do not replace good judgment and accountability. CFOs are well positioned to work in partnership with technology in the establishment of effective practices and management techniques that maximize the returns of project portfolio investments and the reduction of risk. <sup>n</sup>

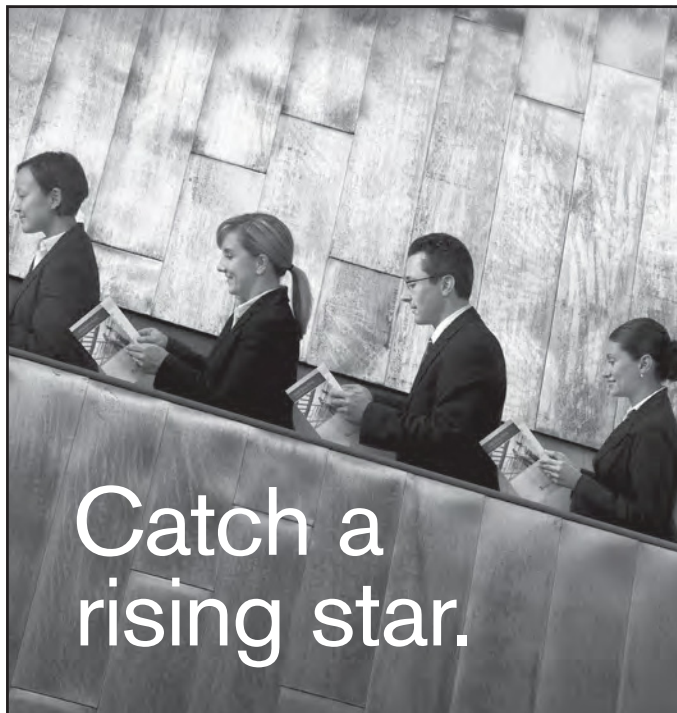
Nicole Scarlett, CMA, MBA, PMP, is a certified project manager. She specializes in project portfolio management and investments and has held senior positions in technology, consulting and financial services organizations.

<sup>i</sup> "Breathing Lessons. How CFO's can thrive under pressure;" Straight Talk Book No. 7, pg. 12. Deloitte Touche Tohmatsu, 2007.

<sup>ii</sup> "IT Spending and Staffing Report, 2008;" Gardner Research ID G00154809, Pg. 5, February 20, 2008.

<sup>iii</sup> 2004 Chaos Report from Standish Group shows that 29 per cent of projects succeeded, meaning delivered on time, on budget, with required features and functions; 53 per cent are late, over budget and/or deliver fewer features and functions; and 18 per cent are cancelled prior to completion or delivered but never used. [http://www.standishgroup.com/sample\\_research/PDFpages/q3-spotlight.pdf](http://www.standishgroup.com/sample_research/PDFpages/q3-spotlight.pdf) Chaos, 2004.

<sup>iv</sup> Canada Revenue Agency, <http://www.cra-arc.gc.ca/txcrdt/sred-rsde/bts-eng.html>



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# Dimming the lights on SOX



The consequences of perpetuating fraud will always have profound effects on the decision-making conditions of accountants. Internal control did an excellent job of reducing the opportunities. As the shift moves from SOX to IFRS, will the industry lose the merits earned? Or, was SOX too much?

By John Daley, CMA

The morality of proper financial reporting has been an ethical dilemma for accountants long before Sarbanes Oxley (SOX) was introduced. Outside influence, internal pressure, and relative consequences of perpetuating fraud will always have profound effects on the decision making conditions of accountants. Internal control did an excellent job of reducing the opportunities, increasing the consequences, and educating the public; however, as the shift moves from SOX to International Financial Reporting Standards (IFRS), will the industry lose the merits earned? Or, was SOX too much?

Utilizing behavioral models, one can try to explain how environmental phenomena played a significant role in decision making during the rise and fall of dot-com, the birth of SOX, and more recently, the move into IFRS.

The first main aspect of moral financial reporting is fairness. As quoted by D.R Scott in 1941, "Accounting rules, procedures, and techniques should be fair, unbiased and impartial. They

Incongruity Model."<sup>23</sup> Originally used as a model to explain mental arousal reactions to unpredicted events, this model, shown in Figure 1, can be applied to incongruities from past accounting fraud debacles. To demonstrate, the model is split into three separate stages.

### Stage one — A deviation from the rules?

During the first stage, the accountant measures a situation to determine whether there is congruity between the accounting principles and the current planned course of action. If congruity exists, then there is no effect on decision making because no further action is needed. However, if there is a form of inappropriateness, the accountant is faced with a dilemma and proceeds to the next stage.

### Stage two — A big or small problem?

The degree of incongruity is assessed by determining the problem and the consequence associated with breaking that principle. Once determined, the accountant has a number of

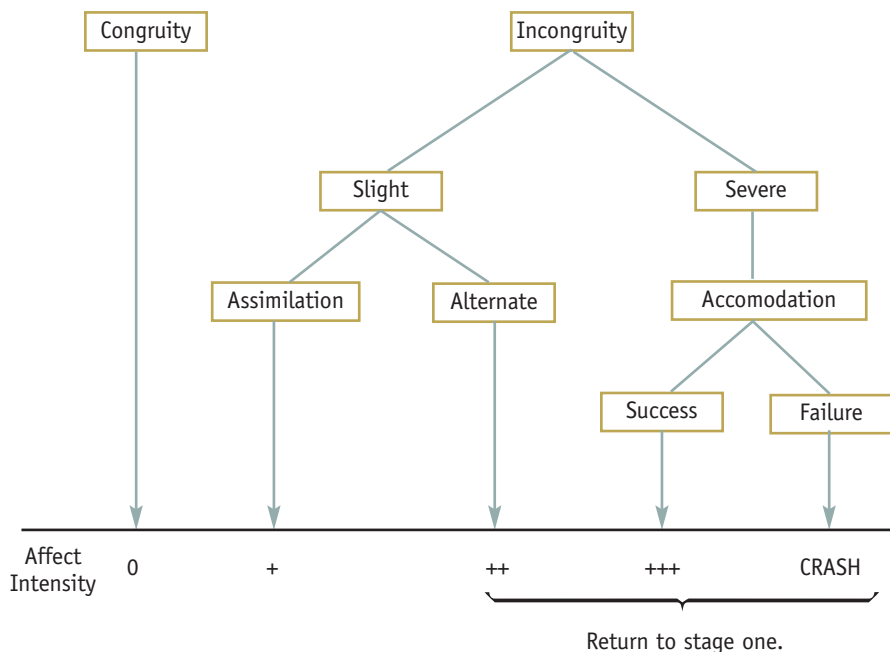
alternatives he or she can take given the severity of the situation. If it is a slight deviation from the rules, there are two options. The first is to correct the incongruity. This means that the accountant fixes the problem and "assimilates" the incongruity to proper guidelines. This has an overall positive impact on the conditioning for the individual, as the incongruity was assessed, and corrected to proper accounting standard. The next option under a slight incongruent environment is to take an "alternate" action — a course of action that contradicts what has been prescribed. For an accountant, this can include purposefully hiding debts, or completing questionable journal transactions, overestimating accruals, etc. To develop this choice logic, one can apply the Expected Utility Theory. The definition of this theory is, "The motivation to select a particular goal is based on the goal's utility and estimated probability of being achieved,

with utility referring to the satisfaction that a goal provides."<sup>24</sup> Therefore, the formula would look like the following, where utility is the personal benefit of breaking the rules and the subjective probability is the possibility of eluding punishment for completing such an action:

$$\text{Expected Utility} = \text{Utility} \times \text{Subjective Probability}$$

In order to apply this theory, two separate equations are calculated. The first is the positive utility of using an alternate plan multiplied by the possibility of not being caught and

Figure 1: Adapted from Schema Incongruity Model



should not serve a special interest."<sup>21</sup> However, the issue of fairness is called into question as one's definition of fairness is a variable measure. It is the job of upper management to carry out the special interests of the firm. Recognizing this potential mental conflict, it has been the goal of accounting bodies to ensure that fairness, honesty, and social responsibility have been integrated into accounting standards.<sup>2</sup> However, what happens if an accountant is introduced with a dilemma where an alternate solution seems more rewarding? To explain this incongruity, an adaptation of the Schema Incongruity Model is introduced, which is named, "The Accounting Standards

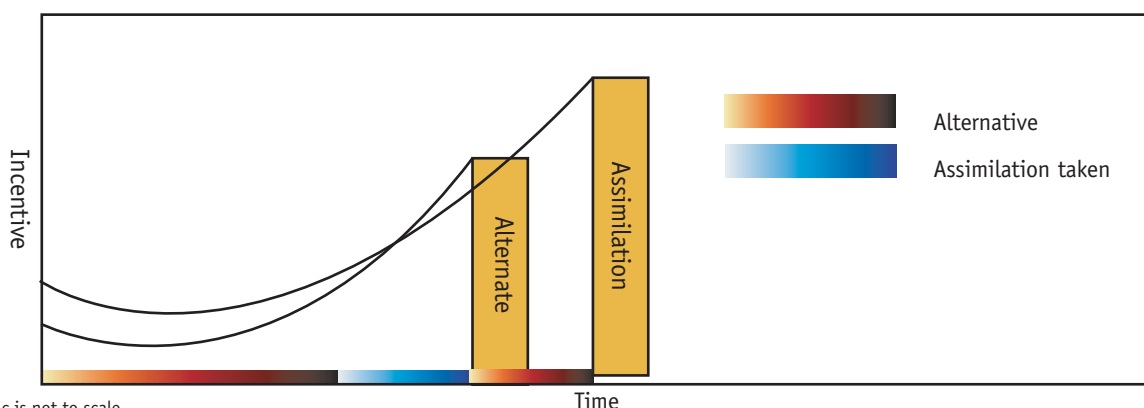
punished. Utility can surface in many ways, such as: reduced pressure from upward management, personal financial gain, stock performance, etc. This calculation is compared to the utility of following the rules, with the higher of the two being the path chosen. If one can do something wrong and get away with it, this increases the chances that the “alternate” will be chosen. Overall, this has a greater positive impact on the accountant because he or she will experience personal gain or relieved pressure. It is assumed that, since the incongruity is slight, it will bring about no major repercussions. With this option, the accountant has not escaped from the problem and must return to stage one to deal with the situation again at a later date.

weighed more heavily than a potentially more important event that occurs in the future. To outline this further, the final theory, Preference Reversal, is introduced. This theory states:

People prefer large incentives over small incentives and immediate incentives over delayed incentives. When amount and delay are combined, however, a person may prefer a small immediate incentive over a larger delayed incentive.<sup>6</sup>

To apply this to the decision-making analysis of an accountant, a few clarifications need to be made. The long-term, larger incentive would be to maintain a position in the firm, adhering to legal codes of conduct and freedom.

**Figure 2\***



\*Graphic is not to scale.

### Stage 3 — Severe incongruity

In the future, the issue could intensify to a severe problem. For example, Phar-Mor, one of WalMart’s competitors, experienced a similar situation where small deviations were hidden on balance sheets. Although a better current situation was presented, they could not escape these deviations as accountants had to readdress the same issue at future periods.<sup>5</sup> If the incongruity is not too obvious, it is easy to hide the problem, yet as time continues, the deviation implodes onto itself and causes the problem to become severe. At this stage, it cannot be solved by simply adhering to accounting guidelines — the accountant accommodates the incongruity instead of correcting it. Again, with Phar-Mor, its course of alternate actions became too large to correct and evidently the accountants could only attempt to continue to hide amounts, rather than fix them. If an accountant is successful in hiding amounts, the mental affects are overall positive because negative consequences such as company bankruptcy or jail time have been averted. If unsuccessful, then the auditors of the firm have caught the severe incongruity and the accountant in a sense will have “crashed.”

### Timing — Preference Reversal Theory

The effect of timing is important in the decision-making process. As the deadline of one event approaches, it will be

This is classified as the most valuable incentive available. The short-term incentive would be the benefits from utilizing an alternate approach such as personal gain, relief from management pressure, etc. The theory is illustrated in Figure 2 — the curved line represents the relationship between the incentive value and timeline when different courses of action are available.

This theory states that there is a specific relationship between incentive value and time. When a choice is available between two courses of action, one will choose the path with the highest overall value. Therefore, as time grows closer to the smaller incentive, one may choose that course of action because of its immediate payoff, as demonstrated by the dashed line. This can be applied to accounting decision-making analysis under the example of making annual targets. As the period is reaching to a close, the pressure of attaining labeled targets will elevate, therefore, increasing the pressure to adjust accounts to reflect an image of sustainability. An accountant is much more likely to take an alternate path of action if the appropriate time pressures are associated, even though the longer-term goal of job sustainability, freedom, etc. is compromised. This theory serves to explain why one would choose an alternative with an overall less positive benefit than a choice with a larger overall benefit.

### Applying decision models — Dot-com era

The environment of the dot-com era had a unique impact on decision making. The introduction of the Internet and computer intricacy revolutionized the accounting industry. The market became obsessed with equity-based financing, and the dot-com industry boom was the result. With the sheer number of transactions being committed, difficulty of financial tracking developed. As complexity increased, deregulation ensued destroying some of the basic building blocks of good governance.<sup>7</sup> Principles such as clarity, transparency, and fairness outlined as fundamental to the industry were being compromised. As complexity increased, the number of encounters with incongruity increased sharply. Therefore, when applying The Accounting Standards Incongruity Model it is important to outline two major factors that would affect an accountant's decision making. To begin, it would be expected that with increasing complexity of financial reporting there would be an influx of transactions that contradict what has been outlined in governing principles. With an increasing amount of initial dilemmas, accountants would have more opportunities to analyze alternate routes to solution. Next, an accountant's willingness to utilize an alternate approach increased. During the dot-com burst there was a large focus on the value of equity. Therefore, the pressure to ensure that financial statements supported a strong stock-market position and that the company remained profitable was considerable. To match this, the market punished companies that did not meet annual targets. This pressured many to use an alternate approach because the utility of hiding debt or using other techniques increased substantially.

The subjective probability of being caught was being analyzed as quite low. This motivated accountants to

removing focus on auditing increased the delay factor between alternate and assimilation. Therefore, the new graphic is illustrated in Figure 3.

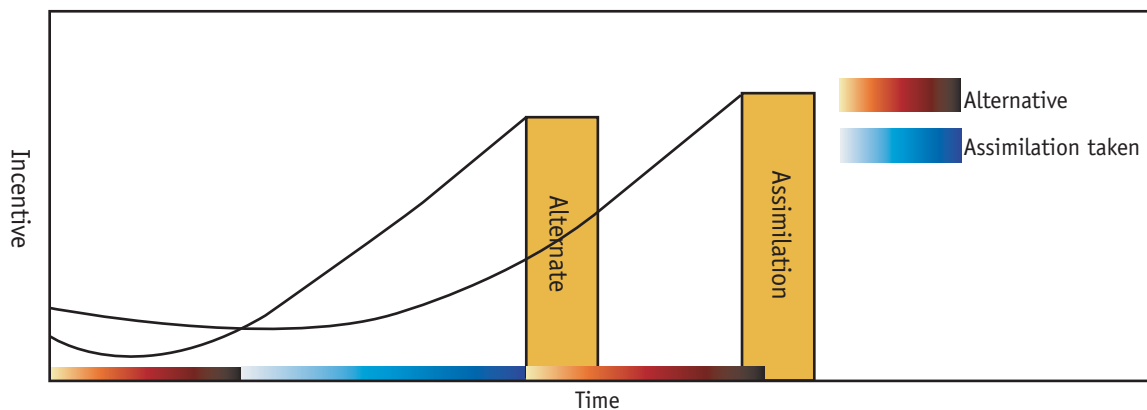
In Figure 3, the relative probability of taking the alternate action increased significantly over the period. As the alternate incentive increases, delay between short-term payoff and long-term goals increased and the importance of clarity decreased. This is proven through the number of questionable practices carried out during this period. For example: 723 companies alone had to restate and lower their earnings from 1997 to 2001.<sup>9</sup> Eventually, as more companies began to follow alternates to proper financial reporting, more illusions followed. Eventually, lack of substance caused the general crash of the industry.

### Applying decision models — The birth of SOX

The fall of the dot-com empire brought the corruption derived from decision making to the forefront of society. The media played a significant role in scrutinizing the accounting industry. Trust became the new focus of discussion. Fraud prevention, fairness, clarity, and deception became regular topics for the industry. Some articles went as far to state human characteristics of what to look for in accounting thieves in the office. An article by Roddy Allan breaks down four basic personalities (which can be applied to almost any one individual) and gives inferences as to how they could be stealing from the company.<sup>10</sup>

This change in accounting culture had a profound impact on decision-making model analysis. By applying the Expected Utility Theory, the subjective probability of being caught deviating from guidelines increased, along with the severity of the consequences. Former WorldCom chief executive Bernard Ebbers was sentenced to 25 years in prison following his

Figure 3



manipulate statements. As quoted by John Lorinc, "... Many stock market analysts were contemplating a world in which audited financial statements were a thing of the past."<sup>8</sup> Taking this into account, the Preference Reversal theory must be addressed. First, with increased focus on maintaining targets, the incentive value of using an alternate increased. Second,

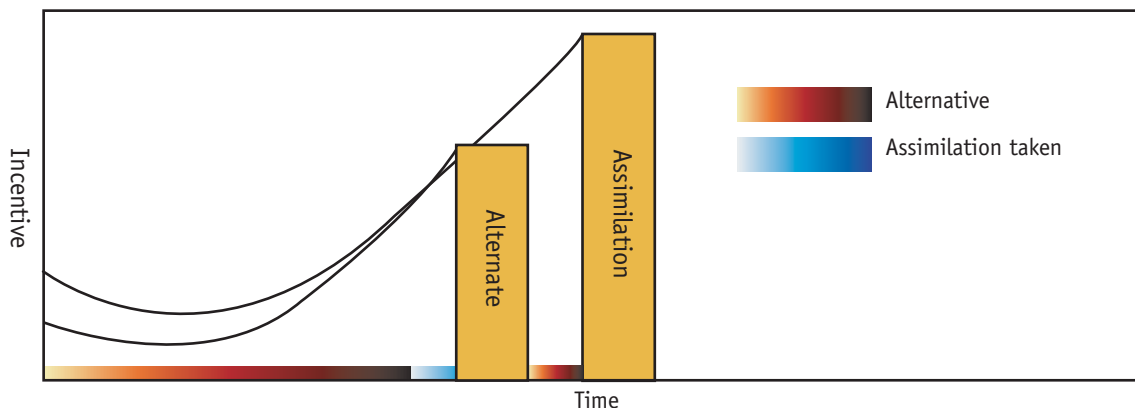
involvement in accounting fraud. When this was reported on CNNMoney.com a poll was issued asking whether this was too harsh. This poll tallied with 81 per cent of 21,610 correspondents stating that the sentence was just right or too lenient.<sup>11</sup> Fear caused conformity, which was a short-term solution to ensure proper financial reporting.



This call for justice was matched by the Sarbanes Oxley Act, which basically made accountants personally liable for the honest interpretation of their financial statements. (It also served as an excellent paycheck for many of us, too!). The act, passed by the U.S. government in 2002, outlined a number of steps associated with correcting the trust issues in North

gave CMAs a harsh lesson in fiscal responsibility, burdened our everyday lives, and caused billions in expenses. It is obvious that the SOX era is dimming and IFRS is the new hot topic on the scene. As we begin to loosen the straps we must not allow a repeat of history.

**Figure 4**



American accounting. Various steps included mandatory changes to audit committees, enforcing liability, and increasing criminal charges associated with purposeful distortion of financial statements. This impacted decision-making models in a number of ways. First, investors required substance behind their statements, and potential equity growth was no longer the main definition of company success. With higher disclosure, the subjective probability of being caught increased. This in turn reduced the incentive value of using the alternate approach. Finally, by enforcing multiple parties to become liable for misappropriation, the accountant received less pressure to purposely misstate earnings.

The previous elements also impacted preference reversal analysis in two ways. First, it immediately reduced the lag between short-term and long-term incentives. The importance of auditing was not only re-affirmed, but it was heightened. Next, it increased the incentive value of long-term goals as fear of civil and criminal lawsuits grew, so did the value of following rules and guidelines. These new combinations created a situation as pictured in Figure 4.

As predicated, the likelihood of people taking advantage of the alternate situation reduced significantly.

### The road ahead

The application of psychological decision-making models attempts to explain why accountants would act in the fashion that deviates from the expected norm. Pressure, temptation and greed will always exist in our society, and it is not only the responsibility of regulating bodies to ensure fairness, honesty, and social responsibility, it is our own. However, despite the control put in place, there will always be justification, rationalization and deceit. Therefore, at what point does control and ensuring fairness become unfair? SOX

Applying the models above, it is the responsibility of regulating bodies to focus on reducing the value of the alternate incentive (fraud), increase the value of the assimilating to proper guidelines (compliance) and decrease the opportunities to deviate from rules (control). This needs to be done without overburdening the system, and accepting the fact that there will always be the risk of fraud in the accounting society. n

John Daley, CMA, CIA, is a senior advisor of International Financial Reporting Standards (IFRS) at the Canadian Air Transport Security Authority.

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# Investing in education

Lee Haldeman, CMA, is a proponent of continuous learning. With four professional designations to his name, it's no surprise that he wants to help others to grow academically and professionally.

By Andrea Civichino

**A**s the associate vice-president, academic development at SAIT Polytechnic — Canada's first publicly funded technical institute, which provides training to 75,000 course and program registrants per year, Haldeman's role is to provide a range of approximately 40 different academic services through two departments. The main focus of his job relates to transformational activities — one of these being the addition of full degrees to many of the programs that are currently offered at SAIT.

SAIT's programs have become popular among business leaders because they are designed with employers in mind. More than 1,000 business professionals participate in a variety of program advisory committees to provide advice and guidance to the institution. Business and community leaders also contribute to the development of SAIT by providing insight on economic, technological and societal trends in their respective fields.

**“My focus is to promote the development of SAIT's academic initiatives and having that background in various departments is a huge benefit.”**

“One of the initial four degrees we are moving forward with includes a Bachelor of Business Administration in Accounting (BBA) that will be a good feeder to the CMA designation,” he says. “A degree proposal for the BBA was submitted to the Ministry in June 2008 and we have now entered the second phase by submitting the program for quality review to the Campus Alberta Quality Council,” he adds.

Once approved, this program will open the doors for SAIT graduates to take on the CMA program and gain this sought after credential. CMA Alberta has been instrumental



in the development and support of the degree. SAIT is one of the major trainers of accounting professionals in Alberta and the connection with CMA will simply add to its reputation in this area.

“Another recent project reaching its last few months is the transition of SAIT's credit system and the change from a 16-week semester to a 15-week semester,” he says. This project was cross-institutional and took three years of research,

analysis and consensus building to get to this stage. “The level of complexity has been interesting to manage as the changes impact on many of SAIT’s systems, faculty association agreements, academic operations, and Ministerial requirements,” Haldeman says. Other responsibilities include providing support for two Board determined strategic priorities of Curriculum Excellence and Teaching Excellence, as well as enhancing SAIT’s core competence of “Transforming lives through integrating learning with technology.”

### **New career, new challenges**

Haldeman brings 25 years of post-secondary experience to his role at SAIT. He joined SAIT in 1999 after moving from South Africa where he left a career as principal of the Pretoria campus of a large private education group. His South African legacies are large campuses for two private education groups that he literally started from scratch.

His parents were from Saskatchewan and he maintained his Canadian citizenship and heritage while in South Africa. Haldeman says when he moved to Canada he was looking at taking residence in either Edmonton or Vancouver, but a job opportunity with SAIT encouraged him to consider building a new life and career in Calgary.

His father was brought up on a Saskatchewan farm and lived through



The front entrance to Heritage Hall, SAIT main campus, Calgary.

the dust bowl and the depression. The discipline and courage needed to succeed in those traumatic years was integrated into the family that established a motto “Live dangerously, carefully” — good advice for management accountants who often have to do the analysis and investigation for new strategic directions in organizations. The adventurous nature of the Saskatchewan farmer in Africa meant that family vacations were not at the beach, but in the Kalahari Desert looking for the Lost City of the Kalahari. Interestingly enough, this legend was established by a Canadian, William Hunt from Port Hope in Ontario. He was also known as the “Great Farini.” Haldeman’s five

seconds of fame came from an interview about Farini’s life as part of The Canadians series where he described some aspects of the Haldeman searches for this city that remains lost.

Another piece of Canadian trivia is having an uncle in the Canadian Hockey Hall of Fame. Elmer Lach was married to his mother’s sister and was part of the Montreal Canadiens for 14 years and was on the winning side of the Stanley cup for some of those years. He was part of the Canadien’s “Punch line” with Rocket Richard and Toe Blake. “Unfortunately, the relationship was by marriage, so I don’t have any of those great hockey genes,” Haldeman says.

At the time that Haldeman and his



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family came to Calgary, SAIT was looking for “someone with an entrepreneurial background for one of their marketing positions,” he explains. “Out of 108 candidates, I was offered the job.” Since 1999, he’s held five different positions, including the dean of the School of Information and Communications Technologies, before his most recent appointment to associate vice-president, academic development in 2005.

“Through the different roles I’ve held at SAIT, I’ve developed a wide variety of insights that are helping me get the job done in my current role,” he says. “My focus is to promote the development of SAIT’s academic initiatives and having that background in various departments is a huge benefit.”

**Since 1999, he’s held five different positions, including the dean of the School of Information and Communications Technologies, before his most recent appointment to associate vice-president, academic development in 2005.**

Although working in the public sector was the furthest from Haldeman’s mind, he says his career path is a perfect example of how “life just takes you in exciting new directions that you may not have imagined.” SAIT is a publicly funded post-secondary institution; however, it has a “can do” attitude and is well known as a dynamic organization.

He started his professional career in the construction sector in South Africa where he managed a small aluminium framing company. His interest in marketing led him to complete a three-year professional program through the Institute of Marketing Management in South Africa. He completed a four-year professional program through the Institute of Chartered Secretaries and Administrators (ICSA) which focuses on accounting and corporate business administration. Haldeman then completed his MBA through the University of Durham in England, one of the MBA schools on the Financial Times’ top 100 list. Along with other courses and conferences to support his personal and professional development along the way, Haldeman completed the Management and Leadership in Education program through the Harvard University Graduate School of Education. Haldeman proudly added the CMA designation to his list of credentials in June 2008.

“I happened to come across the details of the ECMA program and the nature of the program piqued my interest,” he says. “The ICSA designation is not well known in Canada

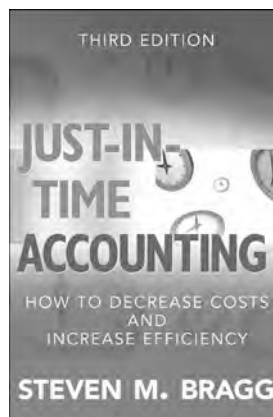
although it has good recognition in other commonwealth countries, only about 1,000 of its 36,000 members reside in Canada. I completed the ECMA in June last year so this is quite late in my career. It was a great refresher on the accounting and strategic side. The CMA adds to my current credentials as a highly recognized Canadian designation that has a very strong strategic focus. The strategic element is what attracted me to the designation,” he says. “The first question in organizational transformation, is transformation to what? This is strategy. Then the strong financial and management background is needed to ensure that the transformation is managed in the most effective way.”

Haldeman is currently a Fellow of the Institute of Chartered Secretaries and Administration where he’s also chaired the Alberta Board for two years and served as a national director. While in South Africa, he was actively involved with the South African Institute of Management and served as a national chair for two years in the 90s, and was elected as a Fellow for his contributions to the management profession as well.

“If there’s one thing I learned, it’s that you never stop learning.” ■

Andrea Civichino is the editor of *CMA Management*.

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# Strategies for volatile markets

Exchange-traded options can increase yields and provide protection for your portfolio.

By Andrew Hood

Volatile stock markets present serious challenges for long-term investors, many of whom will simply move to the sidelines by holding cash and waiting for calmer times to return. Another approach for dealing with volatility is to integrate exchange-traded options into your investment plan. To be clear, the use of options is not a panacea for a bear market, but rather a tool to mitigate risk. This article will examine two different options strategies that would typically be implemented by a relatively risk-averse investor to protect positions within a portfolio or to increase the overall portfolio yield. Options are not widely used by Canadian retail investors, but including them in your portfolio's toolkit will help customize an investment strategy to your specific needs.

## What is an option?

Options are contracts between two parties whereby the buyer of the option acquires the right to buy (a call option) or sell (a put option) a particular security and the seller grants that right in return for a cash payment (e.g. the option's premium). Every option contract specifies the underlying security, the expiration month, and the option's exercise (or strike) price. It is the option buyer who controls when and if the option is exercised.

**If used wisely, options are an effective tool for managing portfolio risk.**

Each option contract purchased allows the buyer to control 100 shares of the underlying security by



paying a premium that will cost much less than it would to purchase the security directly. In other words, options have embedded leverage that may increase the rate of return on a particular position. The risk to the purchaser is limited to the



premium paid: the buyer is out of pocket the cost of the premium if the option expires unexercised. The seller (or “writer”), on the other hand, receives the premium paid and typically hopes that the option will not be exercised, in which case his obligation to sell (in the case of a call) or buy (in the case of a put) will expire with the option. While customized options strategies (various combinations of long/short puts/calls) can be designed to fit any market outlook and investment objective, the strategies described below are designed to limit an investor’s risk.

**A portfolio protection strategy**

Buying put options to protect all or part(s) of a portfolio is called a “protective (or married) put strategy,” also known as “portfolio insurance.” The aim of the strategy is to protect the value of assets against volatility or loss. The premium (e.g. market price) of a put option increases in value when the price of the underlying security declines, thereby offsetting any loss to the portfolio. If the price of the underlying either stays the same or increases, the options may expire valueless. Therefore, it is important to weigh the cost of buying the put options versus their potential “insurance” value.



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**Example:** In September, an investor owns 1,000 shares in an oil company that have appreciated about 93 per cent from \$70 to \$135 in the first nine months of the year. Still bullish on the stock, but concerned about potential near-term weakness, the investor purchases 10 contracts (each contract controls 100 shares) for February (of the next year) put options with a \$125 strike price at a premium of \$5.20 per share (\$520 per contract). In purchasing the puts, the investor could still profit from any additional stock gains, but if the price falls under \$125, the options can be exercised and the stock sold at that price. For example, if the price of the stock retreats to \$115, the investor would exercise the puts, selling the shares for \$125. The net proceeds per share to the investor would be: \$125 (sale of share) - \$5.20 (premium cost) = \$119.80. As an alternative to selling the underlying, the investor might recoup some of the loss from a price decline by selling the option and continuing to hold the stock for its long-term potential.

In the example above, the put purchase helped the investor lock-in some of the gain in the stock price through the first three quarters of the year. As with any form of insurance, however, it came at a cost — the option premium.

### A yield enhancement strategy

An investor who desires an enhanced yield from their portfolio could employ a “covered call” strategy. This involves selling (e.g. “writing”) a call option against a long position in a stock. The investor receives the option premium and takes on the obligation to sell the underlying if it appreciates above the call’s strike price. If the value of the underlying stock rises above the exercise price, the investor may be required (e.g. assigned) to sell the underlying at that price, and will not participate in further upside momentum. If the underlying declines in price, the investor will be provided some downside protection through the receipt of the premium.

**Example:** At the end of September, an investor

owns 2,000 shares of a bank stock currently trading at \$57.50, but she does not believe it will rise in value over the next few months and may, in fact, sell-off a little. Consequently, she writes (sells) 20 contracts for the November call options with a \$58 strike price at \$200 per contract (premium of \$2.00 per share). The income received represents 3.5 per cent of the stock’s current price. As long as the stock trades below the strike price until the expiry of the options, the investor will pocket the premium, effectively boosting the yield on the bank shares. If the stock trades above \$58, however, the investor risks being assigned — obligated to deliver the shares to the option buyer at that price.

Note that the potential opportunity cost associated with writing call options is that the investor’s gain will be capped at the exercise price. Before taking a position by writing covered calls, therefore, the investor should be comfortable with the possibility of selling the shares at the

**It is important to understand that there is no single option strategy that is “best” for all investors.**

strike price. If the underlying security rose in value unexpectedly and the investor decided that it would be better not to sell the shares, the option position could be “closed out” by re-purchasing the calls, but that could prove costly because the option premium will increase along with the share price.

If used wisely, options are an effective tool for managing portfolio risk. It is important to understand that there is no single option strategy that is “best” for all investors. This article outlined two approaches that are typically employed by relatively risk averse individuals to either protect gains in their portfolio or to increase the overall yield. Naturally, it’s always prudent to enhance your own knowledge and/or consult an expert before implementing any financial strategy. The benefit of using exchange-traded options is the ability to transform any market forecast into a targeted plan that accounts for the individual’s objectives and risk tolerance. It’s well worth the effort to consider how the use of options might complement your current portfolio strategy. n

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# Bringing IT people on board

For organizations able to add staff despite the current economic climate, this is a great time to hire good IT people.

By Jacob Stoller

Hiring new staff has some special challenges, especially when IT positions are involved — job requirements change rapidly, skills have to be upgraded frequently, and individuals with “hot” skills are hard to find. Perhaps the most demanding area, however, is the need to balance technical requirements with how well an individual will fit into the organization.

The latter is critical because it embodies the essential justification for bringing a person into the organization in the first place. “The value of having an employee is that he or she becomes part of the team and part of the business,” Mike Brooks, chief information officer, Viterra, says.

## Evaluating real-world experience involves much more than merely verifying credentials.

Skill sets ranging from desktop support to custom code writing can be readily rented through outsourcers, IT service companies, or independent contractors. Bringing a permanent team member on board, on the other hand, requires a concerted effort on the part of HR, line of business stakeholders, and IT. Here are some key considerations for hiring the right people.

### Soft skills

IT has become an increasingly interactive affair where most IT employees have at least some contact with users, customers, or business partners. According to David Clarkson, director of HR for Cisco Canada, the ability to relate is frequently the tipping point in hiring interviews. “What stands out are the people skills,” he says.

For example, if network response is slow, will



the administrator appreciate the impact on users, or only see the technical side? Will the problem be explained in non-IT terms so that users can understand? Will users feel their concerns are being heard? These issues can easily become more important than the technical ones. “You want IT people to support your other players internally,” Clarkson adds.

### Certifications versus experience

Technical skills work beautifully in a classroom environment — it’s in the real world, however, where things rarely turn out the way they’re supposed to. “The IT business is a lot about certification and training,” Brooks says, “but what’s important is not only do they have the knowledge and the skills, but do they have the experience?”



Evaluating real-world experience involves much more than merely verifying credentials. “You need to have a subject matter expert who can explore the qualifications on a resume,” Brooks adds. “It really stresses the partnership between whoever is doing the HR side of the recruiting and IT. We normally do interviews with two people present.”

### Sensitivity to business issues

Just as IT employees should never be isolated from users, they also need to appreciate their role in supporting the business. “Divorcing the technology from the business is dangerous,” Brooks says. “I want an employee who can understand what we do as a business, and how his/her actions support the business.”

## The key is to hire for the most important skill, and find an individual who is willing to learn.

For new employees, the issue, according to Brooks, is not usually business knowledge, but the willingness to learn. “Unless you luck out,” he says, “you’re not going to get somebody who knows the business already. Does the candidate have the aptitude to learn the business? That’s what’s more important to me.”

### Wearing multiple hats

It can take a dozen skill sets to support the IT infrastructure of even a modest-sized organization. Consequently, employees are called upon to perform in a number of technical roles, including ones where their exposure has been minimal. For example, a smaller organization, unable to justify two people, might need an individual who is highly skilled in both server support and network support. “These people are very hard to find,” Brooks adds.

The key is to hire for the most important skill, and find an individual who is willing to learn. “If you pick a person with an aptitude to learn and a strong work ethic, he or she can wear different hats,” Clarkson says.

### Hiring workload

Hiring IT staff is a significant undertaking. “It takes time to ensure that you’re hiring not only the right technical skills, but the right people skills — the ability to turn the technical skill into something real and usable in the workplace,” Krista Hiddema, co-founder of Toronto-based HR consultancy e2R, says.

Careful planning can minimize the effort required. “Be crisp about your interview process,” says Hiddema. “It doesn’t have to be complicated. Know the job you’re filling, and what you’re looking for. Know who’s involved and how you’re going to fill that funnel with applicants.”

### Retention

If an organization has to repeatedly recruit for the same position, there’s something wrong. “Once you have them, you really want to focus on retention strategies,” Hiddema says. “Are you providing these people with unique and interesting work? Are you challenging them? Are you giving them the tools they need to ensure they’re going to stay with you?”

Satisfied employees can also help in the recruitment process by bringing in their peers — something satisfied employees are more likely to do. Given the work involved in the hiring process, retention may be the best hiring strategy there is. n

Jacob Stoller (jacob@stollerstrategies.com) is a Toronto-based independent writer and researcher.

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# New IFAC Framework supports professional accountants in creating sustainable value

The Framework illustrates how a commitment to sustainability can help to further improve an organization's products or services, motivate its people, lower its costs and enhance its reputation.

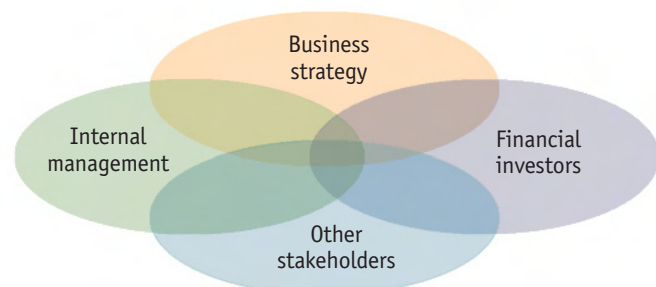
## By Stathis Gould

The recognition governments and many organizations have given to sustainability are changing business culture and society. The global challenge is to ensure that organizations remain profitable at the same time as improving their environmental and social performance. This requires radical changes in the way organizations do business and presents opportunities for professional accountants to take a significant role in helping organizations to focus on the key drivers of long-term success.

The new Sustainability Framework, developed by the Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC), highlights the issues organizations must address to make sustainability an integral part of their business model. For example, it offers guidance on how to inject sustainability leadership into the management cycle, from making and executing strategic decisions to reporting on performance to stakeholders.

## Four perspectives on sustainability

Designed from four different perspectives — business strategy, internal management, financial investors, and other stakeholders — the web-based Framework allows professional accountants to easily navigate through sustainability issues that are most important to their immediate roles. It will also allow them to select and use those examples of good sustainability practice that are most relevant to their organizations.





The business strategy perspective emphasizes the importance of adopting a strategic approach, so that sustainable development is a part of strategic discussions, objectives, goals, and targets. This will help to integrate sustainable development governance and accountability arrangements, as well as risk management and foster support by leadership.

**The new Sustainability Framework, developed by the Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC), highlights the issues organizations must address to make sustainability an integral part of their business model.**

The internal management perspective focuses on achieving integrated management systems, introducing sustainability, and environmental accounting as an extension of existing accounting/information systems to accommodate organizational plans for sustainable development and enhancing performance evaluation and measurement. This section also includes advice on how organizations can improve energy efficiency and reduce waste. This, in turn, can help them improve environmental performance while reducing their costs, all in a relatively short time frame.

The financial investors' perspective is about telling the story to investors. It offers advice on both incorporating environmental and other sustainability issues into financial statements in a way that supports an organization's stewardship role. It also encourages broader-based and forward-looking reporting to investors in

financial reporting by management commentary.

The other stakeholders' perspective considers achieving wider transparency with non-financial reporting against a broader set of stakeholder expectations. Such reporting commonly takes the form of separate sustainability or corporate social responsibility reports that may be based on de facto standards, such as those from the Global Reporting Initiative. There's also advice on reporting on climate change issues and emissions in a way that demonstrates the existence of a structured system and approach to managing climate change impact and risks. This perspective also includes sustainability assurance, to help to improve credibility and trust, and might be of interest to those professional accountants in public practice.

**Achieving balance between economic, environmental or social issues**

The Framework strongly promotes sustainability's three key elements — economic viability, social responsibility, and environmental responsibility — and the interconnectivity between them. Although trade offs can occur between these dimensions, generally being socially responsible (towards employees, communities, and other stakeholders), and environmentally responsible, lead to enhanced trust, and therefore makes good business sense. However, social and environmental responsibility can not stand in isolation from economic viability. Profitability creates jobs and wealth, and this depends on delivering products and services that people want. A sustainable business creates profitability in a sustainable way that enables organizations to survive and to create a better world.

Enhancing the role of professional accountants in developing sustainable business can benefit their employers and the public's interest. Accountants' professional background and orientation equip them with the necessary qualities to support their contribution — namely, wide business understanding, numeracy and knowledge of measurement, and objectivity and integrity. Applying these skills to sustainability issues can help organizations embrace sustainable development, and incorporate it into strategic planning, execution and reporting.

**How to access the sustainability framework**

The web-based Framework, which can be accessed from the Professional Accountants in Business section of the IFAC website ([www.ifac.org/paib](http://www.ifac.org/paib)), will be subject to ongoing review and development, and new links and references to good practice will be provided over time. To help the development process, IFAC welcomes feedback from professional accountants and others on the way the Framework presents the field of sustainability, and the particular role of professional accountants in facilitating and supporting sustainability and sustainable development. Comments can be sent to Stathis Gould, senior technical manager, PAIB Committee ([stathisgould@ifac.org](mailto:stathisgould@ifac.org)). <sup>a</sup>



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