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CMA Canada and CIPFA honour exemplary
work by financial professionals in the public
sector

From left to right: Jim Quinn, CMA; Rod Monette, Comptroller General of
Canada; Rear-Admiral Bryn M. Weadon, CMM, CD, CMA, PLog

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Recognizing performance

Many companies that are affected by the recession face a very difficult challenge — how to maintain a positive work environment and keep their employees engaged.

There's evidence to suggest that during a recession, employees feel overworked, threatened and vulnerable. Employee morale threatens to make matters worse. Even if your company has not experienced these challenges, your employees or colleagues may feel less secure about their own jobs or financial situations, or those of people they care about. Forty-two per cent of Canadian accounting and finance professionals polled as part of research prepared for Robert Half's annual "Global Financial Employment Monitor" said they are feeling greater stress because of the current economy. As Connie Stamper, CMA, explains in "Give waning workforce morale a jump-start," there are different methods managers can use to boost employee morale — acknowledging performance and increasing communication amongst your team are just a couple of examples. More of Stamper's tips are on pg. 11. Focusing on your human capital can help companies build stronger teams and survive these difficult times.

In late May, CMA Canada and the UK-based Chartered Institute of Public Finance and Accountancy (CIPFA) hosted its inaugural *Award of Excellence for Comptrollership in the Public Sector*; to honour exemplary work performed by financial managers in the public sector. Jim Quinn, CMA, from the department of Indian and Northern Affairs Canada was chosen as the first recipient of the *Award of Excellence for Comptrollership in the Public Sector*.

Quinn was presented the award at a dinner to honour the winner and nominees, held at the Fairmont Château Laurier in Ottawa. The annual award, consisting of a plaque and a \$1,000 donation to a charity or scholarship fund of the winner's choice, is given to a federal public servant or team working in a government department or agency making a significant contribution to financial management and/or comptrollership within the Government of Canada.

Also honoured at the dinner was Rear-Admiral Bryn M. Weadon, CMM, CD, CMA, PLog, who received the first *CMA-CIPFA Lifetime Achievement Award*. Awarded at the discretion of the awards committee, Rear-Admiral Weadon, who retired in August 2009, was selected as this year's recipient for having provided financial management and comptrollership for one of the largest, most challenging and most scrutinized public budgets.

For further coverage of the gala, a profile of our winners, and information on next years' award process, please see our special supplement in this issue.



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Circulation and Administration

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

Liliane Kenyon (877) 262-6622
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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
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: August/September 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.

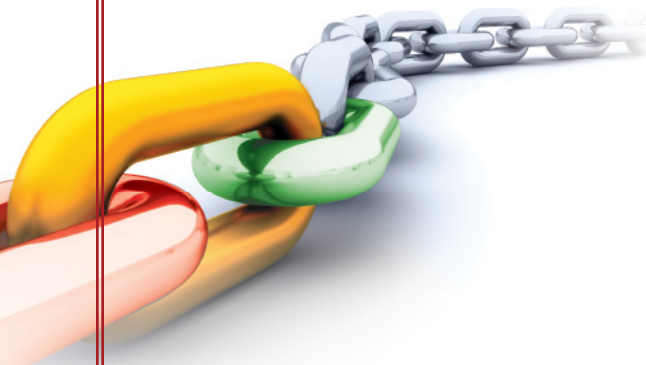
Printed in Canada by Web Offset Publications Ltd., Pickering, ON.

Canada



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Special section — Awards 2009



Honouring innovative thinking and celebrating excellence in public sector financial management.



The *Award of Excellence for Comptrollership in the Public Sector* was established in 2007 to recognize excellence in public sector financial management. Created by leading accounting bodies in Canada and Great Britain, the award follows up on the unique establishment of the CMA-CPFA program.

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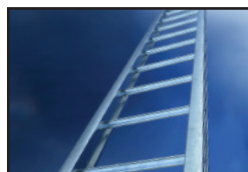
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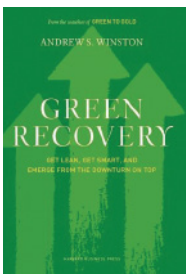
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Leading excellence

Green Recovery

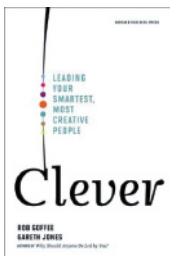


Sustainability expert Andrew Winston warns that companies that shelve their green strategies until the economy improves will miss an opportunity to make their businesses stronger and more profitable. In Winston's *Green Recovery*, he argues that environmental challenges and increasing "green" awareness have not disappeared in the wake of the financial

crisis. He says business leaders must face both problems simultaneously. Many of the same strategies that address environmental issues can help companies survive today's economic conditions and prepare when the good times return. Winston believes that going green is about doing more with less. *The Green Recovery* offers a road map for using green initiatives to: get lean — generate immediate bottom-line savings by reducing energy use and waste; get smart — use value-chain data to cut costs, reduce risks, and focus on innovation efforts; get creative — pose heretical questions that force you to find solutions to tomorrow's challenges today; and get engaged — give employees ownership of environmental goals and the tools to act on them.

Andrew Winston. Harvard Business Press.

Clever



The jury's been out on how to lead "clevers" respectfully and responsibly ... until now. Authors Rob Goffee and Gareth Jones argue that overseeing "clever people" demands an untraditional and nuanced new rulebook of leadership; both to feed and maintain first-rate employees during today's talent wars and increase value to their organizations. Instead of managers asking

themselves, "How do we make our employees more valuable to our business?" — they should be wondering, "How can we increase the value of our organization to our cleverest employees?"

Over three sections that focus on leaders, clever teams and clever organizations, Goffee and Jones offer insights drawn from their research. They explain how to: identify your clever people and their motivations; shelter your clever employees from political distractions that can inhibit their productivity; help clevers generate more value by creating clever teams; and manage the unique tensions that can arise when clevers work together.

Rob Goffee and Gareth Jones. Harvard Business Press.

Strategy for Sustainability



Leading business strategist Adam Werbach redefines sustainability as having four components: social, economic, environmental, and cultural, as discussed in his book *Strategy for Sustainability*. Werbach shows readers how a strategy for sustainability differs from traditional business strategy in three ways: 1) It

decentralizes the strategy-making process to the entire organization, creating teams that are willing to respond to turbulent times; 2) It sets goals that connect to the changes in society, technology and natural and human resources to point the way to opportunity in stormy waters; 3) It uses the tools of transparency to share problem solving with the rest of the world.

Werbach also uses success stories from Xerox to Wal-Mart to demonstrate how some companies are already realizing profits by putting sustainability at the core of their business — not with top-down directives from executives, but from small steps taken by people at every level of their companies.

Adam Werbach. Harvard Business Press.

News and views

New and noteworthy information you can use

Research reveals the environmental impact of spam

Spam e-mail is not only a nuisance, but is damaging to the environment and substantially contributes to green house gas (GHG) emissions, suggests a study by McAfee Inc.

In McAfee's "*Carbon Footprint of Spam*" study, climate-change researchers and spam experts calculated globally the annual energy used to transmit, process and filter spam totals 33 billion kilowatt-hours (kWh), or 33 terawatt hours (TWh). That's equivalent to the electricity used in 2.4 million homes, with the same GHG emissions as 3.1 million passenger cars using two billion gallons of gasoline.

"As the world faces the growing problem of climate change, this study highlights that spam has an immense financial, personal and environmental impact on businesses and individuals," Jeff Green, senior vice-president of product development and McAfee Avert Labs, says. "Stopping spam at its source, as well as investing in state-of-the-art spam filtering technology, will save time and money, and will pay dividends to the planet by reducing carbon emissions."

The study looked at global energy expended to create, store, view and filter spam across 11 countries, including Australia, Brazil, Canada, China, France, Germany, India, Mexico, Spain, the United States and the United Kingdom. It correlated the electricity spent on spam with its carbon footprint, since fossil fuels are by far the largest source of electricity in the world today. Key findings of the study include:

- The average GHG emission associated with a single spam message is 0.3 grams of CO₂. That's like driving three feet (one meter); but when multiplied by the yearly volume of spam, it is equivalent to driving around the earth 1.6 million times.

- Much of the energy consumption associated with spam (nearly 80 per cent) comes from end-users deleting spam and searching for legitimate e-mail (false positives). Spam filtering accounts for just 16 per cent of spam-related energy use.
- Spam filtering saves 135 TWh of electricity per year. That is equivalent to taking 13 million cars off the road.
- If every inbox were protected by a state-of-the-art spam filter, organizations and individuals could reduce today's spam energy by 75 per cent or 25 TWh per year, the equivalent of taking 2.3 million cars off the road.

CRA launches new applications to register charities

Effective Sept. 1, 2009, the Canada Revenue Agency will no longer accept applications submitted on the old Form T2050(01). The CRA suggests to destroy any blank copies of Form T2050(01) and ensure applications for registration as a charity are submitted on the new Form T2050(08). For more information, visit www.cra-arc.gc.ca/E/pbg/tf/t2050.

Many of the Agency's PDF forms can now be saved on your computer. Visit <http://www.cra-arc.gc.ca/tx/chrts/formspubs/flblfrms-eng.html> and download the forms, save them to your computer and save your work as you go. When the form is complete, simply print a copy and mail it to the Charities Directorate: Charities Directorate, Canada Revenue Agency, Ottawa, ON K1A 0L5

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Snapshot

How three CMAs worked together to facilitate change in First Nation taxation

By Allan Dorff, CMA, Clay Harmon, CMA, and Donna Porter, CMA

On June 1, 2008, citizens of the Nisga'a Nation in British Columbia (B.C.) began paying transaction taxes — taxes that include both the goods and services tax (GST) and provincial sales tax (PST). The taxation provisions of the Nisga'a Final Agreement, negotiated in May 2000, stated that Nisga'a citizens would be taxed as any other citizen of Canada. The sale of goods and services on Nisga'a lands would be subject to tax and Nisga'a citizens, wherever they reside, would no longer be tax exempt. A transition provision provided for the exemption for transaction taxation was extended to May 31, 2008, and the exemption for personal income taxation was extended to Jan. 1, 2013.

Well before implementation, Allan Dorff, CMA, account executive, British Columbia (B.C.) and Yukon, corporate strategies and business development branch, Canada Revenue Agency (CRA) for the Government of Canada and Clay Harmon, CMA, director of finance for the Nisga'a Lisims Government, initiated discussions, negotiations and plans in support of the historic implementation of this treaty commitment. The collaboration and change management required the support and assistance of B.C.'s Ministry of Finance (formerly the Ministry of Small Business and Revenue) officials. Donna Porter CMA, manager, marketing and

seminars, customer service and information branch, Ministry of Finance, was also a key member of the implementation team.

The implementation of transaction taxes created some unique challenges — specifically, communicating the changes to Nisga'a citizens, businesses on Nisga'a lands and to other businesses wherever Nisga'a citizens are served. For example, a Nisga'a citizen living on the Squamish reserve in North Vancouver and shopping at Park Royal shopping centre in West Vancouver would now have to pay PST and GST.

Numerous policies that guide the administration of tax, including compliance and audit provisions had to be reviewed, updated and confirmed by CRA and Ministry of Finance officials.

As part of the discussions, Dorff and Harmon presented the implementation details to the Special Assembly. Every two

First Nations taxation

Personal taxation will be effective for all Nisga'a citizens on Jan. 31, 2013.

As the Nisga'a Lisims Government looks ahead to Jan. 31, 2013 and the end to personal taxation exemption for Nisga'a citizens and everyone living on Nisga'a Lands, consideration is being given to the potential impact on the lives of those who will be affected. It is perceived that the transition over one pay period from tax exemption to full taxation could be somewhat traumatic for some people.

To assist employees in this transition process, the Nisga'a Lisims Government implemented a strategy whereby employees will have the opportunity to have a payroll deduction of five per cent in 2008, 10 per cent in 2009, 15 per cent in 2010, 20 per cent in 2011, and 25 per cent in 2012. The deduction will be paid into an investment fund in the employee's name so that the employee has full control over the funds. If we presume that most employees will have some increase in pay over the same period, the incremental deduction should not have a major impact on quality of life. Those employees who participate and leave the fund intact will build something of a capital pool. This deduction for investment will cease with the first pay day in 2013 when the first deduction for personal income tax occurs. Employees should experience no dramatic shift in take home pay as a result of the implementation of personal income tax.

This plan has been well-received by employees of the Nisga'a Lisims Government with good participation in the process. Administrators of the four villages that make up the Nisga'a Nation, the Nisga'a Valley Health Authority, and the WVN (Nisga'a College) have expressed interest in this transition strategy. More information on the Nisga'a Nation can be found at www.nnkn.ca or <http://nisgaalisims.ca>.

- Clay Harmon, CMA

CMA Management

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years, the Nisga'a Nation holds a Special Assembly that lasts up to five days where each directorate of the Nisga'a Lisims Government presents a detailed report to its citizens. All citizens have the opportunity to question each directorate in an open-microphone format. On average, 400 people attended the 2008 assembly daily. To reach those citizens who were unable to attend, the Special Assembly broadcast live on the Internet and invited citizens to e-mail questions to the various panels.

"The difficulty was to ensure that businesses and individuals had all the information they needed in order to comply with the taxation rules negotiated over eight years previously," Porter says.

The result was a significant outreach campaign to residents across the Nisga'a Nation and to citizens residing across the province. The campaign focused on the impacts of federal and provincial taxation. This was followed up with on-the-ground outreach to merchants and citizens residing outside of the Nisga'a Nation – in-person visits to large retailers and a mail out campaign to over 1,600 merchants outlined PST and GST changes to Nisga'a citizens. The CRA also established a 1-800 telephone service dedicated to responding to inquiries on the transaction taxes. On the implementation date, press releases and tax bulletins in English, French and Nisga'a outlined the

tax administration changes. Staff of the CRA's Northern B.C. and Yukon Tax Office worked closely with Porter to complete the communication campaign.

The success of the implementation of the first ever taxation of Status Indians in British Columbia was as a result of a significant long-term effort by a committee from B.C. and the Nisga'a Lisims Government. This committee had active participation from at least three CMAs.

Taxation

Taxation is not new to status Indians. As the general rule, GST exemption only applies to services and purchases delivered and consumed on Indian reserves. That is, if a person who holds a status Indian card in B.C. were to purchase a vehicle off reserve and have it delivered to their reserve then there would be an exemption for the transaction taxes. Many purchases such as taxable clothing and small appliances are simply delivered to and purchased in non-reserve stores and therefore GST and B.C. provincial sales tax are charged.

Allan Dorff, MBA, CMA, is the regional director, information technology service, Pacific Region. Clayton Harmon, CMA, CFP, CAFM, is the director of finance, Nisga'a Lisims Government. Donna Porter, CMA, is the manager, marketing and seminars, customer service and information branch, Ministry of Finance.



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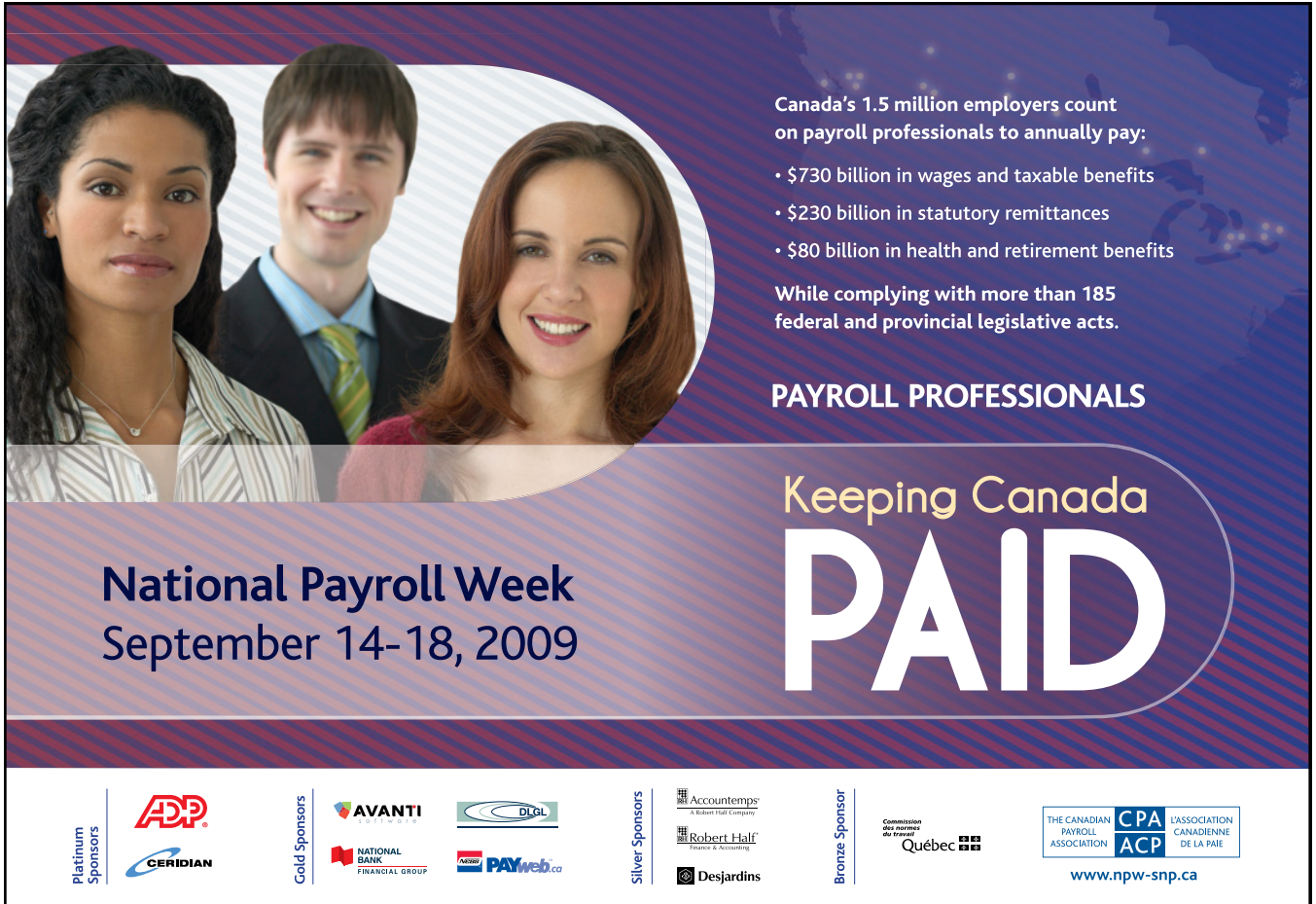
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Give waning workforce morale a jump-start

As the recession fuels employee motivation challenges, managers will need to use their communication skills like never before.

By **Connie Stamper, CMA**

When an uncertain economy prompts cost-cutting measures such as staff reductions that bring significant change to an organization, employee morale and productivity can take a direct hit. The rising workloads that often follow these events can be even more debilitating, causing even your most motivated team members to feel overwhelmed.

If your organization has not experienced these challenges, yet your employees still seem off their game, it could simply be they are feeling less secure about their jobs or financial situations — or those of people they care about. Forty-two per cent of Canadian accounting and finance professionals polled as part of research done in preparation for Robert Half's annual "*Global Financial Employment Monitor*" said they are feeling greater stress because of the current economy.

Don't stop offering new and rewarding challenges to your team — especially top performers.

As a manager, you know you should take action to help your staff cope. You also realize it is imperative to reignite your team's work momentum before deadlines are missed and critical projects derailed. But what can you do to help your team feel more positive and engaged? After all, you're under pressure, too, and have little budget to devote to morale-boosting activities. There are several measures that can help renew your workers' sense of purpose and reinvigorate their passion for their jobs that are cost-efficient and relatively easy to implement.

Here are a few tips for improving your staff's outlook and motivating them to perform at their best during this challenging time:



Find out what's on their minds

Your employees need to know you understand that the rough economy can distract them from their work. If appropriate, share stories about the challenges you have experienced during previous down cycles and explain how you have worked through them. Consider holding group meetings regularly where staff can ask questions, openly air their concerns, and discuss strategies for coping with stress and increased workloads.

It may take time for your employees to open up, as they may worry about not appearing to be team players. Assure them it is safe to express their opinions, raise issues and point out areas in the department or organization they believe could be improved. To get the dialogue



going, you may want to conduct a morale survey that employees can respond to anonymously, if they prefer, and then discuss the results as a group. There are many online resources for finding a survey format that will work best for your organization.

Be a sincere and frequent communicator

Even if you can't respond thoroughly to all the questions posed to you about what is going on within the organization, always answer honestly, give as much information as you can, offer to find out more as soon as possible, and then share your findings appropriately. If you can't implement your employees' suggestions for changes they believe will help boost morale and productivity, explain why. Don't just leave them hanging, or they may consider your efforts to reach out insincere.

Good managers recognize when, and why, employees need a break.

Instituting and adhering to an open-door policy and setting up specific "office hours" to talk without interruption with employees are other ways to demonstrate to your team that what they say is important to you. In addition, consider meeting with each staff member individually more often to gauge his or her satisfaction with the job, the work environment and your management approach. You also can use these meetings to provide timely feedback and monitor progress on mutually agreed upon goals.

Provide some mental stimulation

Talented people seek stimulating work and opportunities to advance their careers. If they do not feel the organization is committed to their professional growth, their morale is a likely casualty. This also can undermine your company's retention efforts, and you certainly don't want to risk losing talent if you are working with a leaner staff.

Don't stop offering new and rewarding challenges to your team — especially top performers. Provide alternative assignments or project management opportunities. Delegate more responsibility to professionals who show leadership potential — it's a move that will reduce the burden on your shoulders as well. Also, encourage collaboration and brainstorming among staff. Teamwork helps foster creativity and can

help boost motivation since everyone is working together to meet specific objectives.

Education and training opportunities should not be overlooked either. Even when budgets are tight, there are developmental activities you can put in place. You could, for example, enroll some of your top-performing employees in e-learning courses or classes at a local business college, and then encourage them to share what they learn with other employees either formally or informally. You can also set up a mentoring program, an excellent way to encourage knowledge transfer between experienced and less-seasoned employees and build rapport between staff members who might not normally interact closely.

Let employees have some time

Good managers recognize when, and why, employees need a break. No matter how talented or dedicated a professional may be, no person can work without a reprieve and not experience a slide in work quality. Taking time away from the workplace can help employees feel reinvigorated. But you'll need to give them "permission" to do so in this environment. Explain to your staff that the best performers know when to step away from the daily grind and rejuvenate.

Because many people are cutting back on personal expenses, it may be too difficult for an employee to take a multi-day vacation. Suggest instead that staff members take short breaks. Allow them to leave work a bit early, work a half day or take a personal day.

Often, just a change of scenery during the workday can also help people feel refreshed. Consider occasionally holding staff meetings away from the regular workplace. The physical separation from daily duties and familiar surroundings can inspire creative thinking and re-spark group and individual passion for work. Just be sure to give your staff enough notice of an upcoming off-site meeting to allow them to adjust their schedule. These meetings should jump-start employees' enthusiasm, not add to their stress.

Express your sincere appreciation

Acknowledging your team for their accomplishments reinforces positive behaviour, enhances productivity and strengthens morale and loyalty. Managers often forget that a simple and sincere "thank you" can be a powerful way to demonstrate to employees how much their contributions are valued. Be sure to offer timely thanks and kudos and communicate these sentiments in a manner befitting the situation.

While your organization — like many others — may be uncertain about the future, there are many things you can do to ensure your employees feel more sure-footed and focused. Open, honest and frequent communication with your employees, support for their professional development, and respect for their need to do things differently or "unplug" from work on occasion, can all help to keep your team working strong in any economy. ■

Connie Stamper, CMA, is a branch manager at Robert Half Canada.



IFRS: Managing the conversion

While IFRS implementation will be mandatory for publicly accountable enterprises, many private and non-profit organizations could also benefit from the value IFRS contributes to operations.

By Sam Khoury and Vaani Maharaj

With publicly accountable enterprises required to convert from Canadian GAAP to International Financial Reporting Standards (IFRS) by January 2011, financial accountants in Canada's public companies are rushing to meet requirements — and more private and even non-profit enterprises are likely to follow. Given that it has been more than five years since companies in the European Union, Australia and South Africa started adopting IFRS, the benefits of conversion are now becoming apparent. Among those companies that have adopted IFRS, along with acquiring a common worldwide financial reporting language, financial reporting typically becomes clearer and simpler. As well, access to capital is often easier because of enhanced financial performance comparability. These represent vital competitive advantages in the global marketplace.

Organizations here in North America are learning from the experiences of IFRS-convert enterprises. Yet in Canada, much of the focus addresses the mechanics of IFRS conversion from a technical financial accounting perspective — calculators and the wording of note disclosures to meet the onerous requirements of the standards. For the most part, performance measures are still waiting at the sidelines.

The IFRS framework asserts that a company's financial position on its reporting date is the main concern; the relevance of traditional performance metrics such as EBITDA and EPS are now questionable. This presents a significant gap between financial accounting and management accounting — whereas Canadian GAAP readily translates into performance measures, IFRS does not fit the mould.



Much of the focus addresses the mechanics of IFRS conversion from a technical financial accounting perspective — calculators and the wording of note disclosures to meet the onerous requirements of the standards.

The focus on financial position means that IFRS may impact profitability. For example, a company sells software with guaranteed future upgrades, the value of which is not yet determined. Canadian GAAP mandates that no revenue can be recorded until the software upgrades are designed, developed and delivered to the client or until



the values of the upgrades are known and verifiable. Under IFRS, organizations could make an educated estimate of the cost and value of the upgrade based on historical or other evidence, and could record revenues directly from the initial sale of this software while deferring an allocation for future upgrades. Canadian GAAP revenues would be lower than IFRS revenues in the initial accounting period and higher in the period when the upgrades were delivered. This causes an earning expectations challenge for management, shareholders and analysts.

Management accounting systems must be developed that support the financial accounting side of IFRS while also delivering best practices for the analytical data required for performance management and strategic planning.

While external stakeholders, investors, lenders and shareholders are the key beneficiaries of the enhanced transparency and comparability of enterprises using IFRS, corporate leaders require consistent, reliable management accounting data for internal controls and decision making. Yet, IFRS were not developed to serve as a standard for these purposes.

Management accounting systems must be adapted to support the financial accounting side of IFRS while also delivering best practices for the analytical data required for internal controls, performance management and strategic planning. This presents an opportunity to examine the metrics currently used within organizations and the methods used to derive them. Since conversion to IFRS requires major changes to information systems, management accounting requirements need to be integrated into this transformation process. This means management accountants should play a leading role in IFRS conversion planning and implementation to ensure the proper

integration of control and performance metrics.

For any enterprise that competes in the global marketplace, a cost-benefit analysis will determine whether IFRS conversion would be a worthwhile investment. It's important to consider whether other organizations in your industry sector intend to report under IFRS and, if so, whether the financial performance of your enterprise would benefit from comparisons. If so, then it would be worthwhile to take the next step and determine the organizational changes that would be required to adopt IFRS – how the new accounting data would impact each area of the organization.

In terms of management accounting, this might include performance measures, reports, processes, controls, compliance, technology, people, and the information systems supporting all of these. For example, the relevance of traditional performance metrics such as EBITDA and earnings per share is questionable under IFRS because the IFRS framework asserts that the balance sheet, which represents a company's financial position as of the last reporting date, is the most important determinant of value. This results in significantly more volatility in the income statement. For instance, whereas certain costs may have qualified for capitalization, or deferral was mandated for certain revenue contracts, under IFRS these costs would not meet the definition of an asset and revenue recognition criteria would be met; therefore, they would all be recognized on the income statement. This could result in significant ebbs and flows of earnings from year to year.

Management accounting systems must be developed that support the financial accounting side of IFRS while also delivering best practices for the analytical data required for performance management and strategic planning. Those responsible for management accounting need to play an active role in the IFRS conversion process to ensure the effectiveness of data and measures. Generally, an IFRS project may encompass four phases: impact assessment, planning, implementation and post-implementation review. Management accountants can participate in each phase, in tandem with the financial accounting side, in the following ways.

Impact assessment

- Identify key GAAP/IFRS differences in terms of management accounting.
- Conduct an impact and diagnostic analysis; this includes an analysis of anticipated changes to the measurement bases of relevant financial statement items, including current assets, current liabilities, revenue, cost of goods sold, etc.
- Define information requirements for management accounting purposes.
- Perform a cost/benefit analysis to compare the feasibility of performing lengthy reconciliations to obtain the requisite data versus adjusting the information system to automate portions of the process.

The most significant costs of IFRS conversion generally involve information technology — for the short-term, some organizations may choose to amend existing systems rather than completely reconfigure



the information technology infrastructure. It is, however, important to align conversion with an organization's strategic business plans in order to minimize late-stage changes – and their potentially inflated costs.

The transition to consistent international financial reporting standards provides an opportunity to strengthen information processes and applications because IFRS requires that certain information must be reported in specified forms. Financial accounting and management accounting should perform this step in tandem to ensure complementary and efficient adjustments.

- Determine conversion strategy and timetable.
- Identify training requirements.

Planning

- Assess impact on performance measures and internal controls. Map these measurement changes to the metrics currently used to assess the performance of the organization. For example, determine if IFRS now permits cost deferrals and how this affects the assessment of profitability.
- Assess individual metrics to determine whether they will continue to deliver relevant or adequate information; for example, what impact will new revenue recognition policies have on performance metrics?
- Define changes required to management accounting policies.
- Develop a detailed conversion project plan including resource requirements, key milestones and deliverable due dates.

Implementation

- Map the conversion adjustments required; for example, determining what information the IT system would now be required to capture, such as credit risk by customer pool.
- Finalize management accounting policies.
- Provide staff training as needed.

Post-implementation review

- Assess quality of analytical data delivered.
- Determine changes needed to meet best practice requirements.
- Finalize management accounting requirements for information systems.

For publicly accountable organizations in Canada, the sooner management accountants assume an active part in IFRS planning and implementation, the more effective internal control and performance data will be. And for accountants in private or non-profit enterprises whose markets extend beyond Canada's borders, this is the time to assess the potential of IFRS for these organizations.

Increasingly, management teams will need policies and practices that support daily decision making within the IFRS concept of financial accounting and reporting based on the principle of fair value. As this concept continues to permeate markets around the globe, management accountants should be positioned to assume a leading role. ■

Sam Khoury, (skhoury@bdo.ca), CA-IT, CPA, is a partner and Vaani Maharaj, CA, is manager, IFRS conversion services, of BDO Dunwoody LLP. They assist clients in implementing initiatives related to IFRS and business process enhancement.

When doing an **IFRS** conversion *close* just isn't good enough.



An IFRS conversion that is *almost* right just isn't good enough. That's why we created a new service called *IFRS Conversion, Simplified*. It's a disciplined process that will reveal exactly what your company will face during the conversion, and help you get every piece of the puzzle right.

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Linking risk management to the budgeting process

By Annette Dupré, CMA

A simplified business risk management model can help CMAs, experts in financial and strategic management, handle enterprise risk management.



Most organizations have a structured budgeting process that enables them to plan their revenues, their expenses and their capital expenditures. A smaller number of organizations — much smaller in the case of small and medium enterprises (SMEs) — apply an enterprise risk management process that allows them to identify, quantify and develop strategies to mitigate business risks.

Why is enterprise risk management important?

Risk management is an integral part of good corporate governance. According to the International Federation of Accountants¹, governance can be defined as: *The set of responsibilities and practices exercised by the board and executive management with the goal of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that the organization's resources are used responsibly.* Risk management is very wide in scope. It can be applied to strategic planning, to business plans and budgets, and to transactions that exceed a given size. Enterprise risk management is usually the responsibility of an organization's chief financial officer or president.

How did risk management develop?

A number of internal control standards were adopted in the 1990s. This gave COSO² in the United States, CoCo³ in Canada and Turnbull⁴ in Great Britain. In the wake of the scandals that marked the turn of the 21st century (e.g. Enron), risk management developed apace, which led to additional standards. For instance, in 2004, the COSO adopted a standard covering enterprise risk management, defined⁵

as: Enterprise risk management is a process, affected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

Risk management should be performed at least on an annual basis.

As for Australia and New Zealand, they were among the first countries to adopt a risk management standard, e.g. AS/NZS 43606, which was initially applied in 1995 and updated in 1999 and 2004. The method described in this article is based on this standard. Enterprise risk management is still a relatively recent discipline. Several large companies and multinationals have developed a risk management culture with sophisticated procedures and teams of experts. This is not the case, however, especially for most SMEs with limited resources. Still, SMEs practice intuitive risk management whenever they seek to ascertain risks involved in projects.

From the budgeting process to risk management

Directors in charge of budgeting will meet with division heads (vice-presidents) as part of the budgeting process. At the very least, the vice-presidents are approached when the annual budget is being prepared for approval by senior management and by the board of directors. Discussions are also held quarterly to provide adequate budget monitoring. These discussions with the vice-presidents could be used as a springboard for enterprise risk management. Risk management should be performed at least on an annual basis.

First step: Identify risk factors

The first step is to ask the vice-presidents what they feel are the primary risk factors that face their division, their department or the organization as a whole and what might prevent them from achieving their business objectives. Vice-presidents are required to list potential risks, even if it is highly improbable that the events will ever occur. For instance, staff turnover, a shortage of materials or the entry of new competitors could constitute risk factors. On the basis of these exchanges, a few examples of risk factors are provided in Table 1.

Table 1

Examples of risk factors	
Finance	Budget overruns, fluctuation in exchange rates, higher interest rates, increased inflation, rising tax rates, lower stock values.
Production	Shortage of some materials, strike, bankruptcy of a major supplier, insufficient automation, obsolete equipment.
Market	New competitors, launch of replacement products, lower prices set by competitors, business cycles.
Human resources	Shortage of qualified workers, retirement of key employees, unionization, strike.

Second step: Assess impacts and determine probabilities

After a list of risk factors has been drawn up, the potential impact of each factor must then be quantified, regardless of the probability that it will occur. This requires that a scale (Table 2) be established which is appropriate for the size of the organization. Ideally, impacts should be assessed on a dollar

scale, making it possible to compare highly different events and to clear up ambiguities. If such quantification proves to be difficult, a qualitative scale may be used instead.

The probability that each risk factor will occur should then be assessed by assigning a rating for each risk factor according to a scale that is consistent with the organization's circumstances. An example is provided in Table 3.

Table 3

Rating	Meaning
1	Probability of 0 to 32 per cent
2	Probability of 33 to 66 per cent
3	Probability of 67 to 100 per cent

Once the steps above have been taken, a risk map may be drawn up as shown in Figure 1. The risk factors are positioned according to two axes, e.g. impact and probability.

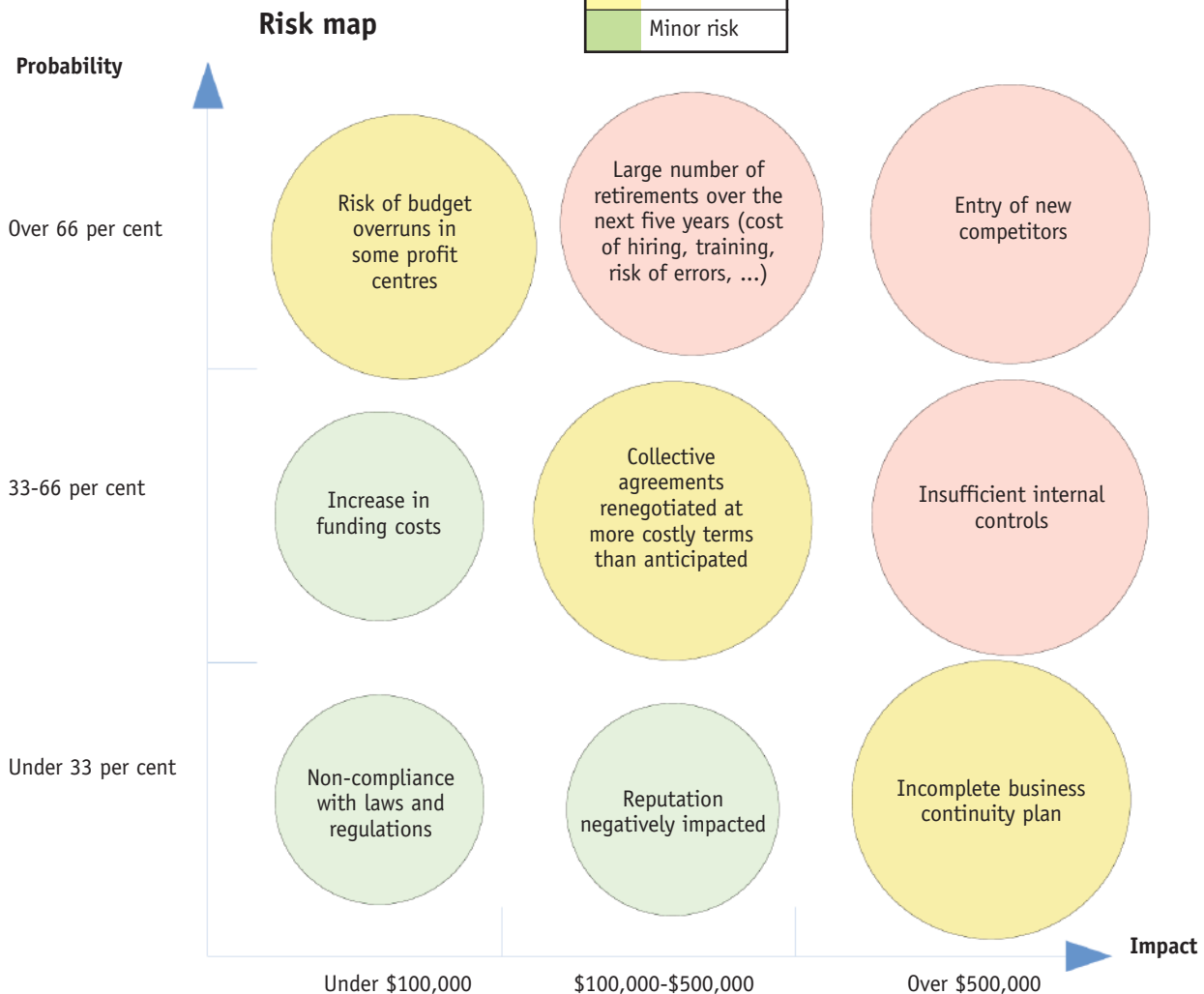
Third step: Calculate risk and develop strategies to manage risk

For each factor, the risk is then calculated by multiplying the probability of occurrence by the impact. To simplify matters, use a scale of one to three rather than exact impacts and probabilities. Accordingly, risk can range from one to nine, with one as the

Table 2

Impact	Quantitative scale	Qualitative scale
1	Reduces profitability by less than \$100,000	Little impact on profitability
2	Reduces profitability by \$100,000 to \$500,000	Moderate negative impact on profitability
3	Reduces profitability by over \$500,000	Strong negative impact on profitability

Figure 1



A row of spheres on a reflective surface. Most are grey, but one in the center is a vibrant blue. The spheres are arranged in a perspective that recedes into the distance.

Honouring innovative thinking and celebrating excellence in public sector financial management.

The *Award of Excellence for Comptrollership in the Public Sector* was established in 2007 to recognize excellence in public sector financial management. Created by leading accounting bodies from Canada and the U.K., the award follows up on the unique establishment of the CMA-CPFA program.

As the first of its kind in Canada, the award is given annually to a federal public servant or team working in a government department or agency making a significant contribution to financial management and/or comptrollership within the Government of Canada.

Both the award and the CMA-CPFA program help strengthen financial management performance and accountability across Canada's federal government.

Jim Quinn, CMA: Excellence in comptrollership in the public sector

As the first recipient of the *Award of Excellence for Comptrollership in the Public Sector*, Quinn, the CFO for Indian Northern Affairs Canada (INAC) was recognized for demonstrating high standards of performance in financial management.

By Andrea Civichino

An innovative, creative and common sense approach is what Jim Quinn, CMA, uses to address the financial management and comptrollership issues facing the Government of Canada today.

Quinn, the CFO for Indian and Northern Affairs Canada (INAC), has a direct influence on the Government of Canada's financial policies. Each day, he uses his leadership skills to motivate his staff to develop practical solutions that are easy to implement.

"When I'm working with my team on a new initiative, I always check to see if there's an opportunity from a common sense perspective," he says. "I'll try to push and move the initiative to the next stage in a practical, realistic manner. Sometimes in government, we get lost in the bureaucracy and don't see the practical solutions to what it is we are trying to achieve. If you take a common sense approach, include other people, and do the right thing, you're going to get there."

INAC supports Aboriginal people (First Nations, Inuit and Métis) and Northerners, and works to improve their social well-being and economic prosperity, develop healthier communities and increase their opportunity to participate more fully in Canada's political, social and economic development. Most of the department's \$7 billion budget is focused on programs which are delivered through partnerships with Aboriginal communities that often include partnerships with provinces and territories.

At the inaugural CMA-CIPFA comptrollership award dinner in Ottawa, Quinn was chosen, out of six finalists, as the first recipient of the *Award of Excellence for Comptrollership in the Public Sector* for demonstrating high standards of performance and making a significant contribution to financial management and/or comptrollership within the Government of Canada.

Quinn was recognized for the re-engineering and transformation of the former corporate services organization



to the new CFO model at INAC. This transformation, which involved a significant cultural shift within the organization, included the recruitment and integration of qualified financial management advisors in all the major business centres across the corporation, the development of innovative reporting systems, and investments in enterprise data warehousing, and revamping the corporate planning function.

Quinn worked closely with the Office of the Comptroller General to develop a blue print model for the development and roll out of the CFO model at INAC. The blue print was

developed over an 18-month period and the roll out was initiated in 2008 and included fundamental changes to the finance organization, the financial management and comptrollership processes, the roles and responsibilities of the financial community as well as the supporting technical infrastructure.

One of the critical factors of this project was Quinn's insistence on including the broader CFO community, but also people from regions and sectors who are stakeholders/participants in departmental financial management activities. Today, under Quinn's leadership and the involvement of the broader CFO community, INAC's CFO model is being "fine tuned" and has become an efficient enabling function for the department's various program units.

Quinn also provided leadership in the development of action plans related to the implementation of the new Transfer Payment Policy. In 2008, he led the completion of INAC's First Nations and Inuit Transfer Payment System (FNITP) which provides overall management of the department's \$6 billion grants and contributions programs which form the backbone for the various education, social and infrastructure (housing, schools, water plants) partnerships. This system provides a significant first step with numerous First Nations in their ability to access and provide essential information online. This feature benefits both First Nation and INAC managers by speeding up the sharing of information and will assist with a more focused approach to reporting requirements.

Quinn was asked by the Comptroller General to provide advice and contribute to the development of the government wide financial policy suite renewal. During this project, he used his financial management and practical experience as a senior manager to help draft various policies for approval by deputy ministers including the approved "Guideline on Chief Financial Officer Qualifications." He's led the Enterprise Data Warehouse (EDW) Integrated Financial System (IFS) projects at INAC and demonstrated the power of a business intelligence tool to provide accurate and integrated financial information to support decision making. Currently, the IFS project is being used as the backbone of INAC's Financial Status Reporting process. Quinn and his team also developed an IFS forecasting module to support the development of both annual budgets and monthly forecasts.

Shortly after Quinn was promoted to the CFO position, he enrolled in the CMA Executive Program and invested 18 months to earn his designation; while juggling a demanding full-time job as CFO. His creative thought process and ability to "think outside of the box" makes Quinn a popular candidate when his colleagues from other departments are looking for advice or best practices. A strong believer in teamwork, he says that no one individual can provide leadership or be a leader without recognizing that leadership is all about people and that people are "what make the machine move." He adds "when you get into the senior ranks, you don't want to become a leader who becomes the expert in everything because you have the title or position of the 'leader' of an organization. I think that's a weakness. You have to see the strengths of the people and various streams of expertise and how you leverage each of those streams to get the most out of the energy that's there. A leader is only as strong as the team he or she 'turns on' and their trust and respect — and their ensuing support — must be earned. I learned that lesson when I first started working when I was 16 years old onboard a coast guard ship. It was all about team then and it's all about team today."

He is also very active in helping colleagues in other departments and the federal financial management community at large by giving his time, advice and support. Quinn is an active supporter of the CMA Executive Program and regularly meets with participants to discuss his experience and share his thoughts concerning the Program and how it has helped him as a CFO in the federal government.

"I'm a huge believer in learning and development because it's one of the important things the public service and our department have to offer in recruiting and retaining people," he says. "I want to make sure my workforce is aware of and enthusiastic about the opportunities that are available to them," he adds.

Quinn says receiving the award "was a shock" and for someone who enjoys entertaining (he often hosts staff



From left to right: Joy Thomas, MBA, FCMA, C.Dir., president and CEO, CMA Canada, Jim Quinn, recipient, Award of Excellence for Comptrollership in the Public Sector and Caroline Mawhood, president, CIPFA.

gatherings at his house and is known to cook for more than 100 guests) this was one of the only times in his life where he was "short for words."

Quinn received a plaque and a \$1,000 donation to a charity or scholarship fund of his choice.

"I attended an all-boys high school in New Brunswick and because of this award I have been given an opportunity to give back to my high school and I therefore went down the scholarship route" he says. "I didn't grow up in the best part of town, so the scholarship has allowed me to do something for the school and students from the neighbourhood."

Quinn says he broke the \$1,000 donation into two parts and will continue to donate year after year on his own.

"Having my CMA designation and winning the award made me think of where I came from and the experiences I've had," he says. "There are so many people that I grew up with that may not have had the same opportunities. It's (the donation) not a lot, but it will certainly go a long way."

Andrea Civichino is the editor-in-chief of *CMA Management*.

With files from Roger Ermuth, director, continuous business process improvement, Indian and Northern Affairs Canada.

Honouring an exemplary career in financial management and comptrollership

Rear-Admiral (RAdm) Bryn M. Weadon, CMM, CD, CMA, PLog, received the first *CMA-CIPFA Lifetime Achievement Award*. Awarded at the discretion of the awards committee, RAdm Weadon, who retired in August 2009, was selected as this year's winner for having provided financial management and comptrollership for one of the largest, most challenging and most scrutinized public budgets.

By Andrea Civichino

After an extensive career with the Canadian Forces, it's no surprise that RAdm Weadon is retiring to the same place where he started his career — by the ocean.

Born in Barton-on-Sea, England, RAdm Weadon immigrated to Canada in 1965. A conversation with one of his high school teachers sparked his interest to enrol at the Collège militaire royal de Saint-Jean in 1974. In 1979, he graduated with a degree in business administration. After initial training as a naval officer, he was awarded his Sea-Logistics qualification in May 1982.

"My math teacher in high school told me about military college and it appealed to me because I was interested in putting myself through university," he says. "I was born on the south coast of England and I've always had an attraction to the sea and the navy. The ability to put myself through university for five years and join the navy and go to sea for a few years was very attractive, although I never expected to do it for the past 35 years of my life."

During his tenure with the Canadian Forces, RAdm Weadon spent 20 of his 35 years with the Canadian Forces serving the navy. He served as the supply officer of HMCS NIPIGON, the First Canadian Submarine Squadron and NCSM ALGONQUIN. He was the senior logistics officer for Maritime Forces Atlantic, Canada's East Coast Navy and the commander for the Canadian Forces recruiting group, responsible for all Canadian Forces recruiting activities.

RAdm Weadon was a section head in the directorate of costing services at National Defence Headquarters, Comptroller for the navy and director general financial management, and senior full-time financial officer for the Department of National Defence (DND) and the Canadian Forces. He was promoted to his most recent rank in April 2006 and assumed the position of assistant deputy minister finance and corporate services, and CFO for National Defence in February 2007. He retired from the Canadian Forces in August 2009.

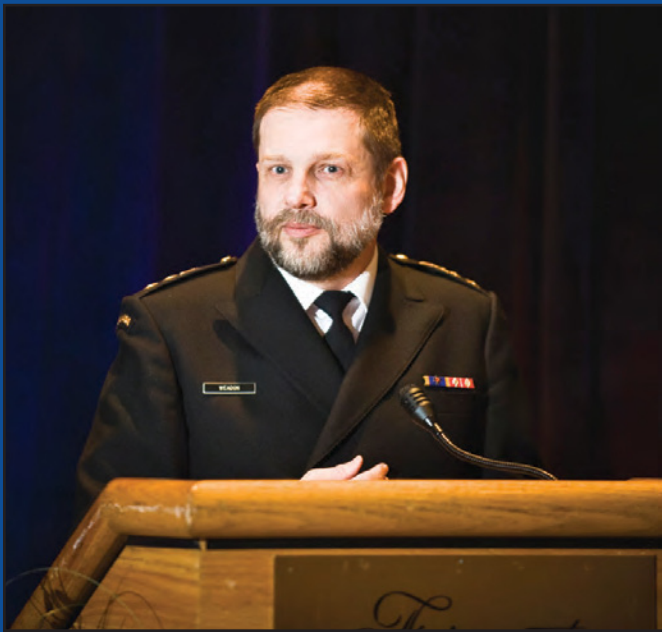


RAdm Weadon is a graduate of both the advanced military studies course and national security studies course. He was appointed to the Order of Military Merit in the rank of commander in 2008.

He received his CMA designation in 1986 and was active with CMA Nova Scotia, including one year as the provincial vice-president. RAdm Weadon was awarded his Professional Logistics designation in 2000 and currently serves as a national director for the Logistics Institute. He also was an active member of the Financial Management Institute, serving for

more than a decade as director at the chapter and national levels.

During his lifetime service to Canada in the Canadian Forces, RAdm Weadon provided financial management and comptrollership for one of the largest, most challenging and most scrutinized public budgets. At the DND, he exercised leadership through a number of challenges, including evolving implementation of accrual accounting and the development of accrual budgeting principles, financial support to deployed operations, ongoing preparatory work in support of the Audited Financial Statements project, responding to federal budget initiatives affecting Defence directly, financial guidance underpinning the Canada First Defence Strategy and the transition model under the Accountability Act. First published in June 2008, the Canada First Defence Strategy outlines the Canadian government's 20-year vision for National Defence and the Canadian Forces. RAdm Weadon was instrumental in the successful development of the Strategy — a priority of the Government of Canada that provided a unique approach to defence policy and finance that allocated the department a funding framework of close to \$490 billion over the next 20 years. RAdm Weadon's leadership in the implementation of accrual budgeting in the department was critical for the successful implementation of Canada First — challenging given National Defence's breath and complexity, with an annual budget of approximately \$20 billion and assets spread across Canada and the world.



“The Strategy enabled us to provide advice to government on what the expected costs would be for specific capabilities such as personnel, equipment and maintenance. It’s allowing the department for the first time ever to forecast the costs mapped over 20 years,” he adds.

RAdm Weadon’s implementation of accrual budgeting in such a complex landscape has contributed significantly to sound financial management and comptrollership at both the DND and in the Government of Canada. In the 90s, RAdm Weadon was the section head of costing for the department and forecasted costs for the Canadian mission in the former Yugoslavia. In addition, he also helped the department acquire C-17 aircraft and numerous pieces of equipment required for the success of the mission in Afghanistan.

“The CMA is the only designation that provides the ability and the skills to be able to do that type of work,” he says. “As a CMA, you’re not just an accountant; you’re a strategic advisor to the board of directors, or in my case, the deputy minister and the minister for the department. It’s being able to take financial information and present it in a strategic manner,” he adds. “CMAs are not only about producing financial statements or performing audits.”

The CMA designation has been instrumental to his career, especially in the 90s, when he was working on the costing side of the department. “There’s no way I could have performed the job I’ve retired from or the work I did earlier on in my career without the accounting management designation,” he says.

RAdm Weadon says not only is the DND a strong proponent for employees to further their education, but also a big supporter of the CMA Executive Program.

“You cannot become the senior military financial officer for the department without having a military background and it’s not a position that we recruit from the outside,” he says. “We’ve put a least eight to 12 people through the program in the last five years.”

With years of dedicating himself to provide sound financial management, helping influence decisions to provide Defence with significant funding flexibility, RAdm Weadon followed a simple motto as he moved through the ranks of his career: Don’t change your personality.

“When you start out as a junior in an organization, continue to treat your colleagues exactly the same way when you move up and become a senior executive,” he advises. “Even though there were times, especially in the military, where I had to be really formal and direct, I found it just as important to make the workplace fun. There’s enough stress in our lives. Be professional but create a fun atmosphere.”

After 35 years of paying close attention to issues related to DND, RAdm Weadon is looking forward to the next chapter of his life — focusing on himself and the needs of his family during retirement.

“I’ve had some tremendous jobs ... running the recruiting system for the military to managing the costs of missions, working with the United Nations on equipment costs and becoming the first serving military officer to be appointed substantively to the ADM post since it was created in 1972. There were a lot of ‘firsts’ throughout my career. I joined the military as a 16-year-old straight out of high school. This is the first time in my life where I won’t have any responsibilities. I have the opportunity to choose what I want to take on. I plan on doing some travelling and enjoying life.”

And of course, a chance to rekindle his love for the ocean.

Andrea Civichino is the editor-in-chief of *CMA Management*.

With files from Patricia Laviolette, director general, financial operations, National Defence, and BGen Claude Rochette, director general, financial management, National Defence.

The Award Ceremony

On May 25, 2009, The Society of Management Accountants of Canada (CMA Canada) and the U.K.-based Chartered Institute of Public Finance and Accountancy (CIPFA) hosted the inaugural *Award of Excellence for Comptrollership in the Public Sector* dinner and award ceremony. The event took place at the historic Fairmont Château Laurier in Ottawa, where attendees honoured the winner and finalists for their outstanding contributions in the field of financial management and comptrollership. Guests included public sector finance professionals, government officials, executives of CMA Canada, its regional partners and CIPFA staff.



Supporters of Rear-Admiral Bryn Weadon

From left to right: Frances Weadon; Sharon Chamberlain; Lorne Zens; Willow Vokey; Jill Carleton.



Master of Ceremonies

Michael Tinkler, chair, CMA Canada National Board of Directors; and senior director, Raymond Chabot Grant Thornton/Synerma Inc.



Special Guest Speaker

Rod Monette, Comptroller General of Canada

2009 Award Finalists

(In alphabetical order)

Canadian Nuclear Safety Commission

Brenda Brûlotte — Director, Accounting, Systems and Controls Division
Ghislain Cardinal — Financial Systems Analyst, Financial Systems
Patricia Fraser — Senior Cost Recovery Officer, Accounting Operations
Bruce Nicol — Senior Financial Systems Analyst, Financial Systems
Stuart Parley — Senior Financial Advisor, Estimates and Supply
Pierre Souigny — Director, Financial Planning and Reporting Division
Ivy Taudien — Senior Project Officer, Accounting Operations
Heather Villeneuve — Financial Advisor, Financial Management

Canada Revenue Agency

James Ralston — CFO and Assistant Commissioner of the Finance and Administration Branch

Department of Finance

Marc-Olivier Charbonneau — Senior Economist

Public Service Commission

Jean-Sébastien Dumas — Senior Systems Analyst
Christian Hébert — Senior Systems Analyst
Benoît Poirier — Financial Analyst
Antoine Thibodeau — Director Accounting Operations

Service Canada

Elizabeth Dall — Advisor, In-Person Channel Management
Chris Gillis — Senior Financial Analyst, Centre of Excellence for Costing
John Jackson — Director General, Citizen Services
Michael Saucier — Comptroller

2010 Comptrollership Award Selection Committee

Ruth Dantzer

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Canada School of Public Service

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Welch Consulting Group

Richard Dicerni

Deputy Minister
Industry Canada

Joy Thomas

President and CEO
CMA Canada

Rod Monette

Comptroller General of Canada

Michael Tinkler

Senior Director, Raymond Chabot Grant
Thornton / Synerma Inc.

Thank you to Steve Vieweg, past President and CEO of CMA Canada, for his guidance on developing the award program and serving as a valuable member of the 2009 selection committee.

2010 Call for Nominations

Entries are invited from any person within the Government of Canada, as well as the general public. Self nominations are also accepted.

Nominations Open:
(Look for new award categories)
Thursday, October 15, 2009

Nomination Deadline:
Friday, January 15, 2010

Award Ceremony:
Spring 2010

Award Criteria

The nominee must have made a significant contribution to financial management and/or comptrollership within the Government of Canada and should exhibit one or more of these qualities:

- Demonstrated innovative thinking and/or exemplary delivery of financial management and/or comptrollership services.
- Developed “best practices” in financial management and/or comptrollership services that have been shared within the Government of Canada and/or other public sector entities.
- Created “thought leadership” material in the area of financial management and/or comptrollership services.

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Table 4

Risk factors (a)	Probability (b)	Impact (a x b)	Risk	Strategy to mitigate risk, if applicable	In charge	Due date
Incomplete business continuity plan	1	3	3	Update the continuity plan	Executive vice-president	Sept.
Large number of retirements	3	3	9	Develop succession plans	Vice-president human resources	Dec.
Budget overruns in some profit centres	3	1	3	Reduce marketing expenses	Vice-president marketing	June

lowest risk and nine representing the greatest risk. An action plan must also be implemented to mitigate each risk. Alternatively, a decision may also be made to tolerate a given risk. It is important to clearly identify who is in charge of managing each risk and to establish implementation timelines for the various action plans. Table 4 illustrates this third step.

Enterprise risk management is still a relatively recent discipline.

The management team should feel comfortable with its risk assessment. Once the steps described above have been followed, organize a workshop to establish a common list of risk factors, impacts and probabilities, as well as to review the risk map and the table shown above.

Presentation to senior management

When presenting the annual budget or the quarterly budget monitoring to senior management and then to the board of directors, a section could be added on enterprise risk management, including the table and risk map. Omitting low-probability and low-impact risks may contribute to underscoring the major risks.

Benefits and limitations of this approach

There are several benefits to integrating enterprise risk management into the budgeting process. Not only is this approach simple and cost-effective, but it also enables an organization to quickly identify major risks. In addition, it is readily applicable to SMEs, which can rarely dedicate resources to risk management. Budget envelopes may also be partly allocated on the basis of identified risks. There are, however, a number of limitations to this methodology. Accountants and finance directors sometimes have limited power over implementation. Risk management can also be highly complex and require risk management specialists, especially in large firms or in specific sectors (e.g. financial services). Implementing risk management enables an organization not only to clearly identify strategic, financial, operational and transactional risks, but also to set priorities, to establish action plans and to allocate responsibilities. The ultimate goal of the process is to reduce the organization's overall risk and to ensure that it remains a going concern. ■

Annette Dupré, (annette_dupre@yahoo.com), CMA, MBA, is the manager of the finance department, City of Westmount, Quebec.

- 1 International Federation of Accountants, Professional Accountants in Business Committee. *Enterprise Governance: Getting the Balance Right, 2004.*
- 2 *Internal Control - Enterprise Framework (1992)*, Committee of Sponsoring Organizations of the Treadway Commission, United States.
- 3 *Guidance on Control (1995)*, Canadian Institute of Chartered Accountants, Canada.
- 4 *Internal Control: Guidance for Directors on the Combined Code (1999)*, Institute of Chartered Accountants in England and Wales, Great Britain.
- 5 Committee of Sponsoring Organizations of the Treadway Commission, United States.
- 6 Standards Australia/Standards New Zealand.

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Investing in accounts receivable: Effective analysis of credit policy

There are analytical challenges of striking balance between achieving efficiency in A/R management and respecting a company's long-term goals and customer relationships.

By J. Terence Zinger, CMA

Not since the time of the Great Depression has there been the level of turmoil that is occurring in today's global financial markets. This extreme market volatility can be traced back to the beginning of the U.S. subprime mortgage crisis in 2007, and ultimately manifested itself in unprecedented funding support for private financial institutions, both in Canada (where the federal government announced an injection of \$25 billion of new capital into the country's chartered banks) and the U.S. (where government bail-out programs were approved for financial giants AIG and Citigroup in late 2008). These developments have raised fundamental issues concerning not only the regulatory framework, but also the traditional relationship between government, business and labour. Moreover, this new economic order, characterized by rising unemployment, plummeting values in financial, as well as real assets, and depressed consumer confidence (and the accompanying deflationary pressures) will no doubt precipitate a reassessment of management practice in a wide range of areas, from management compensation to supply

chain strategies.

It is already apparent that the economic system has been severely constrained by the financing cutbacks initiated in late 2008 by major financial intermediaries across North America. As banks become less patient with debtor companies that are awaiting payment for their goods or services, borrowers will need to re-evaluate how they manage their working capital, the lifeblood of their organization. During any recessionary period, businesses will try to exploit any available means of reducing their working capital needs and thereby improving cash flow — whether through the scaling back of inventories, the establishment of more efficient internal processes for collecting and processing receivable payments, or the stretching of selected trade payables. It appears that the severity of the current economic slowdown is such that effective working capital management will be essential to survival.

With respect to the management of accounts receivable (A/R), the consequences will be dire for businesses that hope to be able to continue to rely on their operating lines of credit

to alleviate cash flow problems caused by slow collections. The due dates for such regularly scheduled cash disbursements as payrolls, rents, utility payments, and tax instalments are not subject to re-negotiation; so in the absence of the normal safety valve provided by unused credit line facilities, management will be obliged to re-assess the quality of its outstanding accounts as well as its systems for approving, monitoring and processing receivables. The challenge will be to strike a balance between achieving efficiency in A/R management and respecting the firm's longer term goals and customer relationships. The three determinants of credit policy are:

1. The terms of credit (due dates, available discounts for early payment) that are offered to suppliers/clients;
2. The established procedures for collections; and
3. The company's overall credit standards – which in effect establish, through an analysis of “willingness to pay” and “ability to pay,” the type of customer to which credit should be extended.

The accounts receivable investment decision

While in many instances (particularly for small and medium-sized enterprises), a company's credit policy will be dictated by the norms of the industry within which it competes, it is not difficult to envision situations – such as cultivating a new market or rejuvenating an existing brand – where a competitive advantage can be obtained by offering, for instance, extended payment terms (say from n45 to n60). In fact, if you subscribe to the belief that the mass market is being displaced by consumers who are less loyal, then going “against the grain” when it comes to deploying a more liberal credit policy as a selling tool may constitute astute management. Conversely, in light of the aforementioned credit market constraints, many companies will be motivated to pare down their commitment to receivables, perhaps through the enforcement of more systematic collection programs or the establishment of more aggressive early payment discounts. The following example illustrates a classic credit policy change scenario (typical of the type of exam question one encounters during the CMA accreditation process). The underlying theme here is that such decisions should not be taken without a clear understanding of the related administrative and financing costs.

Goldstar Industries, Ltd. is considering extending its credit terms to n45. As a result, management estimates that the average collection period will increase from 30 days to 60 days. Credit sales presently total \$3,000,000, and would increase by 10 per cent to \$3,300,000 due to the longer payment period (the company estimates that with its current output of 250,000 units, it is operating at only 80 per cent of its capacity). Neither Goldstar's selling price of \$12 per unit, nor its variable cost of \$9 per unit, would be affected by this proposed change to its credit policy. At the same time, this change would cause the company's administrative and

collection expenses to increase from \$120,000 to \$140,000. Also, it is expected that \$20,000 of the incremental sales would be written off as bad debts each year, given the lower quality of this new business (the historical bad debt ratio of three per cent will continue to apply to the existing sales). The pre-tax opportunity cost of 5.5 per cent is based on the company's best equal-risk alternative to investing in A/R. Required: Perform the calculations necessary to determine whether or not this is an attractive proposal.

As outlined in the solution in Panel 1, the requisite analysis entails a comparison of incremental benefits (the contribution provided by the new sales) to incremental costs (bad debts, collection and bookkeeping costs, and the costs associated with carrying additional A/R — recall that this last element, while intangible in nature, is a key component of the analysis as it represents the cost of additional capital committed to A/R). This analytical framework assumes a short-run perspective and as such, employs the contribution margin to measure the relevant benefits.

Also, the applicable opportunity cost (5.5 per cent) reflects the best alternative use of funds — in this case, paying down short-term lines of credit (at the time of writing, the bank prime rate stood at 3.5 per cent). On a technical note, with



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Panel 1

	STATUS QUO	PROPOSED	DIFFERENCE
Average collection period	30 days	60 days	
Credit sales (units)	250,000	275,000	25,000
Credit sales (\$)	\$3,000,000	\$3,300,000	\$ 300,000
Less: Variable costs (75 per cent)	2,250,000	2,475,000	(225,000)
CONTRIBUTION	750,000	825,000	\$ 75,000
Less: Related expenses			
Bad debts	\$ 90,000	110,000	(20,000)
Credit administration	120,000	140,000	(20,000)
Increased profitability			\$ 35,000
Investment in A/R	\$ 184,932*	406,849**	221,917
Opportunity cost of A/R @ 5.5 per cent	\$ 10,171	22,377	(12,206)
TOTAL			\$ 22,794

$$* \frac{\$3,000,000}{365 \text{ days}} \times 30 \times .75 = \$184,932$$

$$** \frac{\$3,300,000}{365 \text{ days}} \times 60 \times .75 = \$406,849$$

the calculations being carried out on a pre-tax basis, there might be a tendency to simply rely on the firm's pre-tax cost of capital; however, the low risk nature of an investment in A/R does not warrant a substantial risk premium (Lusztig et al., 2001: p. 851). Therefore, the better proxy for the opportunity cost is the interest rate at which the seller finances receivables — typically the rate on short-term bank loans. In this case, the quantitative analysis supports acceptance of the proposal: the net expected annual pre-tax benefits total \$22,794, and the promised rate of return of 10.3 per cent (\$22,794/\$221,917) is well in excess of the required 5.5 per cent return. Yet the implementation of this change may turn out to have a high probability of destroying, rather than creating value.

Broadening the analysis

Moving beyond point estimates: As depicted in Panel 1, it can be extremely misleading to rely exclusively on the “best estimate” for each input variable.

For instance, further investigation may reveal that the company is actually closer to reaching its operating capacity

than originally predicted; consequently, in order to accommodate the additional sales volume, it will be necessary to incur warehousing (rent and insurance) costs of \$9,500. Furthermore, it may be determined that there is a reasonable chance that the incremental costs of credit monitoring and collections could be as high as \$150,000, rather than the \$140,000 cited above. The implications of these two revisions are illustrated in Panel 2, which reveals a dramatic decline in the expected benefits to a level of only \$3,294. With an anticipated return of less than 1.5 per cent, the decision would now rest on strategic and/or behavioural considerations, rather than the quantitative analysis.

To avoid bias and ensure transparency, it is incumbent on management to ensure that the probable range of values for each variable is taken into consideration. Clearly, the quest for due diligence will have its limitations; realistically, the costs of gathering better information with regards to bad debt outcomes or market reaction as measured by added sales, will sometimes outweigh the

benefits in terms of improved decision making.

The Capacity issue: Implicit in the standard marginal analysis of credit sales is the assumption that the business has adequate capacity to handle the new level of activity created by a more liberal credit policy. However, the reality is that the vendor, whether it's a service or manufacturing entity, can quickly surpass its operating capacity, and create a need for overtime payments, temporary equipment rentals or part-time or subcontracted personnel. As illustrated in Panel 2, in this event, the cost function changes with the advent of new semi-variable costs such as utilities, and/or fixed costs, including rent and insurance.

By the same token, it may not always be necessary to factor in increased credit administration costs. The credit department may well have the capacity to absorb the extra workload generated by more credit sales (much of which could be attributable to existing customers).

Beyond such operating expenses, if the credit policy change stimulates a substantial increase in volume, there could also be one-time cash outflows in the form of a build-up in inventory or the purchase of new equipment or vehicles. Accordingly, the entire complexion of the analysis would change in as much as a formal capital budgeting process would be required to properly evaluate year-to-year cash flows, capital cost allowance implications and terminal values. Nonetheless, it is this author's view that the capital budgeting model would rarely be justified here given the short term focus of credit policy analysis.

Different approaches to measuring the investment in accounts

receivable: For the majority of authors of contemporary finance texts¹, the method of choice for valuing the seller's investment in receivables is consistent with the presentation in Panel 1. The rationale, of course, is that the variable costs that have been incurred to prepare and sell the product or service,

effectively capture the value that the business has tied up in accounts receivable. According to this line of reasoning, if one were to employ the book value of the receivables, the amount would be inflated in so far as it would include not only the “out-of-pocket” commitment, but also the company’s markup.

In the interests of providing a balanced presentation, it is necessary to also fully describe the opposing school of thought: the belief here is that by measuring this marginal investment on the basis of only variable costs, we are understating the magnitude of the opportunity cost, e.g. the return that the company could have earned on the funds released if they were not committed to A/R. In other words, the value of the cash flow invested in new A/R should be determined by its most favourable alternative use.

Another interesting facet of this argument is that the use of the “full price” or book value metric is consistent with the manner in which changes in A/R are presented in the statement of cash flows. Consider also the following perspective offered by Block, Hirt and Short (2005, p. 222):

“The investment in the receivable has changed in substance from inventory to credit with the concurrent change in the profit and equity accounts, and the expectation of returns.”

Finally, Cyr et al.(2004) argue that in the interests of symmetry, the opportunity cost of new investments in A/R should rightly be based on the return that could be earned if the total reverted back to its original level (2004: p. 588). To illustrate this concept, they offer an example (using the same cost/benefit template employed in this article) of the impact of instituting a discount policy and show how the resultant decrease in the level of A/R is normally valued at its book value (in their example, the benefit derived from the lower opportunity cost of A/R is simply compared to the costs — lower revenue inflows — associated with customers taking advantage of the early payment discount). The “symmetry”

Panel 2

	STATUS QUO	PROPOSED	DIFFERENCE
Average collection period	30 days	60 days	
Credit sales	\$3,000,000	\$3,300,000	\$ 300,000
Less: Variable costs (75 per cent)	2,250,000	2,475,000	(225,000)
CONTRIBUTION	750,000	\$ 825,000	\$ 75,000
Less: Related expenses			
Bad debts	\$ 90,000	110,000	(20,000)
Credit administration	120,000	150,000	(30,000)
Incremental warehouse costs			(9,500)
Increased profitability			\$ 15,500
Investment in A/R	\$ 184,932	406,849	221,917
Opportunity cost of A/R @ 5.5 per cent	\$ 10,171	22,377	(12,206)
TOTAL			\$ 3,294

argument would call for any build-up in A/R to be treated the same way, using the book value metric.

The calculations in Panel 3, which carry forward the revised inputs for Panel 2, but now utilize the book value measure, demonstrate that the resultant higher value of A/R transforms an

attractive project into one that would not be supported by the numbers. Therefore, at the very least, this alternative technique for valuing the opportunity cost of investments in A/R should serve as a useful trigger for sensitivity analysis in evaluating credit policy changes.

Panel 3

	STATUS QUO	PROPOSED	DIFFERENCE
Average collection period	30 days	60 days	
Credit sales	\$3,000,000	\$3,300,000	\$ 300,000
Less: Variable costs (75 per cent)	2,250,000	2,475,000	(225,000)
CONTRIBUTION	750,000	\$ 825,000	\$ 75,000
Less: Related expenses			
Bad debts	\$ 90,000	110,000	(20,000)
Credit administration	120,000	150,000	(30,000)
Incremental warehouse costs			(9,500)
Increased profitability			\$ 15,500
Investment in A/R	\$ 246,575*	542,466**	295,891
Opportunity cost of A/R @ 5.5 per cent	\$ 13,562	29,836	(16,274)
TOTAL			(\$ 774)

$$* \$3,000,000 \div 365 \text{ days} \times 30 = \$246,575$$

$$** \$3,300,000 \div 365 \text{ days} \times 60 = \$542,466$$

A final caveat

As is the case with many financial management topics (capital budgeting, valuation, determining the cost of capital), the sophistication of the measurement techniques and the apparent exactness of the results can convey a false sense of precision. The

establishment of a credit policy should be perceived in the same way. As the foregoing commentary suggests, credit policy represents a dynamic, moving target. Companies would generally go through an iterative process, slightly adjusting one or two policy variables at a time, ostensibly moving in the direction of an optimal situation;

however, even if a quantitative analysis indicates that a specific proposal would be desirable, there is no assurance that a different mix of the salient variables might be even better.

In this era of limited credit availability, it will be critically important that anyone who is involved in credit policy decisions — including accounting, marketing, and finance personnel, as well as external advisors in these areas — have a keen awareness of the key drivers.

The above prescriptions should be of particular value in helping managers to fine-tune their efforts across the spectrum of credit management activities, whether the objective is to better exploit existing customer relationships or to improve the timing and reliability of cash flows from existing receivables. While the model presented here for evaluating credit policy change is relatively straightforward, the challenge lies in conducting the necessary research to yield reliable and objective inputs, while ensuring that there is adequate attention paid to the sensitivity analysis needed to ensure that no aspect of the proposed change to credit terms, collection procedures, or credit standards is overlooked. ■

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¹ Among the proponents of this variable costing approach are: Gitman and Hennessey (2008), *Principles of Corporate Finance, 2nd Canadian Edition*, Pearson, Addison-Wesley; Lusztag, Cleary and Schwab (2001), *Finance in a Canadian Setting, 6th Edition*, John Wiley & Sons Canada, Ltd.; and Van Horne, Dipchand and Hanrahan (1993), *Financial Management and Policy, Canadian 9th Edition*, Prentice-Hall.

² The sales value (i.e. book value) measure is utilized in such textbooks as: Cyr, Kahl, Rentz, Moyer, McGuigan & Kretlow (2004), *Contemporary Financial Management (1st Canadian Edition)*, Thomson, Nelson Canada, and Block, Hirt & Short (2005), *Foundations of Financial Management Finance, 7th Canadian Edition*, McGraw-Hill, Ryerson.

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Hope is not a strategy

The key is to take smaller steps to achieve financial goals.

By Craig A. Machel

The world's most successful athletes focus on the process by which to achieve their ultimate goal, rather than solely setting their sights on the desired outcome. The same can be said about successful investors. Instead of blindly focusing on their long-term objective and trusting "hope" to achieve it, these investors focus on the smaller steps they need to take to get them to their ultimate financial goals.

In investing, as in athletic training, hope is not a workable strategy. While having a positive mindset is certainly advisable in any pursuit, if you trust solely in hope, you can actually hinder yourself from making measurable progress towards your goals.

With that in mind, allow me to assume the role of your financial coach and let you in on some training secrets. Implement this program of four simple exercises on a disciplined basis and you'll be well on your way to achieving that ultimate goal: financial security.

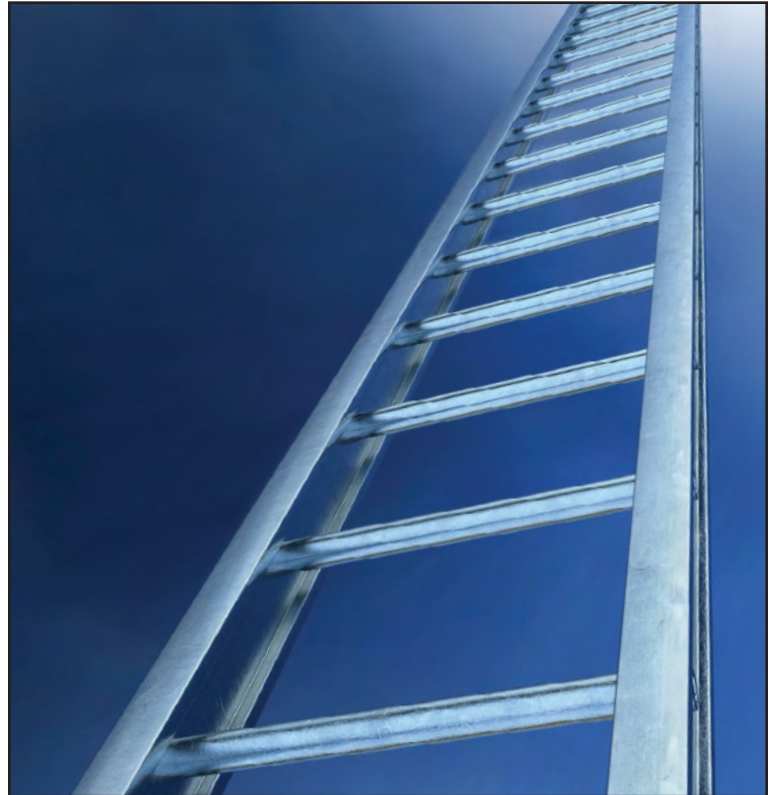
Exercise one: Make your investments a top priority — all the time

The most important thing investors can do to improve their financial circumstances is to make them a top priority. The status of your current savings and your progress towards your ultimate savings goals should be something you reflect on regularly—and act upon quickly if something isn't working.

Think about it in terms of your health. We all know that the right thing to do when you break a limb is to assess the damage immediately, seek professional assistance to repair it and work hard to recover. The same response should apply to a damaged financial strategy: assess the problem, get the advice of a trusted professional, and implement new strategies to help the portfolio recover.

For some reason, however, the recent shocks to the financial system have paralyzed many investors, making them incapable of this type of direct action. Instead of recognizing that their portfolios are broken and taking action to fix them, many investors are remaining passive and simply hoping their portfolios will somehow mend themselves.

This isn't a viable strategy. With each day, month and year that passes, you have that much less time to



grow your savings — you're that much closer to withdrawing from your savings for retirement. Time is a valuable, diminishing commodity for all of us. As such, waiting for recovery is costly in terms of time, mental strength and capital. It's a strategy that very few of us can afford.

Instead, make your investment portfolio one of your priorities and take steps to ensure its ongoing health. It's far better to take the time now to mend the portfolio properly than let it limp along and run the risk of not reaching your destination.

Exercise two: Open your mind to new investments and strategies

Many investors inadvertently hurt themselves by clinging, often with white knuckles, to preconceived beliefs about what to invest in and how. These investors close their eyes to what is happening around them and hold out hope that their existing notions will prove to be true because they worked in the past. This approach to investing is akin to placing hope in a favoured weather forecast prior to an outdoor wedding — both can lead to disappointing results. It's better to be open to the possibility that things won't go as planned and to bring along that umbrella.



And umbrellas now abound in the investment industry. As the world around us has advanced, so too have the financial markets. The solutions now available for investors as a means to protect and grow their capital with less volatility and risk are worthy of exploration. It is only to your advantage to move beyond a restrictive notion of investing that involves only stocks or bonds or a “buy and hold” mantra. Certainly not all products will be right for you, but you owe it to yourself to find out about them.

Allow yourself to consider new investments and strategies. These innovative products and proactive strategies can have a profound effect on your portfolio in all market conditions, bringing you even closer to financial security.

Exercise three: Seek out more than information — demand advice

“Advice” comes in all shapes and sizes, particularly when it comes to parenthood, dieting and investing. A stroll through your local bookstore or a search on the Internet is evidence of this, with the most popular books and sites reflecting the current “flavour of the day.” While some of the information is valuable, due to the fact that it is mass produced, it cannot actually qualify as advice — it is simply information.

It is essential to make this distinction when considering published advice about investments (including this article!). And that is where a trusted investment advisor comes in. He or she can help you filter through the information available and, as she/he is aware of the circumstances unique to you, she/he can help you assess what findings, if any, are relevant to your situation.

The advice of an experienced advisor is also crucial in uncovering whether a particular investment product or strategy is suited to you — and why it is so. By asking good questions, you can get even better advice from your advisor. Consider asking the following: Why is this investment well suited for me?; Do you think its historical and future performance will benefit me?; What are the risks?; What are the after-tax expectations?; or How will this affect me, given my specific time horizon?

We are called investment advisors for a reason. Those of us who love our work enjoy the opportunity to truly demonstrate the value we can add by helping our clients sort through the (mis)information out

there and make good, informed decisions. Demand this level of service — you deserve it.

Exercise four: Adhere to the cash rule

The cash rule is a great way of determining whether you need to make changes to your current portfolio. It’s very simple: imagine you had the value of your portfolio today in cash. How would you invest it? Would you repurchase everything you currently own or explore other solutions and alternatives? Your answers to these questions will tell you what needs to be adjusted within your portfolio. If it isn’t worth buying today, it probably isn’t worth holding onto either. So why do so many investors hang on to poor investments?

The status of your current savings and your progress towards your ultimate savings goals should be something you reflect on regularly—and act upon quickly if something isn’t working.

As humans, we have an instinctive mechanism that precludes us from correcting errors in prior judgment. Our emotions get in the way. We get attached to stocks and strategies, feeling like they “owe” us something, or become convinced that history will repeat itself. History should not be overlooked, but it cannot be relied upon — too many changes, and very quickly. It is illogical to cling to faith that a stock or fund will achieve what you had once hoped for because it has historically done so. Just ask any Nortel Networks shareholder (that Canadian technology darling, once held in the highest regard by analysts and investors around the globe, made up a full third of our country’s capital market index and is now currently in bankruptcy protection).

The chances of investment success are greatly enhanced for investors that can detach themselves from previous investment decisions. Adhering to the cash rule will enable you to move forward from what once seemed like a well-constructed decision that has since been proven inaccurate.

And there you have it. Four simple exercises to help ensure you’re on the right path to achieving your financial dreams. Apply them with rigour and, like a dedicated athlete, you will reap the rewards of your discipline.

Refuse to fail conventionally by choosing to succeed unconventionally. Don’t fall into the common trap of trusting hope as an investment strategy. Take control of your investments by taking these four steps to securing your financial future. ■

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Call centre of the future

Making use of the latest technological improvements enables organizations to enhance customer service while improving staff productivity and cutting costs.

By Mike Kinrys, CMA

Many large organizations operate call centres. Although technological advances such as computer-telephony integration (CTI) and interactive voice response (IVR) have led to dramatic improvements over the last 20 years, further advances can be expected in the following areas: seamlessly integrated databases, advanced self-serve applications, multi-channel delivery, interactive video training clips and expert systems.

What's most noteworthy about these advances is that they: improve customer satisfaction, increase customer service representatives' (CSR) productivity and lower operating costs.

Seamlessly integrated databases

Over the last several decades, companies have invested a significant amount of money to automate many areas of their business. These companies have created wonderful applications to handle credit checks, sales, accounts receivables, and marketing. Unfortunately, in many cases, these have been created as stand-alone applications that don't communicate with each other. Something as simple as updating a customer address can be a nightmare when the information is stored in multiple databases, and there is no single process to ensure all the data is synchronized.

Today's customers want to access their accounts directly without going through an intermediary.

Fortunately, an alphabet soup of technology (ECM, SOA, MQ, J2ME, etc.) exists to tie together and synchronize data kept in mainframe



computers, mid-range computers, UNIX/Windows servers, personal computers, and even mobile and media devices. Adapters are available to access the data anywhere it is stored, and updates can be made in batch mode, real-time, or anywhere in between.

Why is it important to tie together these databases? Companies have realized that the actions that employees take are only as good as the data they are working with. As an example, a nationwide Canadian retailer had warranty information spread across five different legacy systems. Customers discovered that CSRs often didn't have full access to all their records, so if the first CSR they called wouldn't give a full refund on an item bought many months ago, they would keep calling back until they found another CSR who didn't know the customer history and would agree to provide the full refund. Tying together the data from the multiple systems and presenting the information on a single web browser screen made this "CSR shopping" no longer possible.



Advanced self-serve applications

Many of us in our 40s, 50s, and beyond take it for granted that if we need to inquire into our account, make a change, order a product or service, or check a status, we call a 1-800 number, wait several minutes, then finally speak to a CSR. What do CSRs do in response to the call? They busily type away on their keyboards to access our customer data while we wait on the phone. Why not offer an option that allows customers to access their own information?

Perhaps as part of a generational shift, those in their teens, 20s and 30s take it for granted that if they have to contact a company, they expect to have the option of going online to take care of what they need themselves. Why bother speaking to a CSR when you can save time and do it yourself? If anything, they now look negatively at a company that doesn't provide self-serve options.

As an example, a Canadian satellite TV company incurred huge costs in their call centre from

handling requests from their subscribers for routine updates to their accounts. They decided to implement a series of self-serve applications to slash the number of calls their CSRs had to handle. These self-serve applications enabled subscribers to update their accounts to add a receiver, suspend/reactivate service for vacation, swap out a security smart card, and change their channel package. These steps increased customer satisfaction of their two million subscribers (who didn't have to wait on hold) while saving tens of millions of dollars for the company through avoiding calls to their call centre.

Multi-channel delivery

Today's customers want to access their accounts directly without going through an intermediary. The bar has been raised so that companies have to allow access through multiple delivery channels, not just telephone interactive voice response (IVR) or web browser access. For example, the "don't leave home without it" technology of today is the mobile phone. Today's consumer wants to act now and not wait until he/she gets home to use the computer to access a company's website. Why not take action using the mobile phone while waiting in line for a coffee and donut?

As with most aspects of life, the 80/20 rule applies to call centres as well.

Companies therefore have to provide self-serve access to these seamlessly-integrated databases via multiple delivery channels. This was the approach taken by the aforementioned satellite TV company. The self-serve applications supported multiple delivery channels — traditional telephone (IVR), Internet web browser, mobile smartphone, and satellite TV set-top box.

Interactive video training clips

When these customers start accessing self-serve applications over their web browser or smartphone, they may need instruction on how to perform a function. Rather than trying to explain a function using "Help Text," perhaps supplemented by some diagrams, why not show users a short video clip? The company could have a library of short video clips showing screen captures of commonly done tasks, which could be played back to customers if they need help in a particular area.

Here's a simple example of a help video application that is being implemented currently to support a new point of sale (POS) application for a mobile phone company with 10,000 stores across the U.S. If a sales clerk needs to know how to switch the POS screen to work in left-hand mode instead of right-hand mode, or how to process a discount coupon, after the clerk clicks on the help button, the system plays a short video of a screen capture showing how to do this, complete with a voice-over. With this option, the user can see exactly what keys to hit and how to navigate through the screens.

Instant messaging (IM) — Real-time communication between two or more people based on typed text.

Legacy system — An old or outdated computer system or application program that a person or company continues to use because it still functions for the users' needs, even though newer technology is available.

Expert system — A computer program that uses artificial intelligence to solve problems that usually requires human expertise.

Audio capture — Software that offers an audio recorder feature that can record streaming audio and media from online Internet resources.

Voice over Internet Protocol (VoIP) — The transmission of voice traffic over IP-based networks.



Expert systems

As with most aspects of life, the 80/20 rule applies to call centres as well. The bulk of transactions that go through are usually very straightforward and only a small percentage requires special handling. So, why not meld together multiple technologies (instant messaging, text-to-speech, expert system/business rules engine, audio capture) to automate routine handling, while leaving a quick path for calls to get transferred to a live agent when required, with an immediate transfer back to the automated path to finish off the call?

This application is not science fiction; it is being implemented currently at several companies. The application allows a customer to interact with the system through an instant messenger (IM) interface to place an order. The system and the customer go back and forth with questions and answers (Are you still at 123 Main St.? What would you like to order today? Pick up or delivery?). At any point, if the system is unable to figure out what the customer wants, the conversation (along with the voice clip and

transcript of what's previously been said) are passed to a live CSR to handle the tricky part. The CSR can continue the interaction using the IM interface, and once the problem is resolved with the customer, the conversation can be passed back into the automated system.

Phase II of this project will involve transferring this IM text conversation to work in a voice mode as well (speech-to-text and text-to-speech). In the future, if the system receives a call from a customer in Conception Bay, N.L., the computer will be able to take the order with an authentic East Coast accent.

As author Thomas Friedman pointed out, the creation of technological marvels such as the Internet, World Wide Web, search engines, and VoIP over the last several decades has made the world feel much smaller and interconnected – in his words, “the world is flat.” Taking technology that is readily available today and applying it to the world of the call centre will result in the call centre of the future. In this world, fewer calls will be coming in (because of self-serve applications); users will be able to get information from across the company and beyond (because of integrated databases); and the whole system will be accessible by users anywhere/anytime through multiple delivery channels. ■

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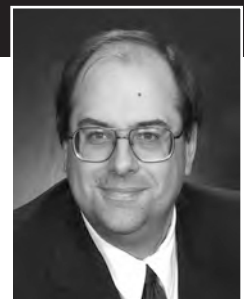
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Analysts call for action on Canada's weak track record in workplace training

At best, Canada might earn a C grade for workplace training incentives. The country is underperforming compared to other major industrialized nations.

By John Cooper

As a senior financial analyst with Ontario's Ministry of Government Services, Lelia Cojocaru knows that ongoing workplace training is necessary to keep her knowledge and skills current. Fortunately, Cojocaru has been able to take an average of two courses a year since joining the public service eight years ago. Courses have been paid for by her employer, and she has embarked on training with the full support of her manager.

But current research suggests that Cojocaru's experience may be an anomaly in an environment where Canada's overall commitment to employer-sponsored training is surprisingly low.

According to Canadian Policy Research Networks (CPRN) researchers who recently studied Canada's performance in workplace training incentives against that of other major industrialized nations, Canada is a workplace training underperformer; the country might earn, at best, a C grade. The study examined employer-sponsored training with respect to long-term benefits to both private and public sector job-related training (e.g. were job skills transferable from one sector to another?), the knowledge economy and lifelong learning. CPRN found that less than 30 per cent of adult workers in Canada participate in job-related continuing education and training, compared to 34 per cent in the U.K. and 44 per cent in the U.S. Denmark led the way with 46 per cent, followed by Sweden at 45 per cent.



Employers hesitant to invest in training

In Canada, employer-sponsored training tends to be concentrated among young workers — those with higher education and skill levels and workers in large corporations. Employer barriers — the reasons why employers are hesitant to invest in training — include lost work time, cost of training, lack of information, and overall perceived effectiveness. There are also fears that newly-trained workers will be “free-riders,” simply moving on to new positions elsewhere, or they’ll be “poached” by



competitors – that’s money down the drain for a firm that invests time and money in the employee. And small and medium enterprises (SMEs) face special challenges with workplace training investments. According to the Canadian Federation of Independent Business, 8.5 million Canadians are employed in firms of less than 100 employees; 2.6 million Canadians are self-employed, and Canada boasts one million incorporated firms in Canada and 1.6 million unincorporated firms. Many SMEs lack the economies of scale that make training more feasible for big firms. Additionally, they often shy away from employer-sponsored training, as they have fewer funds to invest in training and may encounter greater difficulties in accessing financing. Yet the need for training is significant: a survey by the Canadian Federation of Independent Business (CFIB) several years ago found that up to 300,000 jobs were vacant in Canada because of a lack of suitable skilled workers. And a 2007 report by the Canadian Council on Learning (CCL) says Canada’s current system of adult learning and training is fragmented across jurisdictions and unsustainable in the long-term: between 2002 and 2004, Canada slipped from 12th to 20th place in terms of the priority employers place on employee training. Add to that a call from the Canadian Science, Technology and Innovation Council in a May 2009 paper urging Canada to step up its efforts in workplace innovation (including training) to be more globally competitive, and the issue appears to be underscored by a sense of urgency.

Very significant is an apparent lack of government incentives, says Michael Williamson, CPRN’s director of work and learning, adding that despite existing federal programs, he sees little progress in terms of job training support. “There have been a lot of pilot projects to stimulate employer investment,” says Williamson, including the 2004 federal Workplace Skills Initiative (WSI). According to the Human Resources and Skills Development Canada website (HRSDC officials declined to be interviewed for this story): “The Workplace Skills Initiative is a federal contributions program which funds projects that test and evaluate promising, partnership-based, outcomes-focused approaches to skills development and human resource practices for

employers and employed Canadians. The WSI encourages employers to invest in the skills of their employees and informs Government of Canada labour market policy and programming.”

Williamson considers WSI a failure; more than \$100 million was provided several years ago to stimulate investment, but “given the extent of the problem, we were asking (government) for a lot more than that, and yet more than half of that funding lapsed and never reached the field.” Politics may also play a role. The WSI was launched by a Liberal government, but has done stutter steps under the Conservatives, according to CPRN. On taking power in 2006, the Conservatives announced Advantage Canada, a long-term economic plan designed to improve prosperity through support for infrastructure improvements, job creation and education. The plan “basically said that we’re going to have the most effective workforce in the world, but it wasn’t clear how they were going to achieve that,” he says. “There was money going into different projects, and a sectoral approach to the economy, and there were labour market agreements that were devolved to the provinces. So what we’ve seen there is a backing off by the federal government.”

According to Dr. Bruce Spencer, a professor in the Centre for Work and Community Studies at Athabasca University, “Canadian workers generally have the knowledge, but not the jobs to go with it,” and the shift away from federal intervention in industry and business makes it difficult to put training programs in place. “The culture in Canada supports workers being responsible for job training before they have a job,” says Spencer. “It is the opposite in some other countries (where) workers are hired on potential and then trained by companies.”

Much attention is being paid to U.S. President Barack Obama’s

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approach to socially-responsible job initiatives, and Spencer cites U.S. examples such as the Wisconsin Regional Training Partnership, a joint union-employer-state program that is creating new employment opportunities and improving existing employment, and the Working for America Institute, an initiative designed by organized labour to “boost high skills, knowledge work, and good jobs — the so-called ‘high road’ to future employment opportunities.” In Canada, the provinces are taking the lead, says Williamson, especially Ontario and British Columbia; these jurisdictions are actively pursuing retraining programs and IT initiatives, especially during the economic downturn. For instance, the Ontario government’s 2009 budget announced a two-year investment of \$700 million in workplace training and literacy.

Partnerships put to work

For an employee like Cojocaru, who has worked in four provincial ministries, support is essential. In every workplace, “there’s a need to ensure

continuous knowledge transfer,” says Cojocaru, an engineer with advanced degrees in organizational development and public administration. “In government, training is especially important when you move from one ministry to another.” Williamson lauds the provincial efforts. “A lot of the provinces are working with community partners to ramp up training for the growing unemployed, autoworkers and low-skilled workers, but as the strain on the private sector grows, it will come down to a funding issue as well.”

In Canada, workplace training initiatives include Yellowknife’s Diavik Diamond Mines Inc., which operates community-based programs that are big on local public-private partnerships and classroom and job-site training. In B.C., the province’s SkillsPlus program offers SMEs a chance to boost their employees’ foundation skills (reading, numeracy, oral communication and continuous learning) through delivery of curriculum and assessment tools. B.C. invested \$2 million in the program’s Phase 2 pilot projects to assist small businesses in 15 B.C. communities.

European nations have the lead in tying socially responsible values to business and training. According to the CPRN report, “the Nordic countries [Denmark, Finland, Norway and Sweden] ... have a tradition of engagement of the ‘social partners’ (business and labour organizations) in labour market policy.” That commitment dovetails

with a high degree of union membership, resulting in the development of the “Nordic model of training” — high levels of investment in training resulting from the collective bargaining process. Clearly, workplace training is an issue demanding long-term, rather than short-term, solutions. CPRN is calling for more provinces to “regularly engage business and labour in the development of labour market policy” as well as offer training subsidies and tax incentives. According to the Canadian Council on Learning, Canada needs a “national forum in which all Canadians can participate in a dialogue about adult learning and training ... Canada must build on its experience, fostering cooperation between governments, training institutions, individuals, businesses, unions and organizations to deliver competencies that match employers’ needs and foster a culture of learning (to) establish a climate that fosters competitiveness, productivity and investment in human capital.” ■

John Cooper is a Whitby, Ont.-based writer.

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