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Financial literacy

During your career as a CMA, many of you will serve on an organization’s board of directors and, as a result, be aware of the impact this group has on an organization’s performance. As a CMA, you bring the knowledge and literacy that other board members may not have.

A clear understanding of how boards function, why some fail and others succeed, as well as the issues their members face, is a prerequisite to being an effective leader. In this issue of CMA Management, two articles focus on the role of the board and why it’s important for its directors to have financial literacy. In “The impact of financial expertise,” authors Alex Bursey and Jeffrey Pittman, CMA, explain how directors with “financial expertise” contribute to better board performance. The authors also show how the impact of financial expertise on board decisions extends beyond monitoring financial reporting to include providing advice on corporate policies.

In “IFRS and the role of the board,” Bharat Aggarwal, CMA, advocates that board members need to develop financial literacy on the differences between IFRS and Canadian GAAP to ensure that they are performing their risk management, risk mitigation and performance monitoring functions effectively. He discusses how important this literacy is, given the broader implications of IFRS implementations (e.g. earnings management, stock price, and performance ratios). Understanding the role of the board is also helpful if you’re a consultant or investor because it will allow you to be an effective advisor to top managers, corporate boards, and in making investment decisions based on rigorous evaluations about the quality of an organization’s governance, and how you, as an investor, can impact it.

In other news, the International Federation of Accountants (IFAC) has completed a series of articles on business reporting. The articles are based on and refer to interviews with 25 key business leaders from around the world and focus on their practical recommendations to improve corporate governance, business reporting, and auditing in the aftermath of the financial crisis. The first installment, “Good governance and sustainability fundamental for improved business reporting,” can be found in this issue’s news and views section. Through the IFAC’s article series, the organization hopes to encourage dialogue amongst accounting professionals on how to improve governance, financial reporting, and auditing.
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• Good governance and sustainability fundamental for improved business reporting
• Internal audit serves as strategic risk advisers to board: PwC
• Tools for SMPs
• Sophisticated talent management programs drive business results
The missing ingredient

Winning with a Culture of Recognition

Enthusiastic employees, when their behaviour is aligned with company values, are a company’s greatest asset. They make a difference between mediocrity and greatness. And yet, approximately 25 per cent of workers can be described as going beyond the requirements of their jobs. Why are the other 75 per cent, from beginners to upper management, so reluctant to “get in the game?”

Authors Eric Mosley and Derek Irvine reveal the answer in their book Winning with a Culture of Recognition. They say most managers fail to formally recognize high performance and connect it with company culture.

Readers are guided through the psychology of appreciation and its effect on performance. Sharing successful methods implanted by clients, such as Symantec, Intuit, Dow Chemical, and Amgen, Winning with a Culture of Recognition shows how any manager can create an unambiguous culture of appreciation.

The first part of the book explains the three-level progressive model of cultural management through recognition. The latter half of the book focuses on implementing strategic recognition with step-by-step procedures and key practices to improve culture and results. The 10-stage plan for implementation includes: involve program participants and invite their input; start the tempo at the top; establish key indicators of success early; call all managers to training; offer a great choice of rewards.

“Strategic recognition promises competitive advantage, engagement, better performance and increased profits,” Mosley says. “In a business world growing increasingly independent, with organizations growing less command-driven all the time, it is the supple powerful new way to enrich and manage culture. Strategic recognition is more than a technique, it is a mission.”

Key Performance Indicators

Key performance indicators (KPIs), while commonly used around the world, have never until now been clearly defined. They represent a set of measures focusing on aspects of organizational performance that are the most critical for the success of an organization and help companies define and measure progress toward organizational goals.

The book Key Performance Indicators: Developing, Implementing, And Using Winning KPIs provides a step-by-step model to simplify the complex areas of KPIs and help organizations avoid the common pitfalls.

Written by performance expert David Parmenter, CEO of Waymark Solutions, the book shares his in-depth understanding of “winning KPIs” and provides guidance on how to effectively and successfully implement KPIs in an organization in only 16 weeks.

Once an organization has defined its mission and vision, identified its strategic goals, and short listed its critical success factors, it needs a way to measure progress toward these objectives. The lack of understanding of performance measures has led most monitoring and reporting of measures to fail. The casualty has often been the balanced scorecard, a brilliant tool that can only work if the appropriate measures are in it.

Key Performance Indicators represents a significant shift in the way KPIs are developed and used, with an abundance of implementation tools. The book includes: a 12-step model for developing and using KPIs with revised guidelines; implementation guidelines for small to medium enterprises and not-for-profit organizations; how to brainstorm performance measures; a kit to help you find your organization’s critical success factors; worksheets, workshop programs, and questionnaires; updated templates for reporting performance measures; and references to electronic media to help you save time.


Bury my Heart at Conference Room B

Author Stan Slap has worked with tens of thousands of managers in more than 70 countries and makes his career out of showing the best and most successful companies (Microsoft, eBay, Time Warner, etc.) how to have managers who are emotionally engaged to the company’s successes – something much easier said than done.

Slap says the key is emotional commitment in managers. Getting a manager emotionally invested is the ultimate trigger for increasing discretionary efforts, problem solving, and igniting the same excitement in others.

According to Slap, “If you’ve ever witnessed a human being emotionally committed to a cause — working like they’re being paid a million when they’re not being paid a dime — you know there’s a difference and you know it’s big.”

He addresses the big questions for managers: How do you get your people to care like they own the company — like their very lives are at stake in its success or failure? And is it possible, or ever advisable, to get yourself to that place, too? By showing how to turn a job into a mechanism that fulfills your deepest personal values, Slap proves how we all work harder to protect that and thereby make the company more successful.

Stan Slap. Portfolio. 978-1591843245
Good governance and sustainability fundamental for improved business reporting

“In times like this, the basic elements of managing a company, such as governance, accounting, and auditing, should stand out like a rock in the storm,” Joe Kaeser, chief financial officer of Siemens, the Germany-based global company engaged in electronics and electrical engineering, says. In light of the corporate challenges it has faced in recent years, Siemens has implemented a company-wide transformation program that brought about two significant mindset changes: seeing integrity and performance as not mutually exclusive (“clean business always and everywhere”) and defining corporate governance in a way that provides space for entrepreneurial behavior, focused on long-term sustainable value creation for all stakeholders. The result is greater transparency and high-quality business and financial reporting.

From different perspectives in the business reporting supply chain (see the sidebar “The business reporting supply chain”) Kaeser, Guy Jubb, investment director and head of corporate governance at the Edinburgh, U.K.-based leading global investment company Standard Life Investments; professor Mervyn King, author of the King Code on Corporate Governance for South Africa (King III); and Masayasu Uno, member of the board of corporate auditors of Daito Construction and Trust in Japan, provide their insights into how good governance and increased sustainability are fundamental for achieving long-term social, environmental, and economic performance, and for enhancing investor and other stakeholder confidence. The key findings from these interviews are as follows:

Governance should focus on longer-term sustainable value creation

“Corporate governance defines the mandatory boundaries,” Kaeser explains. However, he highlights the idea that corporate
governance also needs to focus on longer-term, sustainable value creation. Focusing on longer-term, sustainable value creation requires governance and sustainability to be better integrated into the strategy, operations, and stakeholder communications of an organization, according to South African governance expert Professor King. “Directors have to realize that their ultimate responsibility is social, environmental, and economic performance. That requires a mindset change at the top and then the top has to make sure that the message is carried further down the organization. You all have heard of ‘the tone at the top.’ I talk about ‘the tone at the top, the tune in the middle, and the beat of the feet at the bottom.’ If you get your strategy right and you get buy-in, you get ordinary people to achieve the most extraordinary things.”

Business reporting should be integrated

Jubb extends the theme of integration by pointing out that business reporting at the moment is very compartmentalized, with governance, social responsibility, and sustainability reports often churned out independently. “As these aspects are integral to the longer-term wealth and health of the company and to its reputation,” he advises companies to “bring them more together in one integrated business report.” Uno adds to this by recommending that “increased consciousness about corporate social responsibility should lead to the development of more comprehensive corporate reports.”

With the benefit of hindsight on the financial and economic crisis, however, Jubb points at the scars we all bear from not holding boards accountable for their stewardship of the assets under their control. He recommends putting the governance concept of stewardship at the heart of the business reporting system, “focusing on what the board has been doing and how it has been doing.”

Cultural background and history should not be ignored

The governance arrangements that can lead to improved business reporting do not necessarily have to be completely uniform around the globe, Uno argues. He points out how the Japanese corporate governance system differs from the western model, since it has evolved while preserving Japanese culture and history. He suggests that one not ignore cultural background and history when developing and implementing global standards, regulations, and oversight. “In further improving the business reporting supply chain, we must keep our eye on the unique situations in various countries.”

The complete interviews can be downloaded free of charge from the IFAC website at www.ifac.org/frsc. Readers are encouraged to respond to the recommendations of the interviewees, which are also available on the website. For information about IFAC’s business reporting project, please contact Vincent Tophoff via Vincent.Tophoff@IFAC.org.

Internal audit serves as strategic risk advisors to board: PwC

To remain relevant and meet stakeholder demands, internal audit must evolve to an enhanced “Internal Audit 2.0” state that provides business leaders with actionable business risk intelligence, suggests PricewaterhouseCoopers’ Global State of the Internal Audit Profession survey.

Brenda Eprile, PwC Canada’s lead internal audit partner, says “the financial crisis has caused heightened scrutiny of companies’ risk management practices. As many have blamed the crisis on poor risk management, CEOs across all industries are looking to upgrade their enterprise-wide risk management capability to better prepare for success in what is likely to be a very challenging business environment.” She adds “needs and expectations for internal audit have never been higher, so the key question is whether internal audit is delivering. There is also a challenge in building consensus for an expanded and more strategic role for internal audit.”

The study identifies three critical focus areas for internal audit departments:

- Critical risks and issues.
- Aligning internal audit’s value position with its stakeholders’ expectations.
- Matching the staffing model with that value proposition.

“What senior executives should take away from this survey is that, for an internal audit team to assume the role of strategic partner, it must be comprised of highly experienced and skilled professionals, who can pinpoint trouble spots, synthesize a lot of data, better utilize technology and help the organization be more successful in a very challenging business environment,” she says.

More effort from Canada

The study also finds that Canadian respondents are putting more effort on emerging risks, and strategic initiatives and programs.
“In this year’s survey, we introduced the concept of Internal Audit 2.0 to start organizations thinking about dramatic change. As internal audit confronts new and continually changing needs and expectations, it must take the initiative to redefine its role. That means expanding its skill sets and preparing to take a leadership role as a more powerful resource for senior executives, directors and boards in aligning strategy and risk identification, control and mitigation.”


Tools for SMPs

The small and medium practices (SMP) committee of the International Federation of Accountants (IFAC) issued the Guide to practice management for small- and medium-sized practices, which provides guidance on how this sector can better manage their practices and ultimately operate in a safe, profitable, and professional manner.

The publication includes practice management principles and best practices on a comprehensive range of topics, including strategic planning, managing staff, client relationship management, and succession planning. It features case studies to illustrate the concepts, checklists and forms, a list of further readings, and modules that may be used for training and education.

“This guide will help SMPs cope with an increasingly complex and competitive environment by providing them with information to help them operate with greater proficiency and professionalism,” Sylvie Voghel, SMP committee chair, says.

The PDF print version of the guide can be downloaded free of charge from the Publications and Resources section of the IFAC website.
Global organizations are meeting the demands of today’s economy by taking a more sophisticated approach to their talent management programs, says a report released by Ernst & Young.

According to the report, Managing Today’s Global Workforce: Elevating Talent Management to Improve Business, leading companies have developed a strategically aligned and integrated way of managing talent on a global level, using these programs to successfully execute their overall business strategy and ultimately drive revenue.

“An organization’s commitment to executing its strategy effectively is directly related to its ability to attract, retain and develop talent,” Bill Leisy, a principal with Ernst & Young LLP’s performance and reward practice and an author of the report, says. “Global organizations must understand the needs and motivations of their people in order to provide opportunities that not only appeal to different generations and cultures, but help the company retain the necessary skills and competencies it will need to emerge stronger down the road.”

The report is based on a survey of more than 340 global CEOs, CFOs, COOs and vice-presidents of human resources from Fortune 1000 companies around the world. The survey was designed to examine the numerous components that make up successful global talent management programs, and showcases how these practices differ across geographic regions, companies and industries.

As the economy starts to improve, organizations are taking new directions when it comes to managing their talent. Strategic HR initiatives are focused on increasing employee engagement levels by building in flexibility to address the needs of today’s diverse pool of talent. According to the survey, the top three talent management initiatives respondents plan to implement include:

- Build their internal talent pipeline to fill critical future needs (64 per cent);
- Understand and coordinate global talent resources to fill key positions (33 per cent);
- Offer flexible work strategies such as job sharing, telecommuting, flex hours and phased-in retirement (31 per cent).

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While alignment to strategy is important, financial returns are improved when every element of talent management programs, IT systems and processes are fully integrated across the organization and on a global scale. Alignment had significantly higher financial performance (a 20 per cent higher annual return on equity (ROE) over a five-year period) than those that did not. This clearly demonstrates that today’s leading employers are not only forecasting budgetary needs, but also talent and skill requirements that will be necessary to meet future business strategies.

“Your people are the key to competitive differentiation and success when it comes to being a leader in today’s marketplace,” Leisy adds. “Leading companies use their talent management programs as a critical part of their overall growth strategy. Now more than ever, these programs are designed to help execute companies’ business strategies by recruiting, retaining, engaging and developing the right individuals, with the right competencies, skills and experiences. These are the activities that build market leadership.”

While alignment to strategy is important, financial returns are improved when every element of talent management programs, IT systems and processes are fully integrated across the organization and on a global scale. According to an additional analysis of the data, leading organizations with better integrated talent management programs experience return on equity (ROE) that averages 38 per cent higher per year over a five-year period.

Unfortunately, many organizations are still not capitalizing on this opportunity when it comes to integration. Only 32 per cent of respondents say all the components of their talent management programs are integrated on a global, enterprise-wide scale versus 20 per cent who only integrate their programs regionally, 18 per cent by business unit and 24 per cent who do not integrate their programs at all.

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Conflict: The reality of corporate life

Managers need leadership stamina and the skill and expertise to handle workplace conflicts.

By Barbara J. Bowes

When was the last time you thought about all of the elements found in today’s workplace? Start with the people from different professions who possess a wide range of skills, education and experience. Add employees from different cultures, backgrounds and beliefs and then sprinkle in some immigrant newcomers who need extra support. Then, mix in employees who represent the younger generation; the ones who require music to be played at work all day long and want to be promoted no sooner than their probation is completed.

Next, factor in multiple personalities as well as different languages and dialects. Sprinkle this mixture of employees who are single, married, divorced or widowed and have varying personal needs. Consider those employees who, in spite of being unhealthy, drag themselves to work each day. Finally, add a variety of employee attitudes ranging from those who see the world as a glass half full versus those who view life as a glass half empty.

And what is the result of this mixture of everyday elements in the workplace? The result is a highly complex and somewhat volatile organization where interpersonal harmony and superior performance, while often required, is hard to achieve. In other words, our complex organizations are breeding grounds for conflict.

Clashes and disagreements occur at different levels within an organization. For instance, senior management may have different values, different visions, and different goals and may in fact be competing for scarce company resources. Front line workers, on the other hand, may be confused about their daily tasks and priorities or they may have been assigned to a job to which they are simply not suited. There are plenty of interpersonal conflicts between employees that sometimes have an eerie similarity to kids fighting in the sandbox. But there is no way around it; this level of significant complexity is today’s workplace reality. Managers need to have the leadership stamina and wherewithal as well as the skill and expertise to deal with potential conflicts that arises from this strange mixture. At the same time, as you might know, most managers find conflict the most difficult of all their tasks to deal with. However, good intentions are not enough. Instead, you need to have a personal strategy...
and process that can be applied in multiple situations. You need to have a strategy that gives you confidence, consistency and credibility.

One such proven approach called “issue based problem solving” has been derived from the original Harvard University conflict management methodology. This includes six steps toward resolution.

1. Explore the issue — Experience has shown me that identifying an issue is extremely hard for most people, especially those in conflict. Instead, people get mixed up in the details of the situation or get so emotional they completely miss the real issue. Start by meeting with each employee and focus the discussion on what has made him/her angry or what injustice he/she has experienced. Try not to focus on the feelings or symptoms. Next, bring the conflicting parties together and present your understanding of the issue and continue to restate the issue until all parties in the conflict understand and agree. Stay away from “he said/she said” by removing the people element from the equation and providing concrete examples.

2. Understand individual interests — Work with each individual to understand his/her personal needs, fears, wants and concerns. This will help you understand why they care about the issue and conflict they are experiencing. Sometimes you will find that individuals don’t understand their own interests, let alone being able to consider someone else’s point of view. Take the lead and ask open-ended questions of each party to learn what they feel is important and why.

3. Develop options — The goal of any conflict resolution is to develop a win-win solution that all parties to the conflict can agree with. Brainstorm solutions without judgment and discuss what is meant by all of the ideas. Try to relate each solution to the issue at hand. Continue until you have exhausted all of the ideas.

4. Choose a solution — The best solution is the one that meets the needs and interests of all the parties involved, but how to get to this point is sometimes a challenge. Set up a simple evaluation process that allows participants to select options according to whether or not it meets everyone’s interest, whether resources are available to support the option and whether or not you can expect “buy-in” by all the parties.

5. Implement a plan — Prepare a plan that outlines who will do what, when and how. Be sure to not only get agreement, but ensure that all participants have a role in the implementation. If they don’t, then the buy-in isn’t really there.

6. Evaluation — Keep in mind that no matter how simple or small an issue between employees is, the solution will represent a change in behavior for each party. Change needs monitoring and reinforcement. Determine how you will measure success and how you will track progress. What benchmarks will signify that your goal has been reached? Gather feedback and be sure to communicate with the players as much as you can.

Today’s complex workplace requires respect and appreciation for every employee’s point of view as well as significant conflict management skills on the part of organizational leaders. You don’t need a university degree in conflict resolution. My own personal mantra is to keep it simple. This means learning and applying a brief, yet systematic and proven conflict management method that will allow you to effectively handle any kind of conflict in your workplace.

Barbara J. Bowes is president of Legacy Bowes Group, a talent management solutions firm in Manitoba. She is also an author and radio host. She can be reached at barb@legacybowes.com.
By Bharat Aggarwal, CMA

In 2011, publicly traded companies in Canada will be required to adopt IFRS. The adoption of IFRS will have implications on the financial statements of companies as there are significant differences between IFRS and Canadian GAAP. A company’s board of directors will need to gain financial literacy of these differences to perform their risk management, risk mitigation, and performance monitoring functions. Understanding the differences between IFRS and Canadian GAAP will allow a board to mitigate the risk of earnings management practices and be in a better position to understand the implications of IFRS on market reaction and key financial ratios.

Earnings management is typically defined as a situation when earnings numbers are deliberately manipulated by management for the purpose of meeting the objectives of a company. The transition to IFRS may increase the opportunities for earnings management. For instance IFRS allows property, plant and equipment to be measured at “fair value.” This is a significant change from Canadian GAAP which prohibits such valuations. As a result, the option to revalue assets under IFRS requires a significant amount of management judgment, which could lead to overly aggressive earnings management depending on the company’s objectives. If a board of directors understands the revaluation method under IFRS and its potential for earnings management it can be more vigilant in areas where there is increased use of fair value by its management team. As part of the due diligence process, the board can also get an independent third party appraisal of the assets to ensure that the fair values estimated by management are not overly optimistic.

Under IFRS, earnings and equity may be more volatile than under previous GAAP. This volatility could affect the share price. For example, Barclays Bank’s conversion to IFRS resulted in lower reported earnings per share, which resulted in a $4.4 billion drop in total shareholder’s equity, despite the fact that nothing fundamentally changed. Unlike Canadian GAAP, IFRS allows the
revaluation of property, plant, and equipment above the cost basis to be recognized in equity, whereas the revaluation of investment property at fair value over the cost basis will get recognized in operating income. Therefore, frequent changes in fair value will result in more volatile earnings and equity under IFRS. As part of their risk management function, a board needs to ensure that its management team is identifying, understanding, and explaining any factors that could lead to the volatility of the results. This way the board can promote early communication to its investor community of the expected financial impact of IFRS, which should then mitigate the risk of an adverse market reaction. However, in order for the board to be able to challenge its management team’s accounting policy choices and assumptions it must develop strong financial literacy of the differences between IFRS and Canadian GAAP.

Another major responsibility of a board of directors is monitoring if a board of directors understands the revaluation method under IFRS and its potential for earnings management it can be more vigilant in areas where there is increased use of fair value by its management team.

IFRS is something you can no longer ignore. How will you deal with it?

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The transition to IFRS from Canadian GAAP will change both the earnings and the equity base of a company. Performance. The analysts and investors tend to rely on performance measures such as return on equity to evaluate a company’s performance. The transition to IFRS from Canadian GAAP will change both the earnings and the equity base of a company. For instance, if a company decides to revalue its property, plant and equipment higher than its cost base the equity base of the company will increase, however, the higher asset values will mean higher depreciation in future years which could lead to lower future earnings. Therefore, it is important for the board of directors to understand the implications that the accounting policy choices will have on the current and future performance of its firm. The best way to develop this competency is to ensure that the board has strong financial literacy of IFRS. Not only will good literacy of IFRS allow the board to ensure that financial ratios meet the expectations of analysts and investors, but it will also ensure that the company does not violate any of its debt covenants.

The implementation of IFRS has broader implications for companies than just a change in financial reporting. In order for a board to perform its risk management, risk mitigation and performance monitoring functions effectively in the post-IFRS era it must develop good financial literacy of the differences between IFRS and Canadian GAAP.

Bharat Aggarwal, MBA, CMA, is a manager, professional programs, CMA Canada.
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The impact of financial expertise

Studies suggest that appointing a financial expert to the board of directors or audit committee is beneficial, especially when directors have accounting experience.

By Alex Bursey and Jeffrey Pittman, CMA

In the wake of the watershed financial reporting failures near the turn of the century, governments in Canada, the U.S., and elsewhere have been relying on legislative and regulatory reforms to restore investor confidence in the capital markets. This includes initiatives aimed at strengthening the financial expertise of public companies’ boards of directors and their audit committees. For example, the Ontario Securities Commission now insists that listed companies without a financial expert — someone who understands financial reporting and the accounting principles used to prepare financial statements, among other requirements — on their audit committees to disclose why they have not appointed one.

In the U.S., the Sarbanes-Oxley Act of 2002 (SOX) contains several provisions designed to improve companies’ governance practices. These include requiring that every U.S. public company divulge whether its board of directors includes a financial expert, while leaving the Securities and Exchange Commission (SEC) responsible for specifying the qualifications for this role. In drafting the rules to implement SOX, the SEC initially defined a financial expert narrowly by requiring direct education and experience in accounting or auditing. After widespread criticism that this definition was overly restrictive — such that the pool of potential financial experts was shallow — the SEC controversially relaxed the final version of the eligibility rules to enable, for example, investment bankers and venture capitalists to qualify (Plitch and Ceron, 2003). However, this broader definition casts doubt on whether public companies genuinely benefit from having such individuals serve as financial experts on its boards or audit committees.

Appointing a financial expert to the board or the audit
committee is beneficial, especially when he/she has accounting-based expertise. However, there are two major exceptions. First, financial experts who are also commercial or investment bankers have a history of persuading companies to borrow excessively; e.g., to the point that this additional debt undermines shareholders. In other words, banker directors may lobby for corporate policies that help the financial institutions that employ them, rather than shareholders whose interests they are supposed to protect. Second, prior evidence suggests that companies only benefit from board-level financial expertise when company-level governance is sound; e.g., there is no real upside for companies with poor governance structures to recruit directors with financial expertise.

In sharp contrast to financial experts who are bankers, prior research demonstrates that investors prefer that public companies recruit directors who are accounting/financial experts.

The impact of financial expertise on board decisions extends beyond monitoring financial reporting to include providing advice on corporate policies. Directors spend a considerable fraction of their time advising rather than ensuring that the company complies with financial reporting standards according to Adams and Ferreira (2007). Guner et al. (2008) find that this advisory role may come at the expense of destroying shareholder value when bankers serve as financial expert directors. In particular, they document that the presence of an investment banker on the board translates into worse acquisitions evident in acquiring firms suffering larger losses (exceeding one per cent in the five days surrounding takeover bids) in share value relative to those without investment banker directors. Similarly, Guner et al. (2008) provide evidence that firms obtain larger loans when commercial banker directors join the board, although this additional borrowing appears to benefit lenders rather than shareholders. Overall, recent research implies that the advisory role of financial experts brings conflicts of interests when directors work for financial institutions. In these situations, directors may deprive shareholders by advocating for corporate policies that help their employers. Instead of internalizing shareholders’ best interests, banker directors may lead firms to pursue strategies that benefit their financial institutions.

In sharp contrast to financial experts who are bankers, prior research demonstrates that investors prefer that public companies recruit directors who are accounting/financial experts. More specifically, DeFond et al. (2005) find a positive share price response to the announcement that an accounting financial expert was joining the company’s audit committee. In comparison, news that the company was appointing a non-accounting financial expert or a non-financial expert engendered no stock market reaction; e.g., investors considered these events irrelevant for valuation purposes. DeFond et al. (2005) interpret their results as consistent with accounting-specific financial ability, but not broader financial ability, improving the quality of the financial reporting environment. This evidence squares with long-standing arguments that audit committees require accounting expertise to ensure that corporate financial reporting properly reflects underlying economic performance.

Importantly, DeFond et al. (2005) stress that the favourable market response to the presence of an accounting financial expert is isolated in companies with strong corporate governance. In companies with relatively poor governance, they report that appointing an accounting financial expert to the audit committee fails to affect share price. DeFond et al. (2005) attribute their evidence to good governance ensuring that specialized accounting skills are channelled toward enhancing shareholder value. It follows that audit committees are in a better position to improve financial reporting when their ranks include members with extensive accounting education and experience. There is evidence to support that better financial reporting ensues when firms appoint accounting financial experts to their audit committees. For example, Dhaliwal et al. (2007) find that these financial experts constrain firms from distorting their earnings. Similarly, Krishnan and Visvanathan (2008) report that public companies’ earnings are more conservative — a hallmark of high-quality financial statements — when an accounting financial expert serves on the audit committee. Corroborating DeFond et al.’s (2005) analysis, both Dhaliwal et al. (2007) and Krishnan and Visvanathan (2008) provide evidence that accounting financial expertise on audit committees is more valuable when corporate governance is stronger.

Moreover, Agrawal and Chadha (2005) detect that having directors with a professional accounting designation on the audit committee lowers the frequency of earnings restatements, while Archambeault and DeZoort (2001) find that suspicious external auditor dismissals seldom occur when audit committees have accounting expertise. According to DeZoort and Salterio (2001) the likelihood that the audit committees will back external auditors in financial reporting disputes with management rises when the committee has more accounting expertise. In short, accounting expertise relative to other forms of financial expertise appears to contribute to strengthening audit committee performance. In fact, Krishnan and Visvanathan (2008) find that firms with accounting financial experts on their audit committees enjoy lower audit fees, suggesting that external auditors value their presence for improving financial reporting transparency.

Although it is well-known that financial expertise is essential for managing today’s complex organizations (see “Creating the go-to team” CMA Management, June/July 2005), empirical evidence on its importance at the board level remains scarce. However, recent research provides insight on the value of directors with this expertise to investors. Collectively, research supports the intuition that good corporate governance is a necessary condition for a company to benefit from the presence of an accounting financial expert on its audit
committee. This evidence also implies that the current definition of financial expertise is too broad to properly protect the integrity of the financial reporting process. Moreover, the recent decision to expand the definition to cover, for example, commercial and investment bankers may have serious unintended consequences. In particular, bankers appointed to boards of directors may suffer from conflicts of interests evident in these individuals pushing for corporate policies — such as borrowing excessively or pursuing poor acquisition targets — that benefit their employers to the detriment of shareholders. Finally, having an audit committee with accounting expertise may be essential for preventing distortions in financial reporting when the CEO and CFO have considerable accounting expertise since such individuals have been shown by Visvanathan et al. (2008) to exploit this knowledge to aggressively manage earnings upward.

Alex Bursey is a CMA-MBA student, faculty of business administration, Memorial University of Newfoundland. He may be reached at abursey@mun.ca. Jeffrey Pittman, CMA, CA, PhD, is the CMA professor of accounting, faculty of business administration, Memorial University of Newfoundland. He may be reached at jpittman@mun.ca.

References/additional resources


Avoiding the ‘seven deadly sins’

Corporate acquisitions can be an effective means of creating shareholder value if major downfalls are recognized and avoided.

By Howard E. Johnson, FCMA

Business owners and executives sometimes look to acquire another company as a means of growing their business. While corporate acquisitions can help achieve growth objectives, it is important to avoid factors that can significantly erode shareholder value, and possibly be disastrous.

**Lack of strategic fit**

Many business owners take a reactive, as opposed to a proactive, approach to acquisitions. That is, they wait for opportunities to present themselves rather than actively seeking out prospective targets that meet established criteria. The risk in a reactive approach is that acquisition opportunities might be pursued because they are available, as opposed to representing a strategic fit for the buyer.

Corporate acquisitions must fit into a company’s long-term strategic plan. Based on its strategic plan, prospective buyers should be able to compile a list of acquisition criteria, in terms of target company size, product and service offerings, markets served and other pertinent criteria. Having well-developed criteria beforehand will help the buyer to avoid expending time and effort on acquisition opportunities that are clearly not a fit. The buyer’s strategic plan should also address other key elements, such as when it would be better to build vs. buy, or when a joint venture might be considered.

Taking a proactive approach can assist the buyer to create new opportunities and
may allow the buyer to avoid a long drawn-out auction process. This is not to suggest that a proactive approach will result in a buyer paying less than fair value for an acquisition target, but rather it can allow the buyer and seller to work together in an expedited and confidential manner that facilitates structuring a deal that meets the needs of all parties involved.

Inadequate analysis
Many buyers do not expend sufficient effort to conduct a thorough analysis of the target company. There are many reasons for this, including constraints due to time, cost or other resources. In some cases, buyers look to rely on the seller’s representations and warranties to compensate for shortfalls in due diligence. However, such a strategy seldom works out as planned. Inevitably, buyers that do not conduct sufficient analysis on the target company find themselves faced with hidden liabilities, unanticipated integration issues and other problems that consume far more time and expense than would have been incurred to conduct thorough due diligence.

Buyers should assign a “probability factor” to the synergies that are anticipated to accrue from an acquisition.

Buyers should recognize that corporate acquisitions will require a considerable investment in both management time and the cost to engage the external resources needed to fully assess the opportunity (e.g. intermediaries, legal counsel, tax advisors). In this regard, business owners and executives should ensure that the external advisors who are retained are intent on providing sound and objective advice, and that they are not eager to get the deal done simply to generate fees.

Too much emphasis on EBITDA
Buyers tend to emphasize the target company’s most recent EBITDA (earnings before interest, taxes, depreciation and amortization) when assessing the cash flow prospects of the target company. While multiples of EBITDA are frequently referred to as the basis for business valuation and pricing, an over-emphasis on EBITDA can be dangerous.

EBITDA is not an effective measure of shareholder value because it ignores important components of value, including:
- The capital expenditures that a company will require in order to maintain and grow its operations;
- The incremental working capital that a company will need to support revenue growth; and
- Income taxes.

A preferable approach is to adopt a discounted cash flow valuation methodology, based on forecasted discretionary cash flow, which explicitly accounts for all of the factors outlined above. Buyers should also take into account synergy expectations (discussed below), integration costs and debt servicing costs when assessing cash flow expectations.

Ignoring the balance sheet
Buyers usually focus on the past and prospective operating results of an acquisition target as indicated on its income statement. The balance sheet of the target company often is not given the consideration that it deserves. The balance sheet reveals the underlying assets that the target company will need in order to generate sales and profitability. In particular, the buyer should focus on the target company’s working capital and fixed asset requirements.

The buyer should ensure that it understands the working capital requirements of the target company, in order to avoid a situation where the buyer must make a capital injection shortly after the transaction date, in order to settle liabilities such as accounts payable or even to make payroll. In this regard, the buyer should be particularly cognizant of any seasonality within the target company’s operations...
so that it understands how working capital requirements will change over the course of the year.

The target company’s fixed asset requirements are also important for the buyer to consider. In this regard, the buyer should ensure that it understands the level of capital expenditures that will be needed in order to maintain and grow the target company’s operations. The cash flow statements can be insightful in this regard, as they will illustrate historical spending patterns. Buyers should be alert for situations where the seller has reduced capital investment levels in the years leading up to the sale, thereby leaving the buyer with outdated equipment that will have to be upgraded in the near term.

Many business owners take a reactive, as opposed to a proactive, approach to acquisitions.

**Over-paying for synergies**

Buyers frequently focus on the expected synergies that will be generated in terms of cost savings, incremental revenues and other strategic benefits stemming from combining their existing operations with those of the target company. The costs of realizing those benefits, and the risk that they may not materialize to the extent anticipated, often are not afforded adequate consideration.

The costs of realizing cost-saving synergies can include such things as severance payments, relocation expenses and restructuring costs. With respect to synergies in the form of incremental revenues, the buyer should be aware of the incremental costs necessary to generate those revenues. This may include headcount additions, new equipment and higher levels of working capital (e.g. inventories and accounts receivable). In many cases, the expenditures must be incurred up front, with the hope (and risk) of the synergies materializing as planned.

Buyers should assign a “probability factor” to the synergies that are anticipated to accrue from an acquisition. The probability factor should reflect the risk that the synergies may not be realized as anticipated. Therefore, the probability factor may differ based on the nature of the synergies (e.g. cost savings may be more readily attainable than incremental revenues). To the extent that synergies are not paid for, they represent a buffer against other unanticipated costs that may be incurred following an acquisition.

**Focusing only on price**

It is natural for the buyer to focus on paying the lowest price for an acquisition, while the seller is concerned with maximizing the price received. The buyer (and the seller) should recognize that the terms of the deal are just as important as the price that is paid.

The terms of the deal revolve around three basic elements, being (1) whether the assets or the shares of the target company are acquired; (2) the forms and terms of payment; and (3) the provisions of a management contract.

Buyers usually prefer to buy the assets of the target company in order to avoid hidden liabilities and for tax advantages (in terms of additional write-offs), whereas sellers usually prefer to sell shares for their own tax benefit. The buyer may benefit from a purchase of shares where the seller is prepared to compromise on the purchase price and is amenable to holdbacks or other mechanisms that reduce the risk of the buyer assuming hidden liabilities. The purchase of shares can also simplify a transaction where it helps to avoid having to transfer and renegotiate contracts held by the target company.

The forms and terms of payment dictate when, how, and under what conditions the purchase price is (or is not) paid. Apart from cash on closing, the buyer can use holdbacks, promissory notes, share exchanges, earn-outs or other payment structures to satisfy the purchase price. To the extent possible, the buyer should focus on devising a “value-based pricing strategy,” whereby the purchase price is paid as value is realized from the acquisition. This can help in bridging the price expectations gap between the buyer and the seller, while mitigating the risk to the buyer.

A management contract usually is entered into where the seller’s continuing involvement in the operations of the business is necessary in order to help transition the acquired company. Buyers should be aware that, in many cases, management contracts do not generate the anticipated results over the longer term, particularly where the seller receives a substantial amount of cash at closing, and leaves them with little incentive beyond that point. In any event, many sellers find it difficult to make the transition from being their own boss to an employee of the buyer. Therefore, the buyer is well advised to work on ensuring a quick transition.

Where it is important that the seller remain involved in the company for a prolonged period of time (say three or more years), the buyer might consider acquiring less than 100 per cent of the target company (say 60 per cent), and allowing the seller to retain a minority interest, with a call option on the remaining shares that takes effect at some future date. This can help in aligning the interests of the buyer and the seller in terms of long-term shareholder value maximization. However, it can create other issues in terms of the buyer’s accountability.

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**The seven deadly sins of corporate acquisitions**

- Lack of strategic fit
- Inadequate analysis
- Too much emphasis on EBITDA
- Ignoring the balance sheet
- Overpaying for synergies
- Focusing only on price
- Poor integration
to the minority shareholder and their rights. A well constructed shareholders agreement is critical in this regard.

**Poor integration**

Poor integration frequently is cited as one of the most common reasons that acquisitions fail. In many cases, buyers do not adequately plan for issues that arise subsequent to the transaction date, particularly those stemming from different cultures, management styles and other employee-related matters. In some cases, the buyer is so intent on ensuring that the customers and employees of the acquired company are content that they neglect to consider the impact of the transaction on their existing operations. The results can be catastrophic.

Buyers should assess the level of “transition risk” at an early stage of the acquisition process. Transition risk is the risk of losing key employees and key customers of the target company following the transaction. Where the buyer perceives that transition risk is high, it should re-evaluate the business case for the transaction, no matter how attractive the price or terms may appear to be.

Where the buyer does proceed with the transaction, it should ensure that a sound integration plan is in place beforehand, complete with milestones, assigned responsibilities and a good communication plan. Further, those employees who are in charge of the integration should be given the authority to modify the plan as needed, in order to deal with issues and opportunities that undoubtedly will arise.

Corporate acquisitions can be an effective means of creating shareholder value, so long as they are conducted in a disciplined manner and the major downfalls are recognized and avoided. The easiest way to buy a company is to overpay.

Howard E. Johnson, FCMA, is a managing director at Veracap Corporate Finance Limited (416-597-4500; hjohnson@veracap.com) and a past chair of CMA Ontario.

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Defined-benefit pension plans — How much cash is enough?

Recent attention to pension issues provides a window of opportunity for policy makers to take decisive actions to implement stable, orderly and sustainable funding measures for defined-benefit pension plans.

By John Deinum and Winston Woo

According to CFO Insights (published by Deloitte), availability of cash is one of the top concerns for every CFO. While the financial crisis may be abating, reducing costs and increasing cash flow remain top priorities in 2010. The challenge to balance strategic or operational investments against short-term management of cash is critical. For companies that offer defined-benefit (DB) plans, the challenge is magnified since potentially significant pension contributions may limit a company’s ability to make business investments that foster growth. As a result, pension benefits could be at risk because a viable DB plan requires a viable sponsor.

Canada’s retirement income system ranks fourth in the world, according to the Melbourne Mercer Global Pension Index. The study points out that Canada’s system could be improved by increasing the level of coverage of employees in occupational pension schemes. It states: “The prevalence of private pension plans in Canada continues to decrease for employees working in the private sector.” To increase pension coverage, plans must be affordable and funding methodologies must be improved first in order to ensure stable, orderly funding.

By adopting flexible and innovative funding rules, the likelihood of DB plan’s survival and expansion of coverage in the future would be improved. Otherwise, pressures to freeze DB plans or convert to a defined contribution (DC) plan will remain.

The Federal government has long recognized that the regulatory framework for DB plans needs to be strengthened. Finance’s consultation paper acknowledged that:

1. The combination of a significant decline in long-term interest rates, which correspond to higher pension liabilities, and poor investment returns have led to higher pension deficits;
2. Excessive levels of cash flow are being directed to pension funding rather than to investment expenditures that could benefit the growth of companies and the economy more generally;
3. For financially vulnerable companies, these increased cash demands could have significant implications regarding their viability;
4. By funding the deficits over a short period of time, when interest rates and investment returns improve, the plan may be overfunded and it could lead to surpluses that the plan sponsors cannot utilize.

In 2006, temporary measures were announced for sponsors of federally-regulated pension plans, including:
1. Consolidation of all existing solvency deficiencies and re-amortization over the subsequent five year period; and
2. Extending the contribution schedule from five years to 10 years, with consent from members of the plan or with the use a letter of credit.

The Federal government has long recognized that the regulatory framework for DB plans needs to be strengthened.

The relief was only available to sponsors who filed valuation reports with The Office of the Superintendent of Financial Institutions Canada (OSFI) before 2008.

In 2008, companies faced unprecedented financial turmoil that saw a near collapse of the financial system, steep declines in equity markets, recession and low interest rates. The crisis severely hurt revenues and led to significant downsizings and business failures. In response, governments took actions to provide funding relief. In Ontario, temporary measures were announced in December 2009 that allowed companies to consolidate existing solvency payment schedules into a
new five year schedule and to extend the solvency payment schedule to 10 years with plan member consent. While there is no shame in introducing temporary fixes every time a crisis arises, well-thought-out and longer-term solutions are critical to the revitalization of DB plans. The solutions must address both risks and affordability. With this in mind, below are recommendations for consideration by the stakeholders — financial executives and government policy makers. The recommendations aim to reduce the level of solvency funding contributions required with the goal that cash savings may be invested elsewhere in the business for growth and to secure future benefit accruals. While the concepts described are specific to Ontario plans, they have broader general application to federally-regulated and other provincially-regulated plans as well.

**Recommendations with respect to DB pension plan funding**

| Table 1 |
|------------------|----------|----------|----------|
| Years | Low | Average | High |
| 15 years | 2.99% | 6.60% | 10.82% |
| 20 years | 3.10% | 6.49% | 10.26% |
| 25 years | 3.26% | 6.34% | 9.71% |
| 30 years | 3.53% | 6.17% | 9.28% |
| 35 years | 3.70% | 5.96% | 8.77% |

A. Grow-in benefits

Under Ontario pension legislation, a pension plan member whose age plus service is at least 55 is entitled to receive “grow-in” benefits on plan termination. For a pension plan that offers early retirement subsidies, “grow-in” provides these benefits to a member on plan termination that might not otherwise be available to the member on regular termination. Essentially with grow-in rights, the member will become entitled to an unreduced pension as if the member’s membership in the plan had continued past the date of termination. Nova Scotia and Ontario are the only two provinces that provide grow-in rights. Grow-in benefits should be eliminated from any legislative requirements.

B. Pre-funding of grow-in benefits

Ontario is the only province to require pre-funding of grow-in benefits as part of the solvency valuation. The cost of prefunding creates a significant cash flow burden, a cost not shared by DB plan sponsors in other provinces, putting Ontario plan sponsors at a competitive disadvantage. Nova Scotia removed the requirement to pre-fund grow-in benefits as part of a mandated solvency valuation. As a result, grow-in benefits are paid from the DB plan’s existing assets on termination. If the plan is not fully funded at termination, then the grow-in benefits are not paid. These funds may better be directed to corporate investments and ensuring the employer is viable over the long-term, thereby increasing the security of pensions accrued to date and future pensions.

If grow-in benefits must be maintained under revised legislation in Ontario, the Nova Scotia approach should be adopted whereby the “grow-in” benefits are not pre-funded.

C. Solvency valuation

Solvency valuation provides a financial position for a DB plan based on the premise that the plan is terminated on the valuation date. When solvency valuations were introduced in Ontario, virtually all pension plans had solvency liabilities substantially lower than going concern liabilities, reflecting the interest rates available to settle benefits, expected investment returns, and inflation at that time. Today, many private sector plans have solvency liabilities substantially higher than funding liabilities, reflecting the current financial climate. Pensions are by nature a long-term liability, and, as such, the funding obligations should reflect that reality. A long-term outlook enables stable plan management and reasonable contributions. The original intent of a five-year amortization period for solvency deficits is no longer realistic given current financial realities. The government needs to appreciate that DB plans represent a very long undertaking and pension benefits are long term obligations; therefore more time must be given to fund solvency deficits which are really a “best estimate” at one point in time assuming plan termination which is worst case scenario.

Funding of pension deficits determined at a single point in time will be subject to significant swings caused by uncontrollable market events (such as asset returns and changes in interest rates). Allowance for such volatility should be provided by the use of longer-term average rates and amortization periods, rather than short-term market rates and the current five-year amortization period.

Link the minimum funding requirements and amortization period to the level of interest rates: maintain the five-year amortization period for any solvency deficiency determined using a “normalized interest rate” or the actual solvency interest rate, if higher, and increase the amortization period to 15 years for any additional solvency deficiencies; and establish the “normalized interest rate” at 6.0 per cent per annum.

D. Solvency discount rate

The Bank of Canada significantly lowered interest rates to stimulate economic recovery and increase credit in the financial markets, resulting in a substantial decline in government bond rates which serve as the proxy for determining DB plan solvency liabilities. Lower interest rates create significantly higher pension solvency liabilities, and higher contributions for plan sponsors, offsetting benefits of the proposed relief.

Use of longer-term average discount rates will stabilize plan contributions for solvency purposes and better reflect the long

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The term nature of DB plan liabilities.

Table 1 shows the lowest, average, and highest yield of long-term government bonds published by the Bank of Canada. The table was created based on the December 2009 yield on bond series V122487 (or equivalent as determined by the Bank of Canada) from 1919 to 2008. Average yields for 15, 20, 25, 30 and 35 year periods ending from 1947 to 2008 were calculated.

The observations range from 5.96 per cent to 6.60 per cent and suggest that use of an interest rate of six to 6.5 per cent would be appropriate.

Use of a stable interest rate, based on long-term observations, to determine solvency liabilities and contributions over a five-year amortization period, combined with additional funding over a 15-year period determined as a result of market interest rates would provide significant solvency contribution relief and potentially enhance benefit security in the long term.

A “normalized interest rate” of 6.0 per cent per annum should be used to establish solvency liabilities and additional liabilities, if any, determined as a result of using market interest rates be amortized over a period of 15 years.

What level of benefit security should a DB plan sponsor be required to provide? The current solvency funding regulations suggest that the benefit security provided by a DB plan sponsor approach the same level as an annuity purchased from a Canadian life insurance company. This comes at a very high cost. Will significant cash flow directed to an underfunded pension plan be a contributing factor to a company’s demise, putting potential future pension benefits at risk? Would the relief proposed above allow companies to increase investments and future business prospects, ultimately providing a higher level of employment and pension security?

In documents filed with courts, Nortel cited a number of times that its significant pension liabilities and contributions, expected to grow substantially due to adverse conditions in the financial markets, was one of the main reasons to seek protection under CCAA. Other high-profile publicized cases have asserted that pension funding requirements contributed to the company’s demise and sought special relief from the regulators. What is not well published are the smaller companies that simply terminated their DB plans or converted to DC in order to avoid future drain on cash flow.

John Deinum, FSA, FCIA, is partner at Robertson Eadie & Associates. Winston Woo, CA, is director of taxation & pensions, AGS Automotive Systems.

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Rocky Dwyer, CMA, evaluates departmental programs and polices related to the Canada First Defence Strategy.

By Arda Ocal

To most CMA candidates, the CMA designation is the key to open doors to new opportunities, career advancement and a better income. For Rocky Dwyer, CMA, his motivation to enrol in the CMA Executive Program and obtain his designation was the exact opposite. When Dwyer enrolled in the Program, he had 20 years' experience, held a senior role and had moved up the ladder in the public sector with a PhD under his belt.

“I made the decision to enrol in the CMA Executive Program because I wanted to further enhance the depth and breadth of my expertise in relation to my current role,” Dwyer explains, who at the time was the manager of research methodology for the Atlantic Canada Opportunities Agency for the Government of Canada. “Although I enrolled through CMA New Brunswick, classes were in Toronto. Every three months or so, I commuted from New Brunswick to Toronto to complete the CMA designation.”

Dwyer has spent most of his life in the public service for the Government of Canada. After graduating with a diploma in applied accounting from the College of North Atlantic
in Newfoundland, he spent two years in the private sector before beginning his professional journey with the Government of Canada, starting first with Transport Canada. Initially, the maintenance costing analyst position he accepted in Transport Canada was for 30 days.

“I left a permanent position in the private sector for this temporary 30-day position,” he says. “Joining Canada’s public service has enabled me to touch the lives of Canadians and shape Canada’s reputation as world class. Although, I always joke to my friends, ‘I came for 30 days, and I stayed for 30 years,’ it’s been an exciting journey,” Dwyer adds.

Dwyer stayed with Transport Canada for 10 years in a variety of financial roles and was intensely involved with one of the largest air crashes to occur on Canadian soil – the Arrow Air Flight 1285 crash on Dec. 12, 1985. On that day, and the weeks that followed, Dwyer provided liaison support for families during the tragedy.

In 1987, Dwyer accepted a position with the Department of National Defence located in Barrington, Nova Scotia for a 14-month stay. From there, he transferred to CFB Summerside. After the government suddenly announced its decision to close that location in 1992, Dwyer was pivotal in relocating more than 350 civilian employees across Canada, including his own position (he was moved to CFB Moose Jaw as the base civilian personnel officer). Nearly 16 months later, he found himself moving about the country yet again, this time as director of HR for Indian and Northern Affairs Canada in Alberta.

Dwyer’s energy seemed tireless. He began a master’s degree in HR development and completed half of it while in Alberta, and the other half upon moving to Ottawa, where he became senior advisor to the director general of HR. He worked days and studied at night. Shortly after completing his master’s program, Dwyer left the field of HR to pursue another opportunity.

“The director general, audit assurance invited me to work on an employee survey,” Dwyer says. “He approached me because he saw my skill set in HR and thought that they could be applied to his department.” Dwyer’s involvement with the project opened the door to become a full-time employee in audit assurance for the Department of Indian Affairs. He worked on employee perceptions and strategic analysis of validating what employees felt about the department. Findings from this study were later utilized by Dwyer to develop the department’s leadership profile.

Well into his new role, Dwyer decided to pursue a PhD in organization management for an added challenge and to broaden his skill set. Just after the completion of his PhD, he moved from Indian Affairs to the Atlantic Canada Opportunities Agency (ACOA) in Moncton, New Brunswick to accept a new position as a manager of research methodology.

At this point in his career, he decided to pursue his CMA designation since the new role at ACOA required an advanced level of understanding. Dwyer felt the CMA accreditation process would help him develop a more robust, broad based skill set that was current and relevant to ACOA’s and stakeholder’s business needs.

“While the nature of my work had an economic development focus, it also had significant exposure to the strategic aspects of financial management,” he says. “The accreditation process develops depth, breadth and scope — you can have knowledge or education or competencies, (which are all important); however, the CMA accreditation process enables candidates to deploy their competencies and skills in an organization, and to build sustainable quality within businesses, providing strategic direction from a financial perspective to drive improved performance to move the organization forward in a strategic manner,” Dwyer adds.

With a new designation behind his name, Dwyer was offered a promotion in 2003 as director of audit and evaluation with the Canada Firearms Centre in Ottawa.

“While the CFO appreciated the diverse public sector experience, the CMA designation was the clincher — he wanted an individual with a financial and strategic perspective since the Centre had been directed by the auditor general to create a new audit evaluation function within the department. While the centre’s management team liked the background and experience, having the CMA designation was the icing on the cake,” he says.

Dwyer’s career would take one last turn in 2005, where he was invited to join chief review services (CRS) as an evaluation principal with the Department of National Defence in Ottawa. In his current role, he participates in an “extraordinarily diverse range of work assignments” where he evaluates various departmental programs and policies related to the Canada First Defence Strategy. His work has ranged in size from reviewing grants and contributions programming to multi-billion dollar expenditures related to intelligence management in order to provide advice on
whether such programs supports Canada’s interest; and to determine if the program is delivering the intended results for Canadians. In other words — does it represent good value for the money spent; does the program deliver its intended impact; what elements of the program are working well; and what elements of the program should be changed? The findings of his work are utilized by the deputy minister and the chief of the defence staff to enhance the level of strategic decision making regarding DND/CF policies, programs and initiatives, and as justification for investment in a large multi-purpose defence capability.

His position is different from those of his colleagues in the private sector due to the sheer size and scope of issues that his team evaluates. “There is no private sector evaluator who looks at programs as large or as complex as those we see at National Defence,” he says.

Throughout his career, Dwyer has worked in every province and territory except for Manitoba and British Columbia. He says his wife is extremely supportive and continuously pushes him to challenge himself.

“I went back to school because my wife encouraged me,” he notes. “My wife could have had a great career in the financial industry, but she put it aside and allowed me to grow my career in public service.”

Despite a demanding full-time career, Dwyer makes time to give back to the community. He currently mentors CMA candidates and those who just earned the designation. As well, Dwyer is part of the Canadian Executive Service Organization (CESO), which builds strong independent communities in developing countries around the world. Through this position, Dwyer has worked on projects in Armenia, Russia, Peru and Bolivia. Dwyer is also a member of CMA Canada’s Competency Map Task Group (CMTG) initiative; and represents CMA Canada on the Sri Lanka syllabus revision expert panel for the CMA designation in Sri Lanka.

“It’s good to be busy, and it’s important for me to give back to the community,” he says. “The more I give back, the more I tend to get back in terms of personal satisfaction and contribution. Volunteering for me is something I very much believe in and support. I’ve met some fabulous people working through CESO, and the initiatives through CMA Canada. When I was young and starting a career, I was grateful to have coaches and mentors,” Dwyer says.

Dwyer looks fondly on obtaining his CMA, and says it’s one of the wisest decisions he’s made in his life.

“A PhD is nice, but having a CMA designation to integrate the financial perspective with the strategic and management perspective is key. Being able to tie it together, through all facets of an organization — that’s the CMA designation.”

Arda Ocal is a Mississauga, Ont.-based writer and on-air personality with Rogers TV.

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The world according to Gantt

Project management software used to be no more than a tool on a project manager’s desktop. Today, technology can automate the coordination of hundreds of tasks through a web-based collaborative process.

By Jacob Stoller

The Gantt chart, invented a century ago by mechanical engineer Henry Gantt, is so useful that it has become the definitive representation of multi-task project plans, and the basic algorithm behind project management software.

By plotting tasks on a visual timeline, Gantt charts help project managers and other stakeholders see and communicate how the different components of a project fit together. Because they show not only timelines, but also dependencies, or instances where the execution of one task depends on the completion of another, they can help simplify projects involving tens or even hundreds of tasks.

In some organizations, the challenge goes beyond training — the change management process can be considerable, especially where “low tech” cultures have prevailed.

Many people have become familiar with the Gantt chart through Microsoft Project, the software package that is widely regarded as the granddaddy of project management software. Junita Leeman, now senior product manager, information worker, Microsoft Canada, used Project when she was a civil engineer planning construction projects. “In 1996, Microsoft Project was a standalone application for project managers,” Leeman says. “And right now, we’ve seen multiple choices.”

Neal Aronson, CFO of Hix Rubenstein, a resort developer based in Mountain View, Calif., also started small with Project, and adopted more advanced tools when they became available.” It’s gotten much more sophisticated,” Aronson says, “but the Gantt process is, at least from my perspective, still your mainstay tool — being able to assign resources or people to a particular task that has a start date and an end date and a deliverable. For us, that’s the bulk of the work.”

The spreadsheet has been a familiar adjunct to Project, and data from Project is frequently downloaded for “what if” scenarios and other calculations. “What if John doesn’t finish his job on time,” says Aronson, “and what if he underestimated the cost of his third party vendors? Then you need to do that model of how it ripples through all of the other variables that are dependent on John finishing his task on time.”

Many project management applications now have business intelligence components that allow project variables to be tied to key corporate objectives. For Aronson, however, the most important development has been the ability to share the project management process with employees and partners. “It’s all web-based,” says Aronson. “I can sit at my desk, update the project schedule that I’ve built, and assign resources and tasks to whatever project partners I’m working with, and upload. And pretty
much automatically, everyone gets an e-mail or a reminder of what they need to do and a request to provide input.”

This is highly productive because it circumvents the so-called “sneaker-net” process where a project manager makes multiple phone calls and then updates the project plan based on personal notes. “It keeps the process clean,” says Aronson, “and call it the audit trail if you will — it minimizes communication errors and/or other blind spots if you will.”

Verbal communication is still important, however. “This doesn’t replace the communication process with your partners,” says Aronson. “The conversation is still happening, but it’s all being captured by the tools, and so it makes it a lot easier to document all of those updates on everybody’s projects.”

Many companies use project management software to manage large pools of internal resources, often sharing them between projects. In this case, there’s a huge business advantage in being able to create a precise picture of how these resources are utilized. “I think the biggest value you get out of the software is around visibility,” says Mounir Hilal, vice-president, global services at Tenrox, a project management software company based in Glendale, Calif. “Nowadays, it’s all about visibility and quick decision making.”

To accomplish this, the software includes controls to ensure that the information being stored is accurate. “With the software, I know that I’m looking at data that’s gone through the proper process,” says Hilal, “and there’s security and control around who gets to update it and how it gets updated. So I’m confident that the data I am looking at in front of me, even though it may not be 100 per cent accurate, is certainly accurate enough to properly make my business decisions.”

Of course, people have to use the software consistently as well. “There’s a learning curve,” says Aronson, “but you invest in your teams to get everybody up to speed on them, then they’re a much more valuable member of your team.” Hix Rubenstein often stipulates in contracts that partners will undertake training in their software tools.

In some organizations, the challenge goes beyond training – the change management process can be considerable, especially where “low tech” cultures have prevailed. “A lot of times what we see is that companies come in and implement tools while their business processes are not mature enough,” says Hilal. “We try to clearly distinguish this so that the organization implements and educates the employees on the change in business process before they start educating employees on the changing technology. That plays an instrumental role in really getting proper user adoption.”

“Everybody has to be on the same page,” says Aronson. “That’s one of the pillars of project management.”

Jacob Stoller (jacob@stollerstrategies.com) is a Toronto-based independent writer and researcher.
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In wake of financial crisis, Ottawa think tank calls for new approach to developing world

The goal? Ensure that in the event of another financial meltdown, there will be far less of an impact on low-income countries.

By John Cooper

As the world works its way out of the recent global financial crisis, The North-South Institute in Ottawa is calling on Canada to listen to a “forgotten element” of the crisis — the developing world — and for changes in the way governments and financial institutions approach world development. According to analysts, paying attention to Canada’s trade partners in the developing world will mean greater long-term business success for Canadian firms that rely on them as sources of raw goods, finished products and consumer markets. In a recent report entitled A Global Crisis of Development: Responses and Responsibilities, The North-South Institute examines the relationship between Canada’s public and private sectors and the developing world. The report encompasses articles written by leading economists and analysts, focusing on potential improvements the G8 and G20 can make to improve global markets.

The report’s authors, Pablo Heidrich and Roy Culpeper, say the need for change has never been more crucial. And according to the World Bank, in Africa alone the crisis resulted in a three-pronged threat of famine, lack of fuel and poor finances, causing a four percentage point GDP drop, driving 10 million more Africans into poverty, devastating tourism revenues and resulting in 50,000 children dying before their first birthday. This year, the financial aftershock will drive 64 million more people worldwide into extreme poverty (defined as having less than $1.25 per day). The report calls on international institutions to generate greater accountability to reduce poverty and improve aid effectiveness, with a long-term goal of building greater resilience in developing countries. After a 30 per cent shrinkage of global trade, the freezing of international financial flows and a decline in foreign direct investment last year, the question is one of how best to ensure that developing countries do not suffer in another economic downturn.

According to Heidrich and Culpeper, the signs of financial market recovery in late 2009 masked persistent unemployment issues and heightened concerns over the possibility of a “double dip” — a stalled recovery before another potential downturn. Worrisome enough for financially-stable countries — but an even bigger challenge for developing countries facing greater social and economic volatility; the authors call on the Canadian government to focus on the recovery of international financial flows, trade, development aid and migration to assist lower-
income countries in stabilizing their financial infrastructure. A good idea, says David Black, director of the Centre for Foreign Policy Studies and a professor of political science and international development studies at Dalhousie University. But Black sees “little happening in the short term that positions the Canadian government as seeing itself playing a role in terms of the financial stabilization of developing countries.” Black adds that, while Britain has allowed aid to become a bipartisan issue and the U.S. is showing keen interest in reinvigorating aid, Canada (though increasing foreign aid by eight per cent for 2010/2011 to $5 billion) still tends to hesitate on making significant commitments on the foreign policy front.

Internationally, a big improvement would be positioning the G20 as a permanent secretariat outside North America or Europe, Aniket Bhushan and Diana Tussie say in *Widening Global Governance: Building on the G20*. This would allow developing countries to play a larger role in worldwide financial decision making. For Black, a permanent secretariat “is most probably ‘pie in the sky’ in the short term, although I think it is useful to put those things on the table.”

However, the G-series governing bodies have “never had a permanent secretariat, and I think other governments would be wary of creating a transnational locus,” says Black. “But I fundamentally agree with the underlying basis where

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**According to analysts, paying attention to Canada’s trade partners in the developing world will mean greater long-term business success for Canadian firms that rely on them as sources of raw goods, finished products and consumer markets.**
we’ve moved to a global economy that needs to be managed transnationally. The functional logic points to a deepening of institutionalization (in a permanent site) over time.”

As for building on the diversity of goods and trade opportunities, Heidrich, in Crisis Contagion and Trade Linkages: Evidence from the CIDA-20 Countries, argues (along with co-author Ann Weston) that Canada needs to examine the relationship between the financial crisis, trade and poverty in the 20 countries selected by the Canadian International Development Agency CIDA (from Bangladesh and Ghana to Honduras, Pakistan, Ukraine and Vietnam) to receive up to 80 per cent of Canada’s concentrated development assistance, valued at over $1.5 billion in 2010.

The challenge is that most of these countries are over specialized and are “vulnerable to international trade due to their heavy dependence on the exports of a handful of goods to a very small group of partners,” say Heidrich and Weston. The situation is compounded by a reliance on imported energy. When a crisis hits, three challenges are present: (1) reduced exports; (2) increased competition from countries for whatever export markets remain; and (3) cheaper imports coming from similarly crisis-hit countries that displace domestically-produced goods.

Heidrich says Canada must encourage its aid recipients to diversify through assisting them to create new export opportunities. There must be programming to support export promotion efforts beyond existing main partners, trade deficits must be tackled in creative ways and domestically-owned banks must be encouraged to reduce their reliance on foreign bailouts.

In an interview, Heidrich adds that it’s essential that CIDA’s aid to developing countries is spent in a way that encourages diversified international trade, as well as stronger financial structures.

This year, the financial aftershock will drive 64 million more people worldwide into extreme poverty (defined as having less than $1.25 per day).

“International trade is the single most important way to move money around the world. During this crisis these countries had a huge reduction in income from trade,” he says. “Many of these countries have domestic banking institutions (but) in low income countries they don’t have the capacity for technological development to engage in international trade financing.”

Heidrich is encouraging an influx of Canadian expertise to assist in helping build an internationally-focused finance infrastructure. In the long-term, “it becomes better for North American and European business” because developing countries buy their goods and services.

Bill Morton, a senior researcher with The North-South Institute, says that too often the industrialized world overlooks the fact that while “the Canadian and industrialized economies are interlinked, they are also linked with the economies of developing countries. If the economies of developing countries are not able to recover, it has an effect on the global economy as well. It’s in the interest of Canada and the other developed countries that this recovery is able to take place.”

Black agrees. “The obvious answer is that the best opportunities for growth in investment and trade in the medium- and long-term are going to be in developing and emerging economies. The traditionally dominant Organisation for Economic Cooperation and Development (OECD) world is going to represent a diminishing share of world trade and investment over the next couple of decades. Conversely the opportunities for growth lie in the large emerging markets of the so-called developing world and if one could empower and unleash the power of the hundreds of millions of potential consumers who are poor, those opportunities would multiply. We have historically been neglectful of these challenging, but more effective opportunities.”

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