

Going green

• Skilled talent

• Shareholder rights



FOR STRATEGIC BUSINESS IDEAS

www.managementmag.com

Management

DECEMBER/JANUARY 2010 \$5.50

**Supply chains —
Seeking a new
strategic advantage**

**How black holes form
in organizations**

Carol Patterson, CMA,
president, Kalahari
Management Inc.

Taking the road less travelled

Carol Patterson, CMA, uses her passion for travel and wildlife to develop long-term plans for sustainable tourism destinations.



“How do I know that a potential hire is going to fit our culture?”

Unfortunately, you can't know for sure. But there are ways to greatly increase your chances of finding the right fit. One is to work with a recruiter who truly understands the importance of corporate culture.

So how do you find that mythical recruiter? Those people who have actually demonstrated that they get it? Not just for their clients, but for themselves?

Well, you can start with Lannick.

Our commitment to developing the right corporate culture is more than just talk. We've recently been recognized as one of the Best Workplaces in Canada. For the second time.



“Our core purpose is to help quality people and quality companies find the right fit,” says Lannick CEO Peter Jeewan, “and that applies to our internal team, too. We hire great people and we work hard to provide them with a great environment.”

Very simply, we know how important it is to get the right fit. How important it is to find, not just the candidate who delivers all the appropriate skill sets and experience, but one who will fit in with and make a real contribution to your business.

We've done it for ourselves, and we do it for our clients every day. If you'd like to find out how we can do it for you, just give us a call at (416) 340-1500.

With deep expertise in accounting and finance recruitment, Lannick Group of Companies specializes in placing qualified professionals in contract, permanent and temporary roles. Our singular focus on getting the right fit quickly and professionally has helped our clients and candidates succeed for close to 25 years.



LANNICK
GROUP of COMPANIES
The Right Fit. The First Time.™

Competitive advantage

Organizations today are competing on how effectively they can move raw materials, components and finished products globally through their supply chain to customers. Supply chains and their continuing improvement have become a major driver of profits. Whether an organization is large or small, management accountants need to work with their colleagues to support the development of a greater supply chain competitive advantage and management accounting practices that facilitate their long-term sustainability. Management accountants must also form a strategy that aligns with the organization's overall objectives. To do this, organizations should evaluate their current strategic positioning.

In this issue, Bill Langdon, FCMA, sat down with Ed O'Donnell, vice-president, business analysis for Teknor Apex Company, a manufacturer of thermoplastics, and Paul Massey, finance leader, Cummins Turbo Technologies, a supplier to original equipment manufacturers in the automotive industry, to discuss some of the challenges and issues surrounding supply chain management. Based on a Management Accounting Guideline (MAG)[®], the article focuses on the importance of supply chain management accounting (SCMA), along with key techniques and how they can be used in practice. Through a series of Q&As, the article, *Supply chains — Seeking a new strategic advantage*, illustrates the application of management accounting techniques in specific supply chain situations.

Promoting environmental (green) standards within your organization is another opportunity to create financial and environmental benefits. Virtually all organizations are conscious of the image they project, and corporate responsibility is an important part of that image. Green technologies represent an opportunity for corporations to extend beyond brand reputation and affect overall profitability. Jacob Stoller joins *CMA Management* in this issue with his column *IT's growing role as a green enabler*. Stoller explains IT's integral role in becoming a green(er) organization and the importance of complying with external requirements to run a more efficient operation.

Lastly, as we move into 2010, I'd like to take this opportunity to thank our readers. Your continuous support, feedback and suggestions during the course of the year have been integral to the growth of the magazine. Thank you for helping us continue to be a valuable resource for management accountants. Happy holidays!



Andrea Civichino
Editor-in-Chief



Publisher Suzanne K. Godbehere
Vice-President, Public Affairs and
Communications
(905) 949-3106
sgodbehere@cma-canada.org

Editor-in-Chief Andrea Civichino
(905) 949-3109
acivichino@cma-canada.org

Art Director Sean O'Rourke
(905) 949-3132
sorourke@cma-canada.org

**Translation and
Co-ordination** Joanne Beauchamp
Hélène Arseneault
(514) 878-1105

Advertising

**National
Advertising Sales** **Dovetail Communications Inc.**
30 East Beaver Creek Road
Ste. 202
Richmond Hill, ON
L4B 1J2
Phone: (905) 886-6640
Fax: (905) 886-6615
www.dvtail.com

Sales Manager Beth Kukkonen
bkukkonen@dvtail.com

President Susan A. Browne
sbrowne@dvtail.com

Account Manager Sarah Vassos
svassos@dvtail.com

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

Circulation and Administration

For general inquiries, change of address notices, etc. please call:
Liliane Kenyon (877) 262-6622
lkenyon@cma-canada.org

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
1 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: December/January 2010

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.

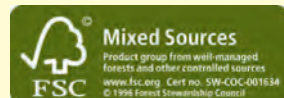
Products and services identified in CMA Management are neither sponsored nor endorsed by CMA Canada or its affiliates. For more information on these products and services, readers are encouraged to contact the advertisers directly.

Opinions expressed are not necessarily endorsed by CMA Canada. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted, in any form or by any means, without the prior written consent of the publisher or a licence from The Canadian Copyright Licensing Agency (Access Copyright). For an Access Copyright Licence, visit www.accesscopyright.ca or call toll free to 1-800-893-5777.

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





20 Supply chains — Seeking a new strategic advantage

Organizations are continuously striving to meet customer expectations as effectively and efficiently as possible — a strategic imperative all the more critical in today's economic climate. The advent of customer-centered organizations, "everyday" low prices, and expectations that prices will drop, not rise, is a huge change in the structure of the global economy.

Introduction and interview by Bill Langdon, FCMA

25 Black holes and irrational thought

According to Statistics Canada, "almost half of the firms in Canada that go bankrupt do so primarily because of their own deficiencies rather than externally generated problems." To understand why this happens, it's important to understand what black holes are and the impact they have on organizations.

By Ron Lutka, CMA



28 PROFILE Taking the road less travelled

Travelling for over two decades and learning more about wildlife around the world has made Carol Patterson, CMA, a braver and bolder person. She explains how she uses her passion for travel and wildlife to develop long-term plans for sustainable tourism destinations.

By Andrea Civichino

Columns

10 Human resources



The search for skilled financial talent. Even in a down economy, locating experienced accounting and finance professionals in key specialties remains a challenge for employers worldwide.

By Connie Stamper, CMA

12 Business strategies

During economic chaos, organizations must evolve – Has your cost/profitability system (CPS) evolved? While a company's business model has likely evolved in response to the current dynamic economic climate, its CPS has failed to reflect these changes. Until the system is updated, the CPS will function inefficiently.

By Denis Desroches, Toby Hatch, Raef A. Lawson, CMA, and William Stratton, CMA



17 Management trends



Why IT matters in 2010

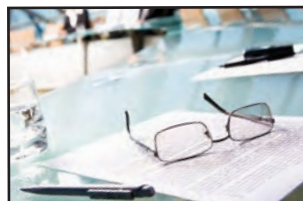
As uncertainty has become the norm, today's organizations are seeking information technology solutions that drive clarity in their business and visibility across their business networks.

By Mark About

33 Legal notes

Shareholder rights – More than meets the eye. Those who advise companies or shareholders need to be familiar with "shareholder oppression."

By Stephen Antle



37 Information technology



IT's growing role as a green enabler.

Becoming green involves both complying with external requirements and

running a more efficient operation. Keeping tabs on the variables involved is an information-intensive activity that calls for strong IT capabilities.

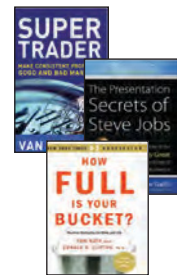
By Jacob Stoller

Departments

6 Media bites

Motivate and captivate your audience

- Super Trader
- The Presentation Secrets of Steve Jobs
- How Full Is Your Bucket?



8 News and views

New and noteworthy information you can use

- Software: Intuit ProFile
- Private Canadian companies poised to excel internationally

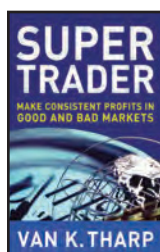
Next issue:

- Volunteer opportunities
- Investing in real estate



Motivate and captivate your audience

Super Trader

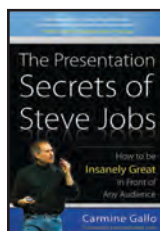


Van Tharp combines psychological insight with sound fiscal principles to help people unleash financial success. His book *Super Trader* combines decades of experience and best practices to deliver wisdom to thrive in any financial storm. Training readers to design a portfolio as if they were running a small business, Tharp's book includes the following core lessons: how to let profits run

while consistently cutting losses short; tapping the principles of position sizing; what every trader's "business plan" should include; vanquishing counterproductive thinking; the correct way to monitor holdings and potential buys; making the commitment to thinking, planning, and being a full-time trader; reading the big picture and tips for staying realistic, systematic, and enthusiastic. *Super Trader* reveals how to master the psychology of trading and the simple methods that great traders use to code and streamline their own trading systems.

Van K. Tharp. McGraw-Hill.

The Presentation Secrets of Steve Jobs



Steve Jobs, CEO, Apple, has elevated product launches to an art form. *The Presentation Secrets of Steve Jobs*, by Carmine Gallo, is a roadmap to presentation success. "Jobs is the most captivating communicator on the world stage," Gallo says. "People stand in line overnight to get a seat at one of his keynotes. YouTube has more than 35,000 video clips

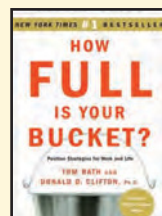
from his presentations. It reflects the interest in his presentations which are more like theatrical performances." How does Jobs do it? Is it by sticking to the rule of three (three stories, three parts, three basic messages) that always play a role in his messaging? Is it because he always introduces a hero and a villain? Is it that he rehearses so diligently that he makes it look effortless? Gallo has studied and analyzed the very best of Jobs' performances and offers point-by-point examples, tried and true techniques, and presentation secrets that work every time. Gallo's tips offer seasoned presenters an

opportunity to improve their skills and make their message more exciting and memorable — whether they're in front of a group of colleagues or an auditorium of shareholders.

"The book is software agnostic," Gallo says. "In other words, it doesn't matter if you're a Mac or a PC, whether you use PowerPoint, Keynote or another software program. Although in some chapters you will learn how Jobs creates more visually engaging slides, the majority of what you'll learn is how to successfully express your ideas in all forms of communication. It's not about the slides, it's about the story. The slides compliment the story."

Carmine Gallo. McGraw-Hill.

How Full Is Your Bucket?



How did you feel after your last meeting with your boss, colleague, best friend, spouse, or even a stranger? Did any of these people "fill your bucket" by making you feel good about yourself? Or, did they "dip from your bucket," leaving you more negative than before?

How Full Is Your Bucket? looks at the effects of positive psychology by using the analogy of the "dipper and the bucket." Each one of us has an invisible bucket. We are happy when our buckets are overflowing and unhappy when our buckets are empty. Along with our buckets, each of us also has an invisible dipper. The dipper's function is to either fill or dip from other buckets.

How Full Is Your Bucket? is filled with advice for executives hoping to reap the tangible benefits of a positive atmosphere in the workplace. It reveals how the briefest interactions affect relationships, productivity, health and longevity. The book also contains a guide that includes self-assessment tests and creative tips on how to apply the bucket and dipper concept in organizations and teams. Overall, the book offers insight to anyone who wants a better life — at home and at work.

Tom Rath and Donald O. Clifton. Gallup Inc.

"The list of benefits is long. We now have the ability to sustain exponential growth... and keep capital costs down — for example, we've lowered our inventory levels by 50 percent, without experiencing shortages."

Scott Bell, COO, Arthur's Fresh

Arthur's Fresh & SYSPRO ERP

Arthur's Fresh was founded by its namesake's son, company president Travis Bell, a fifth generation fruit farmer from Goderich, Ontario. The Bells have been growing fruit and pressing cider on the original family homestead, and surrounding areas, since 1893. "Having grown up on a fruit farm," says COO Scott Bell, "all we do is put fresh fruit and vegetables in bottles. We never dilute our fruit with added sugar, water, concentrates, preservatives or additives."

Growing up on a farm also taught the Bells about environmental responsibility, and the virtues of "buying local." Arthur's Fresh purchases six to eight million pounds of produce every year. "We'll even pay more to get Canadian produce," says Bell. "We understand the importance of allegiance to Canadian products. And, of course, the fewer miles your food travels to get to your plate, the better it is from both environmental and nutritional points of view." The company's signature smoothies, packaged in lightweight, 100-percent recyclable containers, are bottled in an HACCP-certified production facility that runs on electricity generated by water and wind.

Scott Bell joined Arthur's Fresh in 2007. His first job was to manage the company's transition to a full-fledged enterprise resource planning (ERP) system. Fast-growing and aggressive, the company's implementation schedule ran to an ambitious timeline. The decision to go with SYSPRO ERP was made in December 2006. Three months later, in March 2007, the system went live.

"Before SYSPRO," says Scott, "Arthur's Fresh ran on Quickbooks, Microsoft Access and one brain. My brother was the enterprise system — front office, back office, purchasing, manufacturing and product formulation. Our revenues were about \$6 million in 2006, and doubling yearly. The business was quickly becoming complex beyond the ability of one person to manage — we needed to free my brother from his office and factory roles, to let him concentrate on the job of being president. In short, we needed SYSPRO."

With so much growth in hand, and so much emphasis on nutrition and health, Arthur's Fresh needed an ERP system that would manage financial complexities, run a factory, guarantee quality, and offer precise control over every aspect of the supply chain. "We partnered very closely with SYSPRO," says Bell. "One of the things we really liked is their consulting services — that's key for a small company like ours. We were great in Access and Excel, but none of us had prior experience with an ERP."

For Bell and Arthur's Fresh, the initial implementation was only the beginning. "When you implement SYSPRO," says Bell, "you're not just doing it for the basics. There are other

pieces down the road that you'll really want to leverage."

The company's first "post go-live" implementation was electronic data interchange (EDI). "Costco was our first, but not our last EDI implementation," says Bell. "It's a good cost-saving measure for our customers, and a great implementation for us."

Arthur's was quick to harness SYSPRO's system for inter-warehouse transfers. "When you double every year," says Bell, "you grow out of your physical environment quickly. We had to start using third-party warehouses, so we could maintain our facility solely for manufacturing. It's not the lowest cost approach, but it's what we had to do because of the growth we were facing. With SYSPRO's Goods In Transit system, we're better able to control our inter-warehouse movements and costs."

Next came the materials resource planning module. "We wanted the MRP module in a hurry," says Bell. "We don't spend our money on marketing, we spend it on product. What we put in the bottle is a large part of our costs — more so than other juice companies, because our product is healthier. That's one of the areas that swung us to the SYSPRO side, because it manages minimum levels, blanket POs, uses multiple units of measure for pricing and handling, and because it makes MRP recommendations based on forecasts, available stock, and current demand."

Finally came the Trade Promotions module. "We wanted to get on top of trade promotions with all our various customers," says Bell. "In prior years the sales team handled promotions, but over time it became increasingly time consuming and complex. The Trade Promotions module is key to our growth."

Since March 2007, says Bell, each of the company's ERP objectives has been achieved. "The list of benefits is long. We now have the ability to sustain exponential growth; to trace lots and undergo various stringent audits; manage the P&L; manage very long lead times for raw materials; do business with Costco, Wal-Mart, Safeway and other EDI companies; control promotional costs; and keep capital costs down — for example, we've lowered our inventory levels by 50 percent, without experiencing shortages."

These days, says Bell, brother Travis has come to trust the data he receives from SYSPRO. "He's happy now, and he sleeps more. He trusts the clerks to do the jobs he only trusted himself with in the past. SYSPRO has freed him up to go close a new sales account, and that's a lot more valuable than having him do the accounting."

For more information about Arthur's Fresh please visit: www.arthursjuice.com

**Delivering
high-end
solutions
mid-size
companies
can afford.**



SYSPRO™
Simplifying
your Success

Contact SYSPRO today for
your free copy of

*"When, How and Why
of ERP support for LEAN"*

Toll-Free in Canada
1-888-259-6666 x228
info@ca.syspro.com

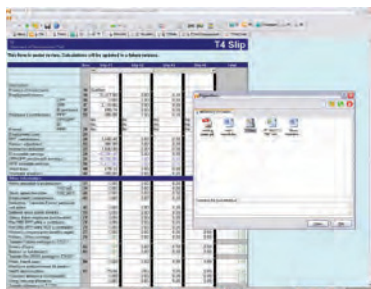
www.syspro.com

News and views

New and noteworthy information you can use

Intuit ProFile: New software electronically links documents to returns

Tax professionals will be able to work faster, more efficiently and serve more customers with the new productivity features available in ProFile, the latest tax preparation software for accountants from Intuit Canada.



The software, now available for the upcoming tax year, makes it easier to electronically link documents to a tax return, eliminating the clutter and confusion of working with paper receipts and other supporting information. In addition, the software includes a fresh, customizable user interface, a corporate EFILE option for ProFile Basic users, and access to other professionals through the online, in-product Live Community.

“Tax prep pros tell us productivity is job number one, so we’ve equipped them with the power to do more,” Rick Jensen, general manager of Canada Tax, says. “Whether they’re delivering top-level tax strategy to clients in a world of changing legislation or are moving to a paperless office, ProFile helps users be more productive at a critical time of year.”

HyperDocs: Less paperwork, more time for customers
HyperDocs, included in ProFile Premier, links client source documents and working papers to their corresponding tax returns. Users can simply drag and drop to add new

documents, and view associated paperwork, such as receipts, on screen while preparing a tax return. HyperDocs synchronizes all supporting files with the original client file, and automatically updates any changes to the original document. It also supports popular file formats, including Excel, Word, PDF, JPEG, and TIFF.

Other features and improvements

ProFile includes four other features to help tax professionals work more efficiently:

- Refreshed user interface — Makes it faster and easier to find most features. Icons have a fresh new look and users can adjust them to their preferred size. Navigation remains the same, so there’s nothing new to learn.
- New corporate EFILE — Lets ProFile Basic users take advantage of the speed and efficiency of electronic filing for T2 returns. Already included with ProFile Premier, T2 EFILE for ProFile Basic is available as an easy upgrade option that can be purchased either as a bundle with ProFile Basic or as an add-on.
- Live Community — Provides a fast, online connection to thousands of peers in the tax preparation world. Looking for a second opinion on an obscure tax rule? The answer’s likely a click away.
- Improved T1/TP1 help content — Adds official CRA and Revenue Quebec content to ProFile’s context-sensitive in-house expert help topics — saving time when searching for government answers.

So many players.
Only one dominates.

Your Winning Choice.

At PTC Accounting and Finance, we are experts in fulfilling your contract accounting and finance needs. Whether you’re pursuing interim accounting and finance jobs and projects, or are looking to hire top-quality candidates, we have the resources you require to find that perfect fit. We know the right moves to put you in the winning position.

Opportunities include:

IFRS initiatives / Controllers / Assistant Controllers / CFOs / Cost Accountants / SOX Specialists / Taxation / Treasury / Auditors / Project Accountants / Junior to Senior Accountants and much more.

For more info visit us online or call us today!



PTC sources contract accounting and finance talent.

Toll Free 1 877 303 9550

ptccounting.com

Private Canadian companies poised to excel internationally

Over half (57 per cent) of Canadian private companies said foreign operations were important to their company's overall growth strategy, according to a KPMG Enterprise™ survey, *Taking on the World: Positioning Canadian Private Companies for Global Success*.

More than three-quarters of respondents indicated that they sell or export outside the country, import goods or services, and/or use foreign vendors or distributors. Nearly one-half of survey respondents said they considered their foreign expansion to be successful, while one-quarter admitted to being unsuccessful. Respondents were senior executives, with more than half of them CEOs, presidents, and/or owners.

“As we enter a period of global economic recovery, foreign markets will become the places to be if an organization is to achieve maximum growth,” Dennis Fortnum, national leader, KPMG Enterprise, says. “Canada seems poised to excel as the global economy recovers, giving Canadian organizations an edge in doing business globally.”

The survey documents the extent of private companies' foreign operations to date; sheds light on the benefits of global expansion for private companies, and the key challenges and risks of doing so; and provides information about local employee and supply resources in foreign markets.

Key findings include:

- 60 per cent of private companies surveyed said they plan to expand their presence outside Canada during the next five years.
- More than half of respondents said less than 40 per cent of their total revenues came from operations outside Canada.
- Looking ahead, leaders of Canadian private companies indicated that revenue from foreign operations would grow over the next five years and, specifically, 14 per cent indicated their revenues should grow by more than 80 per cent during this period.

Just over one-half of the private companies surveyed said that they would not change their global expansion plans during an economic downturn, which was up from just under one-half in last year's survey. However, the percentage of companies who said they would increase their foreign expansion during a downturn fell to 25 per cent, from 36 per cent a year ago, and 18 per cent said they would decrease expansion, compared with 12 per cent previously.

During good economic times, 60 per cent said they would retain the status quo, down slightly from 63 per cent last



year. One-third said they would increase foreign expansion during an upturn, up from one-quarter a year ago, while only six per cent said they would cut back, compared with 10 per cent in 2008.

While Canadian private company owners and CEOs are enthusiastic about the prospects for global expansion in the coming years, lessons learned from the recession provide a reminder of the need to be cautious. Yet, at the same time, the downturn has also demonstrated just how competitive and global the new business world has become — and, consequently, of the need to identify and exploit opportunities abroad.

Management

Editorial Think Tank

Anthony Atkinson, PhD, FCMA
Professor, University of
Waterloo, Waterloo, ON

Pierre-Jean Dion, FCMA, CHRP, M.Sc.
Vice-president, Optima
Management Inc., Trustee, CMA
Canada Research Foundation
Montreal, QC

Clare Isman, FCMA
Deputy minister, Ministry of
Advanced Education,
Employment & Labour, Regina,
SK

John Mould, FCMA
Ombudsman, HSBC Bank Canada,
Vancouver, BC

Todd Scaletta, FCMA
Director, Knowledge
Management, CMA Canada,
Mississauga, ON

Ramesh Swamy, CMA
Senior manager, Deloitte
Financial Advisory Services
Los Angeles, Calif.

Darcy Verhun, MBA, CMC, FCMA
Partner, Conroy Ross Partners
Calgary, Alta.



The search for skilled financial talent

Even in a down economy, locating experienced accounting and finance professionals in key specialties remains a challenge for employers worldwide.

By **Connie Stamper, CMA**

While the worldwide economic crisis has left many accounting and finance professionals looking for work, employers in countries around the globe are still finding it can take weeks, even months, to identify candidates who meet their qualifications. Canada is no exception.

Challenges are the result of a number of trends, including continued competition for top performers and the unwillingness of many professionals to leave secure positions. Even in the face of these difficulties, businesses are more cautious about personnel investments and are taking more time to identify staff who are the best fit for their organizations over the long-term.

As companies search for the right talent, they are also requiring more from their current employees, who constitute a smaller workforce due to layoffs, hiring freezes and other cost-cutting measures. Many employers, recognizing that excessive workloads and heightened stress can quickly undermine morale and retention, are taking steps to ensure their accounting and finance teams remain motivated and productive.

This is a current snapshot of the employment landscape in the accounting and finance fields, according to findings reported in Robert Half's third annual *Global Financial Employment Monitor*. The survey of more than 4,800 finance and human resource managers in 21 countries revealed that the recession has brought significant change to the personnel structure of many accounting and finance departments. And 56 per cent of managers worldwide looking to add financial staff say they are struggling to locate skilled talent. (Interestingly, this figure has remained unchanged in the past three years of the survey.)

Nearly half (47 per cent) of respondents interviewed in Canada cited difficulty in filling financial positions in key areas. Hiring challenges



remain especially acute in Asia, with large majorities of managers in Hong Kong, Japan and Singapore reporting talent shortages. The only country outside of Asia indicating the same level of struggle in the talent search is Brazil, where 79 per cent of hiring managers polled said they can't find enough skilled financial professionals. The situation is quite different in the United Arab Emirates, however, where 62 per cent of hiring managers said locating qualified candidates was not a problem.

Talent in demand

The report results revealed that the types of positions hiring managers find most challenging to fill vary by country, but, overall, skilled financial managers are the professionals toughest to find around the globe. This is also true in Canada, where respondents identified financial management as the most difficult area for recruiting (10 per cent). Managers here ranked the job categories of accounting and financial/business analysis equally in second place (8 per cent for each).

Accounting, controller and financial/business analysis roles were commonly cited as problem areas for hiring by respondents worldwide.



Tax and treasury was a high-ranking category in many countries, too, including in Brazil and Japan. However, Austria (20 per cent) was the country where hiring managers reported the most trouble finding professionals with this type of expertise. This was the highest percentage recorded for any single job category in the survey.

When asked to identify the most important attributes they consider when making an executive-level hire, almost two-thirds of respondents (63 per cent) pointed to “experience and knowledge of the industry/sector.” Strong desire for this type of expertise is not surprising, given the challenging times; businesses need accounting and finance executives who can make immediate contributions and are familiar with their industry’s competitive realities. Ranking second (42 per cent) was “regulatory-compliance expertise.” If new regulations are issued in response to the financial crisis, this knowledge will likely become even more critical for financial organizations, moving forward.

Accounting, controller and financial/business analysis roles were commonly cited as problem areas for hiring by respondents worldwide.

In third place was a “legal background,” with 27 per cent of hiring managers around the globe saying this was the most desirable area of knowledge for financial executives. In Canada, however, a legal background ranked only fourth in importance, along with knowledge of enterprise resource planning systems. The number one attribute cited by 70 per cent of Canadian hiring managers was “experience and knowledge of the industry/sector,” followed by regulatory-compliance experience (48 per cent) and public company experience (35 per cent).

Adapting to change

Many organizations have made significant adjustments to their personnel structure over the past year due to the recession. Virtually all of these changes are driven by a need to “do more with less” because of budget-tightening. Among managers worldwide whose firms were restructured, the three most commonly cited changes were consolidation of jobs (47 per cent), hiring

freezes (38 per cent) and layoffs (37 per cent). These were also the top three changes reported by Canadian survey respondents. Other cost-cutting strategies include reducing hours and outsourcing.

The financial crisis has had other effects on accounting and finance departments, as well. Melding of roles and hiring slowdowns have added to the burden on remaining staff. Thirty-nine per cent of all survey respondents said their financial teams were experiencing higher workloads and more stress. Canadian respondents (42 per cent) cited stress as the most significant effect of the recession on their departments, followed by greater workloads (38 per cent) and lower morale (21 per cent).

Supporting financial teams in tough times

Seventy per cent of hiring managers polled said their departments have taken action to address the impact of reduced workforces. The most commonly cited techniques were redistributing work (39 per cent), increasing the level of communication between management and staff (31 per cent), and postponing projects (30 per cent).

Only 12 per cent of respondents worldwide said they have implemented new work/life balance programs. The immediate focus appears to be on carefully distributing current work and making sure the most critical projects are being addressed by the right people. Despite efforts to ease stress and boost morale, however, many businesses remain concerned about losing their most valuable team members to other job opportunities — even in this difficult economy. More than half (53 per cent) said they were either concerned or very concerned about this possibility.

Looking to the future

Even when in-demand talent can be found, the hiring process is taking longer today because employers are being more selective to avoid costly hiring mistakes. In addition, organizations must often undergo painstaking efforts to justify their hiring needs. The average time to hire for management positions remains eight weeks, and employers worldwide now spend an average of seven weeks hiring for staff-level roles. Canadian firms are actually the quickest to complete the process — it takes an average of five weeks to fill both staff and management positions.

It appears Canadian hiring managers are feeling optimistic about economic conditions for the country in the near future. Nineteen per cent said they expect to see improvement by the end of 2009, and one-quarter predict the Canadian economy will be stronger by early 2010. Sixty per cent of all survey respondents predicted improvement in their national economies by mid-2010. Meanwhile, accounting and finance departments are taking time to hire exactly the talent they need and make the changes necessary to retain current staff. This way they can ensure they will have a strong workforce in place to help them grow and compete after the recession subsides. ■

Connie Stamper, CMA, is a branch manager for Robert Half International.



During economic chaos, organizations must evolve — Has your cost/profitability system (CPS) evolved?

While a company's business model has likely evolved in response to the current dynamic economic climate, its CPS has failed to reflect these changes. Until the system is updated, the CPS will function inefficiently.

By Denis Desroches, Toby Hatch, Raef A. Lawson, CMA, and William Stratton, CMA

Managers have long known that understanding the costs of activities, products, services and customers has a big impact on their profitability. “Do the right things right” and “Know your CCCs (costs, competitors and customers)” are well-known proverbs in the business world.

Historically, organizations have sought technology to perform cost and profitability calculations that are often tedious and complex. But the complexity of business, the market climate (especially the current chaotic environment), and the methods for calculating and reporting cost and profitability have changed considerably over the years. The challenge now is to keep the calculations transparent enough to understand, yet complex enough to accurately reflect reality. The juxtaposition of these attributes should yield actionable information that improves insight and, ultimately, bottom-line results.

A CPS is a well-thought-out, fully integrated set of techniques that are used to collect, accumulate, assign, and report both cost and/or profit for an organization's numerous cost objects. Examples of cost objects include a critical process in the production function, a cost centre like a distribution centre or a department, or it can be a final product or customer for a division or entire entity. In short, cost objects are whatever is of interest to a manager at any level. CPSs support every business process from research and



development, design, production, sales and marketing, distribution, to customer service and shared services.

An effective CPS can support these ends; enabling organizational efficiencies, resource alignment, and financial performance along the way. However, managers often disagree with the activity, product, and service costs reported by their CPS. Managers often need to change or



ignore those numbers to reflect reality in order to make better strategic and operational-control decisions. The older a CPS system is, the more likely this issue exists; while a company's business model has likely evolved in response to the current dynamic economic climate, its CPS has failed to reflect these changes. Until the system can be updated to capture the manner in which a company currently conducts business, the CPS will function inefficiently.

To determine the extent of the gap between operations and the systems used to track cost and profitability of the enterprise, the Business Research and Analysis Group (BRAG) conducted a world-wide survey about costing and profitability. The goals for the survey were to identify major benefits realized from an organization's CPS, to determine the key success factors for an effective CPS, to identify major reasons why an organization's CPS fails, and to determine best CPS practices. Over 400 organizations provided responses about how they measured their costs and profitability, the benefits they received, and the issues they were experiencing.

The survey provided valuable insights into how technology impacts the task of calculating activity, product/service, and customer costs, and how it can hinder or help companies' understanding of their businesses and competitive environment. The results indicate that many organizations are dissatisfied with the information provided by their CPS.

Key finding 1: Benefits from CPSs are not being realized

Identifying, measuring, and understanding the disconnect was at the core of the BRAG survey. The results revealed that companies use a CPS for three major purposes: external financial reporting (including inventory valuation and cost of sales), strategic decision

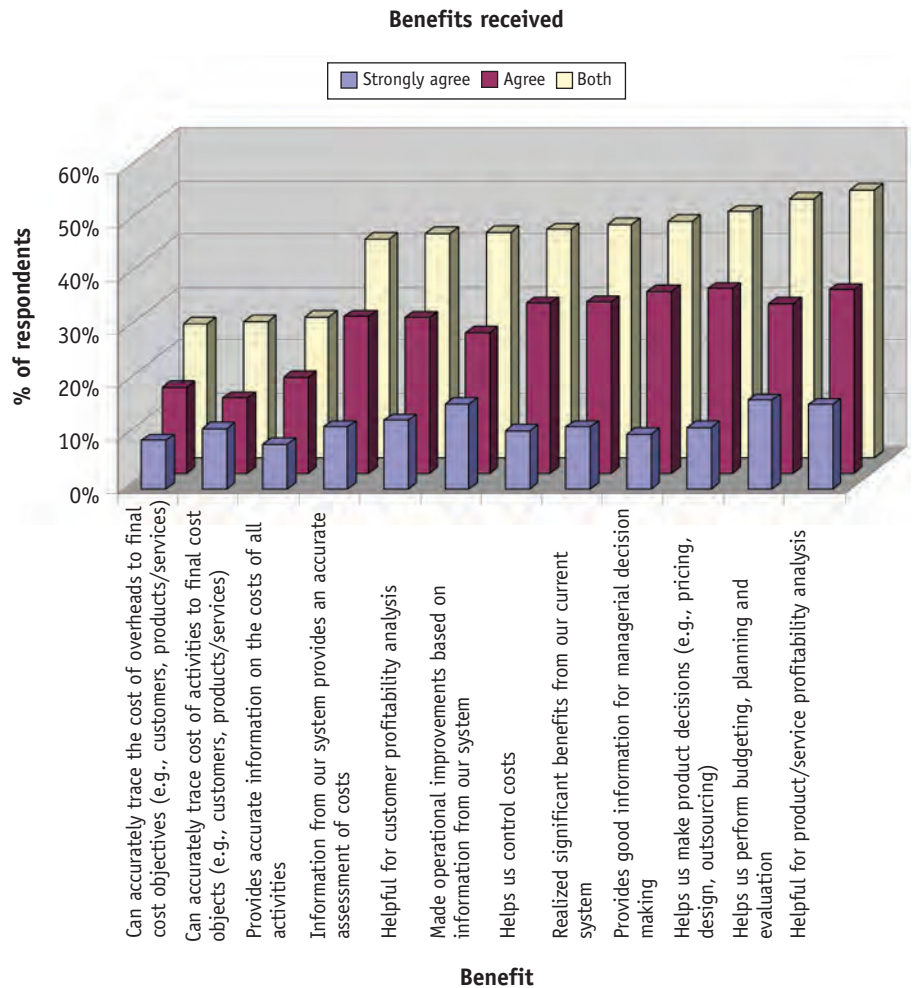
making, and operational control. Since the first purpose is primarily an issue of compliance with external reporting standards, the second and third purposes are more of interest to those charged with operational management.

In order to achieve significant benefits from a CPS, certain key success factors must be present. The CPS must fit the organization's business model, be flexible, be integrated with the planning process, have an effective reporting architecture and yield information that is understandable and actionable. When

these factors are present, it is reasonable to expect benefits to accrue. Such benefits can be classified into four general areas: strategic decision support, operational control support, planning, and performance evaluation.

Respondents were queried about more specific beneficial components and asked to specify the extent that their organization's CPS had achieved each component (Exhibit 1). For example, components of strategic decision support included support for product pricing, design, value-chain

Exhibit 1: Benefits received from their cost and profitability system





outsourcing, and profitability analysis of both customers and products. Components of operational control included support for making operational improvements, cost control, and accurate measures of activities or processes. By assessing these components, the BRAG team was able to extract three major findings about how cost/profitability systems are used (and misused) in organizations.

Key finding 2: Top concerns are with cost allocations

One of the key findings from the survey is that, while the vast majority of respondents believe that at least some benefits are present, only a small minority (25 per cent) agree or strongly agree that their CPS accurately assigns overhead costs to customer, products, or services (Exhibit 1). Further analysis revealed that CPS users overwhelmingly complained about all aspects of cost allocation (Exhibit 2). Managers want realistic accuracy; they want the results to reflect reality, not give them more decimal places. They want more timely

feedback and greater ease of maintaining and updating CPS as processes change. The findings also indicate that organizations are dissatisfied with their existing costing methods. Finally, it appears that the weakest link in the CPS chain is the manner in which costs are allocated.

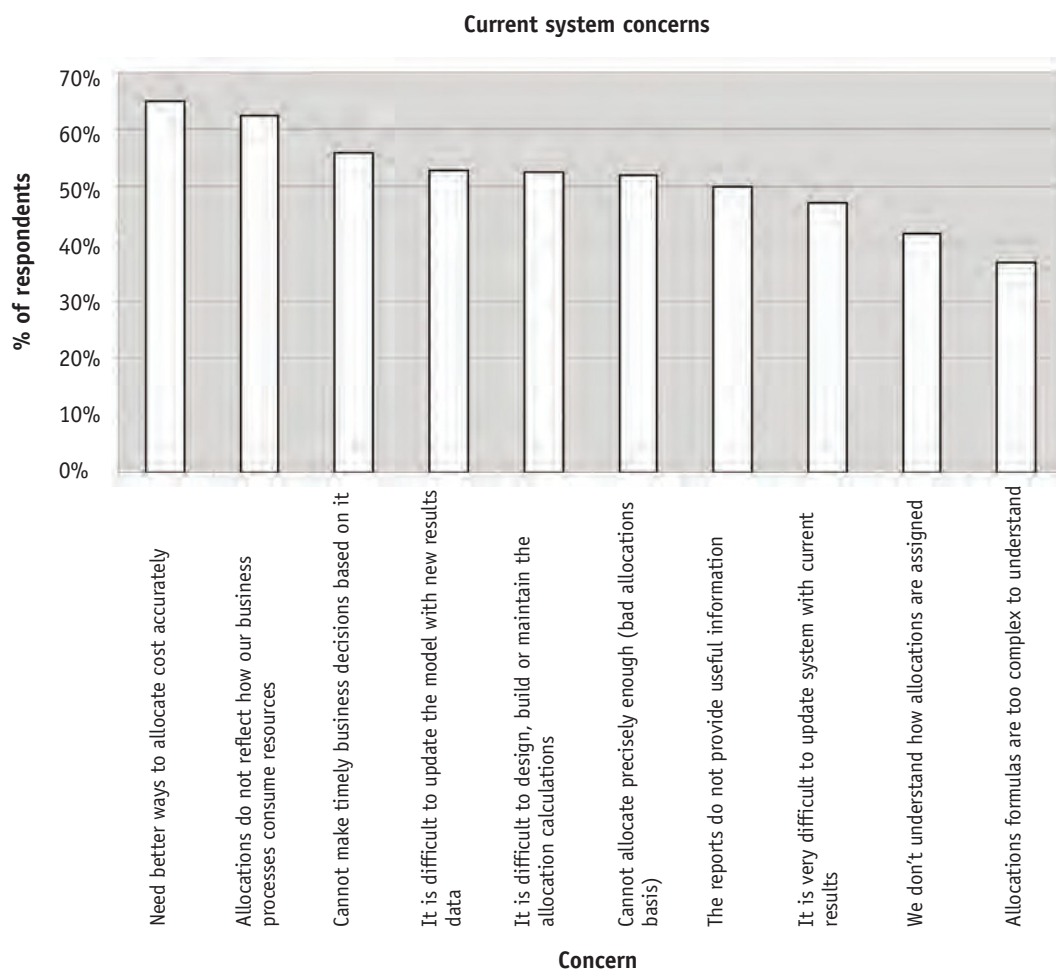
Confirming results of other reported surveys, a wide variety of costing methods are used, including equal allocations, output-based, and activity-based allocation; but no single method dominates usage. In fact, a significant per cent of organizations do not allocate many internal value-chain functions — a fact that most likely reflects the general dissatisfaction with cost allocation results — better to not allocate arbitrarily if it distorts costs and results in dysfunctional decision making and behavior that is not congruent with organizational goals.

Key finding 3: Activity-based costing/management (ABC/M) provides superior decision support

An ABC/M system is a well-thought-out methodology for accumulating the cost of activities or processes (logically related groupings of activities) that are critical success factors for an organization or subunit. Why go to the trouble and expense to accumulate hundreds or even thousands of activity costs? The answer lies in the “well-thought-out” part of the definition. If managers think through the critical activities or processes that are being performed and managed in their area of responsibility and then a system is designed to report these costs along with the metrics that cause the costs, a powerful tool is created for cost control and managerial effort exerted in congruence with organizational goals.

This is certainly not an easy proposition, but to many who have developed ABC/M systems, the benefits far exceed the costs. Do ABC/M systems have to be deployed across the entire

Exhibit 2: Current system concerns





organization? No. Identify the functions in the value chain that are core competencies and designate these as targets for ABC/M deployment. For example, a company like Kroger (a retail food chain) might deploy ABC/M in its distribution function because of its substantial cost and critical impact on financial performance.

Managers want realistic accuracy; they want the results to reflect reality, not give them more decimal places. They want more timely feedback and greater ease of maintaining and updating CPS as processes change.

Contemporary thinking, reported by many professionals and researchers, is that activity-based methods do not pass the cost-benefit test and are being abandoned. The BRAG study reveals that relatively few organizations in the study that deployed ABC abandoned it. To the contrary, ABC provides superior decision support for both strategic and operational-control purposes.

The study revealed that standard costing systems are still the most popular, especially in the production function of the

internal value chain (42 per cent use standard costing compared to only 18 per cent for ABC). ABC systems are used across the value chain, but do not dominate like standard cost systems. All respondents were asked to compare the value of ABC to standard costing in the production function regarding major decision support components. As shown in Exhibit 3, the results lend additional support to the value of ABC and demonstrate that the vast majority of organizations believe that:

- The use of activity-based costing helps them to understand their operations better than standard costing.
- ABC provides more useful product costing information than standard costing.
- ABC provides more useful information for process improvement programs than standard costing.

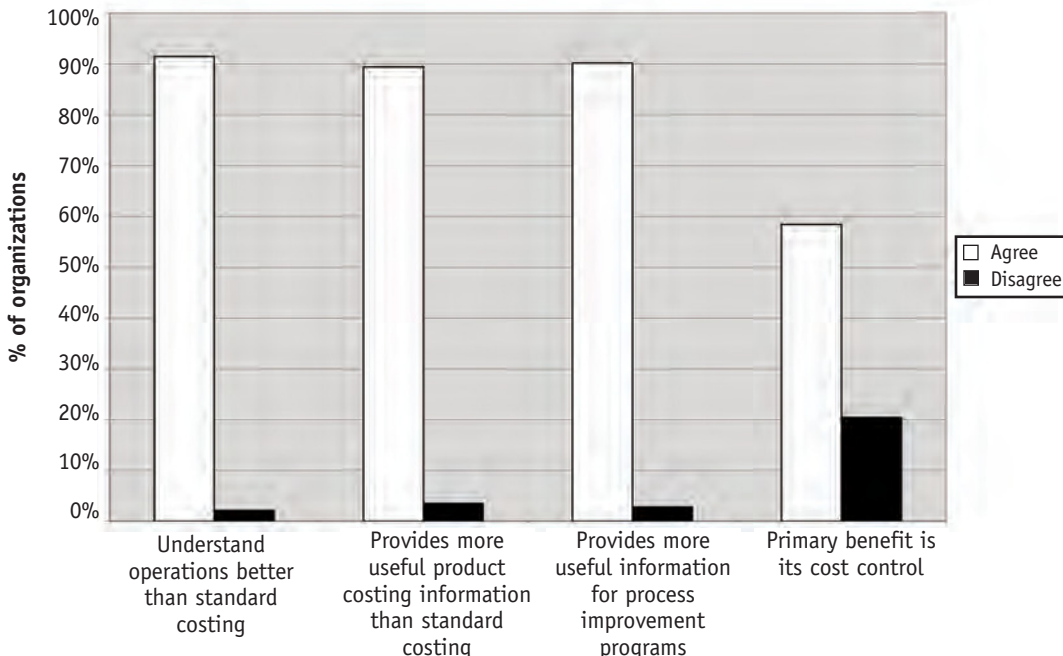
Key finding 4: Capability gap in best practices organizations

The BRAG study team investigated how well organizations' CPS serve strategic decision making and cost control purposes in order to gain insight into best practices. Of the 400 respondents to the survey, BRAG isolated the top three per cent by determining stringent criteria for best practices.

Further evidence of the staying power of ABC was disclosed when best-practice organizations were isolated. Of these best-practice CPS organizations, 80 per cent currently use ABC in some form while only slightly more than 30 per cent of the other companies do so.

In addition to the gap found in the use of ABC, the study also found a significant gap in the CPS capabilities of best-practice organizations compared with those that were not best practice (Exhibit 4). Most notably, the CPS for a non-best-practice organization was less likely to include capabilities to analyze customers — customer-facing activities, profitability, and resource consumption. These capabilities are critical when dealing with tight margins and demanding customers. Another significant capability gap revealed best practice

Exhibit 3: Decision support — ABC and standard costing





organizations had CPS integrated with other management decision systems, where non-best practice organizations often did not.

Contemporary thinking, reported by many professionals and researchers, is that activity-based methods do not pass the cost-benefit test and are being abandoned.

Interestingly, these results remained consistent when considering the length of time organizations had used their current CPS. In each case, the significant capability gap remained between best practice and non-best practice organizations. BRAG suggests, therefore, that when an organization applies the appropriate resources to design a CPS correctly upfront, it has the staying power to adapt as business conditions change — that is, it is a dynamic CPS.

Getting the most out of your CPS

What is clear from the BRAG study findings is that CPS implementations have not evolved at the same rate as economic pressures, customer requirements, and product complexity.

Based on the survey findings and their expertise in the field, the BRAG team recommends that if an organization is not realizing benefits from its CPS, executives should assess the organization for root causes. For example, a cause might be:

- The technology itself could be revealing its limitations; missing the flexibility, features, integration, or reporting required for attaining expected benefits of a CPS. This is a strong indication that an upgrade may be in order.
- Lack of education about CPS or systems training could be preventing users from getting what they need from an existing CPS.

Exhibit 4: Capabilities of best practice organizations and non-best practice organizations

CPS Capability	Best Practice Organizations	Others	Difference
Calculation of the cost of our customer-facing activities	100 per cent	31 per cent	69 per cent
Integrated with other management decision systems	100 per cent	41 per cent	59 per cent
Accurate identification of which customers are profitable and which are not	100 per cent	46 per cent	54 per cent
Accurate identification of which products/services are profitable and which are not	100 per cent	60 per cent	40 per cent
Calculation of channel, product, and regional cost	90 per cent	41 per cent	49 per cent
Cost information at all necessary levels (customer, product/service, key processes, key activities, etc.)	90 per cent	42 per cent	48 per cent
Calculation of the proportion of resources consumed by each customer type	80 per cent	26 per cent	54 per cent
Calculation of the proportion of resources consumed by each individual customer	80 per cent	26 per cent	54 per cent
Ability to handle reciprocal costing	80 per cent	29 per cent	51 per cent
Traceability of allocations — how they were assigned at any level	80 per cent	44 per cent	36 per cent

- Management could be a barrier, in which case a cost/benefit analysis could make the case for moving to a modern system. The issue might be as simple as getting funding for a much needed upgrade — or more complicated like funding for a whole new system.

It is clear that there are benefits from having a strong and dynamic CPS, and it is up to organizations to ascertain whether their current CPS will help them achieve those benefits or not. If your organization is one of the majority, unsatisfied with its CPS, it may well be worth the time to look into an internal process improvement in the cost accounting area. Give some consideration to deploying an effective allocation system — and perhaps an ABC allocation method is worth a second look.

Denis Desroches is a principal for the enterprise planning field with Oracle Corporation. Toby Hatch is a senior strategist for enterprise performance management with Oracle Corporation. Raef A. Lawson, PhD., CFA, CMA, CPA is vice-president of research and professor-in-residence for the Institute of Management Accountants (IMA). William O. Stratton, PhD., CMA is professor of accounting at the Udvar-Hazy School of Business of Dixie State College of Utah.



Why IT matters in 2010

As uncertainty has become the norm, today's organizations are seeking information technology solutions that drive clarity in their business and visibility across their business networks.

By Mark About

Customers need clarity in order to manage every aspect of their business so they can define better strategies, make more insightful decisions and execute more efficiently. In addition, clarity in the form of transparency is becoming a priority for businesses to not only adhere to changing government regulation but also to help build trust among stakeholders. In light of the ongoing economic volatility, major IT (or "major transformational IT infrastructure") projects are currently on hold. Because of the increased pressure to deliver additional business value with limited budgets, the total cost of ownership is as critical as it has ever been for IT buying decisions.

Virtualization is another technology that is allowing for powerful improvements in the efficiency of networks, computing and storage.

Companies are shifting to smaller projects that offer quick implementations, lower risk, and ultimately a faster return on investment. In addition, more line-of-business executives are exerting influence on IT decisions because they are being asked to do more with less. Their chief IT purchasing criteria is more about usability and time-to-value and less about enterprise-wide integration and homogeneity. Without oversight to the overall enterprise IT strategy, this may pose issues in the mid-long term, but the economy is frankly in uncharted waters and all of us need to deal with the business challenges and issues of today. In response, companies have been looking for solutions that have a clearly articulated business value and that can deliver this value steadily over time.

In 2010, chief information officers (CIOs) will be charged with strategically using IT to help their organizations to become a "clear enterprise," one that



has transparency and visibility into operations throughout the business and business network. Helping executives and workers to see into the organization, the supply chain, the business network and the needs of customers is the role of IT in the clear enterprise.

There are many new technologies that are helping to make the clear enterprise possible. Enabling technology trends, such as inexpensive, fast main memory, increased bandwidth, smart devices, virtualization and cloud computing will enable businesses to become clear enterprises. Companies are now able to achieve real-time insight and make more confident decisions, be more effective by taking better advantage of the data they already have and anticipate and react to changing conditions, becoming more flexible and agile.

Many of these new technologies will help businesses reduce costs, demonstrate quicker time to value, and produce business outcomes at every step of a project or implementation. Delivering the true power of speed will enable new, breakthrough user-experiences and radically new business behaviours, while at the same time rely on simpler system landscapes to reduce the cost of IT operations.

In the clouds

From a business perspective, cloud computing allows organizations to pool computing resources delivered over the Internet and have them



management trends

configured and managed by software. These are instantly scalable, delivered as needed and with a scalable cost model based on consumption of resources. Cloud computing is attracting attention because it promises reduction in costs, device and location independence, scalability and sustainability, among other benefits.

Virtualization is another technology that is allowing for powerful improvements in the efficiency of networks, computing and storage. Virtualization answers the question, “Why can’t IT systems be more cost efficient?” Virtualization brings efficiency to many IT infrastructure components, including storage devices and network resources. The shift to virtualization is a natural one considering businesses are looking to reduce costs and maximize return on investment. Virtualization is an increasingly popular strategy as it allows companies to dramatically increase their server-to-admin ratios.

Of smart choices and other things

Opening up a new dimension for our society, the “Internet of Things” connects the virtual world with the physical world, communicating with all things around us and vice versa. Digital memory in manufacturing, a new business model for the mobility industry, and the effective use of different types of energy are just a few examples of how the Internet of Things can increase efficiency and revolutionize many business areas to the benefit of society and the environment.

Technologies such as sensors and smart devices equipped with radio frequency identification (RFID) tags are expected to have a dramatic impact on almost all sectors of the service economy. Additionally, automated services save consumers time and energy and over the last decade, the service sector has become the fastest-growing business sector in the world, employing the most people worldwide. In order for this growth to continue, services should become more widely and easily available and should also yield higher productivity.

IT can significantly help achieve these goals, and through the “Internet of Services,” innovative technological developments drive the creation of new delivery channels for services and entirely new business models. These services are facilitated by an open platform and interface architecture, as provided by the enterprise service-oriented architecture (SOA).

The Internet of Services takes the enterprise SOA approach to the next level by making services easy to implement, consume, and trade. In combination with Web 2.0 technologies, the Internet of Services is expected to improve service innovation. It will become a cornerstone for the Internet of the next generation leading to Web 3.0.

So much data, so little time

With these enabling technologies, we are moving to the creation of the digital enterprise, but fortunately or unfortunately, with the increased connectedness comes more data. In response, the industry is witnessing an acceleration of information-processing capabilities, disrupting traditional database approaches by offering a quantum leap in terms of access and performance at a fraction of the costs. In this volatile economy, it’s now critical that organizations provide all users with immediate answers to “on-the-fly” questions, a deeper data-driven understanding of their business, and instant access to relevant information. These new data management capabilities will be a core source of differentiation for applications and for business.

Enabling technology trends, such as inexpensive, fast main memory, increased bandwidth, smart devices, and virtualization and cloud computing will enable businesses to become clear enterprises.

One approach is the in-memory database, which allows analytical applications to become so powerful it offers instantaneous visibility and insight from terabytes of data. This, in turn, empowers business analysts and executives to make decisions based on real-time data, revolutionizing the way business decisions are made. In-memory indexing reduces the need for manual performance tuning — a key benefit, considering that a significant amount of IT efforts in traditional business intelligence projects are allocated to building and maintaining aggregates needed to handle an ever-expanding amount of data and number of users.

With immediate insight into critical data, information workers can intuitively explore business information quickly and independently, enabling a better-informed workforce that makes sound and timely decisions. The result: a stronger organization that’s ready to react quickly in competitive, unpredictable environments. ■

Mark Aboud is president and managing director at SAP Canada.



Improve your abilities to think strategically with online training from Université Laval.

CMA Canada is pleased to partner with Université Laval's Faculty of Business Administration to provide CMA members with French online learning opportunities to help advance their career.

Strategies for Creating Value through Interdependence

Date: March 15-28, 2010

Cost: \$395 CMA member/\$445 non-member

CMAs play an active part in ensuring that value creation for stakeholders is maximized by balancing and influencing strategic factors. Strategy, as one of the pillars of the CMA profession, involves using both the numbers and an awareness of external and internal forces to manage existing strategies and generate new ones. This module builds upon the CMA Competency Map and is designed for experienced managers who are interested in developing new strategies for their organization.

NOTE: This course qualifies for 8 CPLD credit hours.

www.cma-canada.org/ulaval-en



**Certified
Management
Accountants™**



**UNIVERSITÉ
LAVAL**

**Faculté des sciences
de l'administration**

The Université Laval Faculty of Business Administration reserves the right to defer or cancel the course if the number of registrations is below the minimum required to ensure the viability of a given course (10 participants). Participants would then be refunded.

®/™ Registered Trade-Marks/Trade-Marks are owned by The Society of Management Accountants of Canada.

©2009 The Society of Management Accountants of Canada. All rights reserved.

SUPPLY CHAINS – SEEKING A

ORGANIZATIONS ARE CONTINUOUSLY STRIVING TO MEET CUSTOMER EXPECTATIONS AS EFFECTIVELY AND EFFICIENTLY AS POSSIBLE – A STRATEGIC IMPERATIVE ALL THE MORE CRITICAL IN TODAY’S ECONOMIC CLIMATE. THE ADVENT OF CUSTOMER-CENTERED ORGANIZATIONS, “EVERYDAY” LOW PRICES, AND EXPECTATIONS THAT PRICES WILL DROP, NOT RISE, IS A HUGE CHANGE IN THE STRUCTURE OF THE GLOBAL ECONOMY.

INTRODUCTION AND INTERVIEW BY
BILL LANGDON, FCMA

NEW STRATEGIC ADVANTAGE

The ability to increase market share and lower prices is the result of implementing superior logistical and distribution systems. Organizations today are competing on how effectively they can move raw materials, components and finished products globally through their supply chain to customers rather than just those who have the most efficient manufacturing plants. These new supply chains and their continuing improvement have become a major driver of profits.

There is not, however, a “one size fits all” supply chain solution — strategies and tactics differ by groupings of suppliers. For example, suppliers of components with low technical content are bought on price alone. Supply chain expectations for service and in plant support are low and vendor managed inventory is a given.

At the other end of the spectrum are suppliers where large investments in highly technical components are required. Here total cost approaches and partnerships between supplier and customer in the product development process are often found. Costs are designed out from the outset and often accompanied by contractual obligations and open-book costing to share benefits.

A number of supply chains fall in the middle of these two approaches with cooperative development of components, but encouragement to manufacture in low-cost countries with suppliers bearing the risk of logistical and inventory holding costs.

In defining supply chains, Ed O’Donnell, vice-president, business analysis for Teknor Apex Company, a manufacturer of thermoplastics, suggests “...the supply chain begins at the point of origin for each raw material and ends at the point of consumption for the finished item. Presumably, value is added throughout the supply chain, and it is our job to reduce or eliminate no- and low- value-adding steps and assure that risks along the chain are adequately assessed and managed.”

Paul Massey, finance leader, Cummins Turbo Technologies, a supplier to original equipment manufacturers in the automotive industry, contrasts a traditional, versus a more current, view of supply chains. “The traditional approach focuses on only the price of the item and there is a lack of understanding of the full supply chain costs or a willingness to consider the opportunities. On the other hand a total supply chain view looks at all the entities in the supply chain that modify raw materials into finished products through various added value operations as connected entities. The extent to which these entities cooperate determines the cohesiveness of the supply chain.”

Why is there so much interest now being shown in supply chain management?

Massey: With the various quality and lean initiatives the manufacturing environment has been the focus of improvement for a number of years. This focus has extended beyond the traditional company boundaries to look for the next major improvements in the supply chain. In addition with the changes in company core processes the amount of product cost outside the company has become much higher. Many companies no longer make products directly themselves. They are outsourcing the full manufacturing process, but controlling the design.

O’Donnell: We believe only manufacturing costs trump supply chain costs in order of magnitude. So, there is substantial motivation to optimize the five primary supply chain management processes: plan, source, make, deliver and (if necessary) return finished products.

Additionally, the process of balancing the supply of raw materials with the demand for finished goods and accommodating the inevitable variability in both requires inventories to be maintained. Inventories often require a substantial investment of working capital and so, they must also be brought to optimal levels so that precious cash is not tied up in excess quantities. There is no ROI on dollars “invested” in excessive quantities on hand. When it comes to inventory, our maxim is “Enough is a feast!”

In general, what impact has this interest in supply chain management had on relations with suppliers and customers?

O’Donnell: We are looking much more critically at our supplier relationships across more parameters than just cost per unit. For example, we are concerned about the resiliency in our chain and how much at-risk we are to interruptions in key raw material supplies. This is of concern in situations where materials are sole- or single-sourced.

With customers, our supply chain management has caused us to involve them as much and as often as practicable in our forecasts for the finished goods that they buy from us. Without a doubt, the forecasts have added a new dimension to our customer interface.

Massey: The major impact on our relationships with key suppliers and customers is closer long-term relationships resulting in long-term agreements, open-book costing and joint-cost reduction initiatives to improve profitability and growth for all members of the supply chain. Suppliers have

become a further extension of the business and exchange of information to support planning processes has become prevalent throughout the supply chain. The reliance on suppliers and customers has created the need for a conscious review of sourcing practices both with suppliers, by customers, by commodity and whether to single or dual source after reviewing the various risks and benefits

How has this focus on supply chain management changed your company?

Massey: In 1997, we created an initial supply chain group out of our traditional materials function to focus on North American supply development, supplier quality improvement and cost reduction. In 12 years, this group has grown to become global with dedicated groups in low cost countries to develop new suppliers and to introduce new products. In addition, the function has delivered year on year cost reductions for existing products. The focus was adjusted to be commodity focused and used competitive quoting processes across all of our divisions. It has evolved into global commodity teams across the corporation with specific commodity teams for unique commodities. This team now has dedicated financial support, legal support and a key seat at the management table.

O'Donnell: It has caused us to:

- Plan centrally and execute locally; and not just with our raw materials and finished goods, but maintenance, repairs and operations (MRO) items, too.
- Be much more conscious of the need to balance supply of raw materials with the demand for end item compounds and eschew the formation of excess quantities.
- Rethink volume purchases of raw materials solely to garner a better cost per unit.
- Bring our operations (e.g., manufacturing) people into the forecasting process to make sure that they build precisely what has been agreed to in S&OP — no more and no less.
- Leverage our investment in enterprise resource planning (ERP) to a much greater extent than before. Much of the ROI on our ERP investment came from inventory reductions.
- Keep a weather eye on critical suppliers and shippers to make sure that we are not exposed to inordinate risk of interruption or delay.
- Revisit our decision to maintain captive fleets (we outsourced our largest fleet as a result of one such analysis).
- Become much more analytical and process oriented in our decision to use outside warehouses and value-adding contractors.
- Evaluate customer requests that we hold safety stocks for them by using statistical methods that flex with the customers demand rather than arbitrary quantities that remain static and all too often forgotten over time.
- Apprise our customers that want consignment inventory arrangements of the hidden costs to be borne by both of us under such programs and the alternatives that may be more suitable.

What have been some of the benefits you have experienced in your company as a result of implementing supply chain management techniques?

O'Donnell:

- Significant reduction in inventory and a measurable improvement in working capital.
- A statistical, dynamic and programmatic approach to setting supply lead times, safety lead times and safety stocks.
- Use of mathematical programming techniques rather than gut instinct to convert a highly seasonal sales forecast into a flatter production plan that helps to level-load our plants, and plan inventory and crewing levels well in advance of need.
- Earlier visibility to inventory quantities that are headed toward becoming excess or obsolete and more aggressive disposition strategies.

Massey: We have been able to grow much faster by utilizing external sources for components previously made in house, reducing our capital requirements, and using supplier expertise to reduce component costs. In addition we have identified excellent global sources for our growth into new countries that have subsequently led to the importation of significantly lower total product costs. The development of global sources has resulted in vendor-managed inventory where an overseas supplier becomes “local” by managing the pipeline of inventory to a local warehouse. This has supported our ability to become a global company and support our customers in all parts of the world.

What have been some of the barriers you have had to overcome in implementing modern supply chain management?

O'Donnell: Resistance to change. Also, there can be a significant amount of time between the date a system is implemented, e.g., available for use, and the date on which people begin to use it.

Massey: With global sourcing there have been a number of difficult situations where our high volume business was suitable for global sourcing, but local sources retained low volume product. The lower volume business remaining required suppliers to re-evaluate their true costs for proliferated business resulting in cost increases on some parts.

Although vendor managed inventory (VMI) is often used, the agreed commitment in the supply chain requires additional discussion, agreement, and management for product changeovers. The pipeline can also be an issue when quality problems are uncovered. From a supplier perspective, the cash flow tied up in the supply chain during startup and growth periods can become an issue unless well planned at the outset. With tier two suppliers being managed by tier one suppliers, problems can be hidden or used to drive cost increases if the wrong tier one supplier is chosen.

How has a change in your supply chain produced a significant benefit for your company?

Massey: Global sourcing benefits have reduced product costs

of some components by 30 per cent. Our supply chain has become global resulting in the ability to supply our manufacturing plants from a local “proven” source in developing countries speeding up the learning curve and cost benefits. Our ability to invest in new products and global growth has been shared with our key suppliers. This shared growth and capital investment has allowed each company to grow faster.

O'Donnell: Quantitatively — inventory reductions of as much as 20 per cent in two of our U.S. divisions (vinyl and garden hose) and our most accurate and credible assessment of excess and obsolete inventories to date. Qualitatively — everyone is talking to each other using a common supply chain lexicon. Inventory matters, with their attendant impact on working capital, get as much attention in business decision making as matters affecting EBIT.

How has the current economic crisis impacted your supply chain and supply chain management?

O'Donnell: We have grown more concerned about the financial viability of suppliers and certain customers. On the supply side, we closely monitor the health of those with whom we single- or sole-source. On the demand side, we are watching shipments and payments patterns more acutely. We are also seeing an increase in requests for consignment arrangements from customers anxious to preserve their cash.

Massey: The current economic crisis has intensified the

complex relationships within our supply chain. The financial expertise identifying supply chain total costs and savings has transitioned to a cash flow focus, understanding company financials and the risks at today's volumes. Supporting commodity manager's negotiations by identifying risks and opportunities within suppliers, confirming approaches and strategies within the financial options available and ensuring the correct accounting for liabilities has become a critical role. With open book approaches and a willingness to discuss joint cost opportunities we are looking for opportunities to avoid exposures to both companies in the supply chain with the realization we need each other to succeed in the longer term.

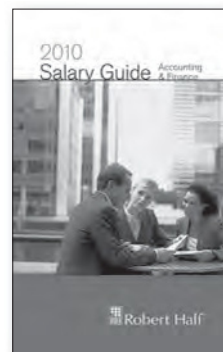
What will be the enduring changes in how people think about and manage their supply chains in the future?

Massey: The relationships developed during the difficult times should strengthen as things improve for those that have worked together to lay a strong platform jointly for the future. For those with suppliers that adopted an adversarial approach, improvements in the economy will create opportunities to exit and find new sources for the future. Financial risk will become a stronger part in understanding future supplier selection for the long haul.

O'Donnell: Weakness anywhere in the supply chain places all of the component organizations at risk. Increasingly, it is not one business competing against another; rather, it is one



Top financial talent is always your best investment.



Call today for your **FREE 2010 Salary Guide.**

Accountemps, Robert Half Finance & Accounting and Robert Half Management Resources are the leaders in specialized financial and accounting staffing for temporary, full-time and project placement, respectively.

1.800.803.8367
accountemps.com

1.800.474.4253
roberthalffinance.com

1.888.400.7474
roberthalfmr.com



Robert Half®

supply chain competing against another. Simply pushing cost to another enterprise in the supply chain doesn't make anyone more competitive. Competitiveness lies in getting cost out of the entire chain and constantly working to make it more efficient.

What steps should organizations follow if they wish to implement supply chain management techniques?

Massey: Understand the business strategy and key goals that the supply chain function is expected to achieve. Identify the types of supply base required to achieve these key goals. Review the existing supply base for the right fits, those worth developing and those that require exit plans. Execute the plans and continue to revise the plans in line with strategy, economic and supplier changes.

O'Donnell:

- Get good advice; learn what best practice is and use it as your implementation guide.
- Assess your system and people capabilities to handle the demands of supply chain management processes. Train — before and after implementation — until you are confident that the people who will run the system can run it well.
- Execute the supply chain transformation in stages. We began our transformation project by focusing on bringing our inventories under control and, thus, implemented material requirements planning (MRP). When we began running MRP, we also saw the full extent of our excess and slow-moving inventories — the stuff that MRP won't touch because there is no demand for it. We developed reports and each of our divisions convened teams that could get at the root cause of excess and slow moving and then execute disposition strategies to get rid of these items.
- Get senior management support. Talk to them about the benefits of supply chain management in terms they understand (usually improved earnings, cash flow and economic value added [EVA]). To support the implementation, establish a core group of the few senior managers to quickly resolve any points of contention or pushback from divisional management. Once functional, involve relevant senior management in your S&OP meetings so that supply chain concerns get equal consideration with those of sales.
- Educate those who will be affected in change management concepts.
- Remember that what gets measured gets done. Set a few key metrics that are designed to show whether cost is being wrung from the system without any degradation in customer service.

If you had to implement supply chain management techniques again what would be the pitfalls you would try to avoid?

O'Donnell: At the outset of our supply chain transformation project, we pulled together a team of managers from each of the functional areas involved in or affected by supply chain management processes. They were our “best and brightest”

and they developed an implementation plan that still makes sense four years later. However, in comprising that group, we left out rank-and-file members of the user community who would actually run the system. So, what would we have done differently? I would identify each of the key participants by name — managers and users — and get them involved in the planning from the get-go. Many of the people involved have spent a career developing relationships with suppliers and customers and they are justifiably concerned about the impact such change will have. Making them part of the system design gives them equity in its rollout and ultimate success.

Massey: The integration of suppliers can cause too much dependence on one supplier and a difficult separation process when the relationship changes. An improved early warning system was needed for supplier issues – financial, relationship, management team changes etc. Another pitfall we have seen has been the use of amortization for tooling or equipment during growth times. This approach has caused a number of difficult issues during the recession on amortization commitments and volume guarantees. The additional integration and reliance on supply chain members requires a more thorough understanding of supplier financial commitments and how important cash is and the management of supply chain inventory during a downturn.

What role do you see professional accountants playing in the managing and implementing efficient and effective supply chains?

Massey: Professional accountants need a thorough understanding of supply chain relationships plus a flexible integrated support role to partner with the supply chain leadership. Finance needs to be part of the discussions to provide options and input into negotiations not an afterthought. This role can only be fully realized as part of the solution and not just a scorekeeper role.

O'Donnell: A professional accountant from our finance department with no previous supply chain experience leads our worldwide supply chain transformation project. He has relied heavily on his skills to understand supply chain systems, plan their implementation and test their effectiveness once they have been put into service.

He also saw the favorable impact supply chain efficiencies could bring to the balance sheet. Putting the benefits of the supply chain transformation project into financial terms helped us to gain senior management support. ■

Bill Langdon, FCMA, is a past-president and CEO for CMA Canada. He's currently a knowledge management consultant for CMA Canada.

The preceding interview is based on a Management Accounting Guideline (MAG)[®] written by Professor John Cullen and published by the Chartered Institute of Management Accountants, The American Institute of Certified Public Accountants and CMA Canada. Mr. O'Donnell and Mr. Massey were reviewers of the MAG[®].

The background of the page is a dark, almost black, space filled with intricate, glowing golden-yellow light trails. These trails are composed of many thin, overlapping lines that swirl and curve, creating a sense of motion and depth. A prominent feature is a large, bright, circular ring of light that frames the central text, resembling a lens or a portal. The overall effect is one of complex, chaotic energy, which visually represents the 'irrational thought' mentioned in the title.

Black holes and **irrational** thought

According to Statistics Canada, “almost half of the firms in Canada that go bankrupt do so primarily because of their own deficiencies rather than externally generated problems.”¹ To understand why this happens, it’s important to understand what black holes are and the impact they have on organizations.

By Ron Lutka, CMA

A black hole is an area of an organization where, unbeknownst to management, an abundance of undesirable activities occurs, or a lack of desirable activities occurs in abundance. Both activities may lead to the destruction of an organization.

The above definition contains three characteristics:

1. There is an abundance of undesirable activity, or a lack of essential desirable activities, not merely an occasional occurrence;
2. Destruction, in some form, occurs within the organization;
3. Management might or might not be aware of the destruction, but management is unaware of the root cause of the destruction.

Black hole-creating items

Several failures of basic activities, referred to as black hole-creating items, can cause a black hole to form:

- Failing to perform cross-checks in accounting: Does this account mirror that account as it should; does this account clear to zero as it should?
- Setting up customer accounts that do not follow the predetermined account numbering etiquette. This can foul up reporting. Is the southern region receiving credit for sales made by the northern region?
- Delivery personnel “cherry picking” easy deliveries and not performing the more difficult ones (e.g. avoiding deliveries that are the furthest away).
- The supervisor giving the installer new work orders without ensuring the installer completed the last batch he gave him.

These are examples of simple black hole-creating items. Many black hole-creating items are so convoluted and irrational that it is easier to correct the situation than it is to describe them. An employee can actually become physically sick trying to describe one of the rougher black hole-creating items to a persistent boss, because he/she will not be able to do so. However, there are ways to locate black hole-creating items, no matter how complex they are,

so they can then be eradicated.

Operating below management’s radar, black hole-creating items form and propagate long before damage is visible. Organizations that believe they are free of black holes should search for black hole-creating items.

An organization can realize tremendous relief by locating and eradicating black hole-creating items—even the ones that seem petty—because accumulated black hole-creating items can morph into a witch’s brew of problems.

Over time, as many black hole-creating items are identified, companies can see larger problems that the black holes have caused and the opportunities they have thwarted, such as:

- i) The company will not make a profit as long as the real contribution margins are negative;
- ii) The budget will not be met if it remains out of sync with the constraints of the plant.

These real-life examples within public companies provide a glimpse of the magnitude of issues that can be discovered and resolved by addressing black hole-creating items.

Below business processes

When addressing black holes, management is primarily interested in fixing the larger problems. To do so, management needs to locate and eradicate the failures of basic activities in volume because they are often at the root of larger problems. When the failures of basic activities are identified and handled, companies find that larger problems diminish or disappear.

Aggravate much larger problems

Over time, both simple and complex black hole-creating items can threaten the survival of an organization if they’re

not eliminated. If they’re not eliminated, they can cause problems that threaten the survival of the organization. Here’s an example of how this concept of “failures of basic activities can cause or at least aggravate much larger problems” played out at a company that prepared its budget using machine run speeds that exceeded the standard run speeds of the machinery in the plant.

This black hole-creating item led to machine operators being pressed to run machines in excess of the standards set for the machines, which caused numerous quality problems. As lower quality became the norm, it caused problems that led to customer complaints. This in turn caused customers to short pay invoices and led to lost customers, which caused cash flow problems and reduced margins.

An organization can realize tremendous relief by locating and eradicating black hole-creating items—even the ones that seem petty—because accumulated black hole-creating items can morph into a witch’s brew of problems.

Failed actions

There are many ways activities/actions can fail. For example, no action, such as no inspectors hired; omitted action, such as the inspector failing to inspect; too many actions, such as different layers of management issuing conflicting directives; wrong sequence, such as pricing an order before calculating the cost to produce it.

Failed actions can be simple, such as no one calling prospects during the week; or they can be complex, such as an important aspect of a costly IT installation gone awry. A black hole can form when too many actions fail repeatedly.

Layering anything on top of something that is broken will give a less than desirable result. Would a hockey player tape his stick without first removing the old tattered tape? Any initiative or result that sits on top of these basic activities will suffer unless the failures of basic activities are located and then eradicated. Corporate

governance, compliance, basic reporting and new product launches will suffer; as will risk reduction initiatives, sales and marketing, IT projects, the fair assessment of employees and other initiatives or results. To succeed, one must identify and eradicate the failures of basic activities before layering on new procedures and processes.

Broad ranging damage

The damage caused by black holes can be as broad ranging as the answers to the question, “What are you as an executive trying to achieve, both personally and professionally?”

The damage black holes cause can feel personal, such as your boss accusing you of being the source of the problem when the issue is really somewhere else.

At the corporate level the damage caused can include:

- Waste
- Lost opportunities
- Loss of transparency
- Reduced margins
- Reduced cash flow
- Loss of productivity
- Confusion
- Bickering
- Upset customers
- Upset suppliers
- Low employee morale
- Corporate bankruptcy

A vacuum forms

Management was borne out of the desire for leverage. Over time, management became removed from a hands-on approach. The manager was no longer “hands on” and management was no longer the best and brightest “doer.” Instead, management gravitated toward specializing in planning, organizing, and other high-end strategic thinking. A vacuum formed between management “strategizing” and “performing basic activities.” This gap exploded in the last 100 years as the large companies grew from dozens and hundreds to thousands and tens of thousands of workers.

Management no longer had time to tend to basic activities, and as a result,

lost sight of the basic activities. That is where we are today — at a point where basic activities of organizations have been neglected because so much attention has gone into high-end strategies in an attempt to chase leverage.

The vacuum that has formed between basic activities and management has caused a crumbling of the base. Both daily operations and management initiatives are dependent upon a base that has grown weaker over time. Entropy (the breaking down of order) gets the upper hand over syntropy (the constructing of order) and confusion sets in. Incomplete actions set in. A lack of actions sets in. Wrong actions set in. Errors remain uncorrected. These failures propagate and pile up and lead to major problems, even bankruptcy.

Like financial leverage, management leverage can backfire or implode. Many organizations have gone under without management or financial coroners ever knowing the real reason why it happened.

Management then asks, “What happened?” They might conclude that it was a cash flow problem, predatory competition or a downturn in the economy. These can be real issues. However, too often they are presented as an excuse for the failures of basic activities.

Irrational thought

The most devastating result of this vacuum forming is it allows the entry of irrational thought into the organization, without any mechanism to stomp it out when it occurs. There was a mechanism at one time. It is now lost.

In earlier times, the mechanism used was “management close at hand.” If the cook wanted to serve all the oranges the first week at sea of a long voyage, management would prevent that from

happening. Management was close enough to the basic activities to see what was occurring and to put the brakes on irrational thought.

Today, however, management is too far removed from the basic activities to spot irrational thoughts as they arise. Management that is many layers away from the basic activities is not close at hand. Therefore, the success and survival of today’s organizations are constantly threatened.

High-end strategies are essential; however, there needs to be some balance between big picture strategies and the management of basic activities. The two need to go hand-in-hand.

Like financial leverage, management leverage can backfire or implode. Many organizations have gone under without management or financial coroners ever knowing the real reason why it happened. That reason is often black holes.

What would your organization look like in the absence of black holes?

Irrational thought, and black hole-creating items, have been allowed to enter organizations because of the vacuum that has formed between basic activities and management. Organizations have grown too large and too multi-layered for “management close at hand.” Since close at hand management is no longer available, organizations need to work diligently at developing a mechanism or process that will eradicate irrational thought and black hole-creating items when and where they occur. They need to develop, foster and implement other mechanisms that reach deep down to the level of basic actions and activities so they can identify and eradicate black hole-creating items.

What mechanism does your organization have in place to prevent the cook from serving all the oranges the first week at sea of a long voyage? ■

¹ John R. Baldwin, “Failing Concerns,” (Ottawa: Statistics Canada, 1997), 9.

Ron Lutka, CMA, ACIS, P.ADM., CorpS, Acc. Dir is the president of Corporate Streamlining Company Inc. based in Richmond Hill, Ont. and author of *Black Holes in Organizations*.





TAKING THE ROAD LESS TRAVELLED

**Carol Patterson, CMA,
explains how she uses her
passion for travel and wildlife
to develop long-term plans for
sustainable tourism
destinations.**

By Andrea Civichino

Travelling for over two decades and learning more about wildlife around the world has made Carol Patterson, CMA, a braver and bolder person. “I grew up in Regina, Sask., and I didn’t hang out with a lot of travellers,” she says. “I dreamt of going to places like Africa. I never thought I’d spend time in the Himalayas (Kingdom of Bhutan), where only 20,000 people get to visit each year, and sleep in a farm house with no running water. Travel has made me thirsty for experiencing different things. I told my parents that after my first trip to Africa I’d settle down and become an accountant,” she recalls.

However, that’s not the way Patterson’s journey unfolded.

After receiving a Bachelor of Administration from the University of Regina, Patterson worked with one of the big five firms doing audits. Realizing that it wasn’t what she wanted to do for the rest of her life, Patterson looked at becoming a CMA.

“What attracted to me to the CMA designation was the continuity,” she says. “I wanted to be part of the solution. I liked the CMA designation for its focus on business. I appreciated the emphasis of looking at the bigger picture and being part of the solution. I’ve taught ‘accounting for the non-accountant’ seminars at the University of Calgary for a number of years,” she adds. “I used to tell people that accounting is about power. It’s not about reading numbers; it’s about having the language and the knowledge to make the best decisions and to know things on your terms to make the best decisions.”

Patterson’s decision

When Patterson moved to Calgary in 1980 to do accounting work for an energy company, she discovered volunteer opportunities with the Calgary Zoo. She led tours at the zoo and became a member of the zoo’s education committee. Wanting to learn more about the zoo’s operations, Patterson moved on to become a trustee on the board of directors. She chaired the live collections and business operations committees and became chairman of the board of directors. As she moved through these various roles, Patterson discovered the zoo’s ecotourism program.

Five years later, the zoo offered a trip to Namibia, Botswana and South Africa with wildlife watching opportunities. Although there was no reason for an accountant to run off to Africa, Patterson saw this as an opportunity to take an exotic adventure before she “settled down.”

“I was fascinated at seeing the wildlife I’d only read about as a child,” she writes in her book *Reinventure: How Travel Adventures Can Change Your Life*, a collection of her personal stories and memories and how travel transforms people. “Furthermore, I was enchanted by the idea that travel could help these animals. Ironically, habitat land is scarce in Africa and I quickly recognized that tourism provided the economic justification to keep vital wildlife land out of agricultural or industrial development.”

Patterson’s trip to Africa inspired her to look for ways that she could make a living by combining her CMA designation with her passion of travel and wildlife conversation.

She created Kalahari Management Inc., in 1991 and works with government agencies and community groups around the world as a tourism consultant. Her job is to help them promote their region, develop new nature tourism destinations, and create long-term plans for sustainable tourism destinations.

“I work specifically in the area around nature and rural tourism ... so it’s not casinos and golf courses, but bird watching trails, spas, culinary tours. Each project can take several months to a year to finish.”

She says having the CMA designation has helped her build a successful business because it gives her credibility with her clients.

“There’s a strong brand around a professional accounting designation,” she says. “A tourism consultant doesn’t need to have an accounting designation to do a tourism master plan for a community, but at the same time, it can be very helpful because it implies that you are a credible business person and that you are able to look at something and determine if it’s viable or not and whether it’s realistic given its chances of success,” she adds. “Knowing how to do a business assessment, reading financial statements and performing business forecasts has been very helpful. Some of what I do may not look like pure accounting, but having and using the skills that I obtained through the CMA accreditation process is very important.”

Although travelling and seeking new adventures is an exciting aspect of the job, Patterson notes that it has been a “rough year” for the travel industry.

“After 9/11, the government stepped up and really invested in tourism,” Patterson says. “I was really busy in 2001/2002. This year is slightly different. There are fewer jobs to compete for so it has been more difficult for tourism on the ground.”

Although the lack of investment in tourism by local governments has created some challenges, there have been other opportunities to capitalize on the slow economy.

“I did a project with Northeast Iceland,” Patterson says.

“Iceland’s had their fair share of financial problems, but tourism is one of their bright spots. The government did a lot of good ground work marketing and identifying their products. A lot of people have Iceland on their ‘life lists’ so when Iceland’s currency collapsed it was like the country went on sale. A lot of people went to Iceland last year.”

Patterson says there are indications that the industry is starting to pick up and that next year may offer a slight improvement. In the meantime, Patterson says she is going to exercise the same optimism and courage when she left a lucrative position with an oil and gas company to venture out on her own.

Ironically, habitat land is scarce in Africa and I quickly recognized that tourism provided the economic justification to keep vital wildlife land out of agricultural or industrial development.

“I’ve really come to appreciate having the CMA designation because it’s given me financial stability while I’ve pursued a fairly unusual career,” she says. “For a lot of people, it’s what I recommend. People need to look and see what strengths they have in terms of skills, connections or potential clients before starting out as a freelancer or owning a business. When I went this way, I had the delusion that change would happen much faster than it did. It’s a marathon, not a sprint. It’s also important to give some thought on how you are going to support yourself and your family while following your passion.”

When Patterson isn’t travelling, she teaches a workshop called *The Road Less Travelled: Finding Unconventional Work-Life Solutions*. She encourages her students to look at traditional careers such as accounting because it’s a type of career that works “well around transition because you can do project-type work.”

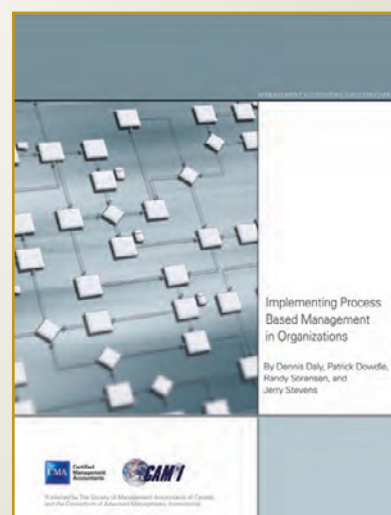
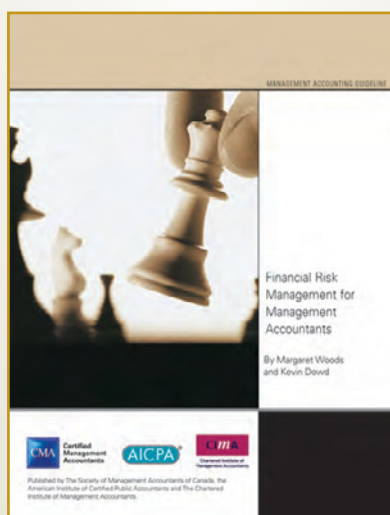
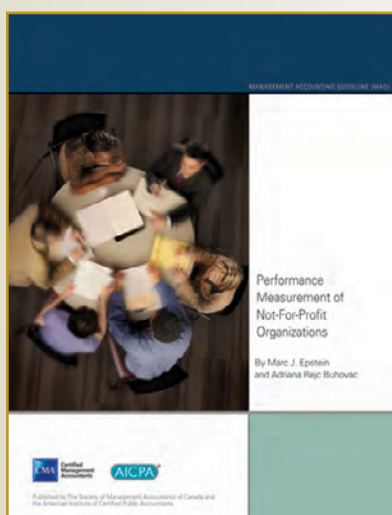
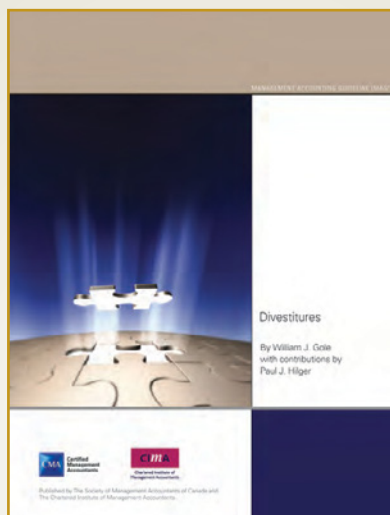
“There are many 40 to 50 year olds who are looking for their next act ... realizing that there is more to life,” she says. “A lot of baby boomers are going to be active a lot longer than perhaps previous generations, especially with some of the reverses we’ve seen in the market. I think a lot of people are looking at a second career as part of their retirement plan. In accounting, you can become a CFO and follow the traditional linear career path or you can use your designation as an opportunity to ‘pick up and go.’ There are other ways to use this skill. It’s very much in demand.” ■

Andrea Civichino is the editor of *CMA Management*.

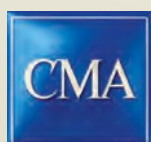
Learn how to implement industry-recognized practices with CMA Canada's Management Accounting Guidelines

Management Accounting Guidelines (MAG[®]s) are publications that advocate appropriate practices for specific management accounting situations. Each publication addresses current financial management challenges and provides practical implementation guidance.

CMA members may download existing MAG publications at no charge:



www.cma-canada.org/foundation



Certified Management Accountants™



Submit your nomination today and help celebrate excellence in public sector financial management.

Take this opportunity to recognize the success of federal public servants who have made significant contributions to financial management and/or comptrollership within the Government of Canada.

In its second year, the *Award of Excellence for Comptrollership in the Public Sector* includes awards for Innovation, Financial Leadership (CFO) and Lifetime Achievement.

Nomination Deadline: Friday, January 22, 2010

For more information on the awards, revised criteria and eligibility requirements, visit:
www.comptrollershipaward.com



™ Trade-Marks are owned by The Society of Management Accountants of Canada.

©2009 The Society of Management Accountants of Canada and CIPFA. All rights reserved.



Shareholder rights — More than meets the eye

Those who advise companies or shareholders need to be familiar with “shareholder oppression.”

By Stephen Antle

Suppose you advise a shareholder whose company has not produced audited financial statements or held an annual general meeting for years. The shareholder complains to the company. You write to the chairman of the board of directors. No result. Is there anything you can do?

Suppose you advise one of several equal shareholders in a company who has always been involved in its management. Now your client has fallen out with the other shareholders. The other shareholders vote your client off the board of directors, fire them and stop providing them with corporate information. Attempts to work something out dissolve into confrontation. Does your client have options?

Or suppose you advise the majority shareholder of a corporation, who also controls its board of directors. The shareholder proposes to have the board approve the payment to them of an extraordinary dividend or abnormally high management fee. You review the articles of the company, which leave such things to the discretion of the board. Are there any risks in proceeding as proposed? The answer to all three questions is “Yes.” While the company or its shareholders may be within their strict legal rights to take those steps, that is not the end of the story. In all common law jurisdictions in Canada, the legislatures have added other obligations to those legal rights. This is common as the law of “shareholder oppression.” Everyone who advises a company or a shareholder must be familiar with it.

If shareholders can persuade a court that they have a reasonable expectation about how their company will be run and that the company has not met that expectation in a way which is “oppressive,” “unfairly prejudicial” to them or “unfairly disregards” their interests in the company, the court has a very broad power to remedy that situation. The



shareholder’s expectation must be both subjectively held and objectively reasonable, given the corporate situation.

For conduct to be oppressive, it must be coercive, demonstrate an abuse of power or suggest bad faith or a departure from standards of fair dealing. Examples include: excluding from management a shareholder with a reasonable expectation of continued involvement, paying unwarranted management fees, making wasteful loans to shareholders, improperly appointing or removing directors, not providing required or customary financial information, and not holding required shareholder meetings.

For conduct to be “unfairly prejudicial,” it must prejudice the shareholder and, in the circumstances, do so unfairly. Conduct can be prejudicial, but not unfair, for example: excluding a shareholder from management where their working relationship with the other managers has collapsed. For conduct to “unfairly disregard” a shareholder’s interest, it must treat that interest as unimportant. Remedies are not available for such conduct under the legislation of all provinces and territories.

This additional protection is not just available to minority registered shareholders of closely held companies. In fact, registered and beneficial shareholders, minority and majority shareholders, and shareholders of closely held and publicly traded companies all have the same protection.



legal notes

So do entities such as parents of corporate shareholders, beneficiaries of trust shareholders and even creditors. Under the federal, Alberta and Ontario legislation, former shareholders, and directors and former directors, also have this protection.

To seek such a remedy, a shareholder must start a lawsuit in the province or territory in which the company is incorporated. Specific procedures for doing so differ across the country. It is important to understand that, for this protection to

be available, they must seek a remedy both in a “timely” manner (while the conduct they complain about can still be remedied) and in any event, within that jurisdiction’s limitation period.

If a shareholder persuades the court that there has been oppression, unfairly prejudicial conduct or conduct which unfairly disregards their interest, the court can grant any remedy it thinks appropriate which will remedy the situation. In the examples at the beginning of this article, the court might order the company to produce audited financial statements or hold the shareholders’ meeting within a specific time, order the majority shareholders to make a “shotgun” offer to either buy the excluded shareholder’s shares or sell theirs to them at the same price, or forbid the company paying the management fee and order the majority shareholder to repay to the company any fees already paid. Other possible remedies include adding or removing directors, varying or setting aside transactions, correcting corporate records, ordering the company or other shareholders to buy the complaining shareholder’s shares at a value set by the court, and liquidating the company.

The oppression remedy is a flexible and powerful tool. What can be accomplished with it depends on the specific facts of the case. The key concept is that shareholders are not always limited by their legal rights, nor are companies and majority shareholders always free to exercise their legal rights. If you are advising a shareholder who is unhappy about the way things are going at their company, or a company which is pushing its actions to the letter of its legal entitlement, you should consult a lawyer familiar with this area of the law to get the full picture. ■

Stephen Antle is a partner in the Vancouver office of Borden Ladner Gervais LLP. He practices in the area of commercial dispute resolution, including negotiation, mediation, arbitration, administrative proceedings and litigation. He is particularly interested in disputes among shareholders and between companies and their shareholders.

CMA memberperks™

As a member, you have exclusive access to a growing list of **discounts from over 450 national and local businesses** with savings on everything from computers and dining, to shoes and travel from companies like...

lenovo. The BRICK. JACK ASTOR'S. Herbal Magic. UPS. QUESTRADE™

workperks™

... an innovative and fully outsourced employee discount solution to help ALL of your staff save money

Enhance corporate culture and staff engagement with your own WorkPerks® program. Your staff will have private access to a growing list of discounts on items for home, work and play.

WorkPerks® is a low-cost value add. Help your staff stretch their hard earned dollars. **Create your own WorkPerks® program today and we'll add 3 months to your first year's license.** WorkPerks® is available through CMA MemberPerks™.

start saving All you need is your Member ID to start saving <http://cma-canada.venngo.com>

MemberPerks™ is a trademark, and WorkPerks™ is a registered trademark of Venngo Inc. **venngo**

Marketplace



No. 1 Accounting, Tax & Payroll Franchise
The Small Business Specialists since 1966
400 offices strong

DO YOU WANT TO BRANCH OUT ON YOUR OWN?

Padgett offers a fresh yet proven alternative to the challenges of going it alone

As a Padgett franchise owner, you will have access to time-tested systems and marketing techniques as soon as you open your doors for business. You can count on superior one-on-one training, ongoing courses and seminars, a dedicated franchise support team and state-of-the-art systems.

We're helping to grow success stories, one entrepreneur at a time.
 For more info call 1-888-723-4388 ext. 222, or visit www.smallbizpros.com

WHO SAYS YOU CAN'T MIX BUSINESS WITH PLEASURE?



Cineplex Entertainment has the perfect solutions for your business:

- Meetings, Events and Rentals • Corporate Products**
- Corporate Screenings**

Visit Cineplex.com/CorporateSales or call 1-800-313-4461

©Cineplex Entertainment LP or used under license

Master of Financial Accountability

Get ready for a tough new world of leadership and governance. Manage risk and transform business practices with new knowledge that complements your existing skills.

Executive-style, part-time format focuses on:

- Corporate ethics
- Regulatory requirements & legislative standards
- Effective information systems
- Transparency in reporting

Get more information at 416 736 5744 or email mfac@yorku.ca

Apply now. Start in January.

www.yorku.ca/mfac



t 5 f g h n a 7 i
 q p r v 2 u % t l
 n w t h e a s v h
 l e f x m a s o n
 c t b g r o u p m
 + o q z 1 f e 3 u
 a 0 e 8 c n d o t

Mississauga

2 Robert Speck Pkwy, Suite 690
 Mississauga, ON L4Z 1H8
 tel 905 804 1100

Toronto

40 Sheppard Ave W, Suite 512
 Toronto, ON M2N 6K9
 tel 416 733 9393

(strategic search partners)

www.masongroup.ca

Lang Michener LLP
 Lawyers – Patent & Trade Mark Agents

When you prefer your business lawyer to also be a CMA

- tax and commercial litigation
- employee fraud
- contract/commercial disputes
- directors' liability
- emergency court orders
- environmental issues
- shareholder disputes
- protection of trade secrets
- construction liens
- collections



David B. Debenham,
LLB, LL.M., MBA, CMA, CFI, CFE, DIFA

50 O'Connor Street, Suite 300
 Ottawa ON K1P 6L2
 Tel: 613-232-7171 ext. 103
ddebenham@langmichener.ca

langmichener.ca

Ottawa Toronto Vancouver Hong Kong

ADVERTISER INDEX

Athabasca University www.mba.athabascau.ca	IBC 800-561-4650
CMA Ontario www.cma-ontario.org/PDI	INSERT 416-977-7741
Lannick Associates www.lannick.com	IFC 416-340-1500
PTC Accounting www.ptcaccounting.com	8 877-303-9550
Robert Half Management Resources www.rhmr.com	23 888-400-7474
Ryan ULC www.ryanco.com	OBC 800-545-1856
Syspro Software www.syspro.com	7 888-259-6666



CMAAs: CPLD credits are a click away!

With online courses, it's easy to integrate accounting expertise with advanced management skills to achieve success.

Take Advantage ...

FREE courses for CMA members include:

- ▶ Strategic Management Certificate
- ▶ E-Biz is Good Biz, Level 1
- ▶ Privacy Preview
- ▶ A Primer on International Trade

Stay Competitive ...

Access a full range of courses in key topic areas such as:

- ▶ Management
- ▶ Leadership
- ▶ Business functions
- ▶ Communications
- ▶ Career advancement

Enhance professional knowledge ...

Courses developed by CMA Canada include:

- ▶ Balanced Scorecard
- ▶ Redesigning the Finance Function
- ▶ Strategic Cost Management
- ▶ Customer Profitability Analysis

Each of these CMA Canada courses qualifies for 9 CPLD credits.



**Certified
Management
Accountants™**

Start e-learning today!
www.cma-canada.org/elearning

Access is available 24/7 from any Internet connection.
You will need to sign-in with your member ID.



IT's growing role as a green enabler

Becoming green involves both complying with external requirements and running a more efficient operation. Keeping tabs on the variables involved is an information-intensive activity that calls for strong IT capabilities.

By Jacob Stoller

For a growing number of Canadian companies, becoming green is not a matter of “if,” but “when.” Imperatives such as government regulations, de facto industry standards, green PR campaigns of competitors and mandates from major buyers are forcing the issue in many sectors.

The good news from an accounting perspective is that green initiatives, if managed properly, are more likely to help than hurt the bottom line. The logic is fairly straightforward — an excessive carbon footprint represents waste, and waste translates into costs. Excessive gasoline consumption, heating losses, scrap from manufacturing, and use of paper all cost money. Even chemicals emptied into a river or spewed into the atmosphere represent money thrown down the drain.

Consequently, becoming green is often a by-product of projects designed to improve efficiency. “I think there’s a direct link,” says Tim Perron, manager of professional services for SYSPRO Business Solutions, a provider of ERP (enterprise resource planning) software solutions. “Being more efficient will contribute to a greener organization.”

Things can get dicey, however, when the impact of green initiatives has to be demonstrated in hard numbers. There are a number of scenarios. Environmental regulations require accounting for the various aspects of their consumption. Financial decision makers need to see how green initiatives are affecting the bottom line. Tough questions may come from the supply chain as well — Wal-Mart, for example, has recently announced that they will be asking



suppliers to report on the carbon profile of their products, which will be labeled accordingly.

Gathering and presenting evidence of this sort is essentially an information management problem. The challenge is in collecting and interpreting information relating to consumption that may come from disparate departments — or even disparate organizations — and then connecting the dots.

The magnitude of the task depends on who you are. A large multinational concerned about displaying a green public image might have monitored hundreds or even thousands of data points, many of which change on a regular basis. Paul Hepperla, director of energy services for Verisae Inc., a Minneapolis-based provider of web-based process



management solutions uses a familiar illustration. “A McDonald’s Big Mac is made of beef patties, special sauce, lettuce, pickles, cheese on a sesame seed bun,” he says. “Each one of those products in a Big Mac has a carbon footprint. The bread has a footprint associated with how it was milled, the land use, how it was captured from the farm, how it was transported to a manufacturer or bakery, how the bakery was used from an energy perspective, that was then transported to another warehouse and then ultimately to a McDonald’s location.”

The good news from an accounting perspective is that green initiatives, if managed properly, are more likely to help than hurt the bottom line.

Needs are usually more modest, however, and most companies start with the basics — finding projects that are both environmentally sustainable and profitable. “As you put more systems in place, and as you grow the business, whatever you can reduce helps,” says J.D. Surette, vice-president of Surette Battery in Springfield, N.S., a supplier to the renewable energy sector. “If you can integrate them into more of an electronic way, it’s easier to manage. Some of it is nothing more than tracking things with an Excel spreadsheet. Other things get more involved.”

Surette uses SYSPRO’s ERP system to handle some of the more complex chores. “There are three areas — energy efficiency, waste reduction, and recycle and reuse,” Odete Passingham, marketing manager, SYSPRO Canada, says. “One of the ways to help reduce energy would be, for example, load planning, which helps companies take delivery loads and reduce the number and frequency of trucks. Another is factory scheduling, where you can take your materials, your people, and your power, and efficiently allocate those resources. Another way for waste reduction is being able to forecast — to eliminate surpluses in

inventory, and therefore storage space and so on. Or an electronic data interchange (EDI), where you can send purchase orders and sales orders all electronically.”

Specialty tools, which are designed to track and calculate carbon footprints, are useful, but according to Hepperla, are most effective when used in conjunction with a comprehensive platform. “You can go out and buy an XYZ carbon footprint tool,” says Hepperla, “but it needs to be incorporated as part of a larger platform where you can use it not only for carbon, but for all the other business reasons you have. And that’s where the ROI increases significantly.”

The challenge, according to Hepperla, is not so much in adding up figures, but setting up a workable system for collecting and accessing data. “Within an organization that has many disparate sources of information, ongoing tracking becomes a very difficult thing to do, primarily because the information needed to pull together any sort of sustainability initiative typically exists in many different parts of the organization that don’t necessarily ‘talk’ to each other.”

Data pertaining to a sustainability initiative, for example, could exist in a spreadsheet, in an accounting system, or in a facilities application, and all these sources could be managed by different people with different ways of defining their information. There’s also a need to navigate the complex and rapidly changing world of comparative industry data. “If you look at some of the industry benchmarks across industries,” says Hepperla, “they are radically different. When you look at your numbers and potentially compare those with other companies in your industry, you want to know that you’re looking at apples to apples. One of the problems with sustainability right now is that there is not necessarily any governing source that says that this is how you should look at your emissions. Therefore, if people have questions, they have to be able to easily understand where the numbers came from, how they were calculated, and how they’ve been presented.”

These requirements are particularly daunting for smaller organizations with limited resources. However, as Passingham points out, compliance should be handled in conjunction with process improvement. There’s also a tendency to undervalue IT and its potential role in making green initiatives profitable. “I think that in small businesses it is difficult for the owners to really understand how technology should be part of the business plan, and not an isolated department,” she adds.

From a global perspective, green initiatives are one more area where the business relies heavily on information. “The same needs keep coming up,” Hepperla says. “You need the data, good data integrity, collaboration, and the ability to connect the dots. And frankly, you need to have a worldwide view.” ■

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



Athabasca University 

CENTRE *for* INNOVATIVE MANAGEMENT

A new level of possibilities for CMAs. The AU Executive MBA builds on the CMA foundation of financial expertise and strategic leadership, and broadens your knowledge and understanding in critical management areas like strategy, human resources, marketing and operations. And with our online flexibility, you can advance your career without putting it on hold. Rise further faster with the Executive MBA that has been ranked one of the best in the world by the *Financial Times* of London.

AU Executive MBA. Today's way. 1-800-561-4650. www.mba.athabascau.ca

Announcing... *Ryan Property Tax Services ULC*



*Industry visionary
Brendan Moore,
an innovative
thought leader
in Canadian tax,
leads Ryan Property
Tax Services ULC.*

Control Your Canadian Property Tax Liabilities

Since 1991, Ryan has become the leading tax services firm in North America, providing the most innovative approach to tax consulting available in the industry today. Our latest innovation includes Canadian property tax services to manage and represent your real property, control your tax liabilities, and dramatically improve your bottom line.

Industry visionary Brendan Moore leads Ryan Property Tax Services ULC, a subsidiary of Ryan, as CEO and Managing Principal. Brendan Moore is an industry-recognized pioneer in Canadian tax, and his seasoned team of property tax professionals has the same detailed local knowledge and experience that made Ryan the recognized leader in North American tax consulting for nearly two decades.

For more information, please call 800.545.1856 or visit us at www.ryanco.com.