



Management

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IFRS brings changes to financial statements

Legal and professional responsibilities of a CMA

Brian Morcombe, CMA, tax specialist, BDO Dunwoody LLP, entrepreneur, Music with Brian

From the office to the stage

He's a tax specialist from Monday to Friday, but at the end of the week, a magical transformation takes place.





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Ethics in the workplace

“This accountancy is a noble profession, and most of those who engage in it are good men. Indeed good preponderates everywhere — overwhelmingly in accountancy. After all the argument and disputation, after all the theory and doctrine, after all the study and analysis, the conclusion of the whole matter is this, that a professional man does not live unto himself alone, and what he does carries an influence far and wide. Every unworthy deed is a power for evil. Every good deed helps the world.” — A.P. Richardson, 1931, *The Ethics of a Profession*.

We’ve all heard the rule “do unto others as you would have done to you,” but how many of us actually follow it in both our personal and professional lives? There are ethics and then there are workplace ethics; however, if you look closely, you’ll find that there really isn’t a difference between the two.

Ethics are important in all aspects of life, whether it’s business or personal. A business or society that lacks ethical principles is bound to fail sooner or later.

Recent events in corporate America have demonstrated the destructive effects that occur when the leadership of a company behaves unethically. It’s unfortunate when successful business leaders resort to unethical conduct. Anthony A. Atkins, FCMA, joins *CMA Management* this month with his article that looks at the ethical challenges CMAs are facing in the workplace. With the support of CMA Canada, Atkins is inviting CMAs to share situations on how they’ve dealt with ethical challenges. Atkins will be using the responses to enhance training materials and prepare future CMAs for the challenges ahead.

Brad Dawson also joins *CMA Management* this month with a look at why business owners need to stop seeking extraordinary solutions to solve corporate growth issues, when, in fact, there are simple corrective actions they can take to substantially increase business revenues, profits and corporate value.

In other news, how does an Ontario CMA/tax accountant become a Canadian children’s singer? As writer Arda Ocal discovered — by combining decades of musical training with business acumen developed through years of professional practice with the big 4 and CMA development programs. In this month’s feature profile, Ocal sat down with Brian Morcombe, CMA, to find out how he juggles between being a part of a team that delivers tax services internationally during the week, and performing for children and their parents on the weekend.



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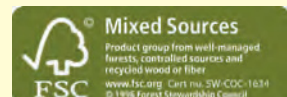
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Canada





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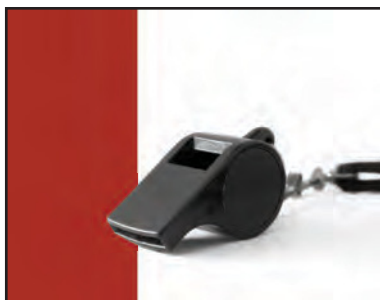
By focusing on the downside of risk, companies can overlook opportunities that provide significant possibilities for organizational innovation and new competitive advantage.

By Tamara Bekefi, Marc J. Epstein and Kristi Yuthas

28 IFRS brings a radical change to financial statement presentation

Imagine having a balance sheet that doesn't look like it balances. If there is one thing that accountants are used to doing it is quickly glancing at a balance sheet to see that the total assets equal the total of the liabilities plus equity. With the introduction of International Financial Reporting Standards (IFRS) in 2011 though, it may not be as easy to see that a balance sheet balances.

By Karine Benzacar, CMA



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To maintain and broaden public confidence, accounting professionals should perform all professional responsibilities with the highest sense of integrity — but what happens when a CMA's integrity is challenged?

By Anthony A. Atkinson, FCMA

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Cover Photo: Stephen Uhraney

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Common issues that keep businesses from being exceptional. Most business owners are seeking "extraordinary" solutions to solve corporate growth issues. There are corrective actions a business

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Authentication — passwords and beyond. The vast majority of information breaches are committed by people who have gained access, either legitimately or illegitimately, to

corporate systems. Consequently, a key pillar of any information protection strategy is the authentication and monitoring of users.

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Opportunities and challenges

Closing the Innovation Gap



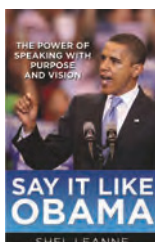
In the last half of the 20th Century, North America benefited from a rich environment of scientific and technological innovation that led to major discoveries, such as: DNA, the microprocessor and the Internet. According to Judy Estrin, short-term thinking and fear of risk are jeopardizing the future.

Estrin's book, *Closing the Innovation Gap*, explains how recent dramatic shifts in society — particularly an emphasis on boosting current profit margins at the cost of long-term exploration and sustainability, have undermined the cultural foundation that nurtured North America's success, creating dangerous blind spots in business and science. The blind spots go beyond a shift away from long-term research and development. The collapse of innovation is being felt in science, academia, federal policy, health care and corporate boardrooms.

While countries like China aggressively position themselves for economic and technological growth, the United States, for example, is focusing almost exclusively on short-term investments. The country is suffering from what Estrin terms "root rot," like a tree whose leaves appear to flourish, while the source of its nourishment withers and dies.

Closing the Innovation Gap presents an action plan for reviving innovation: create cultures and organizational structures for innovation through "green-thumb leadership," evaluate the innovation portfolios of businesses, industries, and countries, understand the impact of policy decisions and investments on long-term innovation and encourage critical thinking and problem solving rather than obsessing with outcomes of standardized tests.

Judy Estrin. McGraw-Hill.



Say it Like Obama

Regardless of what people think of his politics, Barack Obama is one of the most notable orators of recent times. He's been compared to great communicators like Winston Churchill, John F. Kennedy and Abraham Lincoln. In *Say it Like Obama*, Dr. Shel Leanne examines the lessons people can

learn from the communication practices that have helped

bring Obama success. The book is about the art of persuasion, the power of presentation, and the most effective communication techniques. Obama's political successes underscore a well-established fact: leaders in all fields benefit when they develop outstanding communication skills because the ability to convey vision, inspire confidence, and persuade and motivate others, is key to effective leadership. The book examines practices that have enabled Obama to inspire and motivate so many people so quickly, winning over many skeptics with his charisma. His success illustrates the importance of a strong first impression and how leveraging a second impression helps foster trust and confidence. Dr. Leanne also examines practices that have enabled Obama to get his point across effectively. His ability to humanize ideas, themes and emotions; to employ backward loops; and to recount effective anecdotes, distinguish him as a speaker, as do the ways he crystallizes his points.

Dr. Shel Leanne. McGraw-Hill.

Strategies for the Green Economy



Entering into the green marketplace to keep pace with customer and societal demands to reduce environmental and social impacts is not an easy task. Joel Makower, author of *Strategies for the Green Economy*, answers questions about the realities of greening a business — whether it's catering to an

environmentally-conscious customer or determining when to lead the market and when to follow it. Makower offers insights and inspiration to understand and untangle the complexities and controversies of profiting in the growing green economy.

Strategies for the Green Economy shows how companies have profitably integrated green thinking into their operations in a way that creates business value and describes how others have failed. The book also offers case studies that explore the trends and occasional absurdities of companies trying to prosper in the green economy. He concludes that, although the green economy is complex, there are enormous opportunities for success.

Joel Makower. McGraw-Hill.

"Aligning the company along LEAN principles, using SYSPRO's highly configurable modules, forced us to become more efficient. That resulted in many improvements... We now deliver our product on time, and we consistently meet our customers' schedules."

Chris Meier, Plant Manager, Progressive Turf Equipment

Progressive Turf Equipment Inc.

Progressive Turf's history began in 1977, when company President Luke Janmaat opened Luke's Machine Shop Ltd., a modest agricultural repair business. According to Janmaat, the company's first pull-behind Rotary Finishing Mower was introduced in 1990, the same year that Luke's Machine Shop created Progressive Turf Equipment Inc.

Today, after several plant expansions, new products continue to be introduced. With its head office and manufacturing plant in Seaforth Ontario, a distribution facility in Kentucky, and dealer networks across Canada, the U.S. the UK and Europe, the company's basic marketing strategy is to offer thoughtfully engineered and reliable products to the turf maintenance industry.

According to Ken Pinder of Pinder, Taylor, McNeilly, Godkin (Progressive Turf's accountant and business adviser), Progressive Turf installed SYSPRO enterprise resource planning (ERP) software in 2000. It wasn't until early 2005, however, when Chris Meier joined the company as Plant Manager, that SYSPRO's potential was realized. Meier had prior experience implementing ERP systems, and recognized that SYSPRO was being substantially under-utilized.

Weathering some initial skepticism on the part of management, Meier became SYSPRO's "internal champion," spearheading a program to implement numerous new modules, and to re-forge the company's production, supply chain and financial operations along principles set out by the manufacturing efficiency paradigm commonly known as LEAN. Says Meier: "We realized that if we wanted to progress, we had to make changes to our business processes. Aligning the company along LEAN principles, using SYSPRO's highly configurable modules, forced us to become more efficient. That resulted in many improvements, including a turn-around in staff morale, disciplined purchasing procedures and better cash flows. We now deliver our product on time, and we consistently meet our customers' schedules."

Progressive Turf began the process by creating and reviewing its Bill of Materials (BOM), and by making sure that the associated costs and routings were sound. Once management was certain that the

company understood its manufacturing and supply chain costs, Meier was able to ensure that selling prices made sense. "This meant automating our selling structures in relation to the various schemes we had for selling our products. Once all these processes became automated, the potential for error in both production and supply chain was enormously reduced."

The next step was to implement the Work In Progress (WIP) and Material Requirements Planning (MRP) modules. SYSPRO MRP lets Progressive Turf know exactly what is required in terms of finished goods and raw materials. This creates efficiencies on both sides of Progressive Turf's business: the mowers themselves; and the thousands of spare parts required for after-sale maintenance. MRP not only keeps the shop floor equipped with just the right number of parts for production, it also keeps Progressive Turf's off-site warehouse properly stocked with spare parts.

Once Progressive Turf closed the loop on its manufacturing and supply chain processes, everything flowed through to the financials. Now comfortable that the underlying information from inventory and sales was accurate, the company was able to make improvements in the purchasing cycle, and negotiate better contracts with suppliers.

Since implementing SYSPRO around LEAN principles, Progressive Turf has managed to reduce its work in process and raw inventory by 50 percent—despite the addition of four new mower models. "In this new environment," says Meier, "we're able to decrease inventory, add new products, and streamline our processes."

"With the new modules in place," says Luke Janmaat, "we can now devote more time to other issues, such as new product development and production. We know that SYSPRO will control all aspects of our scheduling, and we now have the latest information at our fingertips, with reduced manpower. SYSPRO also allows us to have a reduced inventory level, which in turn provides us with more manufacturing space. Without SYSPRO we could not be as efficient as we are now. This system will definitely help us grow."

For more information on Progressive Turf visit, www.progressiveturfequip.com

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News and views

New and noteworthy information you can use

CRA introduces new registered charity information

The CRA's new Registered Charity Information Return package, which includes Form T3010B (09), Registered Charity Information Return, Form T1235 (09), Directors/Trustees and Like Officials Worksheet, and Form T1236 (09), Qualified Donees Worksheet / Amounts Provided to Other Organizations, is to be used when filing annual information returns for fiscal periods ending on or after Jan. 1, 2009, only.

For fiscal periods ending on or before Dec. 31, 2008, registered charities must continue to use Form T3010A (05), with accompanying Forms T1235 and T1236.

Returns filed on the wrong form will be returned with requests to file on the right form.

The Registered Charity Information Return is now comprised of a simple core form with topic-related schedules. The CRA anticipates that the new form will reduce the filing burden for smaller charities. It will also provide the public with more meaningful information about registered charities, allowing them to make better informed donor decisions.

All CRA forms and publications are available on the CRA's website at www.cra.gc.ca/tx/chrts/formspubs/menu-eng.html, or by calling 1-800-267-2384.



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Management

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Small business 101 with CFIB



Workplace safety has just been given a significant boost in a new online training initiative announced by the Canadian Federation of Independent Business (CFIB).

CFIB president Catherine Swift says, the organization is offering its member firms and non-members a certificate course that has been developed through the E-Learning for Business Coalition. The Small Business Health and Safety (SBHS) certificate will provide small- and medium-sized

businesses nine hours of online training on how to keep their workplaces safe from potential hazards and undesirable work environments.

There are seven areas of training:

1. Health and safety for small business.
2. Violence in the workplace.
3. Health and safety committees.



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4. Electrical hazards.
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7. Workplace hazardous materials information system (WHMIS) for workers.

Each area of training contains an exam. A passing grade of 80 per cent for each exam must be achieved to receive a certificate of completion.

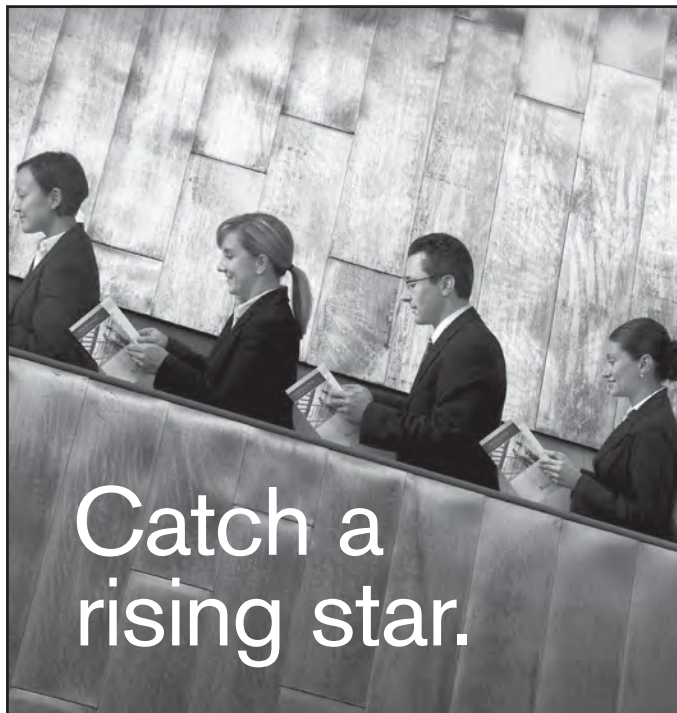
Swift adds that, because health and safety legislation in Canada applies to all employers, large and small, this new program will help employers and employees achieve compliance with federal and provincial or territorial law.

"Workplace injuries and illness can be prevented," Swift says, "and employers need to take care to ensure that employees have been properly trained, that new hires fully understand how to do their work safely, and that everyone

The Small Business Health and Safety (SBHS) certificate will provide small- and medium-sized businesses nine hours of online training on how to keep their workplaces safe from potential hazards and undesirable work environments.

takes all necessary precautions to remain safe while completing their tasks." She emphasized the key to prevention is to develop a health safety program in every business, adding that a good health and safety program doesn't need to be expensive.

For further information on this program, please visit: www.cfib.ca or www.fcei.ca.



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Improving performance management systems

Human resource management systems are supposed to make organizations more effective. Creating systems and structures without making sure they work isn't enough.

By Barbara Bowes

As a human resources (HR) professional, I'm embarrassed to confess that, out of all human resource functions, performance management is poorly managed. Let's face it, complaints are common in the workplace. Performance measures are seen as more subjective than objective, if they exist at all. Few managers receive training on the corporate performance philosophy let alone on the implementation. In many cases, managers dread performance management.

Performance management has a long history in the workplace. Top down management philosophies saw it as a way to tighten management control, stop bad performance and "fix" employees. Few people challenged these basic assumptions, but instead focused on how to improve the forms and rating accuracy. Then, as with other social trends, HR professionals continued to "fix" the employee by focusing on personal off hours. The result was a proliferation of employee benefit plans, which included counselling in the following areas: financial management, relationship problems and addictions.

It wasn't until the 80s that management realized there's more to performance than just efficiently completing work tasks. Researchers studied the change in work tasks and focused on skills and



A performance management system is not about trying to control employees, but rather to focus on improving overall performance.

competencies. Traits, behaviours and situational factors became common place vocabulary. A flurry of new appraisal techniques and management systems: MBO (management by objectives), balanced scorecard and 360 degree (upward employee feedback) systems were proposed.

Today, many research studies have identified and proven links between employee behaviour and customer satisfaction. As well, institutional investors are turning their sharp eyes toward valuing



the more intangible features of corporations, such as: employee satisfaction and ethics. Finally, the global competitive marketplace is creating significant pressure to create and maintain a high performing workforce. As a result, some companies such as General Electric have adopted the philosophy that, failing to aggressively address the issues of poor performers, results in prejudicing good performers. Thus, they've turned to a forced ranking ABC system.

Objectives need to be cascaded throughout the organization and clearly communicated to employees.

But no matter how many improvements are made to performance-management systems, problems may still appear. Some people try to beat the system, are skeptical, and intentionally manipulate the system. Some critics even suggest that management has an inherent conflict of interest because they are evaluated on their employee's performance.

A performance-management system is not about trying to control employees, but rather to focus on improving overall performance. This not only ensures that the employee is doing the right tasks, but also ensures that there are effective organizational supports in place to help make it happen.

The HayGroup, a large international HR consulting firm, recently completed an in-depth study of employee attitudes and translated some of its results into a working paper called, "Managing Performance." This study identified three key areas that had an impact on effective performance management.

Goal clarity

Top level teams only attained superficial agreement on goals while managers struggled with too many

priorities and therefore couldn't focus. On the other hand, front-line workers weren't effectively informed about company goals and objectives. In fact, the results showed a key reason people leave their jobs is a perceived lack of company direction.

Systems and processes

Objectives need to be cascaded throughout the organization and clearly communicated to employees. The study showed that disconnects in systems, processes, functional departments and different levels of staff contribute to communication gaps. The HayGroup recommends that management create opportunities for dialogue so that employees can challenge, interpret and shape their goals, and become motivated toward higher productivity.

Aligning rewards

Management needs to ensure rewards are in tune with organizational goals. In many incidences, reward policies conflicted with goals and employees were punished rather than rewarded. Jan Kennedy, a senior consultant with HayGroup, warns managers not to send mixed messages.

As well, most managers will stand tall and confirm their belief that high performers should get higher rewards. In the view of Jack Welch, former CEO of General Electric, high performance for an A level employee should translate into salary raises that are two to three times higher than level B employees. However, the study found this reward philosophy is rarely translated into actual practice. It seems that managers are continuing to avoid making the tough decisions and spread their rewards evenly, "like peanut butter."

Performance management is known as the worst managed function of HR. It's disappointing to learn that, after all this time, there are still many inconsistencies with the creation and implementation of performance-management systems. At least there's now good evidence to show that, if systems are in place and implemented effectively, revenues, shareholder value, employee satisfaction and investor interest will increase. Now, that's a goal worth pursuing! ¹

Barbara J. Boves, CHRP, CMC, is president of Boves Leadership Group and president of the Human Resource Management Association of Manitoba. She can be reached at 204-947-5525 or barb@bovesgroup.com.

Source: Adapted from rating performance rating: right systems make tasks easier, Winnipeg Free Press, March 2, 2002



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Intuition as a sustainable business advantage

Eight ways to master intuition and transform an organization.

By Arupa Tesolin

Getting more intuitive has become a new business imperative. Too much knowledge, it turns out, can be an impediment to innovation. With renewed focus on innovation, intuition is gaining new respect as an organizational smart skill.

French architect Jean-Pierre Houdin put forward a new theory on how the great pyramid may have been constructed from the inside out, which credibly challenged both major existing theories. He developed his theory after following a flash of intuition that his father, also an engineer, had received.

The intractability of intuition has long been the reason that its use as a business tool has been undervalued.

The intractability of intuition has long been the reason that its use as a business tool has been undervalued. Linkages between intuitive insight and their outcomes have been ambiguous and hard to trace, yet, evidence continues to accumulate where intuition has played an important role in the development of new products, discoveries, and inventions. Just as unpredictably, society's over-reliance on information and knowledge has often failed to produce the expected results.

As a result, society has begun to take intuition more seriously in the realm of the real. Intuition is economical. Generating results by encouraging



greater intuition doesn't require or bind a lot of capital or time. It frees our imagination and fits our sustainability models by enabling us to source from a wider set of variables than analysis. It generates outcomes far beyond its investment; often yielding results that are disproportionately large by comparison.

Also, it links to the things we find increasingly important these days — meaning, wisdom and creativity.

When clearly apprehended, intuition is vastly superior to all states of intellectual intelligence. It reaches into the domain of unknown events and includes both the heart and mind in its intelligence. Unlimited, it serves as the ultimate renewable resource for imaginative potential.

Here are some questions to ask on how to incorporate intuition and use it as a business advantage:

- 1 How can our organization become more intuitive?
- 1 How can we develop intuitive capabilities in our talent force and managers?



- 1 What kind of a culture do we need to have to support intuition?
- 1 Where are the best places in organizations to apply intuition?
- 1 Where does an organization start?

1. Recognize intuition as a smart skill that can be developed.

Most employees and managers today have become accustomed to having an intuition deficit created by their environment. Becoming intuitive takes practice. Include developing intuition capabilities in your competency plans. Decide how and where you want your staff to be intuitive. Develop learning and training plans from there.

2. Shift from validating intuition to developing intuitive capability.

Break away from the validation trap, where nothing happens except more theory. Save energy and get better results by going straight to building capability and learning through use. Create a climate where your organization's stories and connections between intuition to results are recognized.

3. Build an intuitive language for your organization to create/sustain a more intuitive culture.

Getting more intuitive means inviting "whole" people — physical, emotional, mental and spiritual who can contribute the most to your agenda. Whole people, both intuitively intelligent and intellectually intelligent, add value by increasing their creative contribution. Support them with a genuine commitment from your organization and management team that honors their contribution. If only logic and analysis are needed in your organization, a good computer model could theoretically replace people; however, a computer program wouldn't likely lead to more innovative performance.

Organizations who lead success find ways to help people fulfill their own dreams and inspire commitment through having a great vision and purpose within an open and honest communication style that fosters real cooperation.

4. Recognize the true costs of bad business ecology and the value of providing emotionally healthy workplaces and processes.

The following realities have a significant impact on innovation. Impaired people cannot innovate well. Prolonged misery exacts a toll from even the strong. Make an effort to eradicate stress and get rid of poor management practices and processes that create unnecessary stress for your employees. Turn up the joy factor; turn down the stress.

5. Practice creative surge. Focus on application with less analytical information and more intuition and imagination.

Technology, information, tasks and role demands on the job compete for attention. The more "noise" there is, the less clear and effective we become. Intuitive clarity is more like a tuning station that cuts through the noise and meaningless information. Intuitive solutions emerge in a non-linear way, sometimes through surprise and opportunity, and thrive in change. Self-aware people are more intuitive and tend to be better listeners, change agents and relationship builders who are more anticipatory, proactive and open to new directions.

Generating results by encouraging greater intuition doesn't require or bind a lot of capital or time.

To attain new visions, we must engage our imaginations. Currently, most of us perform "adaptive innovation" based on implementing incremental improvements. Thus, we proceed on the basis of an "inherited vision" from the past, usually the industry benchmark. If we dream only adaptive dreams, we encourage limitation and discourage invention.

Where to start? It all starts with a "ting," which is a made up word for the sound of intuition striking a receptive mind. By saying yes to intuition, we open up a lot of doors for greater success and creativity. By learning how intuition occurs for us, we gain command of our abilities to recognize it as more than a fleeting experience. Once we understand what it's telling us, we can move on to even greater "tings!"ⁿ

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Common issues that keep businesses from being exceptional

Most business owners are seeking “extraordinary” solutions to solve corporate growth issues. There are corrective actions a business can use to increase revenue, profits and corporate value.

By Brad Dawson

The owner of a regional engineering firm was struggling to find ways to increase corporate revenues. In the last three years, he invested in aggressive business development and public relations efforts, hired senior-level employees to bring “instant” experience to his management team, and kept current on every new management theory that made it into print. The net results, however, were incremental improvements, at best. His investments in growth far surpassed his expected returns.

Does this example sound familiar? Most business owners are seeking “extraordinary” solutions to solve corporate growth issues, when in fact, there are a series of simple corrective actions that will substantially increase business revenues, profits and corporate value. These growth issues are so common that I have labelled them “business truisms” — as they seem to appear at nearly every business.

Avoid the inverted pyramid

An ideal organizational structure reflects a pyramid — with a large, strong base of junior employees topped off by significantly fewer senior management leaders. The logic is that profit margins (as a percentage) are much higher for junior employees than margins associated with senior managers. As a result, pyramid organizational structures may yield lower gross revenues, but significantly higher profits — the real objective for any business owner. Unfortunately, the economic downturn has forced



An ideal organizational structure reflects a pyramid — with a large, strong base of junior employees topped off by significantly fewer senior management leaders.

many businesses to cut back on staff. Business owners will often eliminate junior positions prior to cutting senior level individuals which creates an inverted pyramid structure. Once inverted, senior-level employees start to do tasks that were, in previous periods, being done by junior employees. As chargeable rates for senior level managers are not consistent with the actual lower-level work being accomplished, firms are forced to cut rates and erase any form of profitability.



Don't give it away

Business owners often scrutinize the chargeable (or productive) levels of every employee. It is their objective to squeeze out every possible level of productive value from every resource. But, do they hold themselves to the same level of accountability? They may work long hours (as every business owner can attest), but are they charging their customers for their contribution to their projects?

Business owners should charge for their efforts. Not doing so is the same as giving their skills away.

In general, most business owners only charge 25 per cent of their chargeable client efforts — allowing the client to receive the business owner's talents at a 75 per cent discount. Business owners are typically the most expensive and talented resource in their business. Reasons for not charging clients directly appear to mask themselves behind arguments of “meeting client budgets” or “maintaining high levels of quality control.” Regardless, business owners should charge for their efforts. Not doing so is the same as giving their skills away.

Measure “real” corporate chargeability

A regional architecture firm was convinced it achieved an all-time chargeability record — with sustained chargeability levels in excess of 95 per cent. As project work continued to go out the door, the principals were dismayed that record chargeability had not yielded higher levels of owner compensation. There had to be a problem — after all, how could they work so hard and have so little to show for their efforts? The problem was in the calculation of corporate chargeability. The architecture firm had calculated its chargeability based only on those individuals who had an ability to generate chargeable hours —

leaving behind the large (and somewhat bloated) administrative and marketing structure. When the full firm was included in the calculation, the corporate chargeability rate dropped to 54 per cent. The non-chargeable contingent was dragging down the effectiveness of the office. It should be no surprise that the administrative and marketing positions were soon trimmed to accommodate the real needs of the firm.

Too many customers

For most businesses, approximately 20 per cent of their customers generate over 80 per cent of their revenues — the familiar 80/20 rule. But why does this phenomenon occur? The answer is usually found in two places: either a firm has several customers that are woefully under-performing or it has customers that should not be customers. How can one tell the difference? Look at your largest revenue generating customers. What common characteristics do they share (e.g., industry, revenue size, decision-making process)? These common characteristics form an ideal customer template — literally a predictive pattern that allows you to measure the potential of your existing (and future) customers. For customers who meet the “ideal” characteristics, aggressive efforts should be made to increase the revenue per customer metric, thereby, elevating these entities to higher levels of performance. Conversely, those customers who do not meet the “ideal” characteristics should be eliminated.

Too many industries or none at all

Finally, in how many industries do you claim expertise? Unless you are a large, multinational firm, the answer should be in the single digits. For most firms, the cost of effectively penetrating any industry is a costly, intensely labour-oriented activity — not something that can be accomplished by shot-gun marketing approaches. Of greater concern, however, are those firms that claim expertise in horizontal capabilities — mistaking that knowledge for industry intelligence. Far too often, firms identify areas such as technology and government as industry classifications only to find that multiple industries occupy these horizontal designations. As a result, firms that practice this “no industry” philosophy are branded generalists making low-cost the primary basis for customer selection.

Good news

The good news is that all the “conditions” mentioned in this article are easily fixable. They do not require high levels of outside intervention or the implementation of the latest management theory. They require good old-fashioned management common sense. Are you ready to make your business exceptional? ▀

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Creating growth from effective opportunity risk management

By focusing on the downside of risk, companies can overlook opportunities that provide significant possibilities for organizational innovation and new competitive advantage.

By Tamara Bekefi, Marc J. Epstein and Kristi Yuthas

When General Electric (GE) launched Ecomagination, its commitment to addressing environmental challenges, it recognized an opportunity where many others only saw risk. While others were litigating and lobbying to avoid liability, GE captured opportunities from concerns about the environment by developing products ranging from energy efficient compact fluorescent light bulbs to hybrid locomotives. Ecomagination is a business strategy driving growth — current revenues from this program already exceed \$12 billion annually, and GE is not alone — many companies are discovering opportunities in, and making money from, issues traditionally seen as too risky.

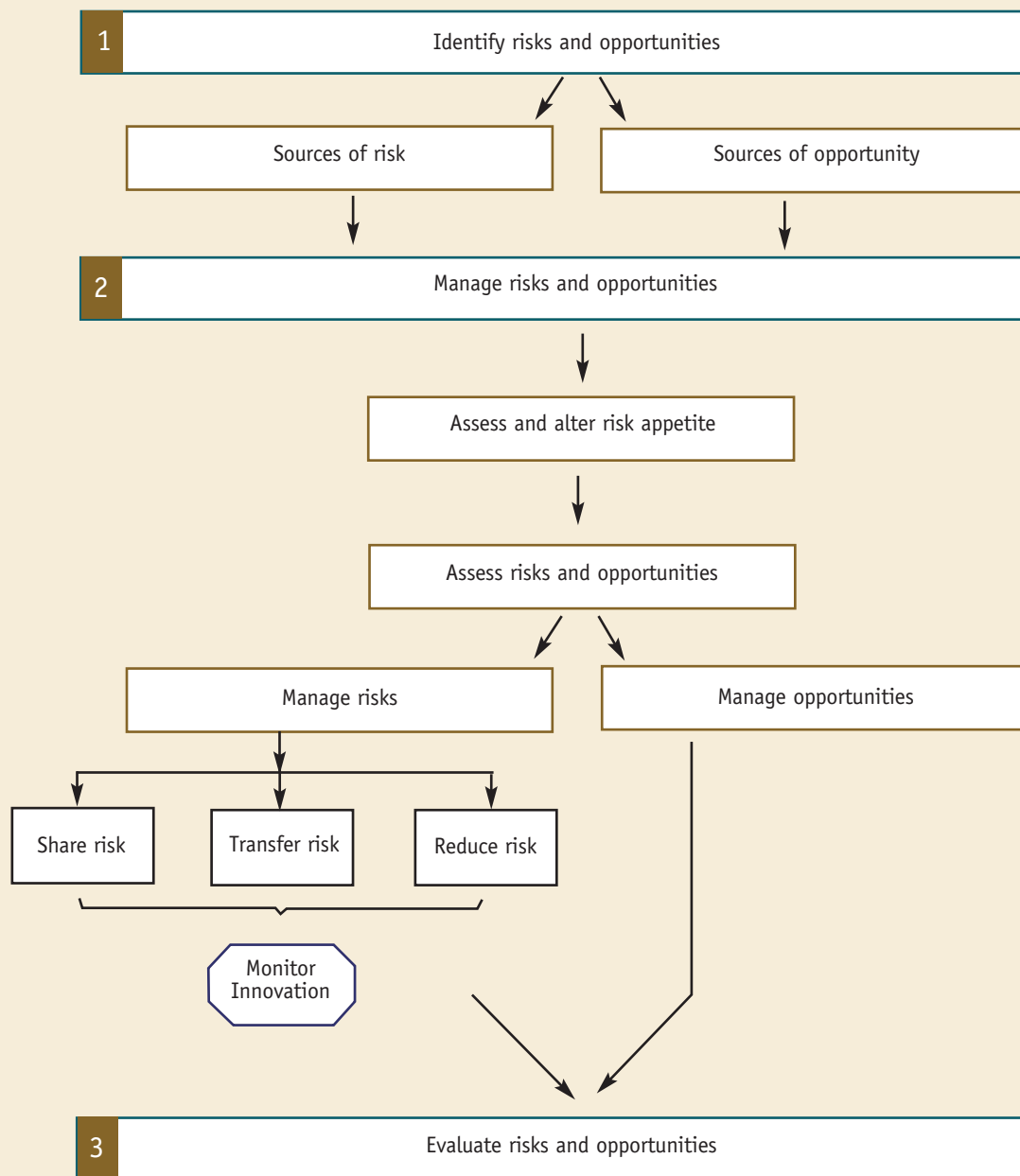
By focusing on the downside of risk, companies can overlook opportunities that provide significant possibilities for organizational innovation and new competitive advantage. The reality is, risk and opportunity are two sides to the same coin — and both require attention by those who want to survive and thrive in the current business climate. By knowing how to recognize, manage and innovate around risk, a world of opportunity is available to companies.

Consider Kinopolis, a Belgian movie-theatre operator that entered the market in 1997 when cinema audience numbers were in decline





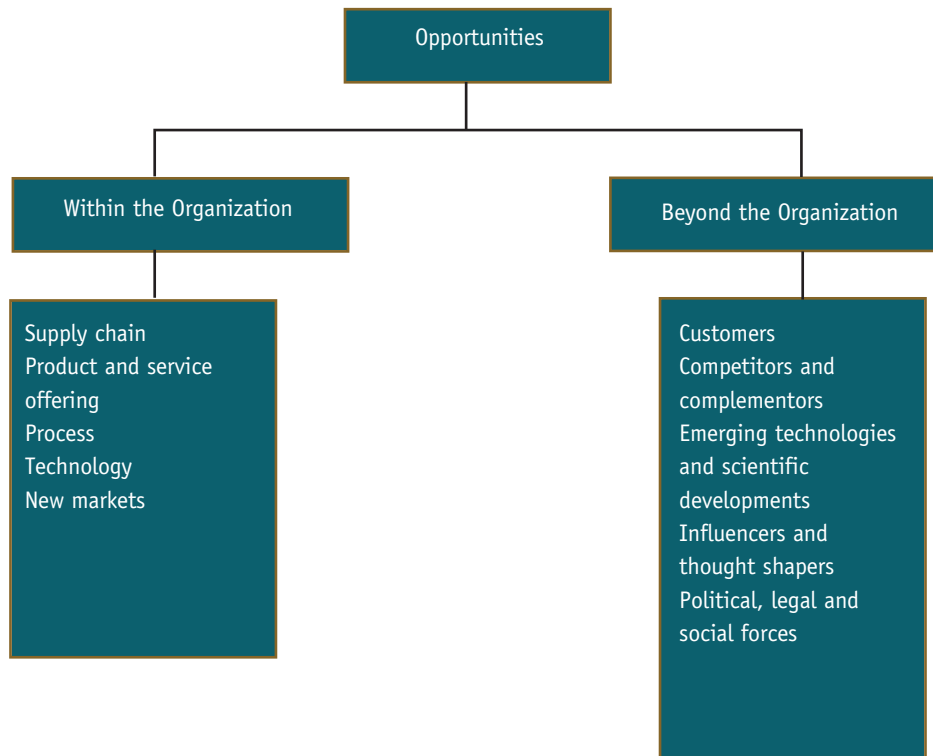
Exhibit 1: Risk & Opportunity Management Process¹



and cinema operators across Belgium were closing down. The first Kinopolis theatre opened on the ring road outside of Brussels — a location challenging the conventional wisdom that movie theatres needed to be centrally located to capture foot traffic and spontaneous movie watchers. Kinopolis also entered the market when most observers believed that a movie theatre could not be a successful business proposition. The world's first megaplex, with 25 movie screens and

7,600 seats, provided superior screens, sound, and seats, the latest movies, and free parking in a city notorious for its high parking cost and scarce parking in the downtown area. Kinopolis achieved spectacular growth, capturing 50 per cent of the market in Brussels in the first year, expanding to France, Spain, Poland, and Switzerland, and posting a 14.6 million Euro profit in 2006. It created a profitable business opportunity where others only saw certain risk of failure.

Exhibit 2: Sources of Opportunity²



Central to opportunity management are financial professionals who create and design systems to measure and achieve key performance indicators. The risk and opportunity management process (Exhibit 1) provides a model with tools and techniques to foster and manage innovation within the risk management context for improved decision making. This model builds on the knowledge and systems already employed from using COSO and other risk management tools to focus on risks and opportunities to create growth and innovation.

1. Identifying opportunities

Opportunities can arise from areas within the organization, and externally as illustrated in Exhibit 2. Internal sources of opportunity include supply chains, how a company structures itself, partners with other entities, and operates to deliver its products and services. Technological innovation around new products and services, or changes to existing products and services, such as mobile phones and software is another source. Identifying ways to source products differently from new markets, serve new geographies or new consumer groups can be another supply of opportunities. Procter and Gamble offers its high-end Pantene shampoo products in two-cent single serve packets for sale in India and China

targeted at a low-income population, seeing this new market as a huge growth potential and revenue base.

Beyond the organization, sensitivity to customer needs or trends can open a fountain of opportunity. Companies that focus on shifts in customer behavior and their needs can sometimes anticipate changes and innovate to meet needs before the competition. Coach, the designer bag company, realized this. Coach began designing small wrist wallets that appealed to young women who wanted to go clubbing, which broadened the company's customer base beyond its traditional target of mature women.

By focusing on the downside of risk, companies can overlook opportunities that provide significant possibilities for organizational innovation and new competitive advantage.

Developing a sensitivity to what competitors avoid because of perceived insurmountable risk can also yield opportunity. Identifying the ways in which your organization is better equipped to deal with these issues than the competition can unlock opportunities. Opportunities can be found in the political, legal and social landscape in which business is conducted. For example, concerns over climate change have led many companies to develop “green” products or processes to meet consumer demand and respond to regulatory pressures in Europe, Canada, and the United States.

In today’s business world, risk poses threats, but also provides opportunities to create new competitive advantage and ways to satisfy customers.

The giant retailer, Wal-Mart, which has the second largest truck fleet in the U.S., has barred drivers from idling while loading and unloading their cargo. As a result, the company is reducing greenhouse gases by 100,000 tons a year and saving itself \$25 million in the fuel that it took to keep those trucks idling. Each organization should establish its own list of opportunity

sources that are most relevant to its businesses and operating environment.

Strategies for identifying opportunities

A number of strategies exist to help identify new opportunities and to give consideration to those that have been neglected because of perceived, but unexamined, risk. Some of these strategies include:

Learning from the past: While past experience cannot necessarily be a predictor of future performance, signals that were ignored, missed opportunities, and business surprises can provide insight into organizational blind spots.

Customer sensitivity: Trying to understand customers in a way that the competition does not, and creating systems to exploit this information, can lead to great gains.

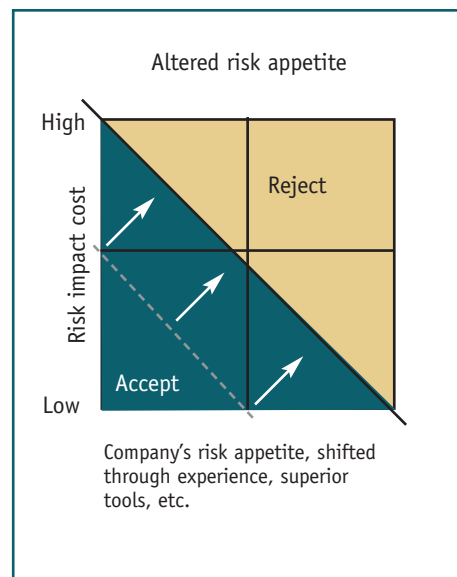
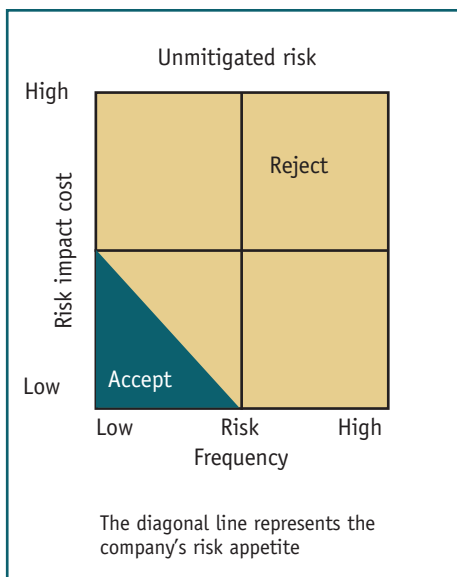
Learning from others: The adage, “A wise person learns from experience, but a wiser person learns from the experience of others,” holds as true in business as it does in life.

Scanning: Active scanning of the business environment, potential competitors, or rival technologies is critical to successfully seizing opportunities and combating risk.

Scenario planning: Once mainly the domain of crisis management teams, scenario planning is a powerful tool for generating new ideas.

Identifying the market gaps and change the game: Instead of continuously trying to compete with other

Exhibit 3: Risk Appetite Tolerance³



businesses in one's category, identify where there are gaps in the current industry model, different customers to serve, or a complimentary products or services that holds value can spur innovation.

Idealized design and competing in advance: As in chess, business strategizing by projecting to an imaginary future and moving back to the present allows for free thinking without constructing impediments to potential breakthrough ideas.

Market sensitivity: Recognizing where and how the market is changing and moving quickly to adapt can hold a key to innovation.

Financial professionals play a critical role in risk and opportunity identification because they are responsible for developing a process for identifying and categorizing these factors within a framework that includes financial evaluation. To ensure rigour from the outset, financial professionals should be involved at the strategic planning stage to ensure that major changes are being considered within such a framework.

2. Managing opportunities

Assessing, and potentially altering, the organization's risk appetite is a first step in managing opportunities related to risk. A company's risk appetite is heavily influenced by its culture and changes over time. Risk appetite should be defined and agreed upon at least annually, and ahead of assessing individual risks and opportunities.

Sometimes shifting risk appetite is necessary to capturing opportunities. This shift can be accomplished by developing the capacity to accept more risk, thereby shifting the risk appetite boundary in Exhibit 3. There are a variety of ways to alter risk appetite including improving organizational learning, using networks for increased learning, expanding the time horizon, and expanding the breadth of stakeholders considered in the analysis.

Improving organizational learning: Developing the ability to learn from effective and ineffective risk experiences, and incorporating this learning into control system policies and procedures, can help organizations increase their risk appetite. This can be done through building a corporate knowledge base and regularly improving business processes.

Using networks for increased learning: Incorporating stakeholder knowledge and management strategies into learning systems leads to a larger pool of knowledge to tap, both for risk mitigation and for innovation design. Gathering this information can also foster more support and trust from a wider network. For instance, the advisors who can give insight into socio-political risk can also be a good resource for testing ideas about innovations in less stable markets.

Financial professionals — including risk officers, financial officers, and internal auditors — play a key

role in supporting the organization's risk management philosophy by promoting compliance with risk appetite, managing risks within their areas of responsibility, and analyzing and reporting risks. Once the risk appetite is determined, the organization must assess the risks and opportunities that have been identified and decide on a response to capitalize on opportunities and identify countermeasures to mitigate the risk.

Innovation's role in managing opportunities and risk

Companies that can identify and seize opportunities, often where others only see risk, often do so through innovation. Innovation can include a break-through idea that leads to a winning product, like the iPod. Product innovation catapulted Apple from a boutique computer maker into a multi-platform company that changed the rules of the game for three industries: PCs, consumer electronics and music. Innovation can also be a new model of doing business in a seemingly saturated market, like the theatrical circus Cirque du soleil.

Once the risk appetite is determined, the organization must assess the risks and opportunities that have been identified and decide on a response to capitalize on opportunities and identify countermeasures to mitigate the risk.

While Ringling Bros., Barnum & Bailey and other smaller circuses were busy competing with one another for an ever-shrinking market, Guy Laliberté and Daniel Gauthier recognized that audience taste was shifting away from the traditional big top shows. The two street performers innovated to create a hybrid circus/theater that has been viewed by over 60 million people in 90 cities globally with an annual revenue topping well over half a billion U.S. dollars. Laliberté and Gauthier changed the very definition of the circus and with it, the market.

Innovation is a key component of capturing opportunity from taking or managing risk as depicted in Exhibit 1, the "Risk and Opportunity Management Process." Once an opportunity has been identified, the process of moving the idea to market requires an innovation system. Contrary to popular belief, innovation is not just having a good idea at the right

time, it is a system to improve the likelihood that these ideas will flourish within the organization and will lead to market success. Innovation systems are aided by established policies, procedures, and information mechanisms that facilitate the innovation process within and across the organization.

Financial professionals play a critical role in the creation, implementation, and smooth operations of an innovation system. They are charged with creating structures, measures, and incentives and rewards systems that keep the innovation system streamlined and goal-oriented rather than diverging into innovation for the sake of innovation. Financial professionals are also in the unique position of including both risks and opportunities in financial calculations for more rigorous project planning and corporate strategy.

3. Evaluating opportunity through ROI and other methods

Evaluating is the final step in the process of managing opportunities that have been identified as both aligned with corporate strategy and viable within the organization's structure. Some evaluation methods can be more informal than others, yet it is critical to evaluate opportunities for inclusion in financial calculations for more effective appraisals. This can be done in a variety of ways, including expected profits, expected value added (profits minus the cost of capital involved in developing and running the opportunity project), or common measures such as ROI.

Assessing, and potentially altering, the organization's risk appetite is a first step in managing opportunities related to risk.

ROI, including NPV calculations modified to include real options theory, is our recommended method of evaluation. This allows for both flexibility in investment appraisal options and for the inclusion of the costs of risk mitigation actions that can be central to capitalizing on opportunities. Real options are a complement to, and an extension of, traditional NPV calculations and should be included as a step in the application of the ROI method. A modified ROI calculation that includes real options is a seven-step process that includes:

- 1) Generating options using real options thinking;
- 2) Estimating the opportunity benefit;

- 3) Evaluating the costs inherent in capturing the opportunity (including required risk mitigation activities);
- 4) Estimating the probability that the risks needing mitigation will actually emerge;
- 5) Calculating the expected impact/value of the risk;
- 6) Calculating NPV of the opportunity and the risk;
- 7) Calculating the expected value of the ROI.

Like other estimates used in financial analysis, these estimates do have limitations. However, through proper estimating and disclosure, they certainly aid managerial decision making. Assumptions made in quantifying risks and opportunities should be included as a footnote or appendix to the modified ROI analysis.

In today's business world, risk poses threats, but also provides opportunities to create new competitive advantage and ways to satisfy customers. In order to realize these benefits, risks and opportunities must be evaluated and handled within a system that adequately identifies, quantifies, and mitigates them. Financial professionals play a critical role in this process, lending their expertise at every stage. Such a robust treatment of risk and opportunity enables organizations to capitalize on their risk and innovation management expertise to identify and capture opportunities that can help them to beat the competition. ⁿ

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This article is based on "Managing Opportunities and Risks," a management accounting guideline written by Tamara Bekefi, Marc Epstein and Kristi Yuthas and published by CIMA, the American Institute of Certified Public Accountants and The Society of Management Accountants of Canada.

- 1 Bekefi, Tamara, M. J. Epstein, K. Yuthas. 2007. "Managing Opportunities and Risk." Jointly published by Chartered Institute of Management Accountants, Society of Management Accountants of Canada and American Institute of Certified Public Accountants.
- 2 Bekefi, Tamara, M. J. Epstein, K. Yuthas. 2007. "Managing Opportunities and Risk." Jointly published by Chartered Institute of Management Accountants, Society of Management Accountants of Canada and American Institute of Certified Public Accountants.
- 3 Basic diagram sourced from: Ballou, Brian and Dan Heitger. (Winter 2005). A building block approach for implementing COSO's enterprise risk management – integrated framework. *Management Accounting Quarterly*. 6:2, p. 9.



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IFRS brings a radical change to financial statement presentation



Imagine having a balance sheet that doesn't look like it balances. If there is one thing that accountants are used to doing it is quickly glancing at a balance sheet to see that the total assets equal the total of the liabilities plus equity. With the introduction of International Financial Reporting Standards (IFRS) in 2011 though, it may not be as easy to see that a balance sheet balances.

By Karine Benzacar, CMA

A discussion paper released by international accounting regulators is proposing to change the look and feel of financial statements. The new financial statement presentation is a proposal by a joint committee of the key regulators involved in the international standards — the U.S. Federal Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). After years of deliberation since 2002, the committee released a preliminary 168-page discussion paper in October 2008 identifying changes to financial statement presentation. The public has up until April 14, 2009, to comment on the proposal, after which it will become an exposure draft and then move to become a new financial reporting standard.

Why change the look of financial statements?

The two regulatory boards are proposing a new look and feel to the statements, consistent with their objective of improving financial reporting and providing better information to the users of financial statements. The discussion paper explains that “how an entity presents information in its financial statements is vitally important because financial statements are a central feature of financial reporting — a principal means of communicating financial information to those outside an entity.”¹ The Boards contend that the existing presentation guidelines make it difficult to understand the relationship between financial statements and that information in different statements is inconsistently presented. These factors make it difficult to properly assess the financial health of an organization.

There are three objectives associated with the change. Information should be presented in the financial statements in a manner that:

- (a) Portrays a cohesive financial picture of an entity's activities. A cohesive financial picture means that the relationship between items across financial statements is clear and that an entity's financial

- statements complement each other as much as possible.
- (b) Disaggregates information so that it is useful in predicting an entity's future cash flows.
- (c) Helps users assess an entity's liquidity and financial flexibility.²

How are the statements changing?

The financial statements will have new names: an income statement will now be called a “Statement of Comprehensive Income” and a balance sheet will be called a “Statement of Financial Position.” The required statement of retained earnings will be replaced by a “Statement of Changes in Shareholder's Equity” (Exhibit 1). There is also a new statement reconciling net income to cash flow which must be included in the financial statement notes.

The new names though, are just the beginning. In order to achieve the objective of cohesiveness between the statements, the format of the statements will change. All statements are to be subdivided into the same general categories — a business section (subdivided further into operating and investing components), a financing section, income taxes, discontinued operations, and equity (Exhibit 2). These classifications are similar to how today's cash flow statement is divided.

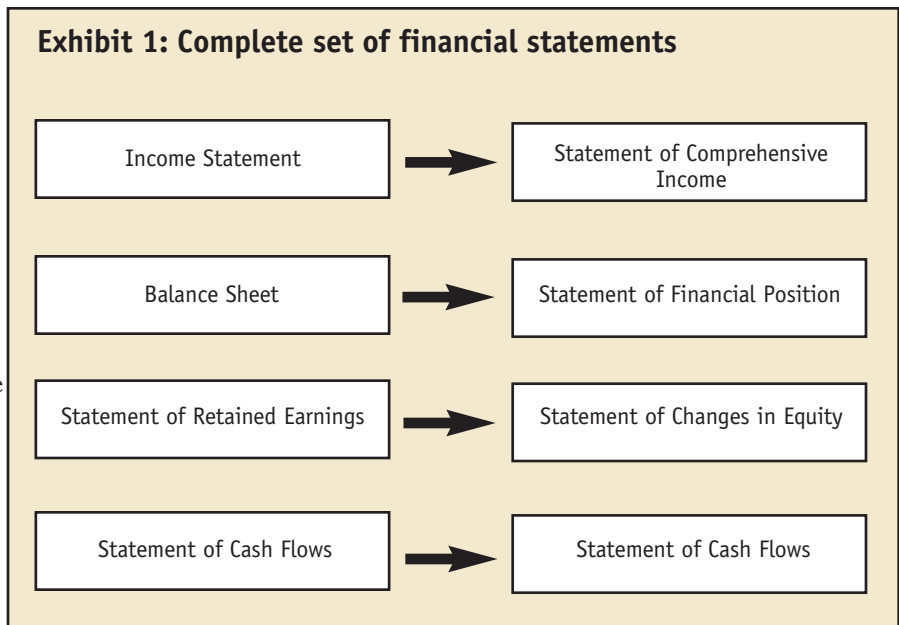


Exhibit 2: Statement Overview

Statement of Financial Position	Statement of Comprehensive Income	Statement of Cash Flows
Business <ul style="list-style-type: none"> • Operating Assets and Liabilities • Investing Assets and Liabilities 	Business <ul style="list-style-type: none"> • Operating Income • Investing Income 	Business <ul style="list-style-type: none"> • Operating Cash Flows • Investing Cash Flows
Financing <ul style="list-style-type: none"> • Financing Assets • Financing Liabilities 	Financing <ul style="list-style-type: none"> • Financing Income • Financing Expenses 	Financing <ul style="list-style-type: none"> • Financing Asset Cash Flows • Financing Liabilities Cash Flows
Income taxes	Income taxes on continuing operations	Income taxes
Discontinued Operations	Discontinued Operations (net of tax)	Discontinued Operations
	Other Comprehensive Income (net of tax)	
Equity		Equity

Joint FASB/IASB preliminary views on Financial Statement Presentation, October 2008.

The new balance sheet (Statement of Financial Position)

The biggest difference with the new format of the Statement of Financial Position (balance sheet) is that at first glance, it isn't obvious that assets balance to liabilities plus equity. The traditional balance sheet shows assets on the left side with liabilities and equity on the right, having identical totals on both sides. The new format does not separate assets and liabilities into distinct sections. Instead, assets and liabilities are netted together in each of the sections (operating, investing, financing, income taxes, and discontinued operations) of the Statement of Financial Position. How management segregates assets or liabilities into each of the different sections is subject to a fair bit of management judgment and their basis for classification must be disclosed in the financial statement notes. Totals for short-term and long-term assets in each section of the statement are optional. An entity must disclose the totals for short-term, long-term, and total assets and liabilities but they can do so either in the statement or in the notes to the financial statements. There is no familiar total for liabilities plus equity (Exhibit 3). Underlying the presentation format, the balance sheet still balances.

The new income statement (Statement of Comprehensive Income)

The Statement of Comprehensive Income is similar to today's income statement in that it calculates a subtotal for net income and then has a section for other comprehensive income (OCI). However, everything above net income is divided into the same categories that the balance sheet is classified in — an operating section, an investing section, a

financing section, income taxes, and discontinued operations. Within the OCI section, the entity must indicate to which category (operating, investing, or financing) the actual line items relate to.

Line items are further identified by function and then nature. For example, cost of goods sold must be further subdivided into materials costs, labour costs, and overhead. Details for general and administrative expenses must also be disclosed. If these guidelines result in too lengthy of a statement, the entity can summarize the statement, but they must still present the details in the financial statement notes (Exhibit 4).

The new cash flow statement

The Cash Flow Statement is the only statement that will retain its existing name. Its format is similar to today's format, but there is one significant change — the indirect method of reporting cash flow will no longer be allowed. Current GAAP allows entities to report cash flow using either a direct or an indirect method. The direct method reports cash changes based on how much cash is paid for or received as a result of various activities; the indirect method starts with income and making adjustments to arrive at cash flow. Most organizations opt to report under the indirect method since information for this format is usually more easily available from their accounting systems. A second major change is that there are no more cash equivalents. The statement reports only on changes in cash. Instead of eliminating the need to reconcile net income to cash flow using the indirect method, the regulators recognize that such a reconciliation provides valuable information to financial statement users and therefore require a new

Exhibit 3: SAMPLE STATEMENT OF FINANCIAL POSITION

BUSINESS	2010	2009
Operating		
Receivables	13,600	10,800
Less: allowance for bad debt	(400)	(200)
Inventory	5,200	4,000
Prepaid expenses	3,800	4,800
<i>Short-term assets</i>	22,200	19,400
Property, plant and equipment	6,800	4,800
Less: accumulated depreciation	(1,800)	(1,200)
Goodwill	4,000	5,000
Intangibles (net)	12,200	13,600
<i>Long-term assets</i>	21,200	22,200
Accounts payable	(3,800)	(3,200)
Accrued liabilities	(11,200)	(14,800)
<i>Short-term liabilities</i>	(15,000)	(18,000)
Accrued long-term liabilities	(1,000)	(600)
<i>Long-term liabilities</i>	(1,000)	(600)
Net operating assets	27,400	23,000
Investing		
Available for sale assets (short-term)	400	600
Investment in sub (long-term)	1,200	1,000
Total investing assets	1,600	1,600
NET BUSINESS ASSETS	29,000	24,600
FINANCING		
Financing assets		
Cash	28,600	18,800
Total financing assets	28,600	18,800
Financing liabilities		
Dividends payable	(600)	(600)
Short-term debt	(2,800)	(200)
<i>Short-term financing liabilities</i>	(3,400)	(800)
Long-term debt	(14,200)	(9,800)
Total financing liabilities	(17,600)	(10,600)
NET FINANCING ASSETS	11,000	8,200
INCOME TAXES		
Short-term		
Income tax payable	(1,600)	(2,400)
Long-term		
Deferred tax assets	2,100	2,700
NET INCOME TAX ASSET	500	300
DISCONTINUED OPERATIONS		
Assets held for sale	4,000	4,400
Liabilities related to assets held for sale	(1,600)	(1,600)
NET ASSETS HELD FOR SALE	2,400	2,800
NET ASSETS	42,900	35,900
EQUITY		
Share capital	(9,000)	(9,200)
Retained earnings	(32,050)	(25,000)
Accumulated other comprehensive income	(1,850)	(1,700)
TOTAL EQUITY	(42,900)	(35,900)

Note: Lines in italics are optional

Exhibit 4: SAMPLE STATEMENT OF COMPREHENSIVE INCOME

BUSINESS	2010	2009
Operating		
Sales-wholesale	20,000	21,800
Sales-retail	56,800	41,200
<i>Total Revenue</i>	76,800	63,000
Cost of Goods Sold		
Materials	(27,000)	(21,600)
Labour	(5,600)	(4,600)
Overhead	(200)	(200)
Change in inventory	1,200	400
<i>Total cost of goods sold</i>	(31,600)	(26,000)
<i>Gross Profit</i>	45,200	37,000
Selling Expenses		
Commissions	(1,000)	(1,000)
Advertising	(8,800)	(7,400)
Other	(5,400)	(3,000)
Total selling expense	(15,200)	(11,400)
General and administrative expenses		
Compensation	(3,000)	(2,400)
Rent	(1,000)	(1,200)
Depreciation	(1,800)	(1,600)
Other	(9,200)	(7,600)
Total G&A	(15,000)	(12,800)
Other operating income (expense)		
Loss on disposal of assets	(3,200)	(3,400)
Other	(1,400)	(2,600)
<i>Total other operating income (expense)</i>	(4,600)	(6,000)
Total operating income	10,400	6,800
Investing		
Dividend income	200	200
Equity in earnings of sub	400	400
Total investing income	600	600
TOTAL BUSINESS INCOME	11,000	7,400
FINANCING		
Interest income	2,000	1,000
Total financing asset income	2,000	1,000
Interest expense	(3,000)	(1,600)
Total financing liability expense	(3,000)	(1,600)
TOTAL NET FINANCING EXPENSE	(1,000)	(600)
INCOME TAXES		
Income tax expense	(2,600)	(1,800)
<i>Net profit from continuing operations</i>	7,400	5,000
DISCONTINUED OPERATIONS		
Loss on discontinued operations, net of tax	(450)	-
NET INCOME	6,950	5,000
OTHER COMPREHENSIVE INCOME		
Unrealized loss on securities, net of tax	(150)	(300)
TOTAL COMPREHENSIVE INCOME	6,800	4,700

Note: Lines in italics are optional

reconciliation statement to be included in the financial statement notes.

The new reconciliation statement

The new reconciliation schedule reconciles cash flows to comprehensive income. The left hand side of the page lists the details from the Cash Flow Statement while the right hand side lists the details from the Statement of Comprehensive Income. In between are several columns which reconcile the two.

The statement disaggregates comprehensive income into four categories:

- (a) Cash received or paid other than in transactions with owners;
- (b) Accruals other than remeasurements;
- (c) Remeasurements³ that are either recurring fair value changes or valuation adjustments; and
- (d) Remeasurements that are not recurring fair value changes or valuation adjustments.

The statement of changes in equity

The Statement of Changes in Equity is similar to the Statement of Changes in Retained Earnings, but much more comprehensive. It shows the balance of each component of equity at the beginning and end of the period and identifies the changes resulting from income, each item of OCI, transactions with owners (such as contributions, dividends, and changes in ownership interests of subsidiaries) and retrospective application or restatements (Exhibit 5).

The new financial statements formats are being proposed in order to bring new clarity and transparency to financial statement users. In some cases, the changes will

be welcome. For example, the new reconciliation schedule provides users with a lot more information than they currently have access to. In other cases though, the new format may cause confusion and may even create additional costs for users as they adjust to the new presentation. For example, many of the ratios used by bankers or stock analysts rely on totals which are no longer required to be disclosed on the balance sheet. As such, the users will need to readjust their processes of reviewing financial statements and may need to consider different ratios or different ways to arrive at their current numbers. Companies may also incur additional costs of tracking and storing information to be able to produce statements under the acceptable format. Like anything else, this is a change which will take users and entities time to adjust to. However, like all other accounting proposals, the regulators are now asking the public for their opinion and this is a such a large departure from current practices that it is sure to elicit a lot of feedback. ²

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- ¹ FASB/IASB discussion paper on preliminary views on Financial Statement Presentation, S1.
- ² FASB / IASB discussion paper on preliminary views on Financial Statement Presentation, S2.
- ³ IFRS allows and encourages assets and liabilities to be valued at fair value rather than at historical cost, creating what is known as “remeasurement” adjustments on the Statement of Comprehensive Income.

Exhibit 5: SAMPLE STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Foreign currency translation adjustment-consolidated subsidiary	Foreign currency translation adjustment-Associate A	Reval. surplus	Unrealised gain on cash flow hedge	Unrealised gain on available-for-sale financial assets	Total Equity
Balance at 31 Dec 2008	253,000	56,050	10,040	7,400	160	6,200	1,200	334,050
Issue of share capital	15,600							15,600
Dividends		(16,000)						(16,000)
Total comprehensive income		89,608	(298)	(260)		338	3,055	92,442
Balance at 31 Dec 2009	268,600	129,658	9,742	7,140	160	6,538	4,255	426,092
Issue of share capital	16,848							16,848
Dividends		(17,280)						(17,280)
Total comprehensive income		107,694	419	(281)	731	365	3,439	112,366
Balance at 31 Dec 2010	285,448	220,072	10,160	6,859	891	6,903	7,694	538,026

Whistle blowing, legal and professional responsibilities of the Certified Management Accountant

To maintain and broaden public confidence, accounting professionals should perform all professional responsibilities with the highest sense of integrity — but what happens when a CMA's integrity is challenged?

Anthony A. Atkinson, FCMA

The CMA's regulatory and professional responsibilities

In response to the initiatives of the Sarbanes Oxley Act in the United States, the Canadian Securities Administrators introduced *MI 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings*, which requires, effective Jan. 1, 2004, CEO/CFO certification of annual and quarterly reports. In a parallel development in 2006, the Government of Canada implemented the Federal Accountability Act which, amongst other requirements, set out important responsibilities relating to internal audit and budgeting activities for financial officers in the federal government. These developments reflect the increasing attention regulators are paying to the integrity of financial reporting.

Since these new regulations hold CFOs jointly (with their superior) and individually responsible for financial statements, they have created increased personal and career risk for accountants. This risk arises from two sources — the risk created by unintended errors in financial reporting and the risk created by the consequences of reporting deemed fraudulent or misleading.

For many years, the accounting profession has been clear about their members' reporting duties. Amongst other things, the professions, in one way or another, require that, by signing off on a report, accountants warrant that they have the requisite skills and knowledge to deal with the topic of the report, that the report was diligently and competently prepared, and that the report reflects the preparer's unbiased view.

Alleged or admitted roles of accountants in recent financial frauds

High profile prosecutions of financial reporting fraud have usually involved CFOs since the CFOs are directly responsible for the financial reporting systems. Invariably, the CFOs caught in a fraud investigation allege that the fraud was undertaken at the direction of their superior, the CEO. However, CFOs are sometimes accessories instead of the principals in accounting frauds, especially when they fail to report a fraud they uncovered or believed occurred.

High profile prosecutions of financial reporting fraud have usually involved CFOs since the CFOs are directly responsible for the financial reporting systems.

Below are examples of each. Consider the following item that CBC News reported on its website on June 19, 2008:

In March 2007, the U.S. Securities and Exchange Commission and the Ontario Securities Commission announced legal proceedings against a former CEO and

three other former senior executives. The SEC accused the four of civil fraud relating to Nortel's accounting and its restatements. The OSC alleged that the former CEO and two others broke securities laws by making "material misstatements" in Nortel's financial filings that they knew or should have known were "materially misleading." In June 2008, the RCMP charged the former CEO and two former executives with fraud.

Where were the accountants? Regrettably, all three charged by the RCMP are professional accountants. Clearly, if and when these three are convicted for their involvement in an accounting fraud, the effect will clearly diminish the public's image of an accountant.

On the other hand, consider the case of the former CFO at Livent. During the fraud trial of the principals in the Livent case, the former CFO testified that she uncovered what she believed were accounting irregularities undertaken and managed by the organization's principals and delayed reporting her concerns for more than a year because she was "immobilized by fear" of losing her job and the career consequences of alleging dishonesty on the part of people she considered to be of influence and power.

Although the setting is murky, it would now seem that neither the law nor any of the accounting professions would tolerate an accountant, at any level in the organization, who failed to report a suspected financial fraud. This places enormous pressure on the accountant who suspects, but is not involved in, an ongoing fraud.



Whistle blowing and its consequences

There are many examples of accountants who have taken action after uncovering a suspected accounting fraud. However, there are often important career consequences of raising concerns about accounting irregularities. The following is an excerpt from an article titled “Year of the Whistleblower.”

For many whistle blowers, tattling on the boss still means career suicide – with no applause.

For many whistle blowers, tattling on the boss still means career suicide — with no applause. Indeed, half of the 200 respondents to an August survey by the National Whistleblower Center in Washington said they were fired after reporting misconduct. Those not canned often face retaliation, such as being demoted to a lesser job. If they leave, they are often blackballed in their industry. “Whistleblowers are like a skunk at a picnic,” says Senator Charles E. Grassley (R-Iowa), a long-time advocate of their cause in Congress. “There’s great peer pressure to get along in any organization.” Source: Business Week, December 16, 2002, Year of the Whistleblower

The little frauds: bending the accountant’s report to achieve organization priorities

While the financial press focuses on large scale accounting frauds related to external reporting such as Enron and WorldCom in the United States and the charges of accounting fraud at Livent and Nortel in Canada, these frauds are just one manifestation, albeit perhaps the most egregious, of financial misreporting that can be undertaken at all levels of an organization.

Lower level types of accounting misreporting include the accountant being asked to sign off on reports prepared by superiors that the accountant believes are biased or false, complying with a supervisor’s request to alter a report reflecting the accountant’s beliefs in order to align the report’s conclusions more closely with the supervisor’s objectives, and engaging in delaying or advancing cost or revenue recognition, in violation of GAAP, in order to manage current income.

For many years, I’ve been involved in training candidates entering the CMA profession. During these training sessions, the candidates recounted the following situations, along with many others, that they had already faced in practice:

One candidate was asked by a plant manager to revise a profit projection that he had prepared as part of the plant manager’s submission proposing a plant expansion. The candidate advised the plant manager that he was

Dana faces an ethical dilemma

Dana, the manager of financial planning and analysis for a large manufacturing facility of one of the world’s most successful consumer goods companies, was responsible for organizing the planning process for over 30 cost centers at her facility. Product managers were responsible for the unit cost of their products. In this particular company, the brand managers from head office could source from any company plant in the world (the “global sourcing” initiative), not just the closest Canadian facility. However, historically the closest facility was where the brand managers’ orders were awarded given the lower transportation costs. It was becoming more common, however, to see products move to a mega plant in the United States or in China. Therefore, it was incumbent upon every plant in the world to be efficient in order to ensure growing demand for their product, which reduced the unit cost (upon which the manager was rewarded) and drove more volume to their plant.

In one particular budget year, the plant had lost a major product due to global sourcing - the product had historically

absorbed 45 per cent of the fixed plant costs. This put a great deal of pressure on the plant to increase the volumes of the remaining products or bring new products to the plant in order to remain competitive. This also meant the plant headcount was reduced by 45 per cent.

It came as quite a shock, therefore, when head office told the plant that the estimated pension costs for the new budget year was only going to come down by approximately 10 per cent while headcount had fallen by 45 per cent. This did not make sense to Dana or to the product managers. The budget went forward on this assumption and Dana committed to the product managers that she would investigate the matter.

Six months into the fiscal year, Dana, after several visits to head office and digging into the source documents, discovered that the pension costs for long-retired employees from her plant were erroneously hitting current expense - accruals had not been made over the years. Subsequently, this meant that expanding plants were getting a windfall while shrinking plants were being hit with costs of prior years when the headcount was much higher. When this was

The candidate was asked to revise the overhead allocations to the segment in order to improve its estimated profit. The candidate felt that the allocations reflected his best judgement and was reluctant to change the report and suggested that the supervisor submit the report in the supervisor's name.

uncomfortable with the proposed change since it did not reflect his best judgement. The candidate asked the plant manager to remove his name from the report. The candidate was told he was not being a team player. Another candidate reported the same experience relating to estimating the potential profitability of a new product introduction.

One candidate was asked to prepare a segment income statement for a business unit that was being sold. The prospective buyer had requested this statement as part of a due diligence exercise. The candidate was asked to revise the overhead allocations to the segment in order to improve its estimated profit. The candidate felt that the allocations reflected his best judgement and was reluctant to change the report and suggested that the supervisor submit the report in the supervisor's name. The supervisor refused and placed pressure on the candidate to comply. One candidate who was acting as the controller of a small organization was asked by the owner/manager to book the owner's personal expenses as

business expenses. The candidate refused and was threatened with termination.

Preparing CMA candidates for a career in management accounting

It is important to adequately prepare candidates for the pressure some may face in their new role as a CMA.

With the support of CMA Canada, I will be conducting a survey that will identify the types of situations CMAs face in practice. The information generated from this survey will help assist with the development of training materials used to prepare new members entering the profession to deal with ethical challenges that some may face in their careers. Members are encouraged to contribute their invaluable insights and experiences by completing a questionnaire by visiting: www.managementmag.com .

Anthony A. Atkinson, PhD, FCMA, is a professor at the School of Accounting and Finance, The University of Waterloo.

brought to the attention of the CFO, he told his staff to make an adjustment at the corporate level and this meant that Dana's plant was now fully expensed on pension benefits for the year. This was great news and Dana brought this information to her boss, Darryl, the director of plant administration.

"Darryl, I can hardly wait to tell the product managers that they are fully expensed on pension expense for the year!"

"Are you crazy?" Darryl exclaimed. "This \$6 million budget windfall will come in handy when we have to come to the rescue of a group manager or two this year — they are all very stressed out because of global sourcing (product managers reported to group managers and were at one higher level in the hierarchy than Darryl). How do you think I have been promoted so many times in my short career? Just put it into a balance sheet account for now — we will call it our 'little pot of dollars.' Stick with me kid, I'll show you the ropes!"

Dana, a newly designated CMA, was taken aback. What should she do? Is this an ethical issue? Darryl wasn't taking

the money for himself — he was just choosing how to allocate it. In addition, this would only affect internal reporting used by internal management, not the external shareholders. Can she jeopardize her career by making a big deal about this? Was it her naivety that was causing her to be surprised by Darryl's suggestion?

Outcome:

In this true story, Dana did decide to confront her boss. She said she was not willing to make the journal entry Darryl had suggested and if he insisted, she would go to the plant manager with her concerns about what she was being asked to do. He did not push it any further, but this marked the beginning of a downward spiral in her relationship with Darryl. He would not invite her to budget and forecast reviews at corporate office and left her out of meetings with other senior staff that she used to attend. Dana eventually left the company for another job she did not enjoy as much. She also noted in subsequent years, much to her chagrin, that Darryl had been promoted several more times with her old employer.

From the office to the stage

During the week, he is Brian Morcombe, CMA, an employee of BDO Dunwoody LLP, who provides non-resident businesses with relevant tax information associated with doing business in Canada, but at the end of the week, a magical transformation takes place.

By Arda Ocal

t's 5:01 p.m. on a Friday afternoon. Upon leaving his office, Morcombe removes his tie and unbuttons his shirt to reveal a radiant lime green t-shirt. His black dress shoes are traded in for an 80s-style pair of Converse kicks. His accounting books and ballpoint pen are swapped for an acoustic guitar. His visions of tax statutes are replaced with images of funny monkeys and trains.

The transformation from Brian Morcombe: Tax Specialist to Music with Brian: Canada's up and coming children's singer, is complete.

The early stages

"When I was five years old, we had an organ in our house," Morcombe explains of his early attachment to music. "It's not the easiest instrument to learn and I probably drove my parents crazy!"

As a child, Morcombe and his brother Stuart would spend hours learning and playing music. "He was very inspirational, and taught me how to improvise and experiment creatively," he says.

Morcombe attended Mayfield Secondary School in Brampton, Ontario, a high school that attracts artistically talented students interested in dance, drama, music or visual arts. In his final year of high school alone, Morcombe appeared in 126 on-stage performances. "After high school, most of my friends were accepted into music schools in Canada and the USA. I was accepted into York University's music program as well as McMaster and Guelph's business programs."





Cover Photo: Stephen Uhraney

It was at this point that Morcombe was faced with a big decision — choose the life of a musician, which could prove to be a long, hard and difficult road to follow, or pursue the career that is deeply rooted in his family — business and accounting. He made the decision to attend the University of Guelph and Wilfrid Laurier University for business studies.

“I always received immense support from my family,” he says. “My parents were successful business people and they wanted me to pursue business studies. They regularly reminded me that, ‘the music will be there, you can always go back to it, but get a solid foundation first.’ ”

“Through the CMA Professional Development Program, I’ve learned how to embrace change, and feel that I’m equipped with the business knowledge to establish and market my own business. My knowledge and skills as a CMA are just as relevant in the office as they are when talking about ‘Music with Brian.’ ”

After his post-secondary education, Morcombe obtained his CMA designation. He credits the designation’s multi-faceted curriculum as a key reason for his decision. “Being a CMA is more than just accounting and tax,” he says. “It’s knowing how to handle issues involving HR, marketing, IT, and operations management. The CMA program really prepared me for everything in my career.”

Morcombe couldn’t have imagined how true those words would “play” later on in his life. After spending nine years in the corporate world and working as a senior tax manager with a big 4 accounting firm, an afternoon with his children proved to be an eye-opening experience.

“My son Timothy always wanted to share ‘music time’ with the family,” Morcombe explains of a ritual the family shares in which they play instruments and sing together. “On this particular day, we decided to have music time in the park. As we were singing ‘Wheels on the Bus,’ we noticed a group of kids had started to gather around us and were singing along.”

A star is born

Soon after, Morcombe was asked to play a series of children’s concerts at his local library. Crowds of 15 turned to 50, then 200. “I was astounded ... family and friends suggested that I should release a children’s CD,” he says.

Morcombe rekindled his love affair with music that started at an early age. He produced a children’s CD

entitled, “Music with Brian: Sing Sing Sing;” an eclectic mix of feel good songs that kids can sing along to and parents can enjoy, combined with topics that stimulate and encourage kids’ learning. The response to the CD was overwhelming.

“The experience has been very rewarding so far,” he says. “My team (his “roadies” and a sound team) and I have delivered over 100 performances across Canada and we are planning performances in the U.S. and United Kingdom. We’ve come a long way since my first gig, where it was only me and my guitar.”

In January 2009, Morcombe released his second CD “Can You Dance?”

“Having the CMA designation has a positive influence on the business side of being a children’s performer,” he explains. “Through the CMA Professional Development Program, I’ve learned how to embrace change, and feel that I’m equipped with the business knowledge to establish and market my own business. My knowledge and skills as a CMA are just as relevant in the office as they are when talking about ‘Music with Brian.’ ”

Morcombe notes that his circle of CMA colleagues have been particularly helpful with advice and tips on how he can further develop his business. Also, his closest “circle” — his wife and children, have been very supportive. He says his family is a key factor in reducing the stress and rigours of pursuing his passion. He notes that his family is deeply involved with the show (his wife and kids often pass out name tags to the audience) as well as the planning. “A lot of it is vacation time — I haven’t been on a real vacation in quite some time. Fortunately for my family (who often travels with Morcombe), it feels like a vacation.”

On weekends, Morcombe works closely with his wife Susan, a psychological associate with a master’s degree in developmental psychology, to craft songs for young children that emphasize core developmental skills such as cognitive, motor, language, social, memory and attention skills.

Though his career might seem like a grand juggling act between balancing work, music and family, Morcombe sees no signs of slowing down and is quite happy.

“There are athletes who are in the corporate world and other talented and passionate individuals who are accountants, similar to myself,” he says. “We work diligently to make sure we are not ignoring our commitments, but also our dream. If you give up your dream, you’ll never get to truly enjoy the benefits of it. It is an incredible thing.” ^a

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



Finding our Way — Leadership for an Uncertain Time

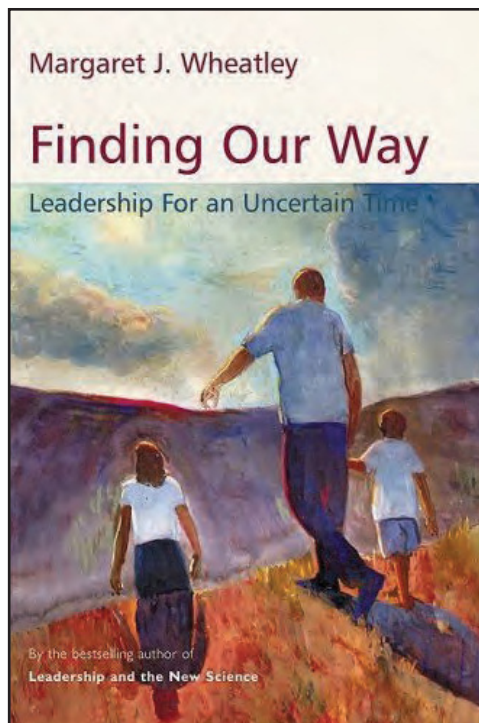
by Margaret J. Wheatley

Reviewed by Patrick Buckley, CMA, PhD

Is the complexity of organizations best expressed through poetry? Margaret Wheatley mixes poems with essays in *Finding our Way — Leadership for an Uncertain Time*. Wheatley is an innovative and thought-provoking organizational consultant, a former university professor, and a founder of the Berkana Institute, a non-profit organization focusing on humanitarian leadership development.

Finding our Way promotes a more liberal, human approach to leadership, as opposed to traditional mechanistic beliefs. Some observations made of organizational change include: participation in change leads to creative outcomes, management directives are reacted to rather than obeyed and healthier organizations, as living organisms, are better when linked to themselves through feedback.

Human-focused organizations are more likely to have amicable ways of resolving problems. One method described by Wheatley involves arranging the chairs in a room — start with a circle, move to a square, then a half circle and a triangle. A circle pacifies a conflicted group — particularly when everyone takes their turn in speaking as control goes around the circle. A square enriches group outcomes by promoting fruitful discussions of opposing viewpoints — each side of the square is for those with a different view point. A half circle promotes the consolidation of what is known and the



realization of what is missing — to fill the missing half. A triangle, with an open apex, promotes precision in the analysis of each proposed group outcome — the open apex is the route out for bad ideas, like a smoke stack.

Such methods of group problem solving are part of knowledge management in human-centred organizations. Knowledge management is not about technology. Instead, it is based on principles that respect people who create and share knowledge. Good knowledge management facilitates knowledge-generation processes that are often chaotic and take a long time. These processes need to induce people to choose to share their thoughts. Individuals need to feel inspired to fulfill their natural processes to create and share

knowledge.

The last few chapters of *Finding our Way* are thought pieces for social activists. Wheatley poses questions on listening, slowing down, and reclaiming time to think. Activists need to overcome the limitations imposed by political correctness and end their silence and alienation. ■

Patrick Buckley, CMA, PhD, is an Ottawa-based systems analyst.

Book reviews are published four times a year. If there's a book you'd like to share with your fellow CMA colleagues, please contact the Editor (acivichino@cma-canada.org).



Buy and hold still makes sense

During economic uncertainty, there are benefits to buying and holding stocks, bonds and mutual funds.

By Michael Low, CMA

It happens every time the stock market drops and goes through any kind of difficult patch, similar to what we have seen during much of 2008: many investors question their strategy, their investment choices and their timing.

In response, they panic by selling their investments and then sit on the sidelines.

If a declining market tempts you in this way, you might want to pause, take a deep breath, and gain some long-term perspective before doing anything rash. In particular, remind yourself of the value of “buying and holding” a diverse portfolio of quality stocks, bonds and mutual funds.

**Attempting to “time the market”
by moving in and out of
investments at their valleys and
peaks is notoriously difficult,
even for professionals.**

While diversification does not guarantee a profit or protect against loss, making sure that your portfolio includes a diverse mix of long-term investments in shares of high-quality companies is a proven, fundamental approach for many successful investors. This includes the legendary Warren Buffet, who has become one of the wealthiest people in the world by adhering to a philosophy of purchasing quality investments and rarely selling them.



Putting the strategy into practice

Why does a buy-and-hold strategy work so well for so many? It's because over time — notwithstanding the fact that past performance is not a guaranteed indication of future results — the direction of financial markets has generally been higher. It means that, over the long haul, temporary fluctuations in markets or security price changes can generally be viewed as inconsequential for quality investments.



In fact, if you sell when prices are temporarily depressed, you'll miss out on the potential price rise that often follows a decline. Remember that market declines are part of the investment process. According to Ned Davis Research, Inc., between 1948 and 2007, the TSX (an unmanaged index that cannot be invested into) averaged a decline of five per cent or more about once per year, 10 per cent or more about every two years, and 20 per cent or more about every six to seven years.

“Those who cannot remember the past are condemned to repeat it.”

So instead of thinking that a severe market decline is a once-in-a-lifetime disaster that “just had to happen” while you were investing, don't lose sight of the fact that market declines are normal, frequent and, for the most part, short-term. And if you're a long-term investor, these declines usually offer an opportunity to buy quality investments at a lower price.

You also should reflect on the fact that investors who trade stocks or other investments can easily buy and sell at the wrong times. Attempting to “time the market” by moving in and out of investments at their valleys and peaks is notoriously difficult, even for professionals. In reality, it's easy for people to buy on

emotion when prices are too high or sell when they've hit bottom.

George Santayana, a well-known philosopher, wrote: “Those who cannot remember the past are condemned to repeat it.” As an investor, you can benefit from heeding these words, learning from history and not getting too rattled by short-term market downturns. By

owning investments that are suited to your risk tolerance, time horizon and long-term goals, you can develop a strategy designed to weather any storm that hits the financial markets. n

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Authentication — passwords and beyond

The vast majority of information breaches are committed by people who have gained access, either legitimately or illegitimately, to corporate systems. Consequently, a key pillar of any information protection strategy is the authentication and monitoring of users.

By Jacob Stoller

The phrase “can’t live with them, can’t live without them” might be aptly applied to one’s mixed relationship with passwords. Virtually everybody is burdened with the chore of creating, memorizing, updating, and keeping track of those strings of letters and numbers. The task load for companies — frequent calls to the help desk for forgotten passwords, or the need to constantly remind password-weary employees not to use obvious passwords like “password” — is no less tedious.

Yet, passwords are by far the least expensive way to ensure that people are who they say they are, and are therefore, by default, central to the authentication strategies of most companies.

“In most cases, we have stuck with passwords not because they’re the strongest,” Gary McIntyre, information security architect, IBM Canada, says. “In fact, they would be considered among the weakest of authentication mechanisms.”

Although they’re ubiquitous, passwords are only one of many options. “We usually talk about the three main factors of authentication,” McIntyre explains. “They’re often referred to as something that you know something that you



have, and something that you are.”

Passwords fall into the “something you know” category — the fact the user alone knows his or her password validates that person’s identity. “Something you have” could be the key to your house, a simple access card, or an electronic device such as a token or smart card. The “something you are” category, the most sophisticated from a technological standpoint, involves identifying a person through a physical attribute such as a fingerprint.

Password protection is intrinsically weak because stealing passwords doesn’t take any special equipment or training; therefore, the prevalence



of threats is likely to be high. “Passwords are easy to guess, they’re not random, and they are relatively easy for an attacker to discover because they can be written down and disclosed in a variety of different ways,” McIntyre says.

The biggest problem with passwords, however, is that there’s a high demand on users. “Reality is such that everybody is wildly busy,” Ann Cavoukian, information and privacy Commissioner of Ontario says. “Most people have a set number of passwords they use because they can remember them, and sometimes they are changed monthly, sometimes they are not. The password phenomenon, I think, in the next five to 10 years, is going to become a thing of the past

“Passwords are easy to guess, they're not random, and they are relatively easy for an attacker to discover because they can be written down and disclosed in a variety of different ways.”

because it will be replaced by increasing use of two and even three factor authentication.”

Multi-factor authentication — the use of more than one factor at a time — is one of the key building blocks of strong authentication systems. Combining all three factors — something a person knows (password) with something they have (smart card) with something they



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are (finger print) — is the ultimate.

These systems, however, are very costly. Companies will not only have to invest in the cards, but in readers, scanners, and supporting information systems that have to be maintained and managed. “The challenge with all of these options is really cost,” says McIntyre, “so you have to ask yourself, ‘well, what risk am I really addressing?’”

As the technology matures, costs are dropping. Smart-card technology is growing very rapidly, largely because they are starting to gain wide adoption in the retail sector. Another emerging trend that will reduce costs is the use of cell or land-line phones as authentication devices.

Password protection is intrinsically weak because stealing passwords doesn't take any special equipment or training; therefore, the prevalence of threats is likely to be high.

“Phones make a great second factor for authentication,” says McIntyre, “because everybody has them. If, for example, I allow you to log in first with a password, I can verify that you are who you say you are by sending you a message to your phone that you then have to enter in.” A number of cell phones also come equipped with smart cards and soft tokens — small software programs that can be installed on a phone or a laptop.

The “what you are” option is, in many ways, the most compelling. A fingerprint, or the unique details of, say the iris of an individual’s eye, is always with that individual — there is no need to carry anything. However, there are privacy concerns. “User acceptability tends to be a challenge,” says McIntyre, “in part because of the storage of what they consider to be very private

information around their own biometrics. The thing that’s most important for a business audience to recognize about biometrics is that they cannot be replaced. So, if they are compromised, there’s no way to get a new one.”

One of the potential vulnerabilities of a biometric system is the storing of the biometric data from a number of individuals on a single database that is scanned for a match each time access is sought. This “one to many” access scheme means an individual’s biometric might be retrieved every time somebody seeks access to the system. Biometric data stored in a unique database, such as a smart card, eliminates this vulnerability. “If you think of one-to-one comparisons,” says Cavoukian, “that is quite a privacy-protective use of a biometric, because all that you’re doing is comparing your live biometric to one representation.”

Stronger protection is also being developed. “We’ve been doing work actively with a number of companies on something called biometric encryption,” Cavoukian says. “This is the Cadillac gold-plated version of biometrics because it uses your biometric, let’s say a fingerprint, to encrypt some other data. And what gets retained as the sample against which you compare your live biometric is this biometrically encrypted PIN or alphanumeric. Even if that biometric is hacked into, they still don’t get your biometric template. All they get is some PIN number or meaningless alphanumeric that your biometric was used to encrypt.”

Regardless of how sophisticated these technologies become, they will never circumvent the need to manage the data collected during the authentication process, nor the task of carefully monitoring the activities of users once they gain access. According to a report published by the Ontario Privacy Commission, this is where most companies fall short. “The inside practices used by companies in organizations were weak in terms of how they managed their information,” Cavoukian says. Authentication needs to be applied in conjunction with areas such as the logging of user activities, segregation of private information, assignment of permissions and access rights, and detection. “You need very credible methods of detecting access anomalies and data misuses,” Cavoukian adds. “You won’t be able to deal with breaches if you have no method of detecting them and then addressing them.”

As for passwords, it’s not likely that there will be an end to them, at least for the short term. In the meantime, Cavoukian offers some advice. “Let me give you one of the better tips that I use myself. If you know a second language, pick the same word in two languages, and that’s your password. Now I’m Armenian, so I have an advantage. I just use the exact same word in English and Armenian, and I change that monthly.” ■

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Is German cost accounting right for your firm?

As companies become more global, it is important for accountants to be aware of significant accounting practices that are different from those in their home country.

By Kris Portz and John C. Lere

Awareness and understanding of different accounting practices are important for several reasons. First, if an accountant takes a role with a subsidiary of a foreign multinational, the practices followed may be those of the company's home country. Second, if an accountant works for a multinational with a subsidiary in a foreign country, knowledge of foreign country practices may be beneficial if they are different from common practices in the home country and appear to work well in the foreign country. Third, accountants may find features of another country's practices appropriate for use in their own firm.



What is GPK?

Germany has a well-defined, popular approach to cost accounting known as Grenzplankostenrechnung or GPK. Recently, GPK has become of interest internationally because of its success in Germany. Four features related to cost centres are fundamental to GPK. The features relate to:

- 1 Definition of a cost centre.
- 1 Appropriate output measures for a cost centre.
- 1 Classification of costs in a cost centre.
- 1 Assignment of responsibilities to cost centre managers.

In order for a subunit of a company to be a cost centre under GPK, it is necessary that a single output measure can be identified for the subunit. This single output measure is intended to describe the operations of the cost centre.

The requirement that a single output measure be able to describe the operations of a cost centre tends to yield cost centres whose operations are fairly narrowly focused. As a result, cost centres under GPK tend to be fairly small and often include only a few employees. In addition, a firm using GPK generally has a very large number of cost centres. Two criteria serve as guides to selecting the output measure for a cost centre.

- 1 The measure is to represent the output of the cost centre.
- 1 A desirable output measure is one that relates to usage of resources.

To yield a cost centre that is narrowly enough focused so that a single output measure can represent its operations, a firm using GPK might have a cost centre whose function is to set up machines. For such a cost



centre, a legitimate output measure might be hours spent setting up machines or number of machine set-ups performed.

An important distinction between GPK and activity-based costing (ABC) is that GPK measures represent the output of the cost centre while ABC measures represent cost drivers for activities. Therefore, appropriate ABC measures may or may not be as appropriate as others.

Because of the focus on resource usage, some measures that represent the output of a cost centre might not be as appropriate for use in GPK. For example, a measure of cost-centre output, such as the number of set-ups, might not be an appropriate GPK output measure because it may not be as closely tied to resource usage as other measures. If there are differences in the set-ups performed by the cost centre, such that some set-ups take longer, a measure such as set-up hours may better relate to use of resources. In such a case, set-up hours would probably be preferred to number of set-ups as an output measure for the cost centre.

The key cultural difference between Germany and Canada is the level of tolerance for uncertainty and ambiguity within a society, which Hofstede labels “uncertainty avoidance.”

Classification of costs in a cost centre into proportional costs and fixed costs is a third fundamental feature of GPK. For that portion of the centre’s cost deemed to be proportional, an increase (decrease) in the cost-centre output is accompanied by a proportional increase (decrease) in cost. The remaining costs of the cost centre are classified as fixed. This focus by GPK on proportional and fixed costs has two important

implications for those considering GPK.

- ¹ It may limit the cost control opportunities that managers consider.
- ² It reflects a short-term decision-making focus.

Focusing on only those costs that change in response to changes in output may ignore important opportunities for cost control. For example, as recognized under ABC, some costs that do not vary in proportion to an output measure do vary with activities. Therefore, recognition that costs vary with batch- and product-level activities provide opportunities for control of those costs. Because GPK focuses on costs that vary in proportion to cost-centre output, it may result in a more limited view of the levers that can be adjusted to control costs than does ABC.

GPK may, however, somewhat accommodate for this because GPK cost centres are so narrowly focused. Separate cost centres could be defined that would permit recognition of these other means for cost control. For example, instead of having a cost centre that both sets up machines and uses the machines to drill a part, a GPK firm might have two cost centres: one cost centre would set-up the machines; the second would use those machines to drill parts.

This focus on costs being either proportional or fixed also indicates that the focus of GPK is short-run decision making. Therefore, the appropriateness of a GPK system may depend on the types of decisions that a firm wishes its managers to make.

The final fundamental feature of GPK relates to the assignment of responsibilities to cost-centre managers. There are two aspects of this assignment that are important to understanding GPK.

Responsibility for managing the costs of the centre is assigned to a single manager who may be responsible for more than one cost centre.

The manager is primarily responsible for seeing that costs adjust in response to changes in output of the cost centre.

Although the notion that a single manager is responsible for a cost centre is not unique to GPK, the possibility that a manager may be responsible for more than one cost centre may be more common, if not unique, under GPK.

The emphasis on proportional costs adjusting to changes in output focuses the manager’s effort and attention on one thing — responding to changes in the output of the cost centre. As a result, GPK is likely to lead to greater responsiveness of costs to changes in cost-centre output than do systems in which the manager has broader, less narrowly defined responsibilities.

While focusing on adjusting costs to respond to changes in output is generally desirable, such a narrow focus may limit opportunities for cost-control managers to consider. For example, reducing cost-centre cost by reducing cost-centre output might occur if batch sizes are



increased. Using interdependencies to reduce costs would occur if the overall cost of two cost centres can be reduced by decreasing costs in a cost centre that sets up machines while reducing costs in a cost centre that drills parts by a greater amount. The focus on each centre's costs may be such that the centre manager will not even identify such a possibility.

Does Germany differ from Canada in relevant ways?

Although GPK's sustainability and success in Germany gives it considerable credibility, it is important to ask if Germany differs from Canada in ways that may have an impact on its effectiveness. Culture and education are two major differences that could directly impact the effectiveness of GPK in Canada.

The culture of a country can affect the effectiveness of management control practices. Although a number of studies have examined cultural differences, one of the most comprehensive studies was conducted by Geert Hofstede. Hofstede's work demonstrates that cultures and work related values are not universal. Hofstede extracted five dimensions to differentiate cultures: power distance, individualism/collectivism, masculine/feminine, uncertainty avoidance, and Confucian dynamism.

The key cultural difference between Germany and Canada is the level of tolerance for uncertainty and ambiguity within a society, which Hofstede labels "uncertainty avoidance." Germany is classified as a strong uncertainty avoidance country while Canada is classified as a weak uncertainty avoidance country. In a strong uncertainty avoidance country, there tends to be a low tolerance for uncertainty and ambiguity. There is a preference for structure, detail and order. Consequently, strong uncertainty avoidance culture countries institute laws, rules, regulations, and controls in order to reduce the amount of uncertainty and ambiguity. In a weak uncertainty avoidance country, there tends to be less discomfort with uncertainty and ambiguity and more tolerance for flexibility. This is

reflected by a society that is less rule-oriented and that more readily accepts change.

Major features of GPK are consistent with the strong uncertainty avoidance culture found in Germany. Narrowly defined GPK cost centres, in which managers are responsible for controlling proportional costs, permit cost-centre managers to become very competent at managing narrowly focused operations with a repetitive output. Such a structure tends to reduce the uncertainty and ambiguity that a manager faces.

Strong uncertainty avoidance also results in a preference for focusing on accomplishing a set of tasks. Because each cost centre is defined by a single output measure, managers have well-defined roles within cost centres and can focus on their designated repetitive, consistent, predictable tasks. This too tends to reduce the uncertainty and ambiguity faced by managers.

In a weak uncertainty avoidance culture, managers generally prefer less structure and more flexibility.

In a weak uncertainty avoidance culture, managers generally prefer less structure and more flexibility. Managers are often encouraged to work interdepartmentally to improve productivity and efficiency.

Features of education in Germany may also affect the appropriateness of GPK. In Germany, young people are trained as skilled workers for specific jobs through apprenticeships. Practical work with on the job training alternates with classroom courses over an apprenticeship period. At the end of the apprenticeship, workers receive a certificate, which is highly valued and instills a sense of occupational pride. Therefore, German managers oversee highly qualified individuals who are specially trained for their positions. The managers, themselves, are generally educated as technical experts. Management skills are usually learned on the shop floor.

Is German cost accounting right for your firm? To answer this question, one must understand four features of German cost accounting. In addition, it is important to recognize that a country's culture and the nature of its management education may play a role in determining the effectiveness of GPK. Finally, firms considering implementing GPK need to consider the types of decisions they wish cost-centre managers to make. ²⁴

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