

Productivity pitfalls

• Software customization

• Olympic hurdles



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Management

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**Managing control
and performance**

**Integrating
sustainability
issues in
organizations**

Joy Thomas, MBA, FCMA, C.Dir.,
newly appointed president and CEO

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**A new face and voice for the
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A step forward

"If you don't know where you're going, you'll probably end up somewhere else." This well recognized saying can be applied to much of what we do on a daily basis and reinforces the importance of planning. It especially holds true when we think about sustainable development and how to incorporate it into strategic planning, implementation and evaluation into an organization.

A few months ago, the Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) developed a comprehensive sustainability framework to support professional accountants and their organizations in integrating a sustainable way of thinking and working in all business processes. The Framework illustrates how a commitment to sustainability can help to further improve an organization's products or services, motivate its people, lower its costs and enhance its reputation. It's designed from four different perspectives — business strategy, internal management, financial investors, and other stakeholders. The Framework challenges conventional ways of thinking about economic, social and environmental achievements. It also promotes the injection of sustainability leadership into the full management cycle, from making and executing strategic decisions to reporting on performance to all stakeholders.

In this issue, Stathis Gould and Todd Scaletta, FCMA, collaborate in their article "Accountants to take lead roles in sustainability efforts." As they further explain, CMAs are positioned to provide a significant contribution to sustainable development in their workplace. Although the accounting sector might be considered a low-impact sector in terms of direct environmental and social impacts, Roger Adams, of the PAIB Committee's Sustainability Framework Project says "it is the accountant's involvement in the twin issues of organizational decision making and external reporting that imposes on the accountancy profession the responsibility for understanding, absorbing and articulating the implications of the sustainable development debate."

In the last few months, the team at *CMA Management* have been working on a plan to improve the delivery of our online version of the magazine. Our online magazine has evolved from a simple PDF presentation to using the services of myvirtualpaper.com to host the magazine's content. I invite you to experience the difference by visiting www.managementmag.com. In addition to a more visually appealing layout, our readers will benefit from having the ability to search entire articles and link to content directly from the online publication. The new format also allows for real time editing which means the publication will be online much quicker. Our search engine ranking will also improve with the introduction of the new service, as this content will be more easily searched than a PDF.

Expect more great things to come. Should you have any questions or suggestions, please don't hesitate to contact me. Your continued interest and support is appreciated.



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CMA Management

Features



16 Intelligence required — Moving from data to insights

In today's challenging economic times, it is more important than ever to ensure the right management decisions are being made. The best management decisions tend to be those that are supported by relevant facts and insights.

By Bernard Marr

20 Accountants to take lead roles in sustainability efforts

Certified Management Accountants (CMAs) are well placed to provide a significant contribution to sustainable development, and how to incorporate it into strategic planning, implementation, and evaluation and control in their organization.

By Stathis Gould and Todd Scaletta, FCMA



26 Managing control and performance: A partnership for success

In areas where new internal control operations are implemented, organizations must ensure that implementation is as seamless as possible to avoid hindering true performance.

By Sophie Tessier, CMA

30 PROFILE

New leadership for CMA Canada

Joy Thomas, MBA, FCMA, C.Dir. newly appointed president and CEO.

By Andrea Civichino



Cover Photo: Steven Uhraney/Lemon Sky Images

Columns

11 Human resources

Prevailing over productivity pitfalls.

Managers who feel they are working all the time, but getting little done, may be undermining their efforts by letting bad habits reign.

By *Emilie Dunnigan, CMA*



13 Business strategies



Why the recession is a great time to kindle grassroots innovation. With the right attitude, these challenging times give organizations an opportunity to rally employees

together and encourage them invest more of their creative energy. Innovation is the way out of recession and into a more sustainable economy.

By *Arupa Tesolin*

33 Money management

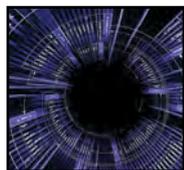
When will I get my money back?

While studying past performance does not guarantee that you'll have certain knowledge about what will happen in the future, it can provide the basis for an unemotional, disciplined approach that has been successful for many long-term investors.

By *Michael Low, CMA*



35 Information technology



Customization — More than meets the eye. Every year, organizations spend a substantial amount of money customizing their software to make it better fit their day-to-day activities.

Many find that they're getting into more

than they bargained for.

By *Jacob Stoller*

37 Government issues

Foreign investment in Canada — A love-hate relationship?

Does Canada lose another little piece of its soul when one of its corporate icons falls into the hands of foreign owners? This question continues to bedevil us as companies such as The Hudson's Bay Company, Labatt, Seagram, Inco, Falconbridge, and Dofasco are taken over by offshore interests.

By *Alan Young*



40 Global view

Analysts puzzle over "true cost" of 2010 Winter Games.

According to the Vancouver Organizing Committee (VANOC) website, costs have been earmarked at \$1.63 billion, with 74 per cent provided by the private sector and 26 per cent through the public sector.

By *John Cooper*



Departments

6 Media bites

Leading excellence

- The Practice of Adaptive Leadership
- How to Instantly Connect with Anyone
- Hit the Ground Running



8 News and views

New and noteworthy information you can use

- Canadians have product ideas but lack of funding prevents development of ideas
- Quebec, Ontario rank last in provincial tax comparison
- Rebuilding economy starts with women: Ernst & Young report

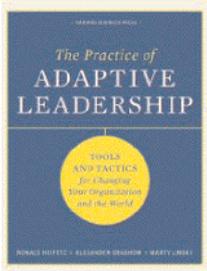
Next issue:

- Risk management and the budgeting process



Leading excellence

The Practice of Adaptive Leadership



Leading in times of great change is both an improvisational and experimental art that can be developed and improved. Filled with stories and examples from business and public life, *The Practice of Adaptive Leadership* will help readers make progress on leadership challenges.

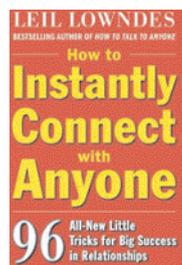
The reader will learn how to: understand the “system” by identifying

stakeholders’ interests, surface what’s really driving behavior; put ideas into action, reframe people’s default interpretations and orchestrate conflict; identify true roles and scope of authority; engage the tough problems, speak from the heart to inspire people; and grow personal support networks.

According to the authors, when a leader is in the midst of a difficult situation, characterized by complex value conflicts and potentially high emotion, it is difficult to stand back and see what is really going on. To help, they provide stories and examples from business and public life, as well as practical tools and doable tactics to help diagnose even the most complex situations. The authors also provide guiding questions, worksheets and exercises to help individuals and organizations put that diagnosis to work in making progress on the most difficult issues under the toughest circumstances. Whether it is a business challenge, or a personal goal, learning how to adapt oneself and one’s organization to an ever-changing world is a skill that must be mastered.

Ronald Heifetz, Alexander Grashow, Marty Linsky. Harvard Business Press.

How to Instantly Connect with Anyone



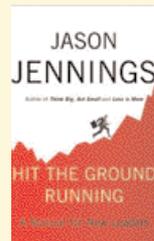
You know who they are. They breeze into a room knowing exactly what to say and how to make everyone feel calm and relaxed, while others feel nervous and awkward in a room full of strangers that they fumble every sentence and tongue-tie every name. Expert and author Leil Lowndes says even the shyest can learn how to break the ice and make strong and

instant connections. In her book *How to Instantly Connect with*

Anyone, Lowndes writes that “emotional predication” is the secret to instantly connecting with others. Anticipating another person’s feelings by putting yourself in their shoes is the number one key to instant connections. For example: Introducing “Steve, my assistant,” is more emphatic, personable, and warm, than “My assistant, Steve.” Understanding and acting on emotional prediction is the surest way of creating a strong first and lasting impression, whether at a business gathering, catching up with an old friend or attending a gathering alone. Lowndes shows the reader how to confidently say the right thing at the right time. She offers best-case scenarios and social nightmares where some of her tricks could have come in handy.

Leil Lowndes. McGraw-Hill Ryerson.

Hit the Ground Running



In today’s economy, the pressure is on for leaders to produce results fast, or lose their job or even their company. To find out the secrets of fast performing leaders, author Jason Jennings and his research team searched the Fortune 1000 for CEOs who had created the most shareholder value in the first few years of their tenure during the last

decade. He interviewed the 10 best performers, who, on average, had doubled revenues, doubled profit margins, and more than tripled earnings per share at companies, often against a challenge like a recession or 9/11. Just as today’s economic downturn is demanding faster results than ever before, *Hit the Ground Running* provides proven tactics, strategies, values and guiding principles of the fastest performing CEOs. Also included in the book are stories of how CEOs made big impressions, including: Ronald Sargent who started at Staples during the recession of 2002, but achieved double-digit revenue growth and annual revenues heading for \$20 billion, and more than doubled both the stock price and earnings per share of the world’s largest office supply store chain.

Jason Jennings. Penguin Group.

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News and views

New and noteworthy information you can use

Canadians have product ideas but lack of funding prevents development

The majority of Canadians have ideas for new products and many have considered marketing their invention; however, a survey commissioned by Nytric Limited identifies specific barriers that prevent inventive Canadians from realizing the potential of their ideas.



When it comes to innovation, Canadians hold one another in high regard: Seventy-six per cent of respondents perceive Canadians to be innovative. Three out of five Canadians have acted on their innovative impulses and conceived new product ideas and 14 per cent of Canadians have considered actively marketing their ideas.

“There has never been a better time for Canadians to pursue their inventive spirit,” Av Utukuri, president and CTO of Nytric Ltd, says. “Challenging economic times

force us to seek out creative solutions to everyday problems.”

Although Canada is seen as innovative, the survey reveals that many Canadians face barriers in bringing their inventions to market. Sixty-six per cent of respondents believe that not knowing where to start, and a lack of funding, are the two greatest obstacles preventing them from further developing their new product ideas.

“Fostering innovation and entrepreneurship in Canada is essential to our economic future. We should not only invest in our human capital, but also in the innovative concepts developed by these enterprising Canadians,” Utukuri says. “Who knows what ideas have the potential to transform Canadian businesses or whole industries?”

Additional survey results:

- Only eight per cent of Canadians are aware that the electric oven is a Canadian invention.
- Most Canadians are aware that the goalie mask (71 per cent), telephone (61 per cent) and snow blower (56 per cent) were invented by Canadians.
- Quebec has the lowest perception of Canadians as innovative (58 per cent), while British Columbia has the highest (86 per cent).
- Men are more likely than women to have new product ideas (66 per cent vs. 52 per cent).

Management

Editorial Think Tank

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Quebec, Ontario rank last in provincial tax comparison

Quebec and Ontario have the least small business-friendly provincial tax systems in the country, according to a new study by the Canadian Federation of Independent Business (CFIB).

CFIB's Small Business Provincial Tax Index examines how the provinces stack up by examining 65 indicators in five major areas of tax policy: premiums and payroll taxes; corporate income taxes; property and capital taxes; personal income taxes, and sales and excise taxes. As of Dec. 31st, 2008, the provinces received the following scores on a scale of zero to 10, where zero is worst and 10 is best:

• Alberta	7.98
• New Brunswick	6.32
• Saskatchewan	6.30
• British Columbia	5.72
• Manitoba	5.60
• Newfoundland and Labrador	5.45
• Prince Edward Island	5.24
• Nova Scotia	5.08
• Ontario	4.10
• Quebec	4.02

"It is alarming that the two biggest provinces, which make up 60 per cent of the total economy, are the weakest links in the provincial tax chain," Catherine Swift, president, CFIB, says. "It is no secret that a province's tax system can help attract or repel investment, and these provinces in particular

are doing a poor job of nurturing small business growth," she notes. She adds that the cost, complexity and number of taxes business owners face are a barrier to local growth and stability. Swift didn't leave the higher ranking provinces off the hook. "All provincial tax systems have room for improvement because most provinces barely make a passing grade," Swift says. She points out that those provinces which score better on CFIB's Small Business Provincial Tax Index levy lower rates of tax and apply broad-based incentives that are simple and accessible.

"It is important that provincial policy makers understand the need to foster a mutually beneficial relationship with local business owners," Swift says. To that end, tax relief measures contained in the Ontario Budget (reducing personal and corporate taxes) are a step in the right direction.

She concluded that small firms not only invest in their local communities, but also provide employment and add to the tax base to help pay for government programs. "When provincial governments support small business, they're indirectly supporting themselves." To view the full report, *In search of tax excellence: Where provinces rank in creating a tax climate for small- and medium-business success*, go to www.cfib.ca.

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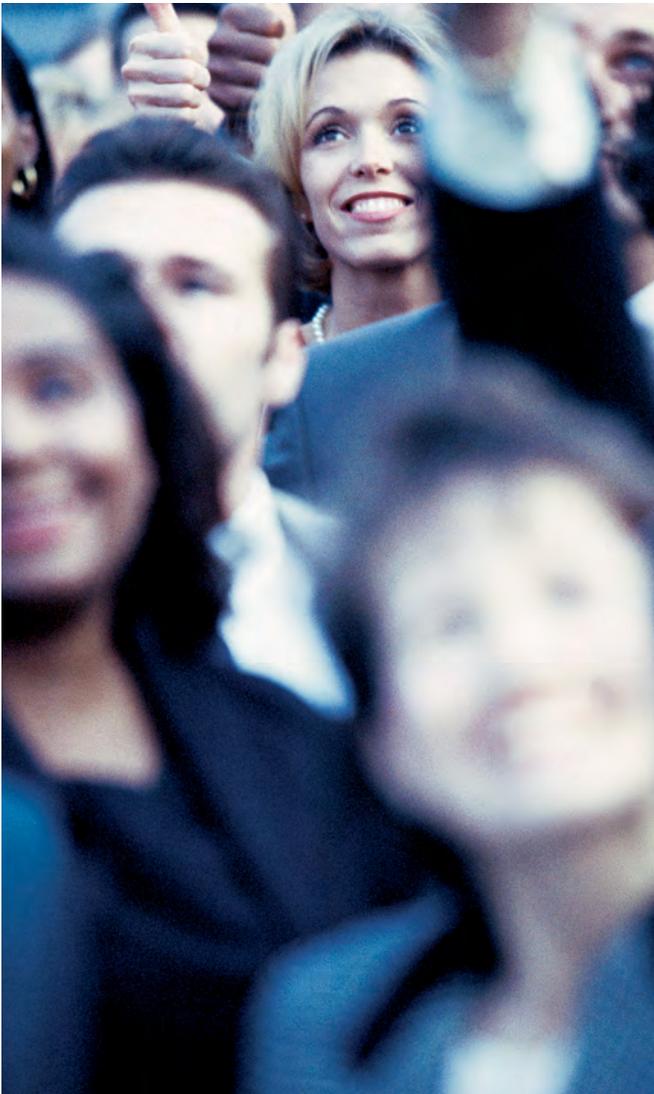
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Rebuilding economy starts with women: Ernst & Young report

There may be no quick fix to the current financial crisis, but fostering new perspectives by advancing more women into leadership positions is a sure-fire, long-term resolution, suggests *Groundbreakers*, a report from Ernst & Young.

“*Groundbreakers* is about diversity of thought and not necessarily about race, gender, ethnicity or sexual orientation, which we traditionally associate with diversity, Lou Pagnutti, chairman and CEO, Ernst & Young, says.



“Canada, and the world for that matter, needs business leaders who bring different skills, who think about familiar problems in new ways and reject the kind of groupthink that may have contributed to the global financial challenges the world is facing.”

The report also cites data from Goldman Sachs that found closing the gap between male and female employment rates could boost U.S. GDP by as much as nine per cent, Eurzone GDP by 13 per cent and Japanese GDP by 16 per cent. “Investing in women to drive economic growth is not simply about morality or fairness,” he adds. “It’s about honing a competitive edge. There is opportunity during this time of adversity – it’s time we recognize that, and build women into the leadership fabric of our organizations. Diversity is not a ‘nice to have.’ It’s a business imperative.”

How can Canadian companies build leadership capacity for increased competitiveness?

1. Create a deliberate plan to get women into leadership positions. Don’t just wait for time to fix inequities. Implement programs to get women the right mentoring and experiences, and make sure accountability exists in order for this plan to be realized.
2. Work towards “functional diversity.” Professor Scott Page of the University of Michigan uses this term to capture the idea that we need people with diverse ways of perceiving problems, rather than groupthink, in order to devise better solutions. Research has shown that, under the right conditions, a group of intelligent problem solvers chosen completely at random will likely outperform a homogenous group of even the best problem solvers.
3. Don’t underestimate the power of critical mass. A 2007 McKinsey study showed companies with three or more women in senior management scored higher than companies with no women at the top over a range of measures for organizational excellence. It is not just about adding a woman here or there. It is about building the critical mass that gives people the power to speak up, and to have their views heard.



Prevailing over productivity pitfalls

Managers who feel they are working all the time, but getting little done, may be undermining their efforts by letting bad habits reign.

By Emilie Dunnigan, CMA

If you feel like you're having to burn the candle at both ends these days, it may be because the recession has brought about change in your organization that has increased workloads for you and your staff. All you know is that you're working harder than ever. So why does it seem like you can never get anything done? When it seems like there are not enough hours to accomplish everything — even though you frequently stay late and often use your weekends to play “catch up”— then it's time to assess whether you're using your regular work time wisely. You likely will find your attempts to get things done are being undermined by productivity pitfalls that are the bane of many busy professionals. The good news is that these “time eaters” can be eliminated or managed more effectively by making simple changes in the way you approach your daily work. Following are some common signs of poor productivity and suggestions for overcoming them.

Letting your to-do list gather moss

A to-do list is meant to keep you organized and focused on accomplishing specific goals, but it will do neither if you don't consult it regularly. It also won't help if you fail to rank tasks in order of importance or keep adding to your list without crossing off existing items. Spending just 10 to 15 minutes at the start of your day organizing your work is a simple and highly effective way to boost your productivity. You'll be able to prioritize and identify the most pressing projects, and determine which of them can be delegated to your staff. Make sure your list undergoes some regular “house cleaning,” too. Are there tasks on your list that keep rolling over from one week to the next? Why aren't these things being accomplished? Are you purposefully putting them off? Or are you ignoring them because they are no longer important? If it's the first reason, take immediate



action and get them off your list once and for all. If it's the second, remove them.

Not making your workload digestible

You've probably felt some pressure recently to step up and take on more work to set a good example for your staff. You want to demonstrate how important it is for everyone to do their part, and maybe more, to help the company through this difficult time. However, while your intentions are well meaning, you may end up sending the wrong message to your team when you are not able to deliver what you promised because you are overwhelmed. While you may not be able to avoid an increased workload over the short-term, you can meet the challenge by breaking down your assignments into smaller, more



manageable tasks. You'll feel a sense of accomplishment each time you reach a milestone and move closer to reaching a set goal. This approach also will help you keep procrastination at bay and avoid last minute scrambling to finish an assignment — no matter how complicated or tedious it may be.

While you may not be able to avoid an increased workload over the short-term, you can meet the challenge by breaking down your assignments into smaller, more manageable tasks.

Not heeding your body's "work clock"

If you feel you hit maximum levels of productivity only during particular times of the day, it's not an illusion. Many people are more productive in the mornings, for example, than right after lunch. You may also feel a different energy level on certain days of the week. In a recent survey by our company, 53 per cent of executives said Tuesday is their most productive day of the week. (Wednesday ranked a distant second at just 19 per cent.) Identify times when you typically hit your stride with getting work accomplished. Devote those timeslots to working on important projects or those that require intense focus. Don't be afraid to alter your regular schedule in the interest of accomplishing work. If you often have meetings in the morning, but that is usually when you feel most motivated, try to schedule more afternoon meetings — ideally on your most productive days of the week.

Allowing e-mail to own you

Unquestionably, e-mail is a vital business communication tool. But if you don't take charge of it, it will quickly decrease your effectiveness instead of boosting your productivity. Over time, trying to keep up with an ever-expanding and unorganized inbox can steal hours from your day. To avoid this, clean your inbox weekly, delete unnecessary messages and file those that are important in an appropriate folder.

Don't forget to do the same thing with any handheld device you use for work so your inboxes are in synch. Some mobile devices are designed to do this automatically with your desktop. Remember that the fewer e-mails you send, the fewer you are apt to receive. Certain types of discussions are easier and quicker to conduct in person or by phone. And don't feel compelled to respond immediately to every e-mail. Instead, "flag" e-mails to follow-up with at a more convenient time or put them in a "Need to Reply" or "For Follow-Up" folder. Responding only to top-priority e-mails throughout the day can save time and prevent you from losing momentum on more critical tasks.

Becoming a desk potato

Just because you have a significant amount of work to do doesn't mean you should be a prisoner in your own workspace. Sitting at your desk for hours on end without taking at least a short break will create stress, dull your mental edge, and punish you physically. Obviously, none of this enhances productivity. Make a point to recharge and clear your head throughout the workday. Get a change of scenery by taking a quick stroll around the building or sitting at an outside table. Taking in some fresh air can be an invigorating break from your routine and give you the energy you need to tackle your next assignment.

Not taking time-outs

During difficult times, managers find they must be even more communicative with and accessible to their employees. These activities are critical to maintaining staff morale and productivity, but they also require time, which means you have less of it to spend on your own responsibilities. If you have an important project that requires your focus or a deadline to meet, let key staff know you need some quiet time for work and how long you estimate your "time-out" will take. Just make sure you don't do this so often or for such long periods of time that your employees are left wondering whether something is wrong or you are avoiding them.

Help your staff work better, too

If you are falling prey to these common productivity pitfalls, more than likely your employees are, as well. Using the list above as a guide, help your staff identify work habits that may be derailing their productivity. Let them know that you struggle with the same or similar challenges and talk about strategies you use to keep unproductive behaviour in check.

When your employees know you understand how easy it is to get behind on work, especially now, this will help build camaraderie by giving them the feeling that you are all "in this together." Likely, they will feel more motivated to make the necessary improvements that will not only make them better professionals, but also help the organization meet its objectives. ■

Emilie Dunnigan, CMA, is a recruiting manager in Toronto with Robert Half Finance & Accounting.



Why the recession is a great time to kindle grassroots innovation

With the right attitude, these challenging times give organizations an opportunity to rally employees together and encourage them invest more of their creative energy. Innovation is the way out of recession and into a more sustainable economy.

By Arupa Tesolin

If you think that innovative projects should be shelved to cut costs in these challenging economic times, you'd be very wrong. Quite the opposite is true. Now is the best time to grow innovation in your employees. You might be surprised at the results.

Organizations don't innovate. People do. Some of the best kinds of innovation come from the people within your organization — your employees, clients and often your extended network of suppliers and associates. Innovation does not need to be complex or costly.

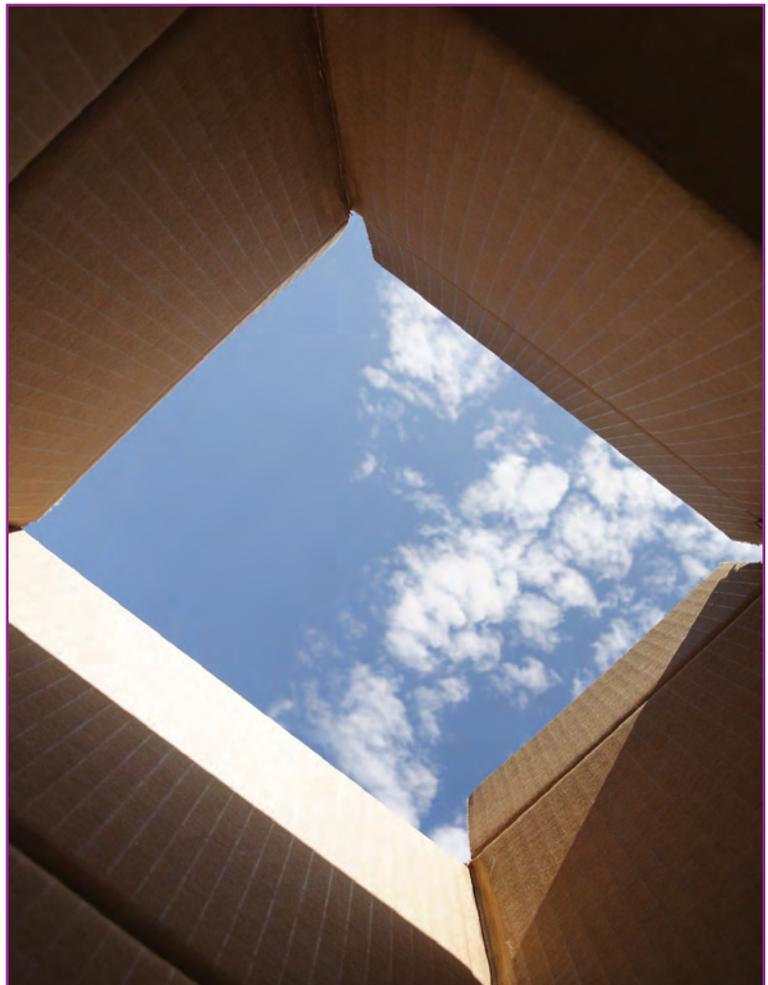
Any company can find ways to make innovation pay off. Both small and large companies can look to their employees and clients and beyond for ways to be more innovative that add value to what they do. Investments in innovation, training and productivity now will recoup their investment and increase profits later.

Executive leaders and employees need to have a way to challenge the "idea orthodoxy" prevalent at many large companies. Those who are successful at doing this today will become the economic and brand leaders of tomorrow. Commanding an innovation destiny requires industry leaders and their employees to take both business innovation and personal creative power to the next level.

Where does grassroots innovation come from? From ideas, imagination and intuition.

Without imagination and the enthusiastic application of ideas – there is no innovation.

Innovation comes from the minds and hearts of people. Where does imagination come from? From the unknown. From intuition. From beyond our own personal database and hard drive – the brain. Literally thinking beyond the box means out-



thinking the brain. Translated into business language, this can mean something that hasn't happened before or doing something you've never experienced.

Gene Roddenberry was a master of dreams. He foresaw a time when mankind would lift off in the quest to discover new worlds and "go where no one has gone before." He challenged us with these



questions, “Who am I?” What are my capabilities? How far can I go?”

His dream was no mere fantasy of the future, but a detailed reality that transformed our minds through a unique and popular series known as “Star Trek.”

Science fiction has become science fact. We’re now living in a time where people can conceive possibilities that were thought impossible or improbable a short time ago. We are learning to become masters of the created world.

This is the right time to turn employees into innovators and help them learn to master new creative thinking skills, like how to create from scratch, think creativity, see things differently, be more intuitive, communicate ideas better, and to appreciate the benefits of both thought and cultural diversity.

This is the right time to turn employees into innovators and help them learn to master new creative thinking skills, like how to create from scratch, think creativity, see things differently, be more intuitive, communicate ideas better, and to appreciate the benefits of both thought and cultural diversity. When people think differently, learning and trying out new things, they have more energy, and are more alert, engaged and responsive to clients and colleagues. Usually they’re also having more fun.

Innovation rarely happens alone. Innovative companies often have a cadre of innovative minds outside their own organization. At a recent conference where I spoke on the innovation panel

for the World Automotive News Congress, Dr. Andrew Brown Jr., executive director of innovation at Delphi Corporation, the developers of the On-Star communication system for General Motors Corporation, identified that for every internal employee there were about two hundred external sources, namely consultants and creative advisors from other businesses or communities of practice. Innovation brand leader Procter & Gamble, he explained, has about five hundred external sources per employee.

There are a million ways to innovate and every organization can find ways to make innovation profitable and generate a return on imagination.

The important thing is to plan innovation in a way that offers the greatest value to your product, services or brand.

So where do you start? Look at your business cycle from start to finish. Look at the lifecycle of your interaction with clients or customers. Every point along that process provides an opportunity to innovate. Here are some places to start:

1. **Identify high return opportunities to innovate in key growth areas.** Conduct an innovation survey that reviews all aspects of your business from recruiting, customer satisfaction, sales processes, new product and service development or other areas.
2. **Create an innovation culture.** Support the rest of the team by trying something new. Empower your employees, involve them, and give them a way to challenge old ways of doing things in favor of better ways.
3. **Develop creative skills in employees.** Apply them to your business in key areas.
4. **Increase employee productivity and proficiency.** Start with the highest impact functions. Implement learning paths or fast-track training processes that increase proficiency and performance.
5. **Measure results of innovation.** Develop reliable metrics that are useful for planning future innovation.
6. **Hire creative minds outside your organization.** Find people who think differently and can add value to innovation.

How do you know when something is innovative, rather than just good business? Innovation attracts attention. It shows up differently. It creates energy because it’s interesting, unusual, or brings an element of surprise, evokes positive emotion, joy or reveals an unexpected connection with something else.

We are only at dawn of the Innovation Age. The road to tomorrow will be paved with the results of the ideas that people dream and apply today. ■

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Intelligence required — Moving from **data to insights**

In today's challenging economic times, it is more important than ever to ensure the right management decisions are being made. The best management decisions tend to be those that are supported by relevant facts and insights.

By Bernard Marr





To base our decisions on the best information available requires nothing more than just common sense and something we do intuitively in our private lives. For example, when we want to buy a new car or purchase a house, we usually do a little research to get some of the key facts before moving forward. You might read expert reviews of the car you are interested in, speak to people who drive that car, and consult statistics on fuel consumption, safety ratings and performance. For a house, you might visit relevant websites to see previous purchasing prices, speak to potential future neighbours and consult ratings of schools in the neighbourhood and crime statistics.

However, in management, we seem to be obsessed with collecting and stockpiling data, but we then fail to turn this data into relevant insights and better management decisions. Thanks to a decade or so of breathtaking advancements in information and communications technologies, we now live in a world in which data can be easily and cheaply collected and stored in massive quantities. A useful analogy is to picture a manager today as a 19th century gold prospector. Just as those prospectors had to pan tons of worthless silt to find few nuggets of gold, today's managers are expected to pan masses of essentially worthless data for those few golden nuggets of information that provide relevant insights that lead it to better decision making and, ultimately, to competitive advantage.

Many organizations still fail to grasp the fact that there is a need to systematically extract those "golden nuggets." Instead, they hoard data in the mistaken belief that simply having it available in and of itself adds value, leaving it up to individual decision makers to pan for those golden nuggets of information.



Some of today's most successful companies, including Internet giant Google and retailer Tesco, are now making sure that their ability to systematically collect and use relevant information allows them to gain real competitive advantages over their competitors. Through Evidence-Based Management (EbM), organizations explicitly use evidence (the best and most appropriate information) to guide the decision-making processes to extract maximum value and competitive advantage from their data and information. According to Stanford University professor Robert Sutton EbM is a simple idea: It just means finding the best evidence that you can, facing those facts, and acting on those facts – rather than doing what everyone else does, what you have always done, or what you thought was true.

An essential component of EbM is having the right evidence to support decision making.

Five steps towards evidence-based management (EbM)

There are five key steps for the effective deployment of EbM. This begins with:

- Step 1 — Defining objectives and information needs. During this step, these questions are asked: “What are our strategic aims?” and “Based on those aims, what do we need to know?” This vital first step ensures that we clearly articulate the real information needs, and clarify who needs to know what, when, and why.
- Step 2 — Collecting data — calls for gathering and organizing the right data. The emphasis here is on meaningful and relevant data to meet the information needs identified in Step 1. Organizations need to (a) assess whether the needed data is already held somewhere in the organization, or (b) know how to devise the best way to collect the data.
- Step 3 — Analyzing data — focuses on turning data into relevant insights. Data has to be analyzed and put into context to extract information.
- Step 4 — Presenting information — focuses on communicating the information and insights extracted in Step 3. The main focus here is to get the information, in its most appropriate form, to the decision makers.

- Step 5 — Making evidence-based decisions — is concerned with turning information into knowledge and decisions. The emphasis here is on making sure that the available evidence is used to make the best decisions. Here, it is important to create a knowledge-to-action culture and avoid the knowing-doing gap so prevalent in many organizations. The five sequential steps of this framework provide a blueprint for evidence-based decision making. However, the logic of good evidence-based decision making is not just linear (from Step 1 to Step 5), as there is a feedback loop between the last and the first step (from Step 5 to Step 1). After learning has taken place and decisions have been made, they in turn inform future informational needs.

Information technology as an enabler

IT and business intelligence (BI) play a crucial role in evidence-based decision making. However, they cannot make it happen alone, but rather must be used to support the steps outlined here. IT infrastructure and applications are critical enablers of the data collection process, data analysis, and the presentation and dissemination of information. Although IT infrastructure and business intelligence applications are important elements of evidence-based decision making, they are not a step in this framework. This is to highlight the importance of identifying the right steps, therefore helping to veer organizations away from being seduced into the belief that all they need is a state-of-the-art BI infrastructure.

Step 1: Defining aims and information needs

Instead of focusing on collecting everything that is easily measured and counted, organizations need to be more systematic and selective about the information they are gathering. For that purpose, managers need to clearly establish the objectives and information needs. This can be achieved with the following four steps:

- Identify the strategic objective/information need:** Here we link the data that we collect to the most important drivers of value and performance. This ensures that the analytics we generate (a) are relevant to the organization's competitive positioning, (b) support its greatest information needs, and (c) are not wasted on irrelevant “interesting to know” issues. Strategy maps, for example, are powerful tools to identify the high level objectives and the key enablers of performance.
- Identify who has the information need:** Here it is important to define the target audience (information customers).

- Information customers can be groups of people such as the board of directors, senior managers, the HR department, the marketing managers, or a single person.
- iii. **Clarify what questions they want answered:** The aim is to ensure that the analytics provide the knowledge that will enable the recipients to make the most appropriate and focused market decisions. The executive team of Google, for example, has identified 17 key questions to guide their corporate data collection.
 - iv. **Clarify what decisions need to be taken:** Finally, we need to clearly identify any important decisions the data supports.

Step 2: Collecting the right evidence

An essential component of EbM is having the right evidence to support decision making. Building evidence requires the careful collection of the right data, yet our understanding of the word “data” is confused. People often wrongly believe that the word “data” has a narrow numeric definition. This is incorrect. Data comes in a myriad of forms – sounds, text, graphics and pictures are as much data as are numbers. What we have to become better at is collecting more qualitative data and triangulating data from different sources to build up more relevant evidence. Generally asking people for their opinion is a great way of collecting more qualitative data. An example of triangulation comes from the police. They were interested in understanding the level of knife crime. A key source of their information is a national crime survey which records people’s experiences and views of crime levels. However, extensive press coverage of knife crime can inflate the perception figures of certain crimes. To avoid this, the police are now collecting data from hospitals about their treatments of stab-wounds to put their own figures into perspective and generate a more realistic picture of what is happening.

Step 3: Analyzing data to generate intelligence

To put data into context, it needs to be analyzed. Data analysis is a core requirement in creating evidence used for decision making. Yet, repeated research shows that most organizations are still more focused on collecting and distributing data than they are in doing any meaningful analysis.

Step 4: Communicating and presenting the insights

To ensure decision makers understand the insights, it is important that information is presented and packaged in the most appropriate way. Good communication is kept simple and focused on the message the user needs to receive. Instead, we either provide too much detail or distract

people’s attention by using hard to read three-dimensional graphs, overdo emphasis colours (e.g., bright red, yellow, orange, or green) and use too many different varieties of graphs, which makes a comparative analysis difficult.

Instead of focusing on collecting everything that is easily measured and counted, organizations need to be more systematic and selective about the information they are gathering.

Step 5: Communicating and presenting the insights

In this final step, we look at how to turn the information into (a) knowledge, and (b) better decisions that we can act on. The steps organizations can follow to create a culture that is conducive for transforming knowledge into action, include: (a) create a passion for learning and improvement, (b) ensure leadership buy-in, (c) develop widespread analytical capabilities throughout the organization, (d) use judgment, (e) share information, (f) reward EbM, and (g) build appropriate IT infrastructure.

What makes organizations succeed in today’s competitive and unpredictable world is the ability to learn faster than the competition, and the ability to act on any insights to drive competitive advantage. Any organization can boost its competitive position by aligning the data collection to the strategic value drivers, and collecting the best available evidence, by using this evidence to extract valuable insights and by communicating the information in a way that allows acting on those insights. ■

Bernard Marr is chief executive of the Advanced Performance Institute (www.ap.institute.com).

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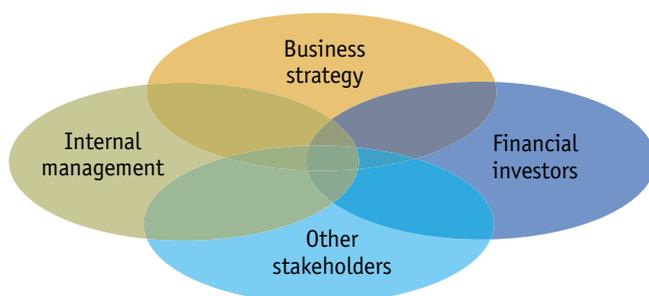
Accountants to take lead role in sustainability efforts

Certified Management Accountants (CMAs) are well placed to provide a significant contribution to sustainable development, and how to incorporate it into strategic planning, implementation, and evaluation and control in their organization.

By Stathis Gould and Todd Scaletta, FCMA

Certified Management Accountants (CMAs) are well positioned to take a lead role within their organization to integrate sustainability issues in their strategic formulation, strategic implementation, and evaluation and control processes. The combination of the CMA Competency Map and the new Sustainability Framework (<http://web.ifac.org/sustainability-framework>) developed by the Committee of International Federation of Accountants Committee (IFAC) can allow CMAs to be influencers of change in this emerging field.

Figure 1 – IFAC Sustainability Framework



Sustainability can be viewed as a three legged stool – it involves three key issues: (i) economic, (ii) environmental and (iii) social. Trade-offs can be required when managing these three issues. However, a good business case can be made for being economically viable while protecting the environment and operating in a socially responsible manner. Creative problem-solving and a well-rounded business knowledge are keys to being able to add value to shareholders when dealing with what may initially be viewed as opposing dimensions of economic viability; environmental stewardship and social responsibility.

Given the CMA Competency Map, CMAs are positioned to take a lead role in sustainability efforts for organizations.

So why is it important for organizations to take initiative on sustainability issues? The key drivers can be divided into two contexts: political and organizational.

The political context

Canada and the U.S. are in a new era of discussing what can be done to protect the environment in North America. Prime Minister Stephen Harper and U.S. President Barack Obama had the environment as one of their main topics of discussion at their first meeting together in Canada. Their discussions included matching the U.S. and Canada's environmental rules, and the possibility of a continental cap-

and-trade system as a tool to meet climate change reduction targets. In the U.S., President Obama promises to be environmentally focused by pursuing energy policy goals to promote alternative energy, reduce greenhouse gas emissions, and improve energy efficiency. The first step in this direction was the American Recovery and Reinvestment Act (ARRA) or better known as the stimulus bill.

The organizational context

The strength and focus of a sustainable development business case will vary across organizations. Many different business cases exist for managing sustainability issues, and these will be organization/industry-specific. Therefore, approaches depend on the business operations that are pursued, the markets in which an organization is active, the country of origin, and the size of an organization. For example, the oil industry has a different set of sustainability issues and potential responses to deal with than the financial services industry. However, most, if not all, organizations will have opportunities to better manage social and/or environmental issues. This is best epitomized in a quote by Ray Anderson, founder and chairman of Interface: "I always make the business case for sustainability. It's so compelling. Our costs are down, not up. Our products are the best they have ever been. Our people are motivated by a shared higher purpose — esprit de corps to die for. And the goodwill in the marketplace — it's just been astonishing."

<http://www.nytimes.com/2007/05/22/science/earth/22ander.html>

Given the CMA Competency Map, CMAs are positioned to take a lead role in sustainability efforts for organizations.

Developing and reviewing a business case over time involves a systematic process covering several practical steps, including (a) understanding an organization's significant impacts on the environment, society, and the economy, the related opportunities and risks, and (b) identifying stakeholder issues. Please see more information on key considerations at <http://web.ifac.org/sustainability-framework/bsp-the-business-case>.

Key questions

Organizations need to consider five key questions on how to make sustainability part of their strategic formulation, strategic implementation, and evaluation and control process. Each response to the five key questions will include a demonstration on how CMAs' competencies can help address the specific question as well as how the IFAC Sustainability Framework can be used as a resource.

Strategic formulation – A key question to consider is:

1. *How is the organization integrating sustainability in its strategic management?*

- **Identify the business case:** CMAs can assist in formulating strategy by setting strategic direction through the design of a value proposition that takes advantage of the organization's strengths and opportunities while mitigating its weaknesses and avoiding external threats. The strength and focus of a sustainable development business case will vary across organizations. Where an organization has an apathetic stance towards sustainability issues, a CMA's initial role might be to establish the business case for being more responsive. The business case can cover the three key areas of sustainability: (a) depleting natural resources (energy and water) and the need to demonstrate that the business is responding to changes in customer expectations on the environment, and the need to consider reducing energy consumption, (b) social issues influence both the organization's ability to attract talent, and social performance directly contributes to customer perceptions and satisfaction, and productivity, and (c) investors (particularly institutional investors) are increasingly including environmental and social performance (and governance) factors in their financial assessment of a company's current and potential performance.
- **Relate the business case to stakeholder engagement and risk management activities:** CMAs need to be able to evaluate the organization's strategies from a risk management perspective. Establishing a coherent business case depends on identifying the key sustainability related pressures and expectations on an

organization, considering the sustainability issues created by the way an organization operates, and the benefits of dealing with these issues and the risks of failure. Organizations with highly developed stakeholder engagement tend to be better at anticipating issues and dealing with them proactively. They are then in a position to report on how they have dealt (or not as the case may be) with stakeholders' interests and expectations.

CMA's can assist in the management of the revenue stream, including the use of internal and external sources of information, in order to achieve the organization's chosen value proposition.

- **Analyze any strategic trade-offs presented by sustainability issues:** CMA's must be able to align the organization's resources and success factors to ensure accomplishment of the strategy. Some companies will have a conflict between the pressure of short-term business performance and sustainability. For example, for Kingfisher plc, (http://www.ifac.org/Members/DownLoads/Theme_Booklet_Sustainability.pdf) tropical timber products from sustainable sources can be more expensive than those from non-sustainable sources. Well managed forests harvest fewer trees each year which can reduce their income so there are only limited supplies of Forest Stewardship Council certified timber. This can then translate into higher prices. Therefore, it is important to consider how to differentiate products, and whether their sustainability can command a higher consumer pricing. It is often critical to overall strategic success over the long-term to pragmatically deal with the trade-offs between stakeholder expectations. A possible approach to meet the challenge is to adopt an enlightened form of value maximization that deals with sustainability issues, but recognizes that value cannot always be maximized in more than one dimension. However, the long-term

market value of an organization cannot be achieved if an important constituency is ignored or mistreated. For more information, see the Stakeholder Engagement, The Business Case and Integration with Risk Management sections of IFAC Sustainability Framework and the CMA Competency Map Sections (i) F1 – Strategic Management and (ii) F2 – Risk Management and Governance.

Strategic implementation — some key questions to consider are:

2. *Have we visibly demonstrated the leadership required to integrate sustainability in the way we do business and to deal with any attitudinal and cultural barriers?*

- **Develop policies that support the integration of sustainability initiatives:** CMA's as problem solvers need to take an analytical approach to decision making using their capacity for innovative and integrative thinking connecting "parts" to the "whole." An example is both leadership and envisioning complement organizational sustainability policies as a mechanism for embedding sustainability values and principles, and integrating these at a strategic and operational level. For example, an environmental policy could detail (a) the organization's compliance with laws and regulation, (b) its own view on the importance of environmental performance to its business operations, and (c) its environmental impacts and initiatives to reduce it, such as investing in renewable energy, modifying product design, or improving manufacturing.
- **Engage ownership at the top to integrate sustainability:** CMA's have the opportunity to use their leadership skills in their organization to collaborate, influence, convince and lead change. Integration of sustainable development into the way an organization manages itself requires ownership at the governing body level (the board). Ideally, the chief executive officer champions (a) the integration of sustainability into strategic discussions and subsequent follow-up, and (b) specific sustainability initiatives. This helps to ensure that sustainable development is

approached more from a performance-based perspective rather than (only) a compliance-based perspective and properly treated as an important strategic issue that forms an integral part of the board's efforts to secure long-term value generation for stakeholders.

- **Understand how values guide behaviours and decisions:** CMAs, as professionals, must adhere to the CMA Code of Conduct and the highest ethical standards. Leading by example positions CMAs to be effective in evaluating and recommending a values-based program and code of conduct to promote (a) an organization's underlying values, (b) commitment to employees, (c) standards for doing business, and (d) its relationship with wider society. Organizational codes of conduct and values are extremely important, and many companies have demonstrated leadership and positive change through developing and implementing values-based codes. For more information, see the Leadership and Vision section of IFAC Sustainability Framework and the CMA Competency Map Sections (i) E1 — Problem Solving and Decision Making, (ii) E2 — Leadership and Group Dynamics, and (iii) E3 — Professionalism and Ethical Behaviour.

3. Has sustainability been incorporated into discussions around the organization's competitive positioning in the market so to identify (a) the potential revenue growth from new or differentiated products and services and (b) cost reduction and efficiency improvements?

- **Change risk to opportunity:** CMAs can assist in the management of the revenue stream, including the use of internal and external sources of information, in order to achieve the organization's chosen value proposition. In addition to securing the trust of society and customers, sustainability issues often present opportunities. Therefore, planning discussions at board and senior management level should involve considering the upside of improving sustainability performance with new products and services. For example, General Electric generated revenues of around \$17 billion in 2008 from products and services relating to its Ecomagination initiative. Cutting costs through better resource efficiency and minimizing waste can also be immediate

performance enhancing activities. Those businesses that make positive changes to reduce their environmental impact and reduce costs will be better equipped to survive and thrive during the current downturn.

- **Identify a range of competitive strategies:** CMAs have the training and ability to analyze financial risk to maximize opportunities and mitigate threats by assessing financial risk in the external environment, identifying and evaluating operational funding requirements, and developing and recommending strategic financial plans and forecasts.
 - Is there a path to first mover advantage? For example, Toyota's market share with its hybrid car, The Prius. Taking an early lead position in the market typically arises from having the appropriate mechanisms for providing industry insights and social and economic trends. To effectively engage and connect to environmental and social issues, organizations need an appropriate analysis of an organization and its interface with sustainability and sustainable development issues. This involves identifying and understanding relevant issues by establishing facts and other information available in the public domain, and from an analysis of the competitive environment.
 - Can we collaborate in partnership with NGOs, supply chain partners, competitors, distributors to develop opportunities for improving sustainability performance and enhancing customer satisfaction? Collaboration can work well for retailers and their supply chain partners. For example, Marks and Spencer, GAP, Nike and Victoria's Secret are (partly) supplied by the garment manufacturer MAS in Sri Lanka. MAS is recognized for working with its retail partners to establish factories in rural communities and to invest in their social development. Organizations can also collaborate at an industry level to establish voluntary codes of conduct (effectively self-regulation on sustainability issues).
 - How do we respond to emerging trends and pressures on our business and to emerging and new legislation, including the development of market mechanisms such

Organizations making a specific business case for a sustainability strategy and objectives will also rely on effective measurement to understand the resulting impact on the organization and society.

as emissions trading schemes? Some pressures and environmental shifts occur through supply chains. For example, some suppliers to food retailers are being challenged to provide new forms of packaging that is more sustainable (but can be more expensive to produce). Emissions trading and legislation, such as European Community Directive on Waste Electrical and Electronic Equipment, and government policy, can all create opportunities and challenges and these should be considered and priorities for action identified. In many countries, capital allowances have been introduced to enable businesses to writeoff the capital cost of purchasing greener plant and machinery, against their taxable profits. They take the place of depreciation charged in commercial accounts. For more information, see Part A of the IFAC Sustainability Framework, Business Strategy, and the Energy Efficiency and Waste Minimization section and the CMA Competency Map Sections (i) F3 — Performance Management and (ii) F5 — Financial Management.

Evaluation and control – some key questions to consider are:

4. *Does the existing performance measurement framework, or KPIs used to measure organizational performance include measures to indicate achievement against sustainability objectives and therefore wider sustainability performance?*

- **Identify a broader set of measures of performance:** The very essence of being a CMA is having the ability to establish appropriate financial and non-financial performance metrics in relation to the organization's strategic and operational goals. Sustainability performance measures and KPIs help organizations to establish progress against sustainability goals and to ensure that they have considered their environmental, social, and economic impacts. It is impossible to pick measures and KPIs off the shelf as their identification and selection is specific to the context of an organization and its industry. However, there are many useful sources of guidance on selecting and using performance measures and KPIs and these are highlighted in IFAC's Sustainability Framework along with a list of widely used KPIs that have been taken from

a

selection of sustainability reports. Before settling on metrics and KPIs, it is necessary to understand how they are best used and incorporated into internal management, and therefore how they can help to support better external reporting.

- **Deal and measure sustainability issues where they have been identified as an important driver of strategy:** Another key component of the CMA competency set is the ability to align the organization's resources and success factors to ensure accomplishment of the chosen strategy. Some organizations have modified their performance measurement frameworks to ensure the prominent featuring of social and environmental issues, for example by adapting a balanced scorecard to include sustainability performance indicators. However, accountability for performance against strategic objectives, including sustainable performance, requires an understanding of the causal relationships between the various actions that can be taken, and their impact on financial and non-financial performance. Organizations making a specific business case for a sustainability strategy and objectives will also rely on effective measurement to understand the resulting impact on the organization and society. Therefore, measures and KPIs and the way they are presented can usefully be used to internally and externally report on those strategies and objectives. For more information, see the Performance Evaluation and Measurement and Sustainability Performance Metrics and KPIs sections of IFAC Sustainability Framework and the CMA Competency Map Sections (i) F1 — Strategic Management and (ii) F4 — Performance Measurement.

5. *Has the organization got in place appropriate management system(s) to support the delivery of sustainability objectives?*

- **Consider a sustainability or (environmental) management system to complement an internal control system:** The CMA Competency Map

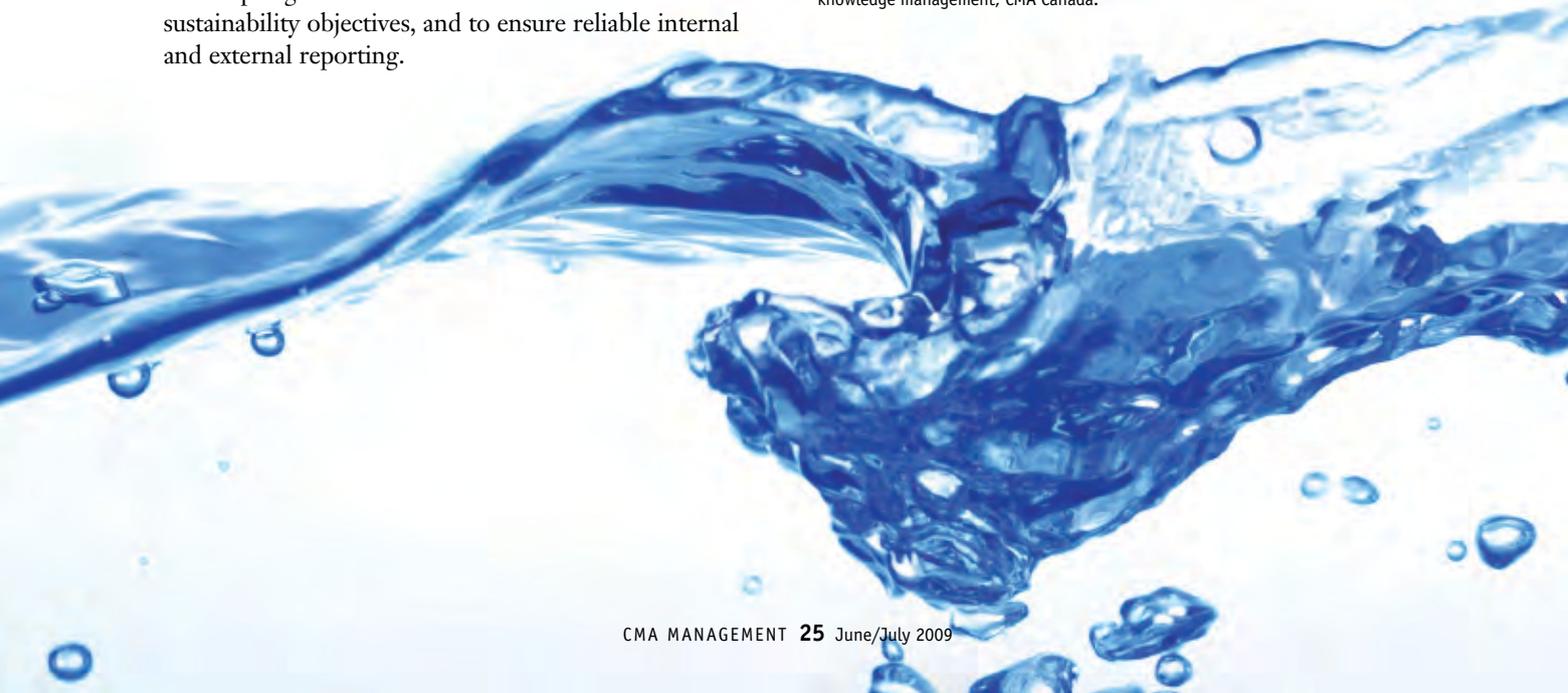
refers to the CMA's ability to evaluate and implement internal controls from a risk management perspective. Developing such a system can help an organization to define its sustainability objectives, and ensure their alignment to business objectives, identify sustainability challenges, risks, and opportunities, and ensure that management and operational practices respond to these challenges, risks, and opportunities.

- Develop an appropriate and effective internal control system: CMAs must possess the ability to develop, implement and assess an appropriate risk management strategy and accompanying internal control system while taking into account the risk profile of their organization.
 - Ensure effective internal controls that depend on effective governance and risk management: governance, risk management and internal control are all important instruments in achieving sustainability objectives. However, the process of risk management and internal control are usually more effective when embedded into a governance process which has yielded clear leadership, goals and targets, accountability and systematic stakeholder engagement.
 - Establish a sustainability management system that can effectively incorporate the organization's overall internal control and management system: Some organizations have felt it important to merge management systems. For example, Sharp's 2007 Social and Environmental report describes their efforts to create accuracy and efficiency with an integrated management system by merging its strategic management system, environmental management system and quality management system. The integrated system operates as part of the strategic management system. An integrated internal control framework such as COSO's Internal Control Framework will help organizations to deliver on both business and sustainability objectives, and to ensure reliable internal and external reporting.

- Move from a conformance- to performance-based view of accounting for sustainability impacts: A key functional competency for CMAs is the ability to evaluate their organization's financial reporting system and assess improvement strategies. Recognizing and measuring the external impact of environmental and social costs and benefits can help to manage an organization's wider impact on society and the environment. A conventional accounting system will typically recognize direct social and environmental liabilities that usually arise from legal and regulatory requirements (such as disability and flexible working time requirements, landfill costs, and other environmental levies, legal and due diligence fees, and any fines and remediation costs), because these costs need to be measured for external reporting and compliance purposes (and therefore will be reflected in company accounts). However, sustainability accounting calls for organizations to consider the cost or benefit of its products, services, and operations (which are not mandated by law or regulation) outside the boundaries of the organization. For example, although a transport organization pays for the fuel required to support its fleet of vehicles, the effect of the resulting greenhouse gas emissions are felt by future society. For more information, see The Integrated Management Systems and Improving Information Flows to Support Decisions sections of IFAC Sustainability Framework and the CMA Competency Map Sections (i) F2 — Risk Management and Governance and (ii) F6 — Financial Reporting.

Sustainability is a complex issue with no easy solutions; however, CMAs' training, which takes an integrative perspective to problem solving, along with the use of IFAC's Sustainability Framework can position members to take a lead role on this critical issue within their organization. ■

Stathis Gould is the senior technical manager, Professional Accountants in Business Committee, International Federation of Accountants. Todd Scaletta, FCMA, is the director, knowledge management, CMA Canada.



Managing control and performance: A partnership for success

In areas where new internal control operations are implemented, organizations must ensure that implementation is as seamless as possible to avoid hindering true performance.

By Sophie Tessier, CMA



Following the latest debacle of U.S. banking institutions, the extent of deregulation in that industry south of the border has been called into question. As new regulations will probably be adopted, one is tempted to believe that the markets have learned from their mistakes and that more emphasis will be placed on control. However, considering the short history of internal control, such a belief is at best naive and at worst symptomatic of a certain disregard for the past. Has this new financial crisis not occurred just seven years after the huge financial scandals that were Enron and Worldcom and the enactment of the Sarbanes-Oxley Act? This isn't the first time that market regulations changed in the wake of financial scandal. Most of the great developments involving internal control have occurred following a crisis situation, as shown in Table 1. These developments have extended the scope of internal control, transforming it from a simple concept primarily based on control operations into a much

more complex notion that includes the control environment and risk assessment.

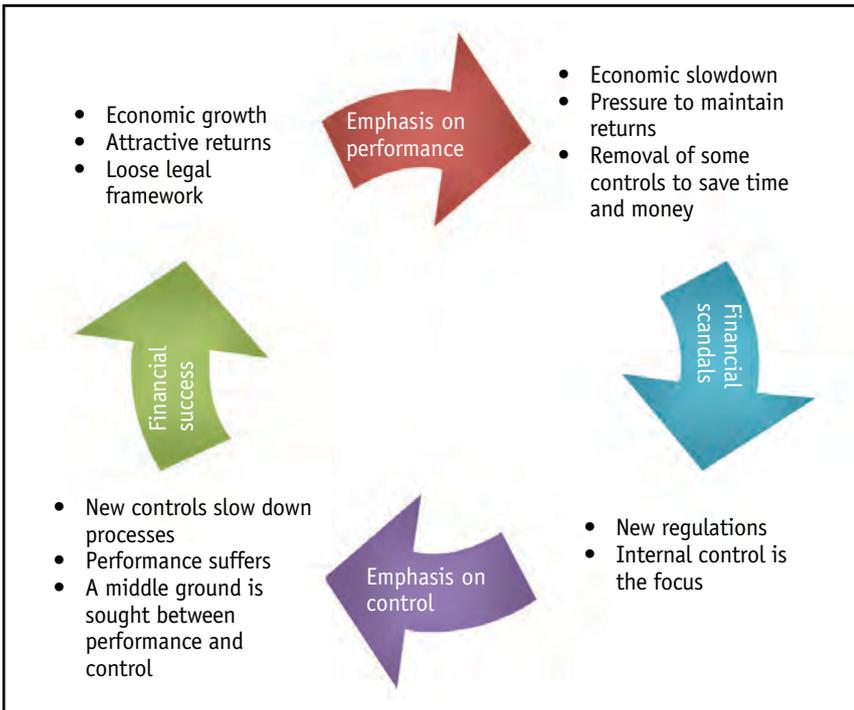
Still, these changes failed to keep other scandals from erupting. Upon closer examination, Table 1 discloses a cycle that seems to repeat itself. This cycle, which I call the financial scandal cycle (see Figure 1), appears to explain, at least in part, how and why internal control is consistently unable to prevent scandals.

The years leading up to a major financial scandal are usually marked by solid economic growth and handsome financial returns. After a few years of prosperity, a sense of security sets in, causing a certain amount of complacency in senior executives and market players in general (Rockness and Rockness, 2005). Greed then dovetails with the pursuit of higher returns, and a number of executives take the opportunities that are offered. The control environment becomes less important; risk aversion decreases, good news is celebrated, and so-so news is relativized; monitoring of internal

Table 1: Reactive changes to internal control

Crisis/Scandal	Before	During	After
1929 stock market crash	<ul style="list-style-type: none"> Strong economic growth. Unregulated markets. Easy access to credit. Greed. 	<ul style="list-style-type: none"> Economic slowdown. Fraud. Higher interest rates. Stock market crash. 	<ul style="list-style-type: none"> Securities Act of 1933. Securities Act of 1934. Creation of the Securities and Exchange Commission (SEC).
McKesson & Robbins (1938)	<ul style="list-style-type: none"> Large pharmaceutical and medical company involved in one of the greatest frauds of the 20th century. 	<ul style="list-style-type: none"> Total assets of \$87 million, of which \$19 million were non-existent. The president was an impostor. 	<ul style="list-style-type: none"> The American Institute of Accountants set up a special committee on audit procedures. First official definition of internal control.
Illegal payments, international fraud (1970s)	<ul style="list-style-type: none"> Economic prosperity (postwar). New markets (third-world emerging nations). Greed. 	<ul style="list-style-type: none"> Illegal payments (bribes) offered by large companies to foreign governments. 	<ul style="list-style-type: none"> Foreign Corrupt Practices Act enacted in 1977 to make bribes illegal. Provided for legal sanctions against senior executives. These provisions were subsequently removed in response to powerful pressure from lobbyists.
Bank crisis (1980s)	<ul style="list-style-type: none"> Somewhat loose legal environment. 	<ul style="list-style-type: none"> Fraud in banking circles, which led to several failures. 	<ul style="list-style-type: none"> "COSO framework" redefined internal control and identified five components: <ul style="list-style-type: none"> - Control environment - Risk assessment - Information and communication - Control activities - Monitoring
Enron/Worldcom	<ul style="list-style-type: none"> Loose legal environment. Economic health. Attractive returns. 	<ul style="list-style-type: none"> Losses of about \$200 billion due to fraud. Problem with independence of auditors. 	<ul style="list-style-type: none"> Sarbanes-Oxley Act. Provided for legal sanctions against senior executives. Pressure from lobbyists to reduce the scope of the act.
Bank crisis (2008)	<ul style="list-style-type: none"> New financial tool. 	<ul style="list-style-type: none"> Flawed risk assessment. Call for increased regulation. 	<ul style="list-style-type: none"> Forthcoming ...

Figure 1: The financial scandal cycle



human nature being what it is, only one question remains: “When is the next slackening due?” For there will be a slackening. The cycle is complete, and the cycle begins anew. That’s the law of Tao (yin-yang) as described by Chinese philosophers: whenever a situation reaches an extreme, it swings to its opposite.

A new approach to managing performance and control

The cycle shown in Figure 1 shows that performance and control are currently perceived as two separate components of business management. Indeed, textbooks and courses available to future managers introduce these concepts sequentially. With such a dualistic approach, it’s easy to ignore or at least to minimize one of these two components depending on whether it’s a period of crisis or prosperity. After each crisis, there is an increase in the scope of internal control; but what’s the use if it’s only to minimize it when everything comes back to normal? All of this may appear to be inevitable, but it isn’t.

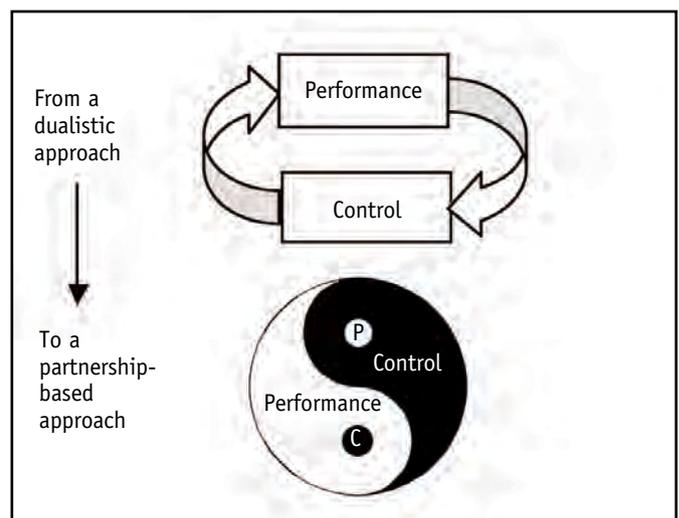
Indeed, the law of Tao goes on to state that where an extreme position is not attained, there is no swing to its opposite. Accordingly, for the attainment of an extreme position to be avoided, its opposite must be available in sufficient quantity. In more concrete terms, this means that if an acceptable level of control is maintained throughout a performance phase, a swing to the control extreme may be avoided. It all seems obvious, and yet history shows that achieving such a balance is not easy. It can only be done by changing mindsets rather than implementing new controls. The cycle of financial scandals must be broken; otherwise it will be repeated over and over again. We must therefore move from a dualistic approach to

control is somewhat abandoned, and new controls that should be implemented are postponed – attention is focused on performance rather than on control.

The economy then begins to show signs of slowing down. In spite of everything, investors who have become accustomed to substantial returns require that they be maintained, even if organizations are no longer performing to the same level as before. Some controls are then eliminated in the name of flexibility, to save time and money. Rules are bent, although no harm is intended (Peasnell *et al.*, 2000). Since the control environment has already slackened, this attitude is not criticized. In most cases, it’s just a matter of getting through the economic slowdown. In other cases, fraudulent intentions are added to the equation.

Inevitably, the situation deteriorates to the point where financial scandal rocks the markets. The search is then on for a scapegoat. Fingers are pointed at internal control. This defence mechanism failed, because it was unable to detect emerging problems. So there must therefore be a flaw in the system. Once a scapegoat has been identified, the fun really begins. New laws and regulations are enacted (Heier *et al.*, 2005). The next time, internal control will fill the bill. For a little while, everyone’s attention is focused on control. Senior executives speak of integrity and compliance, shouting from the rooftops that the control environment is paramount. More and more controls are added. They become an end in themselves, but that’s okay, because the objective is attained: investor confidence is restored. Time passes, and financial scandals are no longer making headlines. The economy gets stronger and positive returns make a comeback. New controls, hastily implemented to comply with new legislation, are redesigned and enhanced. A certain balance is achieved. Unfortunately,

Figure 2: A partnership-based approach to managing control and performance

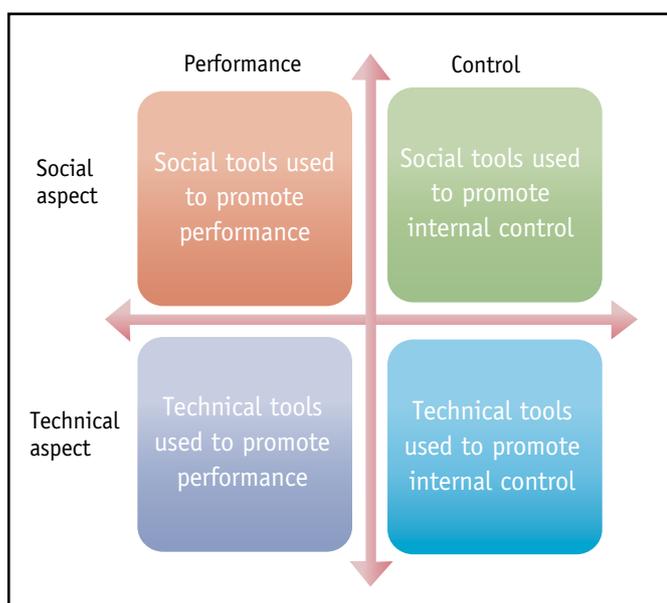


one that is based on partnership. Control and performance must be seen as complementary, as shown in Figure 2, even in times of prosperity or crisis.

Practical implications

Such an approach involves two types of practical implications. The first is encountered at the level of the management control system. The executives of a business must be able to make an overall assessment of the performance management and control system to ensure that there is a balance between these two basic components. One simple solution consists in drawing up a list of the controls that are applied within the business — both technical and social — for each of the two components. Technical controls are based on procedures, rules and standards, whereas social controls call upon the emotional side of employees (e.g. a company’s values). A simple 2x2 matrix, as illustrated in Figure 3, and a little bit of reflection will make it possible to ascertain whether or not the business is well balanced and to ensure that the control system survives any changes caused by the financial scandal cycle.

Figure 3: Assessment of management systems



The second type of practical implications is encountered at the level of the controls themselves. First, some controls have an ability to be used for both performance and control. These controls have the advantage of not weighing down the system. For instance, an organization’s slogans are social controls that can simultaneously instill a desire to achieve the company’s objectives while complying with the rules of ethics (e.g. “Being successful ethically” and “Doing well by gaining the confidence of others”). Technical controls can also jointly ensure performance and control. For instance, a British shoe repair business uses its primary strength — the quality of its customer service — to reduce its main business risk — employee theft. A sign posted on the firm’s cash registers has the following message: “No charge for repair if the attendant fails to provide you with a receipt.” Not only is this simple control appealing to

the customer, but it also forces employees to record each and every service provided (instead of putting the money into their own pocket). Naturally, not every control can be used for both control and performance purposes. However, the simple act of paying attention to this possibility reinforces the idea that the two components can be paired together. In situations where this is impossible, a system can still be enhanced by incorporating into each component a little bit of its opposite, as advocated by the law of Tao (see Figure 2). A performance component (in white) is “added” to the control component (black circle in the white area) and vice versa. In other words, where a performance management system is implemented, it pays to make sure that the spirit of internal control is blended into it. For example, an overly aggressive compensation system for salespersons may generate dysfunctional behaviour on the part of the sales force. However, a compensation system that is based on best management practices will alleviate the pressure

Technical controls are based on procedures, rules and standards, whereas social controls call upon the emotional side of employees (e.g. a company’s values).

that is being put on the sales force to achieve results at any cost, while promoting the behaviour that an organization is hoping for. Similarly, where new internal control operations are implemented, it must be ensured that their implementation is as seamless as possible to avoid hindering true performance, which is sustainable and based on the creation of value. This can be achieved by making an effort to anchor the new operations within the organization’s systems. It should be stressed that the practices suggested in this article are applied by organizations that stand the test of time, e.g. those that bank on sustainable performance. Sustainable performance is not permanently impaired by economic slowdowns, nor is it amplified by speculative bubbles. Rather, this type of performance is based on a mix of innovation and control that is more an art than a science. The Swedish term “lagom,” which means “just enough,” sums up this idea rather nicely. For control and performance to enter into a successful partnership, there must be just enough performance and just enough control. Maybe when this balance is achieved we will see the end of the financial scandal cycle. ■

Sophie Tessier, PhD, CMA, is an assistant professor at HEC Montréal. She teaches various management accounting courses while pursuing her research in management control.

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New leadership for CMA Canada

Joy Thomas, MBA, FCMA, C.Dir., newly appointed president and CEO

By Andrea Civichino

She's lived in five different provinces and held leadership roles in two CMA provincial offices. Joy Thomas is now ready to make Ontario her new home as she begins her tenure as president and CEO of CMA Canada.

Thomas succeeds Steve Vieweg, who retired from the Society in May 2009 after serving as president and CEO for six years. Thomas was most recently the president and CEO of CMA Alberta, a position she held since 2005. In 1996, she joined the team at CMA Nova Scotia. She confesses that she originally thought her time with CMA "would be a short-term move from a career in corporate controllership."

"I had no idea the impact the organization would have on me," she says. "I must admit, I had thought the not-for-profit sector operated in a less business-like fashion ... nothing like the corporate business environment I was used to. What I quickly realized was that not-for-profit had unique and challenging business issues; working with a volunteer board (and a new boss every year); balancing the need to be fiscally responsible and manage a bottom line while advancing the interests of a very diverse membership; committed to performance measurement and being results driven; finding unique space in a highly competitive and cluttered marketplace."

"I live and breathe this designation and I know CMA is the designation of choice for professional accountants in management."

Prior to CMA Canada, Joy worked within the manufacturing, retail and communications sectors in Halifax, Nova Scotia where she provided expertise in cost, management and financial accounting.

For the past decade, she has been an active contributor on many national committees for CMA including: the chief executive, the public affairs and communications (PAC)

team, and the accreditation administration committee (AAC). In addition, she is an integral member of several key national task force teams involved in strategy formulation and enterprise risk management. As president and CEO of Alberta, Thomas was responsible to the board for the strategic direction and overall leadership for affairs of a membership of over 6,600 CMAs. She was awarded the E.L. Whitman gold medal for outstanding academic achievement upon graduation in 1993. In 2005, she was named a Fellow of the Society of Management Accountants of Canada (FCMA). The FCMA is a prestigious, national honorary designation that recognizes CMAs who, by their achievements, bring distinction to the profession and serve as a role model for others. Thomas is a member of the Canadian Association of Society Executives, Financial Executives International (FEI) and Women's Executive Network (WXN). She has been active on several boards including FEI - Atlantic, YMCA - Greater Halifax/Dartmouth, and audit committee member of Interuniversity Services Inc., Halifax.

Using the past to prepare for the future

Thomas earned her CMA designation in 1993 while working within manufacturing in a traditional cost accounting role and managing the corporate accounting function for a large (over 100 stores) retailer. She credits her family's entrepreneurial background for fostering her own interest in business. While she was in her 20s, Thomas worked alongside her family and learned the different aspects of operating a business. She says her entrepreneurial background, coupled with her CMA designation and the people she's met along the way have given her the strength and knowledge to help her conquer obstacles with confidence and effectiveness.

"There are no accomplishments that are mine alone," she says. "I am proud that I built a great team (in Alberta) but I had sage advice and support from my board. I am proud of the growth Alberta is now realizing after three years of



Joy Thomas is looking forward to working with her new team at CMA Canada, including Jean Rumble (left), manager, executive office.

planning and executing new initiatives, but that growth is a result of the team. But really, what I am most proud of is the culture we created. The team at CMA Alberta is passionate, enthusiastic and driven. I recently heard the statement 'Strategy is important, but culture eats strategy for breakfast'. I can attest to this."

I know it's very challenging to work as a professional accountant today. CMAs have to continually balance their future focused training — the performance side — with ever changing standards, meeting the needs of third party stakeholders and upholding the public trust — the conformance side. As an organization, we have to deliver products and services that assist members in managing those challenges."

Thomas adds that when she joined CMA Alberta, "we were seriously understaffed and slightly misaligned." "At the same time, we enjoyed a significant market share and were well regarded in the marketplace. It was definitely challenging, but also exciting to leverage the good qualities and to build a new albeit inexperienced (in CMA) management team," she says. "The highlight then was to keep everyone focused and be successful in meeting targets on three key objectives – improving member value, sustaining the designation through new growth and operational excellence."

Despite some of the challenges, since 2005 Thomas and her team have increased student enrolment (first time exam writers) by more than 400 per cent and achieved a number of other organizational objectives.

Having led both Nova Scotia and Alberta and participating on numerous national task forces, Thomas has developed a good understanding of the varying needs of the provinces and territories across the country. She says she's excited to work with her new team at the national office and servicing the needs of members across the country.

"I have met so many amazing members from all over Canada and I try to understand from them what we do well and what we can do better," she says. "I know it's very challenging to work as a professional accountant today.

CMAs have to continually balance their future focused training — the performance side — with ever changing standards, meeting the needs of third party stakeholders and upholding the public trust — the conformance side. As an organization, we have to deliver products and services that assist members in managing those challenges," Thomas says. "From an internal perspective, I have worked with volunteer boards and committees for many years and understand that environment. That is important when working within the CMA Canada partnership."

The road ahead

As the president and CEO of CMA Canada, her first order of business is to manage the process and execution of the Society's new strategic plan that's currently being developed by the Council of Chairs; strengthen the Society's international alliances by ensuring that CMAs have access to a wide network across the globe; and collaborate with the Society's provincial partners to ensure CMA Canada continues to play an important and relevant support role. "As CMA Canada is funded primarily by the partners, I will be seeking alternative revenue streams to reduce that reliance and redeploy more funds to member initiatives."

Thomas says her own personal commitment to the designation keeps her motivated to ensure that others, especially employers, also see the value in the designation.

"I live and breathe this designation and I know CMA is the designation of choice for professional accountants in management," she reinforces. "Most importantly, I am a CMA and it has had a huge impact on my career. I want all members to be proud of the designation and to receive value in terms of products and services, networking opportunities and career success. I see a future where employers demand the CMA and where students aspire to the designation," she says. "I want to be part of that journey ... that's my motivation."

Although Thomas is quite excited about her new home, there are a few things that she'll miss about Alberta: the staff and members of CMA Alberta, the mountains and the "can do" attitude of the people of the province of Alberta.

"I am becoming pan-Canadian since I will now have lived in New Brunswick, B.C., Nova Scotia, Alberta and Ontario," she says.

After settling into her new home and office, Thomas is looking forward to taking up swimming again.

"My husband and I are hoping to do more kayaking now that we will be minutes from Lake Ontario," Thomas says. "It's a pastime we loved in Nova Scotia, but we have looked rather silly in Alberta with those two big ocean kayaks attached to the car as we desperately searched for waves." ■

Andrea Civichino is the editor of CMA Management.



When will I get my money back?

While studying past performance does not guarantee that you'll have certain knowledge about what will happen in the future, it can provide the basis for an unemotional, disciplined approach that has been successful for many long-term investors.

By Michael Low, CMA

It's a fact that Canadian investors know all too well by now: In 2008, the S&P/TSX Composite (TSX) fell 35 per cent, representing the largest calendar year decline for the index since 1931. For many investors, the disappointment of last year has fueled a doom-and-gloom mentality for 2009 and beyond. People are fearful that a similar drop will happen again this year so they're avoiding the stock market.

If that describes you, you might find it's more helpful to use a broader historical context as your guide. While studying past performance does not guarantee that you will have certain knowledge about what will happen in the future, it can provide the basis for an unemotional, disciplined approach that has been successful for many long-term investors.

If you define a bear market in Canada as any time the TSX (which is an unmanaged index that cannot be invested directly into) falls 20 per cent or more, you will discover that we are currently in Canada's 11th bear market since the mid-1950s. In each of the previous instances, the Canadian market has rebounded to its previous peak and subsequently risen to higher levels. It has just been a matter of time. In the case of the fastest rebound, it took just nine months to return to the prior high. The slowest required 73 months. The average was 42 months, or about three-and-a-half years. Dividend reinvestment has accelerated that bounce-back process, as investors were able to invest more when prices were low. Dividend reinvestment cut the average recovery time almost in half to roughly 23 months.

In fact, the effect is even more pronounced when you consider what happened if people added regularly to their investment portfolio. Those who kept making stock purchases (starting six months after the market peak) and reinvested their dividends would have reduced the average recovery time to about 14 months. (Keep in mind that dividends may be increased, decreased or eliminated at any point without notice.)

The key lesson from this is that rather avoiding stock purchases, a bear market may actually be presenting you



with a good time to add to your holdings. However, remember the importance of diversification for your portfolio. While diversification cannot guarantee a profit or protect against loss, it does mean you aren't counting on a small selection of investments to be the ones that rebound. By owning a wide variety of investments, you can help protect against unexpected disappointments.

Quality is also important. Quality investments are more likely to have the ability to survive challenging times. Plus widespread price declines mean that the difference between returns on riskier and less risky investments may be smaller than usual, so additional risks may be less worthwhile.

Of course, we never know when the market will begin another bull run, and no doubt there's still plenty of bad economic news to be concerned about. Nonetheless, history tells us that adding money to a diversified, quality equity portfolio now could enable you to reach your long-term financial goals sooner. It's a conversation you might want to have with your financial advisor. ■

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Customization — More than meets the eye

Every year, organizations spend a substantial amount of money customizing their software to make it better fit their day-to-day activities. Many find that they're getting into more than they bargained for.

By Jacob Stoller

Enterprise business software, more than any other business tool, directly impacts the way a company runs. Whether the task at hand is entering an order, generating a report, or communicating with other employees, the person executing the task is invariably subject to what the company's business software can and can't do. It goes without saying that the fit between software and the business is vital.

When the marriage between software and business is strained, companies face two options: change the business process to fit the software, or change the software to fit the business. Small companies tend to choose the former. Their processes involve few people, and are therefore flexible enough so that they can be made to fit "out of box" software packages. Furthermore, they're typically not ready to undergo the costs of customization. When companies grow and employ more people, however, their processes become less flexible, and the need to customize enters the picture.

The need to customize shows up in many forms. Perhaps accounting people can't get the financial information they need from an existing application, and need to develop reporting capabilities that are more specific to their business. Often, there's a need to get different applications interacting — for example, the manufacturing system that handles the maintenance of equipment and the accounting system that handles maintenance costs. Another area is workflow — the specific areas of software functionality that relate to specific job tasks such as the handling of an insurance claim.

The costs and risks of customization depend on how deep the modifications go. According to Michael Kulik, president of Digital Vantage Point, a Markham, Ont.-based provider of Microsoft-



based e-commerce solutions, there are three levels, the simplest being what he refers to as configuration. "That's the least expensive activity," Kulik says. "That's where you take an enterprise planning system (ERP) or financial system, and you configure it, and use its existing flexibility to try to capture the business logic that you want. There are some solutions that let you do things like that."

To accommodate companies that choose to modify further, many software applications come equipped with toolkits which allow an experienced programmer to change the features of the software within a specific set of guidelines. "This is where you use the solution's scripting language or development kit to modify the way it behaves," says Kulik.

Those that find the above too restricting may choose to go to the third level and create original code to modify their application. In this case, a unique version of the software is being created, so it's critical that



the programmer is highly qualified to handle the project. “Here you’re relying on whoever created these customized things to not only understand how to customize the solution, but most importantly, understand how to maintain the integrity of the existing solution in conjunction with the new features,” Kulik says.

The ratio of service costs to software license costs increase dramatically as companies get larger and their need for customization grows. According to Erik Kaas, director of product management for Sage Accpac, the figure ranges from 1:1 for a small business using a basic accounting package to as high as 12:1 for large companies using enterprise applications by SAP or Oracle. When companies move from “out of box” to an ERP or accounting application, they’ll typically see a jump from 1:1 to 2:1 or 3:1, and many decision makers are suddenly faced with significant expenses that they’ve never budgeted for. “We see that a lot with companies that have outgrown Simply (a basic accounting package provided by Sage Software),” Kaas says. “It’s almost like sticker shock.”

Customization challenges

Customization also poses a number of special risks that organizations may have no experience with. There are potential compatibility issues – customizing an accounting system, for example, might compromise other features, or impact its ability to interact with the company’s HR system. Then there’s the problem of dependence on vendors. “If the company that did the customizations disappears,” Kulik says, “you really need to know that you can somehow support and maintain the customized work that’s been done.” And don’t rely on the original software vendor to bail you out if you get into trouble, he warns. “Manufacturers of ERP systems will very quickly deny or absolve themselves of responsibility when they discover that they’re dealing with problems that came out of customized code.”

There are non-technical risks as well. “For customized solutions, to me the very subtle risk is in the assumption that all your requirements are going to be answered,” says John Lyng, a Toronto-based independent programmer and consultant. “Let’s assume, for example, that an integrator

satisfies all of your requirements. But your requirements are not forever – they’re not frozen in time. So suddenly, one year or so after, you have this package that does everything you wanted it to do a year ago, but suddenly it doesn’t do everything you need it to do now.”

Aligning requirements with specifications involves more planning than most organizations are used to. “This requires really good cooperation between business and IT,” says Howard Kiewe, senior analyst for London, Ont.-based Info-Tech Research. “To really get the most bang for your buck, you need to go back to your workflow, look at your strategies and business objectives and ask how the technology can support them. The best approach is a collaborative one where all the parties involved can sit down, brainstorm, and try to think outside the box a little bit, and then try out ideas without implementing them.”

“Manufacturers of ERP systems will very quickly deny or absolve themselves of responsibility when they discover that they’re dealing with problems that came out of customized code.”

As expected, the demands on staff are considerable. “This means that your staff has to become much more familiar with your business from a very formal point of view,” Lyng says. “They might have a day-to-day view of it, but to actually put in a formal point of view might be a new experience for them, and it might take them a little bit of time to do that. Businesses will need to prepare for these types of hidden costs.”

Lyng feels that the effort pays off, however. “With the banks, I’ve noticed that it’s actually a big benefit for them,” Lyng says. “You’re forcing subject matter experts to really look at what they’re doing, and codify it, and they generally do a good job once they put their mind to it.” Often, this uncovers new options. “When you start doing test cases, you start saying, ‘I didn’t realize there were all these possibilities,’ ” he adds.

This kind of dialogue can also help organizations find ways to work better with the existing features in their software. As well, it positions them to go to the market with better-defined requirements and seek possible alternatives to customization. One important area that should not be overlooked is independent software vendor (ISV) solutions – pre-built add ons that meet the requirements of specific verticals, or specific business areas such as e-commerce.

“Companies don’t realize that they often have the choice between customizing and looking for a pre-existing add on,” Kulik says. “The idea is that developers might say, ‘oh, let’s customize – we can build our own e-commerce system.’ But one of the ways to save money is to consider buying an add on that’s already established. It’s a great way to save money; it’s a great way to get a stronger feature set.” ■

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



Foreign investment in Canada — A love-hate relationship?

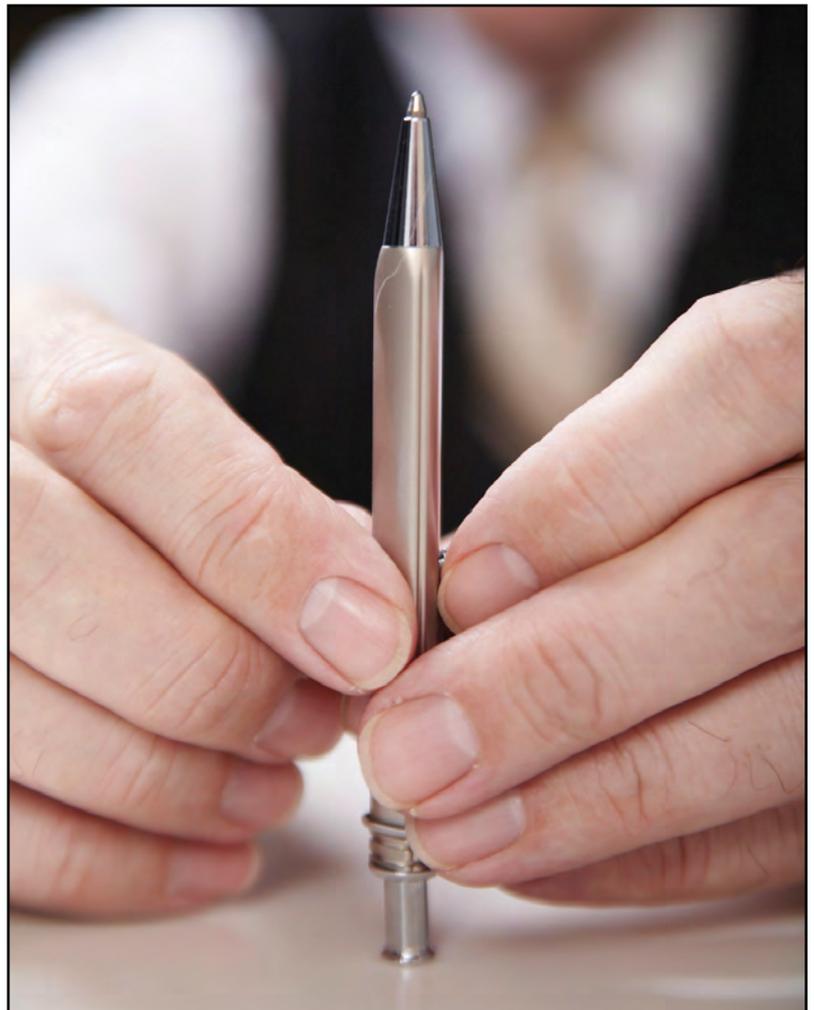
Does Canada lose another little piece of its soul when one of its corporate icons falls into the hands of foreign owners? This question continues to bedevil us as companies such as The Hudson's Bay Company, Labatt, Seagram, Inco, Falconbridge, and Dofasco are taken over by offshore interests.

By Alan Young

From the protectionist Trudeau-era Foreign Investment Review Act to the more welcoming approach of former prime minister Brian Mulroney's Investment Canada Act (ICA), Canadian governments have long sought to strike the appropriate balance between encouraging foreign investment — which most agree is in Canada's economic interest — and developing a vibrant, indigenous business community including head offices spinning off direct, indirect and induced economic benefits across the country.

The most significant amendment to the ICA was the introduction of a process to review investments if the Minister of Industry has reasonable grounds to believe that a foreign investment “could be injurious to national security.”

The most recent attempt to find the right balance arose in unusual circumstances. When Finance Minister Jim Flaherty stood up in the House of Commons in late January to table his 2009 Budget, Canadians expected, and received, a blueprint to deal with the worst economic crisis facing Canada in a generation. They did not, however, expect measures that would fundamentally alter one of Canada's most important economic



framework laws — the Investment Canada Act. In a highly unorthodox move, included in the 550-page Budget Implementation Act, which included many of Minister Flaherty's budgetary objectives, were provisions that will affect merger and acquisition activity in Canada's corporate sector in the years ahead.



Introducing a national security test

The most significant amendment to the ICA was the introduction of a process to review investments if the Minister of Industry has reasonable grounds to believe that a foreign investment “could be injurious to national security.” Adding a national security test to foreign investments is not unusual. Other countries, including the United States, have similar provisions. Furthermore, former prime minister Paul Martin’s Liberal government introduced an identical amendment in the fall of 2005 which died on the Order Paper when the Martin government was defeated. There is little doubt, however, that a national security review increases the potential for a greater degree of politicization, and uncertainty to future foreign investments.

Adding a national security test to foreign investments is not unusual.

A definition of what could be harmful to national security was not offered in the legislation. Moreover, although regulations to accompany the ICA amendments are expected in the months ahead, it is anticipated that no attempt will be made to add clarity to what may or may not constitute an injury to national security. This will give the government of the day maximum flexibility to deal with each investment on its own facts and merits. Interestingly, it is not only the usual triggering mechanisms of the establishment of a new business or the acquisition of control of a Canadian business by a non-Canadian that lead to a national security review. All that is required is an investment “in whole or in part” of an entity with any of its operations in Canada. Thus, the scope of the national security provision is deliberately quite broad. The Minister of Industry continues to be responsible for the ICA (with the exception of investments in cultural businesses). However, the full cabinet must be included in the decision-making process if the Minister, following consultations with the Minister of Public Safety and Emergency Preparedness, believes an investment would be injurious to national security or is unable

to determine if it would be injurious. And it is the cabinet that will make orders to the potential foreign investor to take any measures that the cabinet considers to be advisable to protect national security. Accordingly, foreign investors caught by the national security test will be advised to take necessary and prudent steps to factor in the interests of all cabinet ministers.

Reducing barriers to foreign investment

While the national security test may be seen as erecting a barrier to certain foreign investments, other notable changes to the foreign investment regime sent a positive signal that Canada is open to foreign investment. The threshold for review of an investment by a WTO investor was raised from \$312 million in assets to \$1 billion on a five-year phase-in basis (the initial threshold will be \$600 million). In addition, the much lower threshold previously set for four particularly “sensitive” sectors of the Canadian economy, namely cultural businesses, transportation, financial services, and uranium production were eliminated for the latter three. The good news for foreign investors considering Canada as a destination for their capital is that these important changes will reduce the number of transactions that are subject to the ICA. A related change to the increased thresholds triggering the application of a review that may be of particular interest to CMAs is that investments will now be measured in terms of “enterprise value” rather than the gross assets of the target company. As noted in the June 2008 Competition Policy Review Panel report entitled *Compete to Win*, using gross assets as the standard for measuring the size of Canadian businesses was out of date, given that the value of many service and knowledge-based companies is found in its employees, intellectual property and other intangible assets that are not recognized in a balance sheet. The Harper government accepted the Panel’s recommendation to replace gross assets with enterprise value as the new measure. Unfortunately, the legislative amendments did not define “enterprise value.” Guidance was provided, however, by the Panel as it noted enterprise value “is equal to the sum of the price to be paid for the equity of an acquired business and the assumption of liabilities on its balance sheet minus its current cash assets.”¹ Hopefully, regulations or an Investment Canada guideline will provide greater clarity to this new measure.

The method used to amend the Investment Canada Act — a massive omnibus budget bill — was unusual and was criticized as circumventing a thoughtful and thorough review by Parliamentary Committees focusing specifically on the new measures. Nevertheless, these important changes are now the law of the land. They represent the latest attempt by the Government of Canada to balance the desire for foreign investment against competing national economic and social policy objectives. ■

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¹ *Compete to Win*, Final Report — June 2008, Competition Policy Review Panel; pages 31 and 111.

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Analysts puzzle over “true cost” of 2010 Winter Games

According to the Vancouver Organizing Committee (VANOC) website, costs have been earmarked at \$1.63 billion, with 74 per cent provided by the private sector and 26 per cent through the public sector.

By John Cooper

When Canadians witness the lighting of the Olympic torch to open the 2010 Olympic and Paralympic Winter Games next February in Vancouver, they will be renewing their membership in a growing club of taxpayers who have funded Olympic events.

The question is: Will they get value for their money? Some critics say B.C., the host municipalities and the Canadian government will take a financial bath, while proponents say it's the proverbial shot-in-the-arm the Vancouver area needs during troubled economic times.

Many economists and cost-benefit analysts are busy figuring out the true costs of hosting an Olympic Games — and sometimes-dicey economic, infrastructure and job creation predictions add to the puzzle. A big issue concerns the post-Games scenario and the ability to recoup some of the millions of dollars invested in building the nine competition venues (in Vancouver, West Vancouver, Whistler and Richmond) and six non-competition venues (split between Vancouver and Whistler).

Absorbing the costs

According to the Vancouver Organizing Committee (VANOC) website, costs have been earmarked at \$1.63 billion, with 74 per cent provided by the private sector and 26 per cent through the public sector.

Certainly the B.C. government is optimistic about the outcome. According to a provincial tourism spokesperson, the Games will generate \$4 billion in economic benefits, more than 250,000 tourists and 130,000 additional trips to Vancouver's



downtown. Additionally, 90 per cent of Games-related contracts have been awarded to Canadian firms and Aboriginal-owned businesses were awarded \$50 million in contracts. Job creation is pegged at about 200,000 jobs.

But there's also the downside: security costs are unrecoverable (the B.C. government has capped it at \$87.5 million), and there are estimates from various sources that put the total price tag at \$6 to \$7 billion, mainly based on related infrastructure improvement spending like the Sea to Sky Highway project (estimated at \$1 billion), transit projects in Vancouver (a \$2 billion estimate) and the expansion of the Vancouver Convention Centre (another \$1 billion).

Back in 2002, when B.C. first sought to host the Games, then-bid head Jack Poole argued in a news conference that organizers should not be held to “definite numbers.” Estimates then included a potential profit of \$200 million or, worst-case, a break-even situation.

A 2003 report by the Canadian Centre for Policy Alternatives (CCPA), entitled *Olympic Costs & Benefits*, chided the Olympic Bid



Corporation and its partners (federal, provincial and municipal governments) for not undertaking a cost-benefit analysis well in advance; the report's authors found several implications:

- A substantial net cost to the public make the games unattractive from a financial perspective and governments would have to offset costs through increased taxes or debt;
- Minimal positive economic impacts, few job opportunities and a high subsidy-to-job ratio;
- Benefits would be restricted to the host cities and B.C.;
- The question of whether or not the Games' benefits are a higher priority than other services covered by taxpayer dollars.

Olympic pride

Dr. Marvin Shaffer, co-author of the report (with Alan Greer and Celine Mauboules), says the picture

hasn't changed.

"I think it's pretty clear that there will be significant net costs to governments and taxpayers," says Shaffer, a consulting economist and adjunct professor in public policy at Simon Fraser University. "From the infrastructure side there are definite benefits – Sea to Sky (Highway), housing, jobs generated by the investments (but) what we said in 2003, and it's proven to be correct, is that there will be a significant net cost. Part of the problem has been that the organizers have not documented all of the resources that have to go into the Games."

On the intangible side, "people enjoy hosting the Games. There is pride and spirit and there are jobs in building the facilities and in the incremental tourism," Shaffer adds. "But the cost per job is very high — this is an expensive way of doing it. People say, 'Isn't this great, we're doing this during a recession,' but the fact is that most of the work has already been done."

Dan Mason, professor of sport management at the University of Alberta, says it's hard to measure the long-term impact. "The complexity of these projects is difficult in terms of doing impact

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assessments (focused on) getting your money back. For instance, in Vancouver the Sea to Sky Highway is a project that has been discussed for decades. Though the Olympics sped it up, it was going to be done eventually.”

A look at previous world-class events paints a fairly even failure-or-success picture. For instance, the 1976 Summer Olympics cost Canadians, and the host city of Montreal, \$2 billion, a debt that took 30 years to pay; Montreal was left with an Olympic Stadium (featuring a retractable roof that never functioned properly) with the dubious name of “The Big Owe” and no permanent tenants.

The 1988 Calgary Winter Olympics was more successful, if only on paper. Funded by the federal government (\$225 million), Alberta (\$125 million) and Calgary (\$50 million), with \$398 million from the ABC network, \$45 million from CTV, and \$90 million in sponsorships and licensing, the Games earned an early-estimate profit of \$38 million which was later viewed in light of federal and provincial subsidies of more than \$400 million, arguably putting those Games in the financial loss column. On the plus side, venues in Calgary, Banff and Lake Louise continue to be used for sporting events – and the city even celebrated the 20th anniversary of the Games last year.

As American business visionary John Sculley said, “No great marketing decisions have ever been made on quantitative data,” and certainly in the U.S., where rah-rah marketing and sports go together, the 1996 Atlanta Summer Games were no exception. They appealed to a patriotism and sense of American pride; without question, those games were a financial success and resulted in long-term benefits, with Olympic venues being subsequently used for professional baseball and amateur sporting events and athletic dorms converted to residential housing for Georgia State University; not only that, the \$1.8 billion Atlanta Games resulted in a profit of \$10 million, thanks to sponsorships and ticket sales.

The results of other events have varied:

- The 2000 Summer Games in Sydney, at a cost of AUSS\$6.6 billion (C\$5.66 billion) generated no net benefits in terms of a much hoped for increase in tourism; the public contribution was \$2 billion;

- The 2006 Turin Winter Games, at a cost of EUR\$1.7 billion (C\$2.85 billion), was racked by problems, from staging and transportation issues to potential bankruptcy, resolved after the Italian government stepped in to cover financial shortfalls. The games also suffered low ticket sales and a drop-off in interest, especially among North American television audiences;
- Most recently, the 2008 Beijing Summer Games were touted by China as a success, although the final financial numbers have not been shared (but tourism during the Games was 22 per cent less than expected).

Many economists and cost-benefit analysts are busy figuring out the true costs of hosting an Olympic Games — and sometimes-dicey economic, infrastructure and job creation predictions add to the puzzle.

And in the midst of economic uncertainties, the United Kingdom is having reservations about hosting the 2012 London Summer Games, with cabinet ministers balking at potential costs of up to \$20 billion, leading to discussion of an “austerity Olympics” with cut-rate venues and events.

But for Vancouver in 2010, the University of Alberta’s Mason says what really needs to be done is to consider the intangibles, essentially asking if this profile-raising event will make Vancouverites, British Columbians and Canadians feel good about themselves.

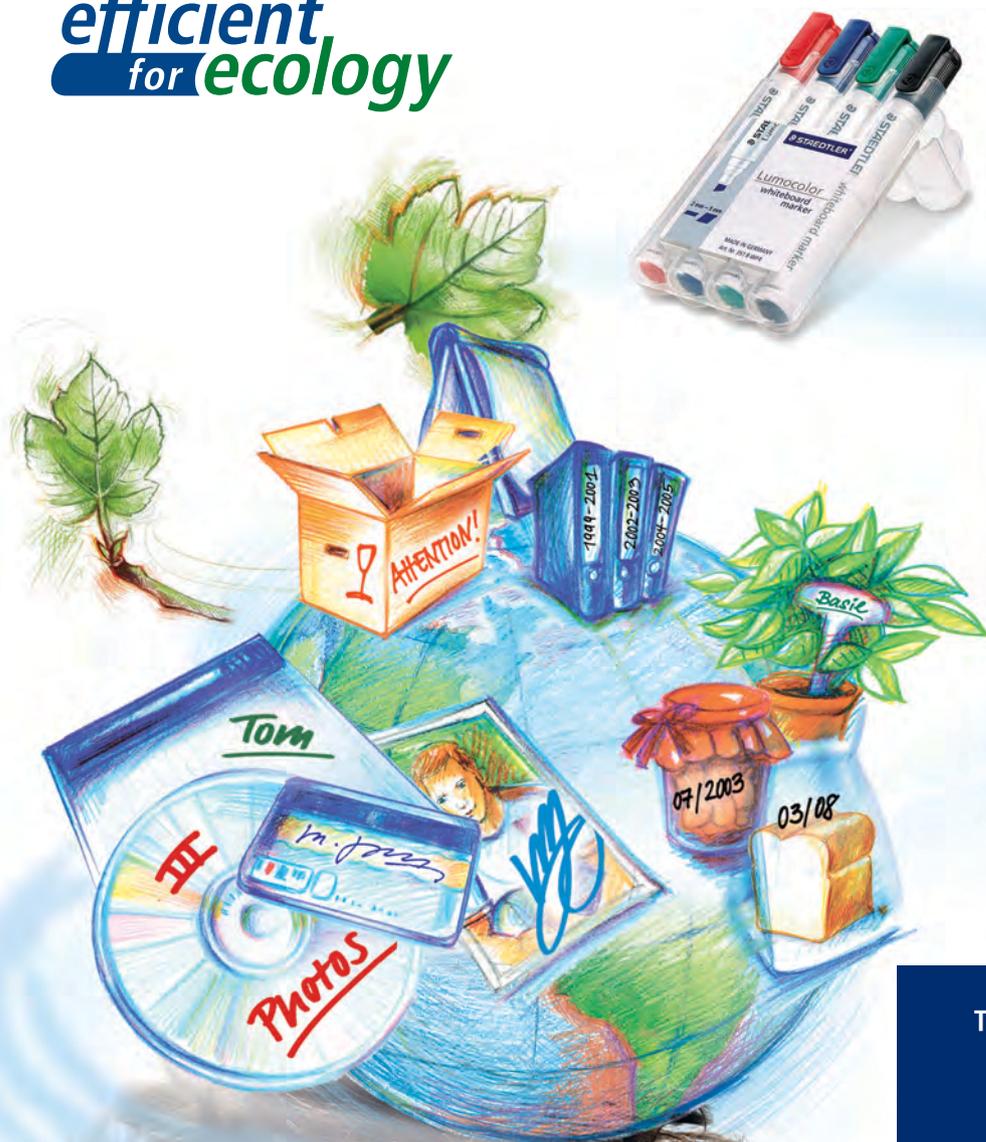
And what really helps communities long-term is to tie their infrastructure commitments to recurring sporting events, adds Mason. For instance, Melbourne, Manchester and Edmonton have all made sports infrastructure investments and those facilities continue to be used for world-class events, usually on a five-year cycle. In Edmonton, facilities built for the 1978 Commonwealth Games were used for the World University Games in 1983, the 2001 World Championships in Athletics and the 2005 World Masters Games. The City of Manchester Stadium, built for the 2002 Commonwealth Games, was designed specifically to be used post-Games by the Manchester City Football Club. And in Melbourne, the sites created for the 2006 Commonwealth Games have been extensively used in the succeeding years.

“The cities that have the infrastructure for these events can continue to get income from them in subsequent events,” says Mason. “You need to try to actively host events that keep [the facilities] going. You can’t let the facilities become white elephants.”

And that may be just the ticket for Vancouver when it enters the post-Games era. ■

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

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