

Personal debt

• Organizational success

• Regulatory compliance



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Strong negotiating
principles set the
foundation for a deal

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product marketing manager,
LightHaus Logic Inc.

Understanding the customer

Using his background in engineering and business, Kambiz Asrar-Haghighi, CMA, helps the retail industry connect with customers.



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from the **editor**

Fail to plan, plan to fail

If you've ever experienced a power failure while working on an important project on your computer, you'll understand the feeling of panic that ensues after realizing that the document you've been working on for hours may be gone for good. Although there are ways to recover a lost document, imagine losing something that may not be as easy to recover — your company's server and its data backup. The reality is, there may come a time when your company will experience a catastrophic loss of computer data.

Given the human tendency to always look on the bright side, many companies ignore disaster recovery and contingency plans because disasters seem like unlikely events. An earthquake or a major catastrophic event will never happen in Canada, right? Unfortunately, there are many factors that have the potential of interrupting the way a company conducts business.

Good business continuity plans will keep a company up and running through interruptions of any kind; whether they are power failures, IT system crashes, natural disasters, supply chain problems or even theft. Business continuity planning helps a company continue to make money, not only after a natural disaster, but in the events of minor disruptions as well. Arian Soheili, CMA, joins *Management* this month with his article "You only crash once: A practical approach to IT disaster recovery." He illustrates a real-life scenario of a \$15 million electronic distributor that experienced the unfortunate loss of its computer server due to theft. Since the client didn't have an adequate backup system or a business contingency plan in place, Soheili explains the challenges both parties endured; along with the process they had to undertake to recover the lost data.

CMAs are known to rise to the challenge; whether it's leading a new team, working in times of adversity, or like Debbie de Lange, CMA, starting a new career abroad. After having worked in engineering, finance and strategy consulting in Canada, de Lange left her Canadian roots and accepted a position in Boston as a strategy and international business professor. In her article "An American experience: Some advance thinking required before making the move," she offers a personal account of some of the challenges she faced during the transition and offers valuable points to consider that are a critical part of making a success of a move abroad.

Lastly, I'd like to congratulate three CMAs who successfully placed in the top 10 in the Articles of Merit Awards. Each year, the Professional Accountants in Business (PAIB) Committee invites all International Federation of Accountants (IFAC) member bodies to nominate articles for its award program. Of the three articles nominated by *Management*, two made it into the top 10. Congratulations to Nicole Scarlett, CMA, Jean-François Henri, CMA, and Marc Journeault, CMA.

There's no doubt, CMAs create value in everything they do. See the difference CMAs are making by visiting the new recruitment website becomeacma.com.



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Canada



CMA Management

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A professional engineer with a passion for technology, Kambiz Asrar-Haghighi, CMA, combines his background in engineering and business to help the retail industry gain a clear understanding of trends, customer behaviour, retail operations and escalating business changes.

By **Andrea Civichino**

Cover Photo: venturi + karpa

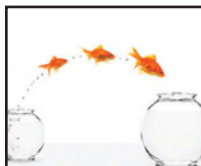
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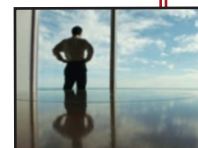


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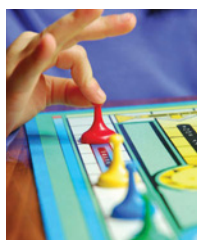
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An American experience: Some advance thinking required before making the move. Although living and working outside of Canada can be an exciting career opportunity, there are many factors to consider before making the big move.

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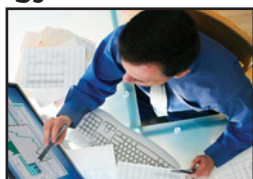
Swimming through the sea of personal debt. Personal bankruptcy in Canada continues to climb; mainly because of the high levels of debt many Canadians are carrying.

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Maximizing your competitive position

Innovate the Pixar Way

Bill Capodagli and Lynn Jackson, authors of *The Disney Way*, are back as they deconstruct the elements of Pixar Animation Studios' success — a computer animation studio that combines proprietary technology and world-class creative talent to develop computer-animated feature films — in their new book *Innovate the Pixar Way*. While Pixar's story is about bringing the highest levels of talent to the animation process and creating feature films to stand the test of time, the authors suggest that every company out there has its own narrative. Visualizing, shaping and connecting are the primary keys to success. Whether you're selling shoelaces, running a start-up or a major animation studio, the story is the key.

While Pixar places a premium on quality, the company also encourages a playground atmosphere. The energy, joy, and humour found in each of Pixar's films can also be found at the company's headquarters. One of the company's magic bullets is Pixar University (PU), which offers over 100 classes in all facets of animation. PU classes are woven into the workday and every employee is encouraged to participate for up to four hours a week. The company continually seeks to unearth hidden talents within the organization — PU is one of their biggest secrets to the company's success.

The authors suggest that Pixar is a prime example of a business that is growing innovative talent and ideas across all levels of employees and backgrounds. *Innovate the Pixar Way* helps readers discover their own roadmaps for unleashing a creative organization.

Bill Capodagli and Lynn Jackson. McGraw-Hill. ISBN: 978-0-07-163893-7

Beating the Commodity Trap

Although imitation is the sincerest form of flattery, in business, it can disrupt, erode and destroy brands, companies and markets. In *Beating the Commodity Trap*, professor Richard A. D'Aveni warns that commoditization has never posed a greater threat than it does today and it can happen to any and all businesses or products. By being obliged to improve quality while slashing prices, today's companies run the risk of sacrificing market share and profit margins to lower-cost, faster-to-market competitors.

By analyzing more than 30 real-life examples from Dell to

Harley-Davidson, D'Aveni shows the three most common — and most damaging — commodity traps companies can fall into. The traps include: deterioration, proliferation, and escalation. D'Aveni helps managers and business leaders to: identify the trap before it harms their business; escape the trap; destroy the trap; use the trap to their advantage; choose which strategy is right for their situation; and, cope with “evaporation” — when demand declines and over-supply and consumer hesitation leads to rampant cost-cutting.

Richard A. D'Aveni. Harvard Business Press. ISBN: 978-1422103159

Reorganize for Resilience

Even as the global economic crisis begins to ease, managers everywhere are still facing the most turbulent market conditions since the Great Depression. In *Reorganize for Resilience*, Ranjay Gulati shows how pioneering companies have overcome their built-in institutional obstacles — and sent their stock prices soaring — by reorganizing their structure and capabilities to be proactive, flexible and customer centric.

Many companies claim they're customer focused, yet, they fail to deliver the solutions to their customers' pressing problems. The reason? They're trapped by organizational silos that prevent them from finding out what their customers really want. Through interviews with more than 500 executives over a decade of boom-and-bust economic cycles, Gulati uncovered five key levers that pry open silos, expand mindsets, build partnerships and help an organization recognize and shift internal barriers to move toward ongoing resilience. They are: coordination, cooperation, clout, capabilities and connections.

Customer needs mirror evolving markets, competition and technologies. The faster they shift, the more responsive companies must be to get out in front of wherever the customer is going next. The lessons in *Reorganize for Resilience* can help organizations build the resilience to remain viable, valuable and successful even in the hardest times.

Ranjay Gulati. Harvard Business Press. ISBN: 978-1422117217

News and views

New and noteworthy information you can use

Software:

SmartDraw 2010 helps businesses harness the power of visual communication

SmartDraw.com, maker of the intuitive SmartDraw software for effective visual communications, announced the release of its new SmartDraw 2010 designed to help businesses be more productive by distributing the planning process, documenting company knowledge and improving their presentations. Now featuring a simple and easy integration with Microsoft Visio and SharePoint collaboration, SmartDraw 2010 allows businesses to leverage the power of visual communications with even greater efficiency and ease.



tasks to save time, prevent user frustration and eliminate amateur-looking design mistakes to improve the overall quality and professionalism of presentations, project maps, organizational charts, flow charts and more.

“In times of change, like we are in right now, it’s more important than ever to document processes, to preserve best practices and ensure business continuity, rather than reinventing the wheel every time there’s a job change or restructuring,” Stannard says. “Business can use SmartDraw

2010 to document knowledge and best practices, and to create visual work flows that can help team members understand responsibilities and workflow procedures, especially when taking on new roles. For strategic planning, it can help companies more quickly identify core competencies, strengths and weaknesses by enabling teams to communicate more effectively and then make sure everyone is all on the same page for taking action.”

SmartDraw 2010 provides users with a complete solution with content templates, examples and guidance to help users be more effective. A complete library of free online eCourses, tips, tricks, and resources are available on the company’s software provider’s website to help users get more out of the program.

SmartDraw 2010 solves this problem by making it simple and easy to incorporate compelling visual elements into training programs, presentations and project plans to increase engagement, information retention, efficiency, and return on investment. SmartDraw 2010 automates tedious layout

tasks to save time, prevent user frustration and eliminate amateur-looking design mistakes to improve the overall quality and professionalism of presentations, project maps, organizational charts, flow charts and more.

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Articles nominated by *CMA Management* honoured for outstanding merit

Each year, the Professional Accountants in Business (PAIB) Committee invites all International Federation of Accountants (IFAC) member bodies to nominate articles for its Articles of Merit Awards. Of the three articles nominated by *CMA Management*, two made it into the top 10. Fifth place was achieved by Nicole Scarlett, CMA, for her article *Five elements of project portfolio management for finance executives*. Jean-François Henri, CMA, and Marc Journeault, CMA, placed sixth for their article *Harnessing eco-control to boost environmental and financial performance*. CMA Canada is extremely proud of the work of the authors and their high ranking reflects the excellence within the membership.

The Articles of Merit Award program identifies and promotes outstanding articles on financial and management accounting topics that have previously appeared in the publications of IFAC's 159 member bodies and associates. The articles were selected by IFAC's PAIB committee and visitors to IFAC's International Center for Professional Accountants in Business. The 2009 Articles of Merit, together with previous publications, can be downloaded free of charge from the publications and resources section of the IFAC website. Each of the ten articles may also be downloaded individually.

Financial leaders point to importance of people priorities in merger success

Companies with a track record of effectively managing people-related issues during an acquisition are far more likely to have a very successful deal, suggests a study by the Canadian Financial Executives Research Foundation (CFERF), the research institute of FEI Canada and sponsored by Towers Perrin. The most successful deal makers put more effort into getting the right mix of skills and competencies, communicating and managing change with employees and properly estimating people-related synergies.

While 64 per cent of financial leaders surveyed report revenue growth to be their key measure of merger and acquisition (M&A) success and 53 per cent report that they look to achieve specific synergies beyond cost reduction, some are still focused on profit margin growth (50 per cent) and cost reduction (37 per cent) as key measures of a merger's success.

"The numbers suggest that while Canada's deal makers count on the traditional short-term synergies and operational efficiencies, they are truly looking at long-term value creation and growth, which now includes a focus on people priorities, when on the acquisition trail, Ramona Dzinkowski, executive director, CFERF, says. "Companies with access to capital are taking advantage of opportunities to acquire distressed companies, and others are actively pursuing corporate growth, whether that's acquiring new products or services, or opening up new markets."

Aligning diverse corporate cultures was reported to be the single biggest integration challenge to M&A success. Interestingly, very successful deal makers considered their human resources (HR) function to be significantly more effective in this

area than other respondents (69 per cent versus 48 per cent), suggesting that increasing HR function capabilities may be one path to improving merger outcomes.

Companies looking to improve their odds in achieving M&A success are focusing on improving internal knowledge about M&A within their corporate functions, with 51 per cent identifying the need to improve the HR function's M&A knowledge and 44 per cent improving the business acumen of corporate HR and 38 per cent identifying the need to improve the ability of finance to quantify people risks.

Approximately one third of respondents are considering actions such as reviewing their internal M&A processes (32 per cent), increasing the involvement of finance in post-closing people-related issues (32 per cent), and involving HR earlier in the process (29 per cent).

Senior financial leaders revealed that there is a long list of people risk considerations identified in the early due diligence stage; these range from key talent retention to workforce reactions and employee engagement. Senior financial leaders look to factor in a broad range of risks when doing deals, whether formally, by quantifying the risks into the purchase price, or informally, by making every effort to ensure risks such as employee engagement or turnover of critical staff are addressed.

Moreover, while the study revealed that a majority of respondents acknowledge the various people risks in a transaction, only a small minority are able to quantify and address those risks in their financials, even those with significant financial consequences, such as pension and benefits volatility.

Made in Canada sales tax

By Tom Danaher, CMA

The sales tax landscape across Canada is a medley of diverse legislation and administrative policy. With continual and different evolving legislative changes at the federal and provincial levels, it is no wonder that many accounting and finance professionals find applying the various sales tax codes to their organizations daunting.

Although there are numerous types of sales taxes levied under various federal and provincial legislation (fuel taxes, alcohol and tobacco taxes, excise taxes, etc.), most organizations are impacted directly by value added taxes (VAT) and retail sales taxes (RST). Given the nature and sheer volume of transactions processed with VAT and RST implications, it is essential that the systems and processes used to capture the necessary information are operating properly.

The current setting

Federal sales tax:

The federal Goods and Services Tax (GST) is a VAT and applies to a very broad range of goods and services in Canada. The tax generally applies to all commercial activities related to the sale of goods and services, with the tax paid by businesses throughout the supply chain reimbursed through input tax credits. Most financial services and specific non-commercial activities related to education, health care and basic municipal services are exempt. Each of these areas contains a myriad of special rules and exceptions. New housing is generally taxable and used housing and residential rents are exempt, the differentiation necessitating voluminous technical coverage.

Provincial sales taxes:

Nova Scotia, New Brunswick and Newfoundland and Labrador have harmonized their provincial sales taxes with the federal GST and the combined tax (HST) is administered by the federal government. Except for minor differences (for example, point-of-sale rebates of the provincial portion of the sales tax for books), the sales tax is a combined rate VAT.

Administration of the Quebec Sales Tax (QST) is handled by the Ministère du Revenu du Québec (MRQ). Although most areas of the QST have been harmonized with the federal GST, there are major differences in some areas, most notably in the treatment of input tax refunds for large businesses and financial services.

British Columbia, Saskatchewan, Manitoba, Ontario and Prince Edward Island all impose a RST on tangible personal property and selected services consumed in the province. Each jurisdiction's legislation and administrative policy contains a multitude of exceptions, tax base and rate differences, different reporting requirements, exemptions and varied rates for certain services.

Although goods purchased for resale are generally exempt, many business inputs attract RST which results in tax cascading.

The current general sales tax rates are outlined in figure 1. Different rates apply in some jurisdictions for various items including insurance and transient accommodation.

Figure 1

PST and GST Combined Rates

Province	PST	GST/HST	Combined Rate
British Columbia	7%	5%	12%
Alberta	Nil	5%	5%
Saskatchewan	5%	5%	10%
Manitoba	7%	5%	12%
Ontario	8%	5%	13%
Quebec	7.5%	5%	12.875%
New Brunswick	HST	13%	13%
Nova Scotia	HST	13%	13%
Prince Edward Island	10%	5%	15.5%
Newfoundland and Labrador	HST	13%	13%

Proposed harmonization

The recent announcements of Ontario and B.C. to abandon their Retail Sales Tax regimes in favour of harmonizing with the federal GST effective July 1, 2010, will in the longer term, result in a more efficient sales tax system. Although the provinces will be sacrificing fiscal sovereignty with harmonization and setting aside political maneuvering and federal funding issues, these moves make sense from a tax policy perspective. By adopting a VAT structure, in which

CMA Management

Editorial Think Tank

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Figure 2

Ontario/B.C. Planned HST July 1, 2010

	Ontario	B.C.
Combined Tax Rate	13%	12%
Temporary ITC restrictions on large businesses and financial institutions		
Energy, except when purchased by farmers or used to produce goods for sale	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Telecommunications, other than internet access and toll-free numbers	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Road vehicles weighing less than 3,000 kilograms (and parts and certain services)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Food, beverages and entertainment	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Point-of-sale rebates for provincial portion of HST		
Gasoline, diesel fuel, marine diesel fuel and aviation fuel for motor vehicles, boats and aircraft		<input checked="" type="checkbox"/>
Books	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Children's clothing and footwear	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Children's car seats and car booster seats	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Diapers	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Feminine hygiene products	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

VAT or RST

Whether VAT or RST, most accounting systems have been developed to handle both sales taxes related to standard transactions automatically. Although most software requires active management and periodic updating of tax rates and tax codes, accounting and finance professionals rely on the software to accumulate the majority of information and generate the reports necessary to comply with various reporting jurisdictions. However, there are many postings with sales tax implications that are rooted in offline spreadsheets and working papers. Many contain multifaceted calculations and

the tax cascading effects inherent in a retail sales tax system are removed via input tax credit mechanisms, the benefits of lower product and service costs coupled with reduced tax compliance costs should benefit enterprises operating in these jurisdictions.

The VAT model, however, impacts ultimate consumers explicitly. Although they should be the beneficiaries of lower sticker prices on goods and services, consumers will now be taxed on a range of items that were not previously subject to tax. Heating, electricity, home renovation/construction costs and many services that did not fall under the umbrella of previous retail sales taxes will now be subject to the provincial portion of the harmonized sales tax.

At the time of writing this article, specific "place of supply" rules had not been released. However, some of the differences from the GST that are proposed are outlined in figure 2 and relate to point-of-sale rebates of the provincial portion of the tax for selected items and input tax credit restrictions for large businesses (those with annual taxable sales exceeding \$10 million) and financial institutions. Other differences include MUSH sector rebate percentages and new housing rebate thresholds.

The CRA has developed dedicated web pages to provide information on the proposed transition to HST for Ontario/B.C. These web pages can be found at www.cra.gc.ca/harmonization. The CRA's web pages contain the most current information relating to the proposed transition to HST for Ontario/B.C. and are updated regularly as information is released.

complicated summaries, and the related details are often overlooked when legislation changes.

Consider an organization operating in multiple jurisdictions in Canada. For sales/revenue transactions, the place of supply rules must be carefully considered in order to trigger the proper tax being charged. For most sales of goods, the jurisdiction of delivery will determine which provincial tax applies. However, the place of supply is not as obvious where a transaction involves the supply of services or intangible property. In these cases, some transactions must be analyzed individually in order to determine the proper tax being charged. Furthermore, proposed transitional rules for harmonized sales taxes will require a careful analysis of transactions straddling the implementation date of July 1, 2010.

On the purchase/use side of the sales tax rules, organizations must be attentive to the jurisdiction of consumption of the goods and services for provinces levying RST and self assess accordingly. For example, a company operating in Ontario and importing taxable computer software is required to self assess RST on the fair value of the importation if the vendor is not charging the appropriate RST. Other examples include the necessity to self assess RST on the cost of promotional distribution consumed in various jurisdictions. These instances normally require offline analysis of transactions and are prone to interpretation and potential errors.

Given the number of potential pitfalls in applying diverse rules to numerous transactions, a periodic review of the sales tax accumulation and reporting processes will help determine if problems exist, and that your organization is in compliance with the applicable legislation.

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Create Possibilities™.



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Canadian Space Agency

By Suzanne Godbehere

CMA Canada in partnership with TBWA and PHD Canada are proud to announce the launch of the new CMA brand platform “Create Possibilities.”

Create Possibilities showcases how CMAs are never satisfied with the status quo and create value in everything they do within all aspects of their organizations.

The inspiration behind the new platform came from real-life stories of CMAs who have been transforming business through holistic, right-brain/left-brain thinking. This is a continuation of CMA’s unique brand positioning that celebrates creativity in its membership.

“We have CMAs in virtually every industry working in all aspects of their organization and felt it was important to showcase how passionate they are about their careers and the difference that they’re making,” Joy Thomas, president and CEO, CMA Canada, says. “The best way to show the importance of a CMA is to showcase members talking about how they have helped shape their organizations, industries and careers, and how they believe the sky truly is the limit.”

Largely online, the campaign shows firsthand how CMAs create possibilities in diverse and exciting industries using their unique skill set of accounting, management, and strategy. CMAs are featured in industries from fashion and ecosystem services to aerospace, and are engaged in all aspects of the company from finance to management, enjoying coveted positions throughout the country. Members were filmed, documentary style, and will be profiled on the new CMA recruitment website in 30 and 90 second formats. All advertising will direct prospective CMAs to visit the new site.

One notable member you will see profiled is Dan Clarke, president, Helly Hansen. Clarke’s CMA was one tool that enabled him to ascend to the position of president and

effectively provide leadership to all aspects of Helly Hansen for worker safety products. In his words: “CMA had an accounting component that was strong... and gave me the tools to handle management and leadership at a much higher level.”

Geeta Tucker, FCMA, CFO of Agriteam Canada Consulting, manages the financial operations of 23 field offices around the world. She speaks passionately about how her CMA led to a position that directly impacts the lives of people in need in countries like Nigeria, where her efforts have helped rebuild 14 medical clinics. “I worked with communities to find out what solutions would work for them and to build that into a model clinic. That was fascinating and I was very excited...,” Tucker says.

And for those just starting their careers, they will be delighted to hear how Elaine Lee from the Liquor Control Board of Ontario (LCBO) says that by being a CMA she feels she “can go anywhere and do anything.” And for Jacques Côté, another high profile FCMA, that actually means outer space.

From the small advances to the giant breakthroughs, creativity for a CMA is the ability to create value in everything we do. It was essential at this time to reframe our core brand essence and take our brand positioning to a new level. We feel we have highlighted the core competency of CMA discipline by profiling some successful and passionate brand ambassadors that are uniquely positioned in the marketplace to appeal to the next generation of leaders.

See the difference CMAs are making by visiting the new recruitment website becomeacma.com and viewing their profiles.

Suzanne Godbehere is the vice-president public affairs and communications, CMA Canada.



Leading during times of adversity

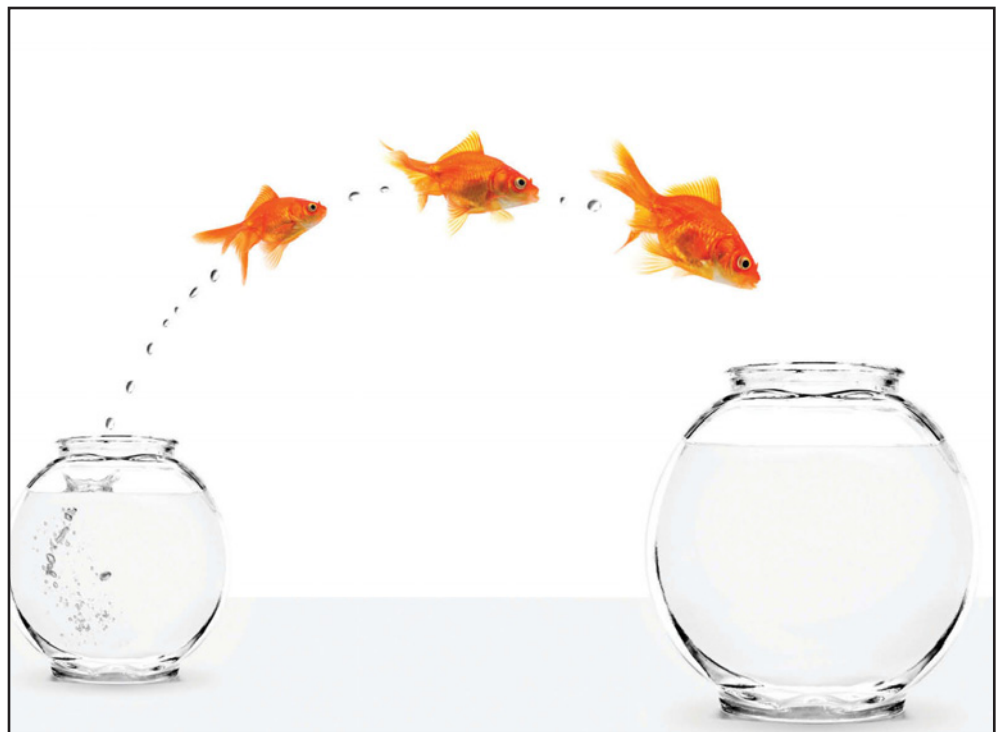
A survey of HR professionals suggests that, adaptability, critical-thinking/problem-solving skills, professionalism and work ethic are the top skills needed to achieve success.

By Barbara J. Bowes

These are certainly challenging times to say the least — a global recession, the dual collapse of the investment and housing market and a “free fall” job loss in almost every industry sector, especially in Ontario. I doubt that many organizational leaders have had the experience necessary to steer their way through these challenges. What skills are needed by both employees and their leadership to navigate organizations to success?

From the employee perspective, a survey of HR professionals suggests that, adaptability, critical-thinking/problem-solving skills, professionalism and work ethic are the necessary skills needed for success. Yet at the same time, very few organizations measure these work elements other than supervisory observations on annual performance reviews. Many organizations don't have formal training and development programs for skill development or succession plans in place to develop internal bench strength.

With new technologies, market innovations and continual challenges confronting our leaders, what skills and competencies do they need and how will they get them? An *Executive Leadership* survey by Duke University suggests that organizational and financial success are more closely related to two key leadership elements; the ability to inspire others and ethical leadership. Being inspirational in times of



challenge and adversity is very difficult. Leaders need to continually focus on exhibiting a positive attitude, yet at the same time, not appear to be unrealistically optimistic. Regaining employee attention and commitment to a new or revised company's vision and inspiring employees to meet and exceed their goals requires a strong and consistent sense of personal equilibrium.

Ethical leadership is often described as the ability to promote an environment in which every employee is instilled with a sense of responsibility not just for themselves, but for the whole organization. Yet in times of adversity, this too, can be very difficult; particularly as each employee deals with adversity in a different way. Some deal well with the challenges they face every day and will quickly step up to work hard on the company's behalf. At the same time, there are other employees who quickly feel like a victim and perceive that



Being inspirational in times of challenge and adversity is very difficult.

the so-called “system” is doing it to them again. An ethical leader recognizes these challenges and is honest and open with how the company will deal with the challenges. They then make every effort to intervene and pull all of these various team attitudes together to focus on the same goal.

In my own view, personal and professional

integrity are not far behind the need for inspirational and ethical leadership. After all, investors, employees and the public in general are in no mood to accept the excuses or the weak “I’m so sorry” statements from high-profile villains who were once yesterday’s heroes. And guaranteed, the resulting public relations fiasco can not only ruin a leader’s reputation, but it can also have a residual impact on the every day, ordinary employee as they too, may become tainted by the company’s actions.

There are also other leadership skills such as decisiveness that I believe will be critical to extricating our companies from economic challenges. For instance, this is not the time to wait for more information before making a decision. A leader must be able to quickly analyze whatever data they have, use past experience, a good dose of intuitive intelligence and then take

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action. In other words, you cannot just read the numbers; you have to be able to read behind the numbers, envision the scenario and develop a plan. Managerial courage, the ability to be candid, honest and truthful about the nature of the company crisis is also critical. At the same time, this leadership skill demands personal strength and stamina. Being able to admit that you don't know all the answers is often difficult for most leaders, but leadership in challenging times means that you need to be able to find an answer, not that you have to know all the answers.

Challenging times also calls for compassion, a trait that isn't often awarded to our leaders. That's because in times of trouble, we get

so focused that all of our energy goes into problem solving. We isolate ourselves from others; we study the facts, and ruminate over various directions. We don't talk to people; we just put our heads down and work. Many of us hold our breath, try to be strong and not wear our emotions on our sleeves. We don't want to be perceived as weak, yet the result of this "battering down the hatches" is that our employees see us as aloof and lacking compassion. Balancing this need for strength and compassion is a difficult task.

While the ability to deal with conflict has always been a needed skill to achieve organizational success, this skill becomes even more important during challenging economic times.

Conflict will be around you, both externally and internally. If you have a board of directors, they will be making more inquiries as their anxiety increases. Your customer environments will also be more volatile and they too may become more demanding and/or unable to meet your needs. Good leaders need to be very watchful; they need to be able to perceive increased tension and to use an open and candid approach to initiating conflict resolution. Finally, good leaders need to help everyone to stay focused on problem solving and solution building in this fast changing environment.

Challenging times also calls for compassion, a trait that isn't often awarded to our leaders.

These are indeed challenging times and many of our organizational leaders have not had the experience in steering their way through this mess. However, by focusing on the skills that brought them to leadership, that of decisive decision making, managerial courage, personal integrity, and the ability to deal with conflict in a compassionate manner will enable today's leaders to once again inspire their employees toward a new vision and slowly and carefully navigate their organizations through to success. ■

Barbara J. Bowes, FCHRP, CMC, is president of Legacy Bowes Group in Winnipeg. She can be reached at barb@legacybowes.com.

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Opening Worlds

"SYSPRO has worked with us as our operations have expanded to the next level of manufacturing, allowing us to plan for the future."

Mike Vader, Operations Manager, Seon Design.

Seon Design Inc.

Incorporated in 1999, and headquartered in Coquitlam, British Columbia, Seon Design Inc. manufactures video surveillance systems for mobile applications. With approximately 100 employees in a 34,000-sq.ft. manufacturing facility, Seon has become the leading global manufacturer of custom-designed video surveillance systems for bus and coach, shipping tens of thousands of systems per year.

"In 2004," says Mike Vader, Seon's Operations Manager, "we were undergoing a period of very rapid product class expansion. We were designing and manufacturing different versions of our recording systems and cameras, adding recent technical innovations, and trying to tailor those to our customers' needs."

Seon determined a need for a Material Requirements Planning (MRP) package that would increase the efficiency of its supply chain. "We primarily source in North America," says Vader, "but we also buy components from manufacturers worldwide. Our supplier lead time lengths vary, depending on the part, anywhere from 16 to 20 weeks."

Seon needed a system that would handle the rapid increase in complexity the company was experiencing in post sales tracking. "As product continued to be revised," says Vader, "it became increasingly difficult to know the revision level of any specific product shipped to the customer. We also needed a tracking system that would complement our strong customer service support."

"In 2005," says Vader, "after evaluating three or four alternatives, we chose SYSPRO Enterprise Resource Planning (ERP) software, selected for its strengths in manufacturing."

SYSPRO's MRP module promised to improve Seon's production planning and control, by automating the company's supply chain, and by creating work orders for the shop floor. The software's serial tracking ability allows Seon to review the components used in any individual build, while the Engineering Change Control module records the revision and release of sub-assemblies used in the finished production of systems. At the same time, the Return Merchandise Authorization module keeps a precise record of service calls and repairs. Seon also groups inventory into Sales Kits (part of SYSPRO ERP's Sales Order module) allowing the company to bundle product together as complete systems.

"Last but not least," says Vader, "in 2005, when we were looking at exporting new and diversified product classes, we recognized the power of SYSPRO's sales analysis modules, which allows us to group and report on the sales performance of those product classes as a whole, as opposed to single SKUs."

"Thanks to SYSPRO ERP," says Vader, "we now have the ability to better analyze performance by product class. We can also review customer purchasing history, with a full record of components used in serialized items. In addition, we can provide suppliers with a supply chain schedule that suits their needs. SYSPRO has worked with us as our operations have expanded to the next level of manufacturing, allowing us to plan for the future."

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An American experience: Some advance thinking required before making the move

Although living and working outside of Canada can be an exciting career opportunity, there are many factors to consider before making the big move.

By Debbie de Lange, CMA

Moving to the U.S. for work may be a bigger change and upheaval in your life than you may imagine; it was for me. I'm a CMA who has been a career explorer, having worked in engineering, finance, strategy consulting, and now academia as a strategy and international business professor. I've also worked in many firms, so I'm very familiar with change. As a strategy consultant, I had the opportunity to work in the U.S., but it wasn't a permanent move — just a flight for a few days on occasion to visit a client. Therefore, having exhausted most of my possible career choices, the next type of exploration was to work and live in another country. I was interviewed for academic positions in various parts of Europe and the U.S. and chose the U.S.; Boston, to be exact. What better place to live for an academic than this highly intellectual community? I live in Cambridge and work on Beacon Hill in Boston. My suggestion is to look before you leap and I've listed some items to consider before accepting a position abroad, specifically in the U.S.

Moving expenses

Before I took the job, I negotiated with my employer to have moving expenses covered. Although they agreed to give me a lump sum, I ran into some challenges along the way. The US\$5,000 that my employer agreed to give me ended up being US\$3,000 after taxes. The amount didn't come close to covering the actual costs. My things are in storage in Mississauga, Ont. Having my items packed and moved into storage with a



reputable moving company — and it's important to choose a moving company with a good reputation — cost me most of the amount I was given. Since the moving company faces a potentially difficult border crossing, it's very expensive, and the moving company charges in U.S. dollars. Also, to access my things in storage, it costs \$55/hour because the moving company requires that I pay for one of their workers to be there when the storage units are opened. The learning point here is to estimate the costs of moving in advance — they are not as trivial as you may think — and ask your future employer to pay for these exact costs in after tax dollars at the time of your move, not later.



Housing and credit

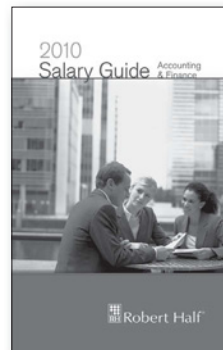
I arrived on foreign soil at a temporary location with a couple of suitcases. I chose a very nice and rather expensive apartment in the Back Bay area, believing it would be temporary as I searched for a home to buy. I moved my things stored in Mississauga after I found a permanent home. It was a good time to buy, given the relatively depressed housing market and many foreclosures. Many of my future colleagues helpfully supplied names of real estate agents who might help me search — we both didn't know that a foreigner had no recognizable credit rating in the U.S. After all, Equifax is based in Atlanta and both Canadian and U.S. credit ratings are generated by Equifax. However, even TD Banknorth, the U.S. arm of my bank in Canada, would not give me a mortgage even though I had an

excellent Canadian credit rating and owned a condominium in Toronto. The bankers I dealt with were Americans and had no understanding of the Canadian mortgage system. They were highly suspicious of it, having come out of their recent financial catastrophe and not knowing that Canada's banking system is exceptionally stable.

The credit problem went beyond getting a mortgage. In the U.S., credit cards are tied to the banks much more so than they are in Canada. I couldn't get a credit card unless I made it secured by leaving a large sum of money in a U.S. bank. I couldn't begin to build a credit rating without having a rental track record or a credit card for a while. Also, the banks made it difficult for me to open a bank account — I needed a social security number. This number is critical for every major purchase in the U.S. I couldn't even get a cell phone plan without a social security number and a credit rating. Even though I could provide evidence that I was a well-paid tenure track professor, I could not live a basic normal life in Boston. How have I survived? Well, TD Canada Trust gave me a U.S. dollar Canadian Visa card and I opened a U.S. dollar TD Canada Trust Canadian account. This way, I buy U.S. goods with the U.S. dollar Visa and avoid exchange



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costs. I managed to open a U.S. Bank of America chequing account that receives my pay cheques and then I write cheques on that account that go into my Canadian U.S. dollar account with TD Canada Trust. I also bought a pay-as-you-go cell phone. It's expensive, but I found a very inexpensive international calling card. Also, I am forced to go back to renting while I'm here. Many days, I feel more like a student than a professor.

Work visas

After you've been through all this unexpected and unusual treatment, you start to think about when a normal life might be possible. A credit rating would go a long way, but if you're on a short-term stay anyway, your future is quite unsure. I arrived on an H-1B visa — officially, my employer had to show that they couldn't find an American citizen to fill the position. I'm a specialty worker for three years and this H-1B can be renewed for another three years. A Canadian acquaintance of mine has been here for eight years waiting to obtain a green card — permanent work status — and now has his H-1B renewed annually since the six years are up. Whether rational or not, he doesn't make trips across the border to visit home in Montreal anymore because he's worried that it may affect his ability to get his green card. This nervousness creeps in after you've invested a significant amount of time here. A friend of mine has been here for several years working for the Museum of Fine Arts and is working with her employers on getting her permanent work status. In my case, my employer told me in advance that they would apply for the green card on my behalf. The learning point here is to understand that U.S. immigration is complicated and unpredictable. If your employer is also unpredictable, it makes for a very uncertain future. If you're willing to accept that this may be a short-term stay, as I am, it won't bother you that much. However, if you really love your job and prefer not to face much uncertainty, you may find the process quite stressful

Health care and Canadian residency tax status

Although I have the "best" health insurance plan available in the U.S., one of my colleagues doesn't seem to agree. My plan covers pretty much the same things that OHIP (Ontario health insurance without additional employer insurance) covers. I get some basic dental coverage, but no optometry, glasses or contact lenses are covered. Moreover,

I've learned the hard way, that the ability to pay for health care doesn't mean that you're going to get competent health care. I had to go back home to Canada to find a doctor who could treat me and provide an accurate diagnosis of my health issues. Now that I'm back in the U.S., I can't get my Canadian prescriptions filled here. I have to see a U.S. doctor and hope that she agrees with my Canadian doctor's diagnosis so that I can stay well. Getting sick in a foreign land is more dangerous than you can imagine.

Don't just listen to financial advisors and sever all your ties to Canada so that you don't have to pay tax in Canada — think about what you may lose if you're no longer a Canadian resident. Your health is worth paying the taxes for. Canadians have a choice — they can sever ties with Canada so that they are no longer Canadian residents and thus, do not pay Canadian tax, or they can retain their Canadian residency status and take advantage of a U.S.-Canada treaty; this way, they retain Canadian residency status, but are not taxed twice on their U.S. income. If you work in the U.S., you should only pay tax in the U.S. on your U.S. earnings. On your Canadian tax return, you should be able to claim foreign tax credits equal in amount to your U.S. earnings. However, tax accountants have told me it doesn't always work out as neutrally as expected because of differing tax bracket rates in the U.S. and Canada.

It's expensive and complicated to work out the best tax and benefits situation in advance. Few accountants can do both Canadian and U.S. taxes. Those who do will charge hundreds of dollars an hour for their services. Most often, you'll have an accountant on each side of the border coordinating with each other. A better situation is if your employer foots the bill for the tax work.

An additional consideration is that while your U.S. employer will deduct tax on your U.S. pay cheque, you will not know how much you owe Revenue Canada if you are deemed a Canadian resident and liable for Canadian tax. I have to save some cash in anticipation of this additional tax burden that I choose to bear because I've been sick.

The main point is to consider that Canada offers health benefits that you may take for granted and not realize the true value of until it's too late. It's fine while you're healthy to give up your Canadian residency, but health problems are unpredictable. Moving to a new country can add unexpected stresses that can result in illness. Even a poor water supply — clean water is another resource taken for granted in Canada — can affect your health. An area outside of Boston had implemented a "boil water order."

Old age security

Aside from the more immediate health care issue, I've also investigated future consequences of working abroad. After turning age 18, in Canada, you need to be in the country for 40 additional years, prior to reaching the age of 65, to collect the full amount of your old age security (OAS). You don't have to be working in Canada, you merely have to be living in the country. If I only have 38 years in Canada prior to the age of 65 after turning 18, I only receive 38/40ths of the maximum OAS amount. Also, these few exploratory years here mean I lose pension years that I would have accumulated had I taken a job in Canada instead.



Social life

When you work in a foreign land, even if you anticipate that your culture is similar and you'll make friends easily, don't make this assumption too quickly. It really helps to have some familiar friendly faces at your destination to make the transition easier. A friend of mine greeted me the first day I arrived in Boston and showed me around. So, I knew where the grocery store was, for example. The grocery stores are different in Boston. Also, another friend alerted me to an expat group. I never anticipated that I would need to join such a group in the U.S. – we're such similar neighbours.

Additionally, I've learned to prefer renting here. I've now moved to a house in which I have a room and a bathroom, and share a common space, including a kitchen. I haven't lived with other roommates for years — since university — but, it's better than choosing to live in an apartment where I'd be isolated. This way, I can find my privacy in my room and I can meet new people in the common areas — it may seem like going back to a student way of life, but I would suggest this to someone moving to a foreign land. You can learn so much more about where you are when you talk to others facing the same uncertainties. The other professors at my workplace cannot imagine my circumstances because they are either American or have been settled here for a while. If you move, don't necessarily assume that you can depend on those you work with for social support; try to set yourself up so you can find the occasional familiar face and/or someone in the same boat that you're in.

Before you make the move, think about the challenges you may encounter. I've been lucky in some ways to have found avenues to work things out, but in other ways, especially with the health care and credit, it's been very difficult. I've had to accept that I am really a temporary worker here even though

when I took the job I thought it would be a permanent move. I've learned a lot, but maybe I wouldn't have chosen this particular exploration had I understood the sacrifices I'd have to make. ■

Dr. Debbie de Lange, CMA, is an assistant professor of strategy and international business at Suffolk University, Sawyer Business School in Boston, MA.




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2010 hiring outlook for accounting and finance

While the pace of hiring is likely to remain slow in early 2010, many firms will add more talent as they look to boost cash flow and position themselves for recovery.

The slowly improving economy has many employers in Canada and worldwide wondering whether they have enough talent on hand to meet new business challenges on the horizon. Companies of all sizes and across industries have been operating with very lean workforces for months. They have been expecting maximum productivity from their existing staff and hiring full-time employees only when absolutely necessary — and if budgets allowed.

However, as more businesses consider the possibility of selective workforce expansion, firms that have continued to invest in developing and maintaining skilled financial talent during the downturn likely will find they are in a better position than their competitors to seize new opportunities. According to Robert Half's *2010 Salary Guide*, accounting and finance professionals have played an integral role in helping their organizations operate more efficiently throughout the recession.

Still, the guide states that the pace of hiring in the accounting and finance sector is expected to remain sluggish in early 2010. A recent survey of chief financial officers (CFOs) at Canadian companies, for example, revealed that 29 per cent are "very confident" their organization will experience growth in the first quarter. However, most executives (87 per cent) said they do not expect to make changes to current staffing levels in their accounting and finance departments.

An ongoing need for well-rounded financial talent

Even if their company isn't ready to step up hiring, many CFOs are sensing they should soon start to deepen their



By Connie Stamper, CMA

talent bench to protect the organization against competitive threats over the long-term. Thirty-two per cent of Canadian CFOs polled by our company said “a focus on hiring the best people” is necessary to keeping their company strong and vital.

While it will take time for many businesses to feel comfortable about expanding their workforce, it's clear some Canadian employers are starting to look beyond the economic crisis and make plans for the future.

Despite the greater numbers of skilled and experienced professionals looking for employment now, financial executives who are hiring continue to report challenges filling positions in some specialties in the field. One reason is that businesses are being very selective to ensure they hire the very best people for each position. According to the *2010 Salary Guide*, employers want financial professionals who possess deep technical expertise, exemplary communication skills and the ability to collaborate with colleagues across multiple departments. In addition, they seek candidates who are proficient with enterprise resource planning and financial reporting tools and can use this expertise to analyze data and provide recommendations to the organization.

Skills and experience that set candidates apart

Professional accreditations remain another important differentiator for accounting and finance candidates being evaluated for hire. The *2010 Salary Guide* also reports that the certified management accountant (CMA), chartered accountant (CA) and certified general accountant (CGA) designations continue to serve as key hiring criteria. Many Canadian employers value other accreditations; too, such as chartered financial analyst (CFA), certified internal auditor (CIA), certified information systems auditor (CISA), certified fraud examiner (CFE) certified credit professionals (CCP), certified payroll manager (CPM) and payroll compliance practitioner (PCP).

According to the 2010 Salary Guide, employers want financial professionals who possess deep technical expertise, exemplary communication skills and the ability to collaborate with colleagues across multiple departments.

For those seeking senior-level corporate finance positions, the master's degree in business administration (MBA) is often a must-have on their curriculum vitae. Globalization is also creating increased demand for accounting and finance professionals who possess international experience. For example, many Canadian businesses highly value staff with an understanding of foreign tax, compliance, legal and regulatory issues. Expertise in IFRS is also desired. And organizations with multinational operations target candidates with multilingual abilities.

Experience in demand for 2010

According to data in the *2010 Salary Guide*, five areas of accounting and finance expertise are likely to be in high demand in the coming year. Many businesses are expected to focus their hiring efforts on financial professionals with the following experience:

Tax — Changing tax regulations are prompting organizations throughout Canada to add more accounting staff. However, demand for skilled talent continues to outpace supply in many areas of the country.

Credit and collections — Many organizations are placing more emphasis on filling positions in credit and collections, and accounts receivable in an effort to boost cash flow. Canadian employers want professionals who can help the company enhance its bottom line by evaluating credit risk and managing delinquent payments.

Cash management — More companies are focused now on cost control and ensuring sound fiscal decisions. They need staff to monitor financial activity, prepare statements and recommend effective cash-management strategies.

Financial reporting — Publicly traded and publicly accountable organizations preparing for January 2011 IFRS conversion deadlines seek professionals with IFRS expertise.

Financial and business analysis — Many Canadian employers are hoping to hire talented professionals who can identify ways to improve profitability and evaluate financial plans, forecasts and budgets. Businesses also want experienced analysts who can interpret operational and competitive data, and explain it to others so it can be applied in company decision making.

Few salary increases expected

Even though some companies will be ready to expand their financial teams in 2010, they may not be paying as much for talent as they did before. The *2010 Salary Guide* predicts that average base salaries in both the corporate and public accounting sectors in Canada will decline in the year ahead (not taking into account regional variances). Pay for many positions will experience a drop of less than two per cent, but some salaries will take a bigger hit.

For example, a treasurer in corporate accounting who is hired by a large company (more than \$250 million in sales) can expect a 5.7 per cent decrease in salary from \$161,250 to \$279,250 in 2009, to \$160,000 to \$255,250 in 2010. And entry-level accountants in the public accounting sector will likely earn five per cent less than they did last year, with salary ranges for this role projected to slide from \$44,750-\$50,750 in 2009, to \$41,500-\$49,250 in 2010.

However, Canadian employers are willing to pay more for some positions. In the corporate accounting sector, for example, CFOs hired by small companies (\$50 to \$100 million in sales) should see a 2.8 per cent increase in pay, with a 2010 salary range of \$114,500 to \$158,500. This is the most significant rise in salary projected for any position at the management level in the *2010 Salary Guide*. Meanwhile, accounting clerks in this sector will see the greatest jump in salary of any position in corporate or public accounting — a modest, but notable 3.5 per cent. Their salary range will be \$31,750 to \$42,500 in 2010, compared to \$31,500 to \$36,250 last year.

While it will take time for many businesses to feel comfortable about expanding their workforce, it's clear some Canadian employers are starting to look beyond the economic crisis and make plans for the future. They also are realizing that having a strong accounting and finance team is critical to their success in both challenging and profitable times. Many professionals in the field will need to accept the reality of slightly lower salaries in 2010, but the experience they will gain helping their organizations to take advantage of new opportunities in the strengthening economy will have long-term career value. ■

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



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BY HOWARD E. JOHNSON, FCMA

Buying and selling a business can be described as a combination of three games — Sudoku (a Japanese number puzzle), chess and poker — because the numbers have to tally, buyers and sellers have to think strategically, and each party has to be alert for “tells” from the other side, while not revealing their own hand.

Business owners and executives often focus on the quantitative elements of value when buying or selling a business. While the numbers are important, the ability to do a deal and to realize shareholder value ultimately rests in the negotiating abilities and relative negotiating positions of the parties involved. Although negotiating strategies and tactics that are used will vary depending on the specifics of the situation, both buyers and sellers should keep the following important negotiating principles in mind:

- Understand the other party's motives
- Research
- Know your alternatives
- Maintain credibility
- The terms of deal are just as important as the price

Understand the other party's motives

Many business owners and executives negotiate a deal from the perspective of trying to get what they want. However, it is just as important to understand the interests and motivations of the other party. The need and the desire of the parties to transact will dictate whether a deal can be done and on what terms. Failure to understand the other party's motives can result in ineffective or misguided negotiations. This may delay or destroy any potential deal.

NEGOTIATIONS PLAY A MAJOR ROLE IN DETERMINING THE PRICE AND TERMS OF A DEAL, AND WHETHER A DEAL CAN EVEN BE DONE.

For example, a seller may need to transact due to health issues or financial constraints. Conversely, a buyer that is a public company may feel pressured to consummate a transaction in order to satisfy market expectations. In other cases, the price that is paid or received may be secondary to some other overriding issues, such as where the seller needs some assurance that their employees will continue to be employed following the transaction.

Before discussing price and terms, the buyer and the seller should focus on understanding why the other party is at the table and what they hope to accomplish. The other party may not be totally forthcoming at first, for fear of compromising their negotiating position, and/or because they may have an over-protective intermediary. It often takes time to develop a rapport with the other party such that they are prepared to express their underlying interests. It is important to listen closely and to avoid the temptation to interject when you hear something that you like or don't like. A prolonged period of silence can be a powerful negotiating tactic because it can cause discomfort to inexperienced negotiators, thereby compelling them to fill the void by continuing to talk. The seller should recognize that the sale of their business is a two-way street. They should be asking very specific questions in order to understand the buyer's needs and interests. This includes questions about how the seller's company will fit into the buyer's operations and how the acquisition of the seller's company will help the buyer to meet their long-term goals.

Research

The better informed you are, the better your negotiating position. Information is the key. When negotiating a deal, the buyer has the advantage of knowing their key financial drivers, including their cost of capital and synergy expectations. The seller has better self-knowledge, as well as knowing the number and quality of different offers that have been received.

The buyer of a business should seek to understand as

much as possible about the seller's company through its due diligence process. This goes beyond the financial results, and down to the root of understanding why historical results were (or were not) achieved. The buyer should also undertake an objective assessment of the strengths and weaknesses of the seller's business and the opportunities and threats that it faces. Where the seller operates in a different industry or different geographic area, then the buyer should also ensure that it has a sound understanding of the relevant risk factors pertaining to that industry or that geography. Where possible, the buyer should obtain data from credible third party sources (such as statistics produced by an industry body) and look for any inconsistencies between that third party information and the seller's representations about its risks and growth prospects.

The buyer should also probe the seller about its divestiture process in order to gain insight into its relative negotiating position and research other transactions that have taken place within the industry in the past several years, to the extent that meaningful information exists. These other transactions can provide important insights into other possible bidders and the seller's price expectations.

The seller should research as much as possible about the buyer. This is easier to do where the buyer is a public company and regulatory filings are available. However, even where the buyer is a private company, the seller might be able to gain some insight into the buyer's strategy through well-conceived questions and do some research on the Internet. In addition, the seller should seek to obtain as much information as possible regarding other transactions the buyer has consummated in recent years, as those other transactions often can form a reference point in the negotiations.

Finally, the seller should ensure that they understand the buyer's decision-making process. In many cases, the buyer's negotiating representatives will not be the ones who approve the acquisition decision. Rather, those representatives will recommend the acquisition to senior management, the board of directors or an investment committee. The seller needs to know the criteria upon which the acquisition proposal will be assessed, the information that the decision makers require, and the timing of important meetings.

Know your alternatives

The relative negotiating position of the buyer and seller is determined by the number and quality of alternatives that they have available to them at a given point in time. An excellent book on negotiation is called *Getting to Yes* by Roger Fisher and William Ury. *Getting to Yes* talks about a concept called BATNA, an acronym for the "best alternative to a negotiated agreement." Simply put, BATNA states that your negotiating strength is dictated by your next best alternative.

For example, if a seller has received three offers for their business, each of which is worth about \$20 million then the seller has a strong negotiating position. If one buyer walks away, there are still two others competing for the business. However, if the seller has one offer for \$20 million and the

next best offer is \$15 million then the seller's negotiating position is relatively weak.

Both buyers and sellers should fully understand the alternatives that are available to them and objectively assess the pros and cons of each alternative. This is essential in order to make an informed decision as to the best course of action. For the buyer, the alternatives available might include building versus buying, finding another acquisition target or looking to establish a joint venture rather than an outright acquisition. For the seller, the best alternative might mean selling the company to management rather than a strategic buyer, or continuing to operate the business for a period of time until market conditions improve.

A good negotiating strategy means that it is not sufficient to understand your own alternatives. Rather, the buyer and seller should try to understand the number and quality of alternatives available to the other party through means such as market research and questions about the acquisition or divestiture process. It is the relative negotiating position of the parties that determines negotiating strength.

Maintain credibility

It is common for both buyers and sellers to do a fair bit of posturing during the course of negotiations. Posturing can be a productive tactic where it is used selectively, and in contrast to the party's normal negotiating style. However, the buyer and seller must be cautious not to lose their credibility. Once credibility is lost, it is difficult to re-establish, and that party's relative negotiating position is weakened.

For example, when selling a business, the seller usually presents the buyer with financial projections for their company. It is tempting for the seller to show optimistic projection in an effort to get the buyer to pay a higher price. However, the seller must be cognizant that the divestiture process may take several months (or longer). At some point, the buyer may be in a position to compare actual results to a forecast that had been prepared near the beginning of the sale process. If the seller has not met their near term forecast, then their longer-term forecast will lose all credibility. The shadow of underachievement can also impair the seller's credibility in other aspects of the negotiating process.

Buyers sometimes lose credibility because they cannot obtain the financing they need (on satisfactory terms) in order to consummate a transaction. Particularly in today's more rigid lending environment, buyers must be careful not to overestimate how much their bank will lend them. If the buyer must turn to the seller in order to compensate for an unanticipated shortfall in financing (e.g. by paying a portion of the purchase price over time), the seller may be in a position to demand a higher price or other concessions from the buyer.

The terms of the deal are as important as the price

In most transactions, the negotiations centre on the price that will be paid. However, the terms of the deal are just as important as the stated purchase price. The terms of the deal dictate when, how and even whether the price will be paid.

They also influence the amount of tax that is paid by the seller, or tax reduction opportunities for the buyer, which can significantly influence shareholder value.

The seller should be aware that the offer with the highest price may not represent the best deal, particularly if a significant portion of the price is in the form of a promissory note, earn-out or other form of postponed or contingent consideration. The seller must remember that any funds that are not received at the closing of the transaction represent money at risk. Ultimately, the seller must be satisfied that the potential payoff is worth the risk.

In cases where the buyer is a public company, the seller should be aware that the price and terms the buyer will offer are influenced by its own valuation multiples, and how the transaction will be treated for financial accounting purposes. Public company buyers generally are wary of consummating a transaction that is not accretive to their earnings per share in the near term. The seller can sometimes use this concept to their advantage, by structuring a deal with greater cash value in exchange for a favourable deal structure for the buyer's financial reporting purposes.

PARTICULARLY IN TODAY'S MORE RIGID LENDING ENVIRONMENT, BUYERS MUST BE CAREFUL NOT TO OVERESTIMATE HOW MUCH THEIR BANK WILL LEND THEM.

In many cases, the buyer can bridge the seller's price expectations gap with creative deal structuring. For example, rather than buying 100 per cent of the shares, the buyer might purchase a controlling interest (say between 51 and 90 per cent), with the right to acquire the remaining interest at a later date. This can allow the seller to realize their objective in terms of price per share, while reducing the buyer's up-front financing requirements. It also keeps the seller motivated to deliver strong financial results following the transaction in order to maximize the value of the follow-on transaction.

Negotiations play a major role in determining the price and terms of a deal, and whether a deal can even be done. While both buyers and sellers will select the specific negotiating strategies and tactics that are warranted by the situation, each party should always adhere to the underlying principles of negotiation in order to protect and improve their relative negotiating position. ■

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You only crash once: A practical approach to IT disaster recovery



A business continuity plan is a blueprint for the way a business plans to respond to and survive everything from a local equipment failure to a global disaster. Management accountants understand the necessity of having a plan, but very few have one in place — primarily because the topic is overwhelming for those traditionally tasked with creating them.

By Arian Soheili, CMA

What you are about to read is, unfortunately, a true story. It's 7 a.m., and the CFO of a \$15 million electronics distributor is frantically calling my home phone. "Our business was broken into, and the server containing all of our data and applications was stolen. Can you help us?" I'm almost afraid to ask, "Do you have backups?" There's a long silence. "Maybe." Of companies experiencing a major loss of computer records, 43 per cent never recover enough to reopen their doors. Another 51 per cent close down within two years of the loss. A mere six per cent survive over the long-term (see *Management Information Systems for the Information Age* by Stephen Haag, Maeve Cummings and Donald J. McCubbrey). So the prospects for our client are grim. Nevertheless, we go to the client's site and discover only three backup tapes. The old server was taken along with the previous night's tape, and no one knows what backup software was used. In fact, the original installation media for all the software was either taken at the time of the break-in or has been lost over the years. Let's understand what is gone — all of the company's data, including accounting, HR, sales, marketing, administration and intellectual property. In other words, everything our client needs to stay in business. Our only hope lies in reading those three tapes. We dig through storage looking for the original vendor invoices to find out what was originally installed on the server. By 1 p.m. the next day, we have enough information to create a plan. We'll try to find a new server with a matching tape on the off chance we can restore the tapes.

Our client is amazingly lucky. We find a compatible used tape drive, persuade the backup software manufacturer to let us download a long-obsolete edition, obtain an old version of

Novell for the newly provisioned server and piece together the information on the tapes, parts of which have been corrupted. After an entire week of working around the clock, we recover over 95 per cent of the data. But the cost is high — \$30,000 in consulting fees, and a week of lost sales and productivity. Too bad they didn't have a business continuity plan.

A business continuity plan is a blueprint for the way a business plans to respond to and survive everything from a local equipment failure to a global disaster.

Business continuity planning

A business continuity plan is a blueprint for the way a business plans to respond to and survive everything from a local equipment failure to a global disaster. As business professionals, we understand the necessity of such a plan. However, very few of us have one in place — primarily because the topic is overwhelming for those traditionally tasked with creating them; namely accountants. So how do we prevent a disastrous data loss? We could focus on a data-oriented business continuity plan, an indispensable component of business planning regardless of your organization's size. However, small to mid-size businesses generally lack the in-house IT resources to achieve the demanding planning, technical and process requirements. As a result, many either neglect to implement a data-oriented business continuity plan, or else they approach data backup and recovery in a sporadic, rudimentary fashion.



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Traditionally, the only solution for the small to mid-size business has been a tape backup. A tape solution is costly to acquire and manage and requires constant monitoring, servicing and testing to achieve acceptable reliability. Also, tape is highly sensitive to environmental factors such as heat, humidity and magnetic interference, leading to high failure rates. Analysts estimate that anywhere from 42 to 71 per cent of tape restores fail (see *Recovery Will Move to Disk-Based, Manager of Managers Approach by 2011* by Dave Russell of Gartner Group at www.gartner.com). Moreover, tape cartridges must be replaced every six to 12 months, a costly and cumbersome process.

Advances in network attached storage (NAS)

As technology has progressed, and data volumes have expanded from megabytes to terabytes, tape technology has lost ground to new technologies such as network attached storage (NAS) and remote storage facilities. Both are based on hard-disk technology that has become very inexpensive in the past few years. A NAS device is a self-contained computer connected to a local area network (LAN). In general, NAS devices supply file-based data storage services to other devices, such as desktops and servers, on a network. They are proving to be more reliable, cost-effective and easier to manage and maintain than tape solutions. The trend is toward using NAS devices with remote storage capacity for additional security.

Better than tape

Tape-based backups are still an alternative that should be considered. However, the NAS device is making tape a less competitive solution. This is because NAS device backups with off-site daily storage are more reliable. They have lower maintenance and total ownership costs. By eliminating physical tape, they lower the risk and cost of human intervention in the process of moving the backup tape to and from a remote off-site storage location. They're also faster, offering near real-time backups. Moreover, since most NAS devices are servers in their own right, they can be used to virtualize a backup copy of the server image — impossible with tape. In short, this technology permits a restored copy of your entire server to run in a virtual environment on the backup device.

As technology has progressed, and data volumes have expanded from megabytes to terabytes, tape technology has lost ground to new technologies such as network attached storage (NAS) and remote storage facilities. Both are based on hard-disk technology that has become very inexpensive in the past few years.

Tips for implementing NAS

Since NAS technology is relatively new, your consultant may not be familiar with its intricacies. When evaluating solutions, look for a NAS device that:


- Allows for near real-time backups, performing them as frequently as every 15 minutes.
- Maintains incremental images for years.
- Backs up everything, including the operating system, applications and all data.
- Offers automated daily off-site storage at an affordable cost.
- Can be monitored remotely and managed by a specialist, eliminating the cost and time of on-site management.
- Eliminates server downtime for repair or replacement by using virtual server applications to activate a temporary backup image.
- Encrypts access to both the NAS and the remote storage facility with an ultra-secure password.
- Bundles the costs of frequent on-site backups, an on-site virtual server, remote storage, disaster recovery and 24-7 management.

Back to our client with the stolen server. Yes, the story had a relatively happy ending, with near-total data recovery and a hefty consulting fee for my firm. But this isn't how good consultants want to make a living. We would much rather come in before a disaster strikes and develop a workable

business continuity plan to protect our clients. Ideally, that would include the latest disaster-recovery technology, like NAS and remote storage — much more effective than legacy tape systems at an equivalent price, and so reliable I won't need to fear my phone ringing at the crack of dawn. ■

Arian Soheili, CMA, is managing director of Cantatus Systems Group, Inc., an integrated enterprise solution provider in Surrey, B.C.

	Basic tape backup	NAS with off-site storage
Reliability	Lower	Higher
Maintenance cost	Higher	Lower
Cost of ownership	Higher	Lower
Overall risk	Higher	Lower
Near real-time backups	No	Yes
Automated daily off-site	No	Yes
Virtual server appliance	No	Yes

A man with dark hair and glasses, wearing a dark pinstriped suit jacket over a white shirt, is seated in front of a computer monitor. The monitor displays a bar chart with green and pink bars. The background is a blue-tinted office setting. The text is overlaid on the image.

Shedding some light on customer behaviour

By Andrea Civichino

Knowing as much as possible about potential customers' spending patterns, lifestyle preferences, incomes and education levels can help retailers make better decisions regarding store location, product selection, advertising content and placement. In today's economy, competition is fierce and retailers are always looking for ways to stay on top.

Kambiz Asrar-Haghighi, CMA, has a solution. As the product marketing manager at LightHaus Logic Inc., a Vancouver-based company that develops high-performance video analytics for security and business intelligence applications in retail, hospitality, banking and critical infrastructure, Asrar-Haghighi combines his background in engineering and business to help the retail industry gain a clear understanding of store status trends, customer behaviour, retail operations and escalating business changes.

The company's Equinox retail solution provides retailers with real-time and historical data on what's happening on their store's sales floor. The software has capabilities to determine where customers are going, what they are doing, and demographic data on whom their customers are. Their technology uses sophisticated video analytics (e.g. computer analysis of video feeds), a powerful web-based data mining and visualization tool, that allows the company to deliver retailers in-store traffic intelligence on an ad hoc basis. This technology has tremendous value for retailers' business intelligence, safety, security, and loss prevention applications.

"We live in the information age and it's all about having an understanding of your customers and your retail environment," Asrar-Haghighi says. "Our system gives our customer, the retailer, a holistic understanding of their business."

A number of large North American retailers are already trialling the software and many are in discussions for a chain-wide rollout within the next year.

"We launched our product at the end of last year when the economy started to rebound," he says. "Historically, during a down economy, retail is always the hardest hit; however, there's a buzz around our product. I think it's indicative of the economy improving."

The technology bug

As a professional engineer with a passion for technology, Asrar-Haghighi joined the team at LightHaus Logic over three years ago. He said he was drawn to the company because it was still in its infancy stage and he knew he'd have an "opportunity to wear different hats in his role as product marketing manager."

"Given my love for technology, working for LightHaus fit the profile in terms of what I was looking for," he says. "My goal was to find a technology company in its early stages so that I could understand the business cycle because one day I hope to run my own technology company," he says. "When I joined the team, the company was just a local start-up with technology looking for a home. From a technology perspective, I found this very exciting. Plus, my role is very

versatile; it's not just product marketing."

In his role as product marketing manager, Asrar-Haghighi combines his master of business administration and master of applied science in electrical engineering with his CMA to develop pricing based on pricing models; financial forecasting, cost analysis; to the more creative side of the business from branding, communications, and interacting with partners and the internal engineering team.

"As an engineer, I am technically focused as well as detail oriented," he says. "From a personal standpoint, I see a lot of parallels between engineering and some of the things I learned through the CMA accreditation process such as finance, cash flows, the operations side of the business as well as the accounting aspect," he says.

"My goal wasn't to become purely an accountant. The CMA accreditation process gave me a lot more complementary strategic understanding of how businesses run and with the training and background, I am able to understand some of the finer details of a business," he says.

Asrar-Haghighi developed the "technology bug" and his passion to innovate at an early age. After finishing high school in Dubai, he looked at attending university in either the United States, Europe or Canada. After spending some time at UCLA, he moved to Vancouver to study. He obtained both his engineering and master's degree from the University of British Columbia before going back home to Dubai.

Once he returned back home, he was hired as a consultant for many of the country's innovative projects that were in their infancy stages at the time – the Burj Al Arab and Emirates Palace, world-renowned luxury hotels; Dubai's man made islands; and Sheikh Mohammed bin Rashid Al Maktoum's 530 ft. yacht. After four years working as a consultant, Asrar-Haghighi moved back to Vancouver to pursue the CMA designation and his MBA.

"The timing was perfect," he says. "I began the accreditation process around the time when the industry witnessed changes to SOX. I think the CMA designation complemented my MBA better than any of the other designations," he says. "My goal wasn't to become solely an accountant. The CMA accreditation process gave me a lot more complementary strategic understanding of how businesses run and with the training and background, I am able to understand some of the finer details of a business," he says.

As a fairly new CMA, obtaining his designation in 2008, he says what has made him successful is to be open, honest and transparent – whether he's working with the team of 30 employees at LightHaus Logic, interacting with his clients, or in his personal life. ■

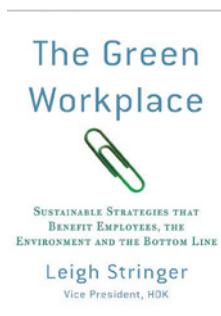
Andrea Civichino is the editor of *CMA Management*.



Is your workplace green?

A book review of *The Green Workplace — Sustainable Strategies that Benefit Employees, the Environment, and the Bottom Line* by Leigh Stringer

Reviewed by Patrick Buckley, CMA, PhD



Many organizations have gone “green” since adopting an environmental strategy that is ecologically friendly. Others use “greenwashing” to hide their environmental flaws. Leigh Stringer shows readers how to identify green and greenwashing in the workplace. Stringer is an ecologically-oriented vice-president of a green

architectural firm, HOK, in Washington, DC, and is LEED certified.¹

Although there are several books written on this topic, Stringer offers an exceptional and a refreshing look at how firms have become green. The book is a well-organized synthesis of Stringer’s blog www.theGreenWorkplace.com and includes many examples of greening initiatives in the workspaces of 25 contributors to her blog.

Why organizations are becoming green

The first two chapters of *The Green Workplace* argue why an organization should become and stay green. Many firms have found hidden savings and new sources of value through becoming friendly to the environment and choosing green business partners. Green firms are also able to continue recruiting talented employees, improve their corporate image through organizations like the Carbon Disclosure Project, and decrease the risk of litigation due to environmental hazards. The lives of many employees are enhanced by commuting and travelling less and living and working in unpolluted environments. Employees and their organizations are proud to have a decreased ecological footprint that is much smaller than the supersized ecological footprint shown in one diagram in *The Green Workplace*.

Impact of social forces

Stringer suggests green strategies are only successful when they are embraced by employees. For example,

she explains how one company purchased energy-efficient personal computers for its staff; however, employees didn’t shut them down at the end of the day and they were left on all night.

The book also describes four types of employees:

- Greeniacs are no problem since they are already living an environmentally conscious lifestyle.
- Green bottom liners can be persuaded to join an environmental bandwagon if they are shown how green actions are both good for the environment and help the company’s bottom line.
- Green couch potatoes help out only if it’s easy. For example, green couch potatoes may recycle paper only if a recycling bin is put right beside their desks.
- Skeptics (and closet skeptics) are a problem for implementing green programs. The good news is skeptics are decreasing in number.

All groups are more highly persuaded to help a firm become green when the green action has personal benefits and increases profits.

Greeniacs and green bottom liners are persuaded when green actions are tied directly to environmental benefits.

Social influence is another factor that changes the lifestyles of other doubting employees — contributors to Stringer’s blog told stories about employees who only joined the green wave because their friends did.

Measurement with a Balanced Scorecard

The Green Workplace contains a balanced scorecard for organizations to use for measuring the impact of green strategies. For example:

1. Financial — legal fees and penalties for pollution, dollar value of sales of green products.
2. Human capital — number of healthy food options in cafeteria, number of sick days.
3. Stakeholders — number of green partnerships, percent of local hires.
4. Business process — percent of fuel-efficient vehicles, use of eco-efficient cleaning supplies.

There are other sections of *The Green Workplace* about establishing a chief sustainability officer (CSO) who reports directly to the CEO, developing a green roadmap, and designing green organizations, buildings, and products. *The Green Workplace* is a well-balanced summary of the contemporary state of green organizations. ■

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

Leigh Stringer. Palgrave Macmillan. ISBN 0230614280 978-0230614284

¹ LEED – Leadership in Energy and Environmental Design Green Building Rating System – <http://www.cagbc.org> in Canada and www.usgbc.org.



Swimming through a sea of personal debt

Personal bankruptcy in Canada continues to climb; mainly because of the high levels of debt many Canadians are carrying.

By Victor Fong, CMA

As strategic and financial management professionals, people look to CMAs for leadership and innovative solutions to financial problems that they may encounter. This is particularly true during difficult economic times.

As people continue to lose their jobs, and businesses – both large and small – go under, many individuals are finding it more difficult to service their debts – and those debts are significant. Canadians now carry a record \$145 in debt for every \$100 of disposable income, about 60 per cent higher than the early 1990s. During that same period, personal disposable income, or take home pay, has risen only 15 per cent according to a TD Canada Trust study.

Consequently, the economic downturn and ensuing job losses have left many people unable to service their debts, leading to a significant increase in the number of people filing bankruptcy proceedings. Recent Canadian bankruptcy statistics dramatically illustrate this. For example, according to the Office of the Superintendent of Bankruptcy Canada (OSB), the total number of consumer insolvencies (consisting of personal bankruptcies and formal debt settlement proceedings called “consumer proposals”) in September 2009 was 45.5 per cent higher than in September 2008. Therefore, whether we act as financial advisors in public practice or as leaders in our communities, CMAs should be well-informed about the options available to individuals experiencing financial difficulty.

One of these options is filing for personal bankruptcy. The personal bankruptcy process is governed by the federal Bankruptcy and Insolvency Act (BIA). The objective is to rehabilitate the debtor so that he or she can become a productive member of society without the burden of crushing debt. The bankruptcy system also ensures that all creditors are treated fairly and get an appropriate



share of any debtor assets.

Step 1: Meet with a trustee to evaluate financial situation

The trustee’s evaluation includes a review of a debtor’s assets, debts and household budget (e.g., income and living expenses). Upon completing the evaluation, the trustee will give the debtor options to help deal with his or her debt, including the option of filing for personal bankruptcy.

Step 2: File an assignment in bankruptcy

Once the debtor has made a decision to file for bankruptcy, the trustee prepares a legal document called an assignment in bankruptcy. By signing the assignment, the debtor is indicating that he or she is voluntarily filing for bankruptcy. The trustee will also explain that he or she has duties as a bankrupt individual. These duties are to:

- Disclose all assets and liabilities to the trustee.
- Advise the trustee of any property disposed of in the past year.
- Surrender all credit cards to the trustee.
- Attend an examination at the OSB, if required.
- Attend the first meeting of creditors (if a meeting is requested by the creditors).
- Advise the trustee in writing of any address changes; and
- Generally assist the trustee in administering the estate.

The assignment is filed with the OSB, a branch of the federal government that monitors bankruptcy and insolvency filings. Once the



money management

OSB receives the assignment, it issues to the trustee a certificate of appointment, which appoints him/her as the trustee of the debtor's bankruptcy estate. There are three things that happen once the trustee is appointed:

1. Once the certificate of appointment is issued to the trustee, the debtor is legally bankrupt. At that point, the debtor's assets vest in the trustee (e.g., he becomes the legal owner) for the purpose of liquidation and distribution to the debtor's creditors.

In the majority of situations, a debtor will not lose assets. For example, the law in Ontario allows a bankrupt person to retain:

- Household furniture up to \$11,300
- Personal effects up to \$5,650
- Tools of the trade up to \$11,300
- A vehicle valued up to \$5,650
- Pensions
- Other special exemptions for farmers
- Certain life insurance policies and certain RRSPs

The trustee may sell other assets that the debtor may have. However, in most cases, arrangements can be made to allow the debtor to keep assets that would normally be sold.

2. Wage assignments and garnishments are stopped, as well as most other legal proceedings against the debtor.

3. The debtor is required to keep track of his/her monthly income and expenses and may be required to pay a portion of his/her monthly income to the trustee. How much the debtor has to pay is determined by the trustee based on guidelines set out annually by the OSB. These guidelines take into account the amount of the debtor's household income and the number of dependents.

Step 3: Attend two financial counselling sessions

During the bankruptcy, the debtor will meet with the trustee to discuss any potential non-financial issues that led to bankruptcy. For example, gambling, substance abuse, and marital breakdown are common problems that inevitably lead to financial hardship. In addition, the trustee will provide information on money management and ways in which the debtor can rebuild credit.

Step 4: Meet with the trustee to discuss discharge

An important event in the bankruptcy process is the debtor obtaining his or her discharge from bankruptcy. Being discharged from bankruptcy essentially means that the debtor is free of his or her debts (with certain exceptions – student loans, alimony/child support, fines for breaking the law, and judgments arising from fraud or physical/sexual assault, are not discharged), and that he or she is no longer “bankrupt” for legal purposes. The creditors, the trustee or the OSB have a right to oppose the debtor's discharge. Common reasons for opposing a bankrupt's discharge are:

- Failure to attend financial counselling sessions with the trustee.
- Failure to make required payments to the trustee.
- Failure to disclose all assets to the trustee.
- Questionable transactions entered into by the debtor before or during the bankruptcy.

If there are no objections to the debtor's discharge and it's the first time the debtor is filing for bankruptcy, a discharge is automatically granted nine to 21 months after filing for bankruptcy. Whether the debtor is bankrupt for nine or 21 months will depend if his or her net monthly income exceeds a certain monthly living allowance established by the OSB. If the debtor is granted an automatic discharge, there is no court hearing and the trustee will send the debtor a certificate of discharge.

If the debtor's discharge is opposed, the trustee will send a discharge application to the bankruptcy court. The trustee will advise the debtor if he/she is required to appear in court for the discharge hearing. At the hearing, the trustee's report informs the court of the circumstances surrounding the debtor's bankruptcy. The court will then issue one of the following orders:

Absolute discharge: The debtor is no longer responsible for debts incurred prior to bankruptcy (save for the exceptions noted above).

Conditional discharge: The debtor may be required to pay a certain amount of money to his or her creditors through the trustee for a specified period (e.g., \$100 per month for 24 months). The discharge is subject to fulfilling the terms and conditions of the order. An absolute discharge will be granted when the specified conditions are fulfilled.

Suspended discharge: This could be an absolute discharge, but there is a delay before it comes into effect or is reviewed by the court.

Discharge refused: The court has the right to refuse a discharge in unusual circumstances.

Bankruptcy is ultimately a rehabilitative process that relieves a debtor from the burden of crushing debt. From the creditors' standpoint, the bankruptcy process provides transparency into the debtor's financial affairs and ensures that they will be dealt with in an orderly process. ■

Victor Fong, CMA, CIRP, is a trustee in bankruptcy and president of the firm of Fong and Partners Inc. He may be reached at vfong@fongpartners.com.



Open source and other alternatives

Although few businesses are likely to forsake their Microsoft desktop environments for Linux in the near future, most companies will use open source software as it takes on a number of new roles in the changing IT landscape.

By Jacob Stoller

Software license costs have become a highly visible line item for IT budget committees. Thanks to the steady decline of hardware prices, software currently comprises over 20 per cent of the typical IT budget.

In the face of fiscal restraints, Chris Moore, CIO, City of Edmonton, is looking at his options. “We’ve been spending upwards of \$210 per year times 7,200 users for Microsoft Office,” he says. “That’s over 1.4 million. The question I have is, ‘Where’s the value?’ ”

Buying hardware, and paying for the right to run proprietary software on it is the default arrangement for acquiring IT infrastructure, but it is not the only one, nor was it the first — the legal framework for selling software in the U.S. wasn’t fully developed until 1978. At the time, software was usually sold as a fixture of hardware. Systems from IBM, Digital, Wang, Sperry and others hosted proprietary operating systems and applications that ran exclusively on their machines.

This began to change rapidly in 1981 with the introduction of the IBM Personal computer (commonly known as the IBM PC). The PC’s operating system, MS-DOS, was owned by a start-up company called Microsoft. Instead of selling the software to IBM, Bill Gates chose to sell IBM the rights to use it, retaining ownership. Microsoft’s ability to sell licenses to other hardware manufacturers spawned the “IBM compatible” PC, and the rest is history.

The alternative model known as open source emerged a few years later with the publication of the general public license (GPL) by GNU, a software developer organization. Under this arrangement, the source code isn’t “owned,”



but shared and made available to any developer that wants to make improvements on the condition that these improvements are shared openly with the development community. The spread of Linux was the major force behind the growth of the GPL. The “crowd sourcing” aspect of the open source agreement meant that thousands of programmers contributed to Linux’s development, unfettered by the need for secrecy. Consequently, Linux is reputed by many to be the most thoroughly developed operating system in existence.

Today, open source is rapidly expanding — IBM, Oracle, and HP have invested billions in Linux-related undertakings. Linux dominates the web server, supercomputing worlds and enterprise application space. The Gartner Group has predicted that open source components will be present in 80 per cent of all commercial software applications by 2012. The big exception is the Microsoft-dominated desktop, where the open source share is approximately two per cent.

The spread of open source has been aided by the existence of distros — supported versions of Linux and other open source products provided



by companies like Red Hat, Novell, and Canonical. These companies serve as intermediaries between the rapidly changing open source world and users who need a stable platform to run their businesses on. “We often say to customers, ‘Here’s our product, and if you buy it, we are going to support you for seven years,’ ” Nick Carr, marketing director, Red Hat, says. “We’ll keep it stable, we won’t change the interfaces, and if in five years time we find a security bug, we’ll fix it without breaking all of their applications, and will lock it down.”

The arrangement serves hardware and software vendors as well. “For them, we essentially stop a very fast moving target, and we lock it down so that it becomes commercially usable,” Carr adds. Consequently, the number of applications available on Linux has greatly expanded in the past few years.

Distros have also created a viable environment for service vendors. “If you buy a commercial Linux distro, they provide a ‘for fee’ support structure,” Jim Elliott, consulting sales specialist and Linux champion for IBM Canada Ltd., says. “That support structure is as good as any commercial not-open source tool out there.”

Open source on the desktop is also usually accomplished with distros. Branded suites like Canonical’s Ubuntu, SUSE Linux Enterprise Desktop and Red Hat Linux Enterprise are available pre-installed on machines from the likes of Dell and HP. Thanks to the inclusion of open source products like Open Office, these suites include functionality

that mirrors, for the most part, with what can be found in the familiar Windows environment. The duplication of Microsoft Office functionality is not perfect, however, and there can be issues. “One of the weaknesses of Open Office,” says Evan Leibovitch, a Toronto-based open source architect, “is that the spreadsheet has problems with complex Excel macros. So if somebody has a big investment in doing really complex macros in Excel, they’re going to have a hard time with Open Office. The biggest issue, however, is the availability of applications – the majority of developers write for the Microsoft platform because of its dominant market share. “The moment you get into more specialized accounting tasks you’re not going to find very many commercial accounting packages that support Linux,” Leibovitch adds.

Today, open source is rapidly expanding — IBM, Oracle, and HP have invested billions in Linux-related undertakings.

While they see growth in Linux desktops, Red Hat is not aggressively pursuing this aspect of their business; opting instead to maintain their focus on enterprise applications. One reason is that the desktop may be of declining importance. “At IBM, our team thinks Windows will remain as the dominant operating system on desktops in the future,” says Elliott. “But on the other hand, is the desktop the future? Is it a fully loaded PC? We are seeing growth with web infrastructure — things like Google docs, or IBM Lotus Live — where you’re doing your traditional office type things, but in a cloud environment through a web browser.”

“More people are starting to run business-critical applications like Salesforce.com,” Leibovitch says. “Salesforce doesn’t care if you’re accessing it from Linux or Windows or Mac or iPhone or your Blackberry. So all of a sudden, the operating system becomes irrelevant. This is where Google has been going with making their Chrome Browser. This part of the computing world thinks that the desktop is irrelevant because all of the software will run through the user’s browser.” Linux is the platform of choice for public clouds such as those hosted by Google and Amazon.

Organizations are also building their own private clouds, which enable them to share their applications and data among users who are equipped with little more than a web browser. Open source will play a major role at both ends of the spectrum. At the server end, Linux, as the preferred platform for cloud applications, will be a logical choice. At the client end, anything that supports a web browser will work, so companies will be unlikely to pay license fees if they don’t have to. ■

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Open source software: Provides users with specific freedoms that are not typically available with commercial or proprietary software.

GPL: Free license for software and other types of works.

Private clouds: A proprietary computing architecture that provides hosted services to a limited number of users behind a firewall. The term “private cloud” is designed to appeal to an organization that needs or wants more control over their data than they can get by using a third-party hosted service.

Public clouds: Applications and storage, for example, are available to the general public over the Internet. These services may be free or offered on a pay-per-usage model.

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Now is the time: Economic downturn a perfect opportunity for CFOs to re-examine their regulatory back office

The responsibility for regulatory compliance will weigh a little heavier on the shoulders of CFO as securities regulators increase enforcement of existing regulations.



By Marc Babinski

The mission of companies listed on a junior exchange is growth — exponential increases in revenue and profitability which rapidly raise the value of the stock and propel the company on to a senior exchange. In the circumstances of an economic downturn, such growth can, depending on the nature of the company's business, be interrupted and senior management may look for ways to reduce costs until general economic conditions improve.

Typically, the burden of managing compliance

The responsibility for regulatory compliance will weigh a little heavier on the shoulders of the CFO as securities regulators increase enforcement of existing regulations.

with regulatory requirements and the associated costs will fall on the CFO. Junior public companies rarely have an in-house lawyer or a compliance officer to deal with the requirements of securities regulators and stock exchanges.



For the CFO, matters other than regulatory compliance are naturally more pressing and perhaps more professionally rewarding — managing the financial risks of the business, developing the company's business plan and reporting to the CEO and the board are basically more fun to do than ensuring the company complies with regulatory requirements.

A compliance system will only be effective if it is adequately updated, supported and monitored by qualified service providers.

The responsibility for regulatory compliance will weigh a little heavier on the shoulders of the CFO as securities regulators increase enforcement of existing regulations. In its 2008 annual report, the Canadian Securities Administrators (CSA) reported that its members commenced 215 matters against 416 individuals and companies, and concluded 123 cases that resulted in monetary sanctions and orders towards costs totalling approximately \$14 million.

It is also worth recalling that the CFO is a “certifying officer” of an issuer and is therefore required to personally certify that the financial statements and MD&A do not contain any untrue statement or omission of a material fact and fairly present the financial condition, results of operations and cash flows of the issuer. Processes must be in place to provide the CFO with sufficient knowledge to support the representations he or she is making in the certificate.

A downturn is an opportunity for the CFO to reconsider the increasing demands from the regulators and assess the mechanisms in place to protect senior management and the board against the consequences of non-compliance. Part of such an exercise includes an assessment of the amounts being paid by the company to achieve compliance. The alternative of bringing regulatory compliance

in-house may be appropriate, but does involve risks. The complexity of regulations, their seemingly constant amendment, and the consequences to the company's listing and the board in the event of non-compliance call for caution.

The challenges of keeping up

Securities regulations, more specifically the CSA's policies, as well as stock exchange regulations, require that various documents be filed, such as:

- Audited annual and unaudited interim financial statements
- Quarterly management discussion and analysis (MD&A)
- Insider reports
- Information circulars and other material distributed in connection with a meeting of shareholders including a disclosure of executive compensation
- Takeover bid materials
- Reports of material changes in the affairs of the company

In reviewing their existing arrangements for outsourced back office support, CFOs can ask the following questions:

- Is the service provider up-to-date with the applicable regulatory requirements and the proposed changes?
- Can the service provider guarantee that quick and appropriate measures are taken if non-compliance to regulatory and stock market requirements is detected?
- Is the person with the required knowledge executing most of the required work? For example, if a senior professional who bills at a high hourly rate has most of the required expertise for the delivery of the service and uses the services of a much less knowledgeable colleague for the execution of the required service, the chances are good that the costs of the resulting inefficiency will be passed on to the company. Moreover, with appropriate supervision, an experienced and knowledgeable para-professional can provide the greatest value in this regard.

In the current economy, your service provider should be willing to negotiate a fixed fee for a specified menu of tasks that could also include minute book maintenance and required corporate filings. A compliance system will only be effective if it is adequately updated, supported and monitored by qualified service providers. Now is the time to ensure that you are getting maximum value from your service providers and keeping the board, and the company's listing, safe from regulatory risk. ■

Marc Babinski is a partner with the Montréal office of Borden Ladner Gervais LLP.

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