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THE FUTURE OF MANAGEMENT ACCOUNTING
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MAY/JUNE 2011

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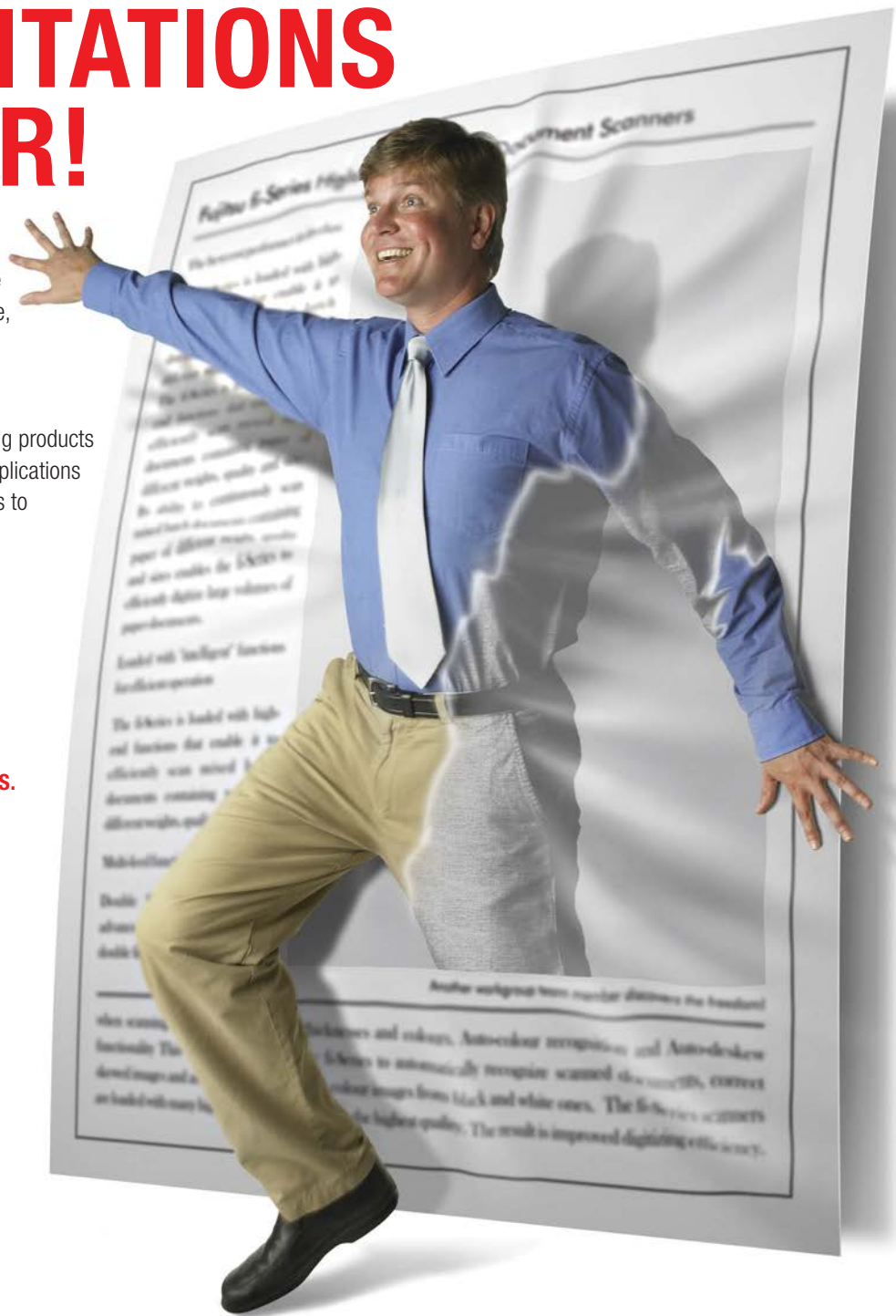
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VOLUME 85 NUMBER 3

MAY/JUNE 2011

**CERTIFIED MANAGEMENT ACCOUNTANTS
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 1 Robert Speck Parkway, Suite 1400
Mississauga, ON L4Z 3M3

EXECUTIVE PUBLISHER

 Suzanne K. Godbehere
(905) 949-3106 sgodbehere@cma-canada.org

DIRECTOR, PUBLICATIONS/EDITOR-IN-CHIEF

 Mara Gulens
(905) 949-3126 mgulens@cma-canada.org

EDITOR, RESEARCH

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

CONSULTING ART DIRECTOR

 Hambly & Woolley Inc.
(416) 504-2742

TRANSLATION SERVICES

 Ruth Samson, H el ene Arseneault
(514) 878-1105

MARKETING & COMMUNICATIONS

 Cindy Mantione
(905) 949-3116 cmantione@cma-canada.org

NAYLOR (CANADA) INC.

 100 Sutherland Avenue, Winnipeg, MB R2W 3C7
1-800-665-2456

PUBLISHER

Robert Phillips

EDITOR

Robin Lamerson

ART DIRECTOR

Emma Law

ADVERTISING ART

Lesley Helash

PROJECT MANAGER

Kim Davies

SALES MANAGER

Bill McDougall

PROJECT SALES LEADER

Tracy Goltsman

ACCOUNT EXECUTIVES

 Candace Dyck, Meaghan Foden,
Sheryl Matheson, Lana Taylor

INSERTION ORDERS & ADVERTISING MATERIALS

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CIRCULATION AND ADMINISTRATION

 For general inquiries and changes of address please call Suzanne Maunder
at (905) 949-3127 or email smaunder@cma-canada.org.

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If our magazine is a building, then welcome!

Since the previous issue, we've added a foyer — *Feedback* — which is a new space to share and connect.

And we've rejigged the floorplan (the sequence of columns and departments) for better flow, so we hope you enjoy a more pleasant visit.

After a major redesign, we're still playing around with what feels right. Like what kind of art to hang on the walls (fewer portraits; more images that make you think). And in some cases, we're still figuring out what goes where. Some of the rooms, such as *Innovation* and *Conversation*, are brand new.

Our main concern is ensuring you feel good as you roam around and the time you spend here is worthwhile.

So we take the time to deliberate. What goes where? Who do we invite to tell the stories?

And in the end, we crave your feedback.

Every comment (constructive criticism works best!) helps us improve. And while the building sits squarely on solid foundations, our aspirations have no limits, right?

So, tell us.

Which articles and sections do you enjoy most? Whom would you like to see profiled? Is there some issue that's keeping you up at night that you'd like us to explore?

Please share your thoughts in *Feedback*, or send me an email and tell me what you think.

In this issue, we focus on supply chain management (p. 22). We also contrast the effects of the disasters in Japan and reflect on contracts as relationship agreements instead of "the sky is falling" preparedness documents.

In *Conversation*, we talk to the CFO of the Year: Gordon Maron, FCMA (p. 15). Plus we have all the new can't-say-regular-yet-but-we're-getting-there columns.

Welcome, enjoy your visit, and please stay in touch! ■

Mara Gulens

 Director, Publications/Editor-in-Chief
mgulens@cma-canada.org




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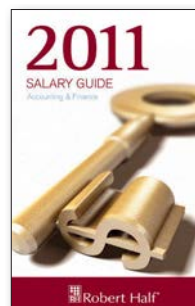
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Joddi Goertzen, CMA

Accounting Manager, DynaVenture Corporation

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Stay in touch

Keep your eyes on this page to connect with *CMA magazine*. We received lots of kudos for the premiere issue – the new look, the variety of departments and the topics covered. As for your suggestions for improvement – we’re listening!



I have had the pleasure of contributing to *CMA magazine* since 1993. The new magazine looks outstanding. It's very contemporary in look, feel and content. It should appeal to CMAs as well as a broader readership interested in a range of business issues – perfect for the Digital Age!

–**Ted Morris**, 4ScreensMedia
Toronto, ON

Reading the premiere issue and all I can say is wow! The new format is fantastic. You have truly hit on subjects that are relevant to today's certified "management" accountants. Well done.

–**Susan Quesnel**, CMA
Victoria, BC

I just received the new *CMA magazine*. Am I missing something here or is there no date on the publication?

–**Ron Bronson**, CMA
Waterloo, ON

Our response: *Since it was the first issue of 2011 and the very first issue of the magazine in its new format, we thought it was appropriate to list it as our premiere issue.*

I just received my copy of the new *CMA magazine*. It looks great. I like the more in-depth coverage of some issues and the format/layout. Very professional. Congratulations.

–**David Collie**, FCMA
President & CEO, Electrical Safety Authority
Mississauga, ON

I really like the new format of the magazine, but for the reading part, I have to buy glasses. I'll read the articles on the website instead.

–**Marcel Beaudoin**, CMA
Calgary, AB

Our response: *After sending us his letter, Mr. Beaudoin decided to buy reading glasses. It happens to the best of us!*

I am very impressed with the new format. It's eye-catching and I literally picked it up and read it cover to cover. Great articles and I really like the various references to online resources such as the Management Accounting Guideline (MAG) referenced on page 21.

–**Matthew Scott**, CMA
London, ON

Congratulations on the premiere issue of *CMA magazine*. I've been an avid reader since becoming a CMA in 2005, and am impressed with the innovative format of the re-launched magazine.

–**Pierre-Yves Jetté**, CMA
Montreal, QC

NOTE: In the premiere issue of *CMA magazine*, Ted Morris should have been listed as president of 4ScreensMedia, a Toronto-based marketing consulting company.

What do you think?
Tablet PCs will transform the CMA experience in 2011. Yes? No?

How?

Let us know at magazinesurveys@cma-canada.org
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We welcome letters to the editor

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Letters may be edited for clarity and brevity.



New and noteworthy

BUSINESS REPORTING:

Establishing a global language

The International Federation of Accountants' (IFAC) fourth and final article in a series on business reporting features the recommendations of five specialists from Singapore, the United States, Australia and the United Kingdom.

A Global Language for Business Reporting looks at management commentary, global convergence and simplification of standards, and the need to exercise professional judgment when applying these standards.

The five specialists discuss their views on the complexity of accounting standards; principles, rules and professional judgment; as well as the roles of various stakeholders in the development of a global language for business reporting.

For example, one of the main obstacles impeding adoption of a global language for financial accounting — whether IFRS or some converged global standard — is overcoming cultural differences, says Richard Deutsch, national assurance leader, PricewaterhouseCoopers in Australia.

“Cultural difference among countries is a major issue to address. The proper application of IFRS requires a more principles-based approach — but how do you ask countries such as Japan and the U.S. to move to a principles-based approach when they are steeped in rules-based approaches?”

All four articles, together with full interviews, are posted on the IFAC website: www.ifac.org/frsc.

WINNERS:

AXA Canada recipient of 2010 National Recognition Award

CMA Canada is pleased to congratulate AXA Canada, recipient of the 2010 National Recognition Award, for its contribution to the awareness and influence of the CMA designation.

AXA Canada, a global leader in financial protection, is dedicated to supporting the next generation of CMAs and developing the CMA profession. During the past year, AXA Canada's contribution has resulted in an increased presence in the student community of the greater Montreal region.

The partnership between AXA Canada and CMA Canada has helped make the firm a leader in the global marketplace and contributed to the advancement of the management accounting profession.



Employee engagement: A study in the Canadian workplace

Who's responsible for employee engagement in the workplace? Senior leaders, managers, employees?

A study by Psychometrics Canada — a consultant for the development and selection of people in business, government and education — suggests senior leaders and managers (84 per cent) are primarily responsible for employee engagement.

The study, which polled 368 human resources (HR) across Canada, shows that employee engagement is problematic. The majority (69 per cent) indicated that it's an issue within their organization.

“A paycheque is not enough,” says Mark Fitzsimmons, president of Psychometrics Canada. “To keep staff engaged, organizations need to give them the opportunity to use their skills, to be creative and, most of all, to be listened to. This survey demonstrates that many organizations understand this already, but few are taking the necessary steps to address it.”

There are benefits to be gained from training that focuses on engagement. In organizations that provide engagement training, the percentage of engaged employees rises by more than 10 per cent.

To read the full report and view tips for driving engagement, visit www.psychometrics.com/docs/engagement_study.pdf.





CEOS CONFIDENT:

Growth over next three years

While the world economy recovers, business leaders are surprisingly optimistic. Sixty-eight per cent of CEO asset managers are confident about their company's growth prospects over the next three years.

A PricewaterhouseCoopers (PwC) global survey of asset management CEOs predicts a new period of growth for their companies, fuelled by emerging markets, an aging population and a general heightened awareness among investors to put more away for retirement.

"Much of this confidence stems from the huge market potential opened up by an aging population," says Raj Kothari, national management practice leader for PwC. "While this potential has been evident for some time, the financial crisis has created further opportunities for asset managers by accelerating the pressure on defined benefits pension plans and greater strains on public pension plan provisions. The result is increasing uncertainty over retirement income and greater readiness to put money aside."

The PwC report suggests that in order to encourage people to invest their growing savings in fund products rather than simply putting them in deposit accounts, asset managers will need to provide investment vehicles that combine reasonably secure income with sufficient yield to pay for longer retirements.

While confidence is high, there are still challenges ahead such as a customer base that is becoming savvier and more price-conscious. Regulation is increasing expenses and opening up asset managers to greater investor and market scrutiny, says Kothari. In the Canadian market in particular, consolidation between medium-sized players is likely to achieve scale, specialization and cost reduction. Outsourcing and shared services is being examined more commonly in Canada as a way of creating savings and increasing time to spend on core services, he says.

The full report is available at www.pwc.com/ca/am.

EMPLOYEE DISPUTES:

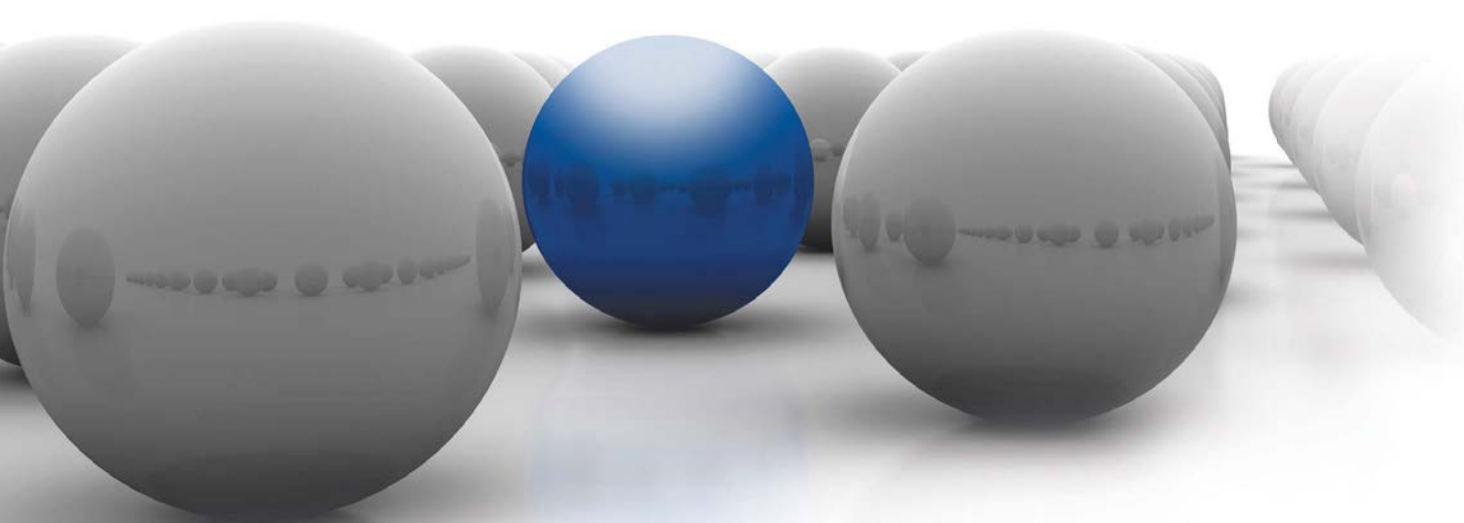
Keeping the peace

An Accountemps survey suggests managers spend more than six hours a week dealing with staff conflicts.

"Although staff management is part of the job for supervisors, too much time spent handling disputes gets in the way of business priorities and often signals a larger issue that needs to be addressed," says Max Messmer, chairman of Accountemps. "For example, being chronically short-staffed can cause friction among employees, as can an overly competitive work environment."

Messmer adds that "workplace conflicts can never be fully eliminated, but there are steps managers can take to foster greater team harmony."

- **Know when to step in.** Before morale and productivity are impacted significantly, work with those involved to identify the reason for the conflict, clear the air and determine ways to address future disagreements.
- **Don't let one bad apple spoil the bunch.** When friction stems from the actions of a single individual, remind that person that the ability to collaborate and treat co-workers with respect is a requirement of the job.
- **Help employees get to know each other.** Provide opportunities for your staff to interact in non-work activities, such as lunches or volunteer activities.
- **Reward positive role models.** Recognizing staff for being team players sends a clear message that how one interacts with others is as important as job performance.
- **Make good hiring choices from the start.** Hire individuals who are a good fit with your organization's culture.



Congratulations to the recipients of the third annual *Award of Excellence for Comptrollership in the Public Sector!*

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Managing Canada's biggest budget

By **Richard Monk**, FCMA

THE FEDERAL GOVERNMENT

houses some 175 departments, agencies and Crown corporations, employs over 420,000 people and manages a budget in excess of \$270 billion. The need for sound financial management and comptrollership is indisputable.

CMA Canada and the Chartered Institute of Public Finance and Accountancy (CIPFA) initiated the *Award of Excellence for Comptrollership in the Public Sector* to encourage and recognize creativity and innovative thinking, thought leadership, and the application of best-in-class practices to foster the use of modern comptrollership practices in the federal government.

On May 10, 2011, public sector finance professionals, government officials, executives of CMA Canada, its provincial partners and CIPFA staff gathered in Ottawa to honour the winners and finalists of the third annual *Award of Excellence for Comptrollership in the Public Sector*.

Of the six finalist submissions, two teams were selected as recipients of the Innovation Award. Also honoured at the event was Moyez H. Somani, FCMA, executive vice-president and CFO, Farm Credit Canada, who received the *CMA-CIPFA Lifetime Achievement Award*.

An effective comptrollership framework, adapted by the federal government, is built on the following pillars.

Performance metrics

Performance metrics are tracked through a results-based management accountability framework. This framework requires managers to define anticipated results, measure performance on a regular basis and adjust where necessary to improve efficiency and effectiveness.

The Award of Excellence for Comptrollership in the Public Sector encourages creativity and innovative thinking.

Risk management

The federal government's risk management framework is designed to help managers make decisions based on calculated risks and encourage

innovation. It also places an emphasis on consultation and communication with all stakeholders, including the public.

Management control framework

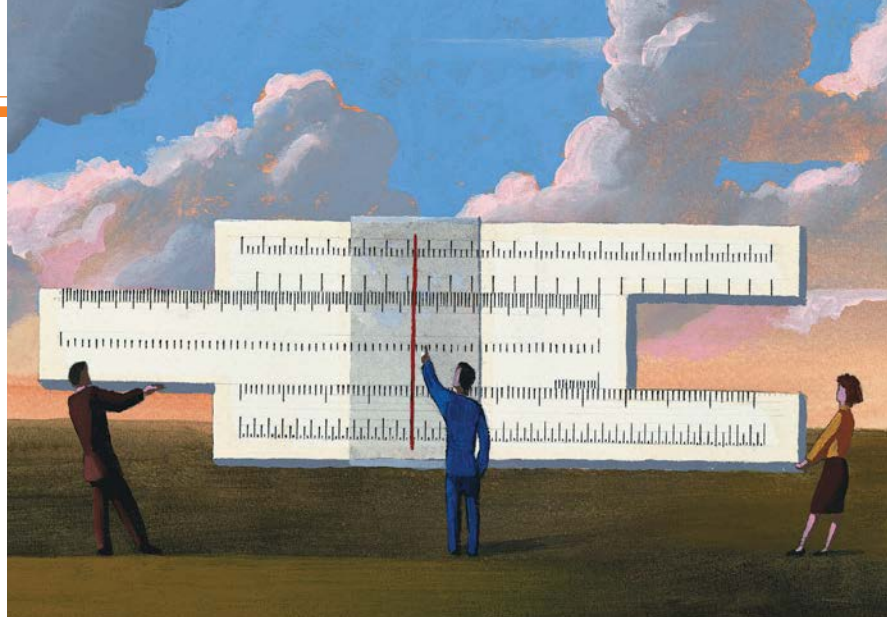
The federal government's integrated management control framework has been established on a principles- rather than a rules-based approach. It allows managers to look for innovative ways to deliver programs and services. Innovation, creativity and thought leadership are necessary skills in today's environment of limited resources and increased demand for accountability.

Values and ethics

Maintaining public trust is critical for constructing effective comptrollership in the federal government. The Values and Ethics Code for the Public Service ensures decisions are grounded in a system that incorporates values and ethics as an overarching principle.

CMA Canada recognizes the federal government will continue to be faced with the challenge of achieving results with limited resources. Demands on the system will increase and programs and services will have to be prioritized. We will continue to collaborate with the federal government to create awareness and recognize excellence in comptrollership. ■

Richard Monk, FCMA, C.Dir. CMC, is CMA Canada's adviser; national affairs, and president & CEO, msight global inc.



Standardizing improvement

The Performance Management Maturity Framework helps identify and close gaps in performance management maturity.

By **Derek Sandison**

IN RECENT YEARS, THE DEMAND

for improved performance and accountability has led to an increase in hype and associated expectations around the use of the term performance management. It has also led to a variety of views as to what performance management entails, which is exacerbated by vendors and consultants conveniently packaging one or two specific products or services as an enterprise solution.

To help organizations understand and improve performance, CAM-I (the Consortium for Advanced Management – International) undertook a research project to develop a standardized and integrated view of performance management for any organization. *The Performance Management Maturity Framework*, an Emerging Issues Paper published jointly by CAM-I and CMA Canada (found at www.cma-canada.org\MAGS.htm), helps organizations assess their level of performance management maturity and identify concrete steps to improve performance.

Using the framework

The Performance Management Maturity Framework is a new approach to helping organizations improve performance.

Imagine a management meeting where the senior team holds a focused discussion about overall performance, feels there are some areas that require

improvement, but isn't sure where to start. Using the framework, the company can undertake an assessment of performance management maturity where maturity is defined over four increasing levels (rudimentary, established, effective and adaptive). The management team includes customers and business partners in the assessment, and identifies actual and desired maturity levels for each of the 12 enablers.

Recognizing that not all enablers need to be at the highest maturity level, the team can focus on enablers that are consistent with the company's strategic direction. For some of the enablers, actual and desired levels match, indicating those areas are functioning well. Others have maturity gaps, showing underperformance.

To close the maturity gaps identified, the management team explores the list of improvement technique categories and how they can improve each enabler. The improvement techniques include:

- activity based management
- balanced scorecard
- benchmarking
- business intelligence
- business process re-engineering
- capacity management
- lean/six sigma
- target costing and value chain analysis.

While the management team finds that several improvement techniques can be applied, they select the one that

The Performance Management Maturity Framework

- Defines 12 enablers that all organizations use to deliver successful results
- Classifies four evolving maturity levels
- Identifies nine proven improvement technique categories
- Recognizes that an organization's change capability should be addressed prior to implementing any improvement initiatives

can improve the weakest enablers to the desired levels of maturity.

Change capability

To finish off the story, the management team knows sustaining new initiatives is difficult. This is supported by research that shows an assessment of organizational change is strongly recommended before starting new initiatives. Accordingly, the company conducts an assessment specifically related to change capabilities

for leadership, communication, engagement, commitment and adaptability.

The assessment results indicate there are some change capability areas that need to be addressed, but that, overall, the company can support an effective level of enabler maturity. The management team feels comfortable that they now have a focused approach to improving performance, and initiate a project to investigate and implement the selected improvement techniques.

The Performance Management Maturity Framework provides organizations with the ability to holistically assess their performance maturity and understand the most effective means to improving performance. The best part is – there's one consistent approach. ■

Derek Sandison is a subject matter expert with CAM-I and vice-president, Strategic Alliances, Decimal Technologies.

THE FRAMEWORK AT WORK

Enablers/maturity levels	Level one: rudimentary	Level two: established	Level three: effective	Level four: adaptive
	Non-systematic, non-periodic and reactive	Stable and repetitive	Internally efficient and continuously improving	Externally efficient and dynamic
Business/operational management			A & D	
Customer relationship management			A & D	
Financial management				A & D
Human capital management			A → D	
Information management				A & D
Innovation management	A → D			
Knowledge management	A → D			
Organizational management		A → D		
Process management		A → D		
Risk management	A → D			
Strategic management		A → D		
Supply chain management			A & D	

A = Actual maturity level; D = Desired maturity level



UNITING THE CANADIAN ACCOUNTING PROFESSION

Canada's Certified Management Accountants have recently entered into discussions with Canada's Chartered Accountants to explore the merits and feasibility of uniting our national and provincial organizations. We believe that a united profession would be more efficient and effective than the status quo; more relevant, both at home and abroad; better able to enhance the support and services it provides to all members; and, better able to protect and serve the public interest.

To bring our organizations together, we are considering the creation of a new designation – the Chartered Professional Accountant or CPA – and a new common qualification program. By combining our respective strengths and expertise, the new designation would be equally strong for financial and management accounting, and we expect it would evolve into an internationally recognized business credential.

At this very early stage of our exploratory discussions, we are engaging CMA members, candidates and students currently registered with one of the provincial CMA bodies in an extensive consultation process to hear your perspectives and inform the way forward.

Visit our member engagement website at www.CPACanada.ca to share your views.



Questions for Gordon Maron, FCMA

By **Gabrielle Bauer**

Q ■ Today's CFOs not only oversee financial reporting, but also provide strategic direction. Can you touch on an organizational strategy you helped put in place during your tenure as CFO for PCL?

A: I took the lead in developing a strategic approach to risk management. Managing risk effectively means you can parcel it out and retain an appropriate share. There's a whole matrix of risk to be managed, including production risk, execution risk, financial risk and reputation risk. Having such a program in place allowed us to react to unforeseen circumstances, such as the global financial meltdown.

Q: You have been recognized as Canada's CFO of the Year. One of the award's judging criteria was social responsibility. How would you advise organizations to balance this vital dimension with bottom-line concerns?

A: If you believe business is an integral part of community life, you find a way to support the community. "Giving back" makes for a healthier company, because the community rallies around the organization. In the long-term, community engagement spills over into the bottom line.

Q: How did you get started with the PCL group, and what changes did you witness or oversee during your 40-year tenure?

A: I started back in 1966 – my very first summer job. We were a small family-owned construction group operating solely in Western Canada. Now we operate in 26 profit centres across North America.

In 1978, the then-CEO began offering shares to employees. Today we're 100 per cent employee owned, with about 3,600 shareholders. Over the past decade we've doubled our business, with revenues topping \$6 billion last year.

Q: What do you think it takes for a CMA to "rise through the ranks" to a position of greater influence?

A: Once you've learned the technical side of things, your climb up the ladder is driven by your capacity to build and

lead a team. I don't think leadership is something you either have or don't have: you can learn a lot from taking courses and watching others.

Back in the 1980s, an IBM change management course helped raise my awareness of the "soft" persuasion skills needed to get detractors on board and control the zealots. Some years later, I took a six-week executive management course at the Ivey School of Management where I learned more about strategic thinking.

Q: You've made it a priority to identify new business trends. How has this mindset contributed to PCL's business success?

A: When the P3 markets [public-private partnerships] were in their infancy, for example, we realized we would need more financial capacity. We started working with business partners in the surety and banking industries and grew our equity to create that capacity. Anticipating the change allowed us to capitalize early on new opportunities.

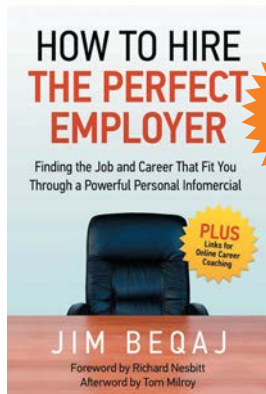
Q: You've recently transitioned to the role of executive vice-president. How do you think your financial background will inform your new role?

A: Finance is the universal language of business. I'm also keenly aware of my fiduciary responsibilities toward our employees – all the more because PCL is employee-owned and many of my fellow workers have their life savings bound up with the company. The costs of a misstep – and the rewards of making good business decisions – are that much higher. ■

Gordon Maron, FCMA, is executive vice-president of PCL Construction Holdings Ltd. and won Canada's CFO of the Year award for 2011, presented annually by Financial Executives International Canada (FEI Canada), PwC and Robert Half.

Trends, facts and figures

A career that fits



Author: **Jim Beqaj**
Published by: **BPS Books**

Author Jim Beqaj doesn't want you to settle. If you're looking for work, or are under-employed, you don't have to take anything that comes your way. In *How to Hire the Perfect Employer: Finding the Job and Career That Fit You Through a Powerful Personal Infomercial*, Beqaj explains how to find and get the ideal job – one that you will enjoy.

Beqaj lays out a systematic plan that anyone can follow to find the right job and get hired. He explains three essential steps:

[1] Conduct an in-depth personal assessment of what you're good at, what you love to do, and your personality.

[2] Find companies in your "target-rich environment." These are companies with a philosophy that's similar to yours, including vision, culture, conflict resolution techniques, as well as size, growth and opportunity.

[3] Create your own personal "informational." Present yourself with clarity, persuasiveness and strength – you're more than a name on a resumé.

Beqaj should know. He's hired over 800 people and helped hundreds of companies find and hire the right employees. Plus, he reinvented himself after losing his own job in a corner office.

Canadian consumers embrace mobile retail

Canadians are adapting to new shopping technologies faster than most countries, according to an annual IBM global survey.

Canadian "instrumented" consumers – those who use two or more technologies such as a website, mobile device or in-store kiosk – increased by 65 per cent over last year's results and almost doubled the global result.

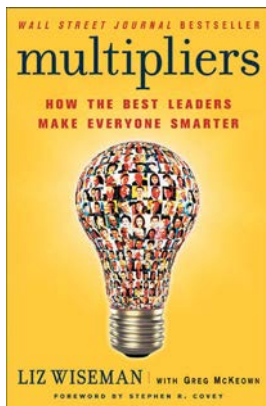
"It would appear Canadians' conservative attitude toward adopting new consumer technologies is changing rapidly to the point that consumers are ahead of retailers," says John Dawkins, IBM's Canadian retail sector lead. "Wider access to bandwidth at lower rates, an increase in the number of Canadian wireless service providers, adoption of social media and a comparatively faster economic recovery are driving the emergence of a more complex, competitive and sophisticated shopper."

Other findings include the following:

- Shoppers are increasingly leveraging from Facebook to Twitter to blogs, YouTube and reviews to discuss retailers, products and brands.
- About 70 per cent of consumers surveyed make final product selections in stores using smartphones and UPC tags to check competitive offerings.
- Consumers will spend more on items they regularly buy at retailers that offer them quality, service and promotions.
- Consumers want to shop seamlessly across channels, check product prices wherever they are, get promotions based on items they scan and use a personal mobile device to avoid the checkout lane.



Best in class



Author: **Liz Wiseman**
Published by: **HarperCollins Canada**
Reviewed by: **Patrick Buckley, CMA**

The performance of a company is influenced by the motivational level of its employees. In *Multipliers: How the Best Leaders Make Everyone Smarter*, author Liz Wiseman points out two management styles that have contrasting impacts on employee enthusiasm – multipliers and diminishers.

Employees led by multipliers perform twice as well as those led by diminishers. A multiplier is a leader who boosts the collective IQ of those with whom he or she works, whereas a diminisher depletes an organization of its intelligence and capability.

Wiseman's thinking about *Multipliers* started when she was an executive at Oracle. Her book is based on a study of 150 leaders in firms where professional wellness had an impact on corporate performance.

Wiseman suggests that leaders fall into three of the following five categories:

- **Talent magnet:** Attracts intelligent and gifted individuals and helps them apply their skills and grow within the company.
- **Liberator:** Encourages a liberal work environment and open expression of new ideas.
- **Challenger:** Sets stretch goals that encourage employees to extend their knowledge beyond current levels.
- **Debate maker:** Ensures all major decisions are well understood and rigorously debated.
- **Investor:** Finds resources needed by employees and encourages them to take ownership and be accountable.

Wiseman believes most of us have some attributes of both a diminisher and multiplier. Many diminishers are unaware of the effect of their management style. For example, some diminishers only became aware of their management style when they were being interviewed for her book. The good news is there's no need to hire new staff: Diminishers can become multipliers and increase the output of their organizations.

A recipe for innovation

What does it take to create innovation? Being open to taking more intelligent risks, suggest senior and junior/mid-level Canadian and American office workers.

Approximately 84 per cent of Canadians and 77 per of Americans surveyed by Microsoft Canada believe business leaders need to take more risks to create innovation, while only 53 per cent of Canadians and 55 per cent of Americans feel the company they work for is already driving innovation.

"Canadian business leaders must embrace an appetite for intelligent risk instead of shying away from it to stay within the comfort of status quo," says Eric Gales, president of Microsoft Canada. "Now is the time to create organizational cultures where risk is not a dirty four-letter word, but is encouraged as a valuable ingredient in fuelling learning, creativity and inspiring innovation."

The majority of the 1,000 office workers surveyed in both Canada and the U.S. also agree that companies must embrace new technologies to remain competitive.

"What we need to do is overcome the misconception that risk automatically equates to danger," Gales adds. "We need to transform the idea of risk into a true opportunity — whether in business or in improving Canada's health care system. Business leaders need to empower their teams and drive forward innovation to strengthen our economy and put Canada on the map."





Illustration by: Samantha Smith

Driving board performance

Balanced scorecards maximize the likelihood of staying on track

By **Cam Scholey**, FCMA, and **Dom Cianflone**, FCMA

W

ith responsibilities to a host of stakeholders and increasingly high standards, boards must perform and be accountable like never before. One need look no further than Enron or WorldCom to understand why boards are under great scrutiny. Or more recently and closer to home, the issues involving the Toronto Community Housing Corporation (TCHC) where the entire board was wiped clean by city council in the wake of two scathing reports by the city's auditor general.

"There's more pressure on boards than ever to protect the interests, often conflicting, of many different stakeholders, even if we are elected by the shareholders only," says Gord Cummings, FCMA, and a member of several boards.

Boards are increasingly often perceived as out for themselves, not the organization they've been entrusted to serve. And much too often, they're unprepared for the obligations to the corporation, which results in poor performance, self-dealing and scandals.

GOVERNANCE AND THE BOARD

Corporate governance refers broadly to the rules, processes or laws by which businesses are operated, regulated and controlled. Good governance is the responsibility of the directors, who have the duty and power to manage the affairs of a corporation.

At a glance: The BSC

Introduced in the early 1990s by Robert Kaplan and David Norton, the balanced scorecard (BSC) quickly gained popularity as a powerful management tool. The BSC balances short-term, financially focused outcomes and the key drivers of longer-term value creation.

In evaluating strategic performance, the BSC recognizes the importance of financial measures and complements them with a set of measures for customers, internal processes (quality, service, etc.) and learning and growth (human capital, information capital, etc.).

To keep a spotlight on only the most important elements, no more than five measures of success should be included in any perspective.

Transforming people and organizations

By **Andrea Civichino**

At a time when performance is key, the BSC is essential. The problem, however, lies in the execution.

“The execution is only as good as what’s behind it – meaning the strategic plan and how it’s laid out,” says Ajay Pangarkar, CMA and author of *The Trainer’s Balanced Scorecard*. “When executed well, the BSC delivers a systematic and cascading effect that allows everybody in an organization to connect to that ultimate strategic goal which is outlined in the mission statement.”

Pangarkar says organizations often fail to understand the contribution of intangible efforts such as learning. “Learning and growth, one of the four primary perspectives of the BSC, that’s the root of the tree,” he says, paraphrasing Robert Kaplan.

“If you don’t stimulate, motivate and link your people to the overall goals and the BSC’s other three perspectives (financial, customer, business process), you’re not going to get the fruits of that success. I think in the last 10 to 15 years, senior leaders have come to understand that people are the key to an organization’s success.”

Even though the BSC has been around for some time, it’s foreign to those not directly involved with the business operations of their organization. To achieve success, Pangarkar recommends the following:

1. Take a holistic approach.
2. Read performance-related material.
3. Take some controlled risks.
4. Experiment with skills and tools.
5. Face your fears.

For directors, the key to good governance is the exercise of due diligence. To do so, directors must understand and be familiar with the governing documents of the corporation, its objects and activities, and financial position. The directors must also understand the statutes, regulations and policies under which the corporation operates, and be familiar with the regulators who have jurisdiction over the corporation.

The board of directors’ role is not managing the daily operations of the corporation. Rather, its four primary functions include the following:

- overseeing the performance of the CEO and senior leadership team,
- establishing the strategic direction of the organization,

- approving a budget, and
- risk management and risk mitigation.

Board performance is more art than science, and it’s difficult at best to measure and manage performance to maximize the likelihood of the board doing “all the right things.” A tool that can help with this task is the Balanced Scorecard (BSC).

Correct use of the BSC can yield impressive results. Large, small, public, private and not-for-profit organizations have all demonstrated breakthrough performance using the BSC, which becomes part of the strategic management process by promoting three key activities:

- translating strategies into sets of measures, both financial and non-financial, that drive long-term performance (what gets measured gets done),
- creating alignment throughout the company, from the board and senior management to employees, and
- guiding investments and setting personal objectives, incentives and other aspects of internal governance.

A balanced set of objectives (what the organization wants to accomplish) and a set of measures for each objective (providing insight regarding the level of progress toward the relevant objective) promote strategy execution in a way no other tool makes possible.

Until recently, BSC users were focused on articulating and clarifying strategy, particularly the development of improved performance measures for middle and lower levels of the organization. Applying the BSC to senior corporate leadership allows boards to operate with measures that permit an effective evaluation of performance by internal managers, the board and external stakeholders.

“More boards are developing annual objectives ... and are doing a much more thorough job of evaluating their own performance as individual board members and as a board as a whole,” explains Cummings.

USING THE BSC TO MEASURE AND IMPROVE

The BSC can play an essential role in helping evaluate corporate performance, as well as the performance of the CEO and the board (including individual board members).

Different metrics can support various board objectives to help understand whether a board is effectively fulfilling its responsibilities. Strategy and the key objectives supporting it must be at the fore.

Both overall board performance and the performance of individual board members are important and need to be considered, as overall satisfactory board performance does not mean all members are performing to expectations. The BSC can also be cascaded to individual board members, which is helpful, but not mandatory.

On its own or as part of a larger program, a BSC for the board of directors assists in the measurement and management of board performance to maximize the



Both overall board performance and the performance of individual board members are important.

likelihood of the board doing the right things. The BSC will not eliminate scandals. It can, however, reduce their likelihood by providing a guiding framework to help boards make decisions that are best for the organization, not the individuals or the CEO. ■

Cam Scholey, MBA, PhD, FCMA, *is the founder of Advanced Management Initiatives Inc., a firm specializing in strategy mapping and the balanced scorecard for strategy communication and execution.* **Dom Cianflone**, MBA, PhD, FCMA, *is the founder of Synergy Management Consulting Inc. and a lecturer at the Schulich School of Business.*

A BSC for boards

Financial perspective		Stakeholder perspective	
Goals	Measures	Goals	Measures
Long-term financial success	Earnings; Return on investment; Stock price	High level of ethical behaviour and compliance standards (both set and adhered to)	Updated code of ethics/code of conduct; Adherence to codes; Level of compliance with law, governance guidelines (TSX, Nasdaq, etc.)
Short-term financial success	Stock price; Earnings (overall, by business unit); Cash flow	High level of corporate governance and accountability by board	Number of voluntary disclosures; Quality of external disclosures (assessed objectively); Risk profile (industry audit); Credit rating
Internal business process perspective		Learning & growth perspective	
Goals	Measures	Goals	Measures
Effective functioning of board	Meeting attendance; Total annual meeting hours; % of independent members; Number of meeting hours without CEO; Number of committees	Strong succession plan for CEO and senior management	Updated position description for CEO; Annual report on succession planning; Interim CEO identified
Strategic planning review (plan, structures, major investments)	Evaluation of review and approval process; Quality of information provided to board to assess projects; % of projects accepted by board meeting or exceeding ROI projections	Improving relevant skills and knowledge	Existence and use of relevant training programs; Quality of programs (evaluated by directors); Improvement in financial literacy rate

What's at stake?

Financial perspective

In a world that demands immediate results, a BSC captures overall success through the blend of short- and long-term results.

Stakeholder perspective

Acting in the best interests of all stakeholders in an ethical and accountable way is key. Given the conflict between various stakeholder needs, however, the BSC should try to:

- identify the needs of each stakeholder group, and the nature of how they conflict,
- attempt to minimize the impact of the conflicts to benefit all stakeholders,
- communicate to each stakeholder in their own 'language.'

Internal business process perspective

This perspective is so important that any compromise to complete execution can critically impede results in all other perspectives and have detrimental results on the corporation. Corporate planning and management around factors such as risk and performance evaluation are at the forefront. Board systems must function extremely effectively to keep the organization well-oiled and on the right track.

Learning & growth perspective

Dynamic environments require dynamic change, and it's critical that boards keep abreast of the latest events in their industry. Canada joining over 100 countries in adopting the IFRS/ASPE and creating a global accounting language, for example, is an important BSC factor because the rules will change over time. Boards must pay attention to changes and in particular how they affect financial reporting. Board members don't necessarily need to be experts, but they do need to keep abreast of changes and have a reasonable level of understanding.

It's all in the details

Align supply chain management with strategy

By John Cooper

The term “big picture” is never better applied than when looking at supply chain management (SCM), the ever-evolving, interconnected control of all businesses associated with producing and moving goods.

From raw materials acquisition to production, sales and delivery, SCM drills down to the smallest detail, creating net value by using logistics and performance measures to ensure supply dovetails with demand.

John Harris, FCMA and chair of accounting and financial services at Centennial College's School of Business, says major gains have been made in the past few years through investments in better information and the development of collaborative products. Collaborative information sharing has also improved product-demand information by ensuring manufacturers, suppliers and customers all know what will be provided, and when, through every step of the supply chain. “Consequently, there's been a shift from a supply to a demand focus,” says Harris.

As the world recovers from the recent economic downturn, Canadian companies are using supply chain management to compete effectively in a demanding global business environment. From locating distribution centres closer to customers, to boosting IT resources and offering better staff training, companies are beginning to position SCM as a core component of the organizational business model.

Bob Armstrong, president of Supply Chain & Logistics Canada (SCL), says SCM has made significant gains in the past five years, and yet it's still not where it should be. “Most Canadian companies either don't have a supply chain management strategy or if they do it's not aligned with the corporate strategy. We need to get Canadian companies to make sure supply chain management is in the boardroom,” he says.

Indeed, SCM has grown from a marginal, non-strategic exercise to one that's front and centre, says Jean-Michel Laurin, vice-president of global business policy for Canadian Manufacturers and Exporters.

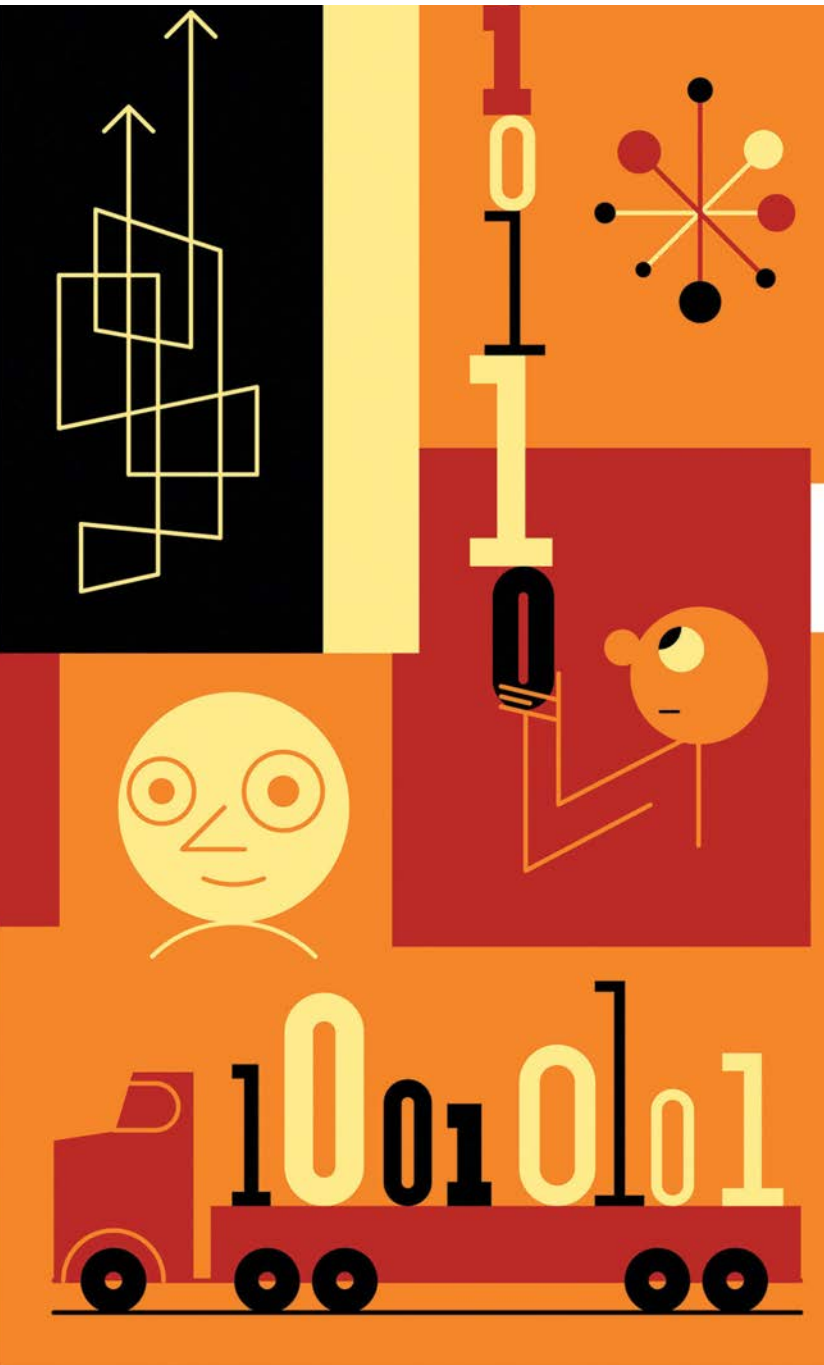
“It used to be that managing suppliers and getting products to customers on time was not a strategic part of work,” says Laurin. “Now supply chain management is a critical part of a manufacturer's strategy.”

AGILITY IS KEY

Increasing numbers of customers are asking manufacturers to become more agile in managing their supply chain. Whether they're selling to original equipment manufacturers, large retailers or assemblers, there are higher expectations in terms of product and process.

“You need to have shorter production runs and less inventory because customers won't pay for it,” says Laurin. “They want you to deliver the goods on time. Higher customer requirements and expectations forced manufacturers to improve supply chain efficiency.”

High-quality, less-costly information technology has helped. There's also been a significant increase in third-party logistics providers with growing expertise.



“We need to get Canadian companies to make sure supply chain management is in the boardroom.”

Greater competition from lower-cost countries has also driven change. The result? Competition based on differentiation and faster response to customer needs. This has been a plus for Canadian firms, especially with their proximity to major U.S. markets. The downside? The economic crisis, massive company downsizings and U.S. market sales slumps meant a lost opportunity in proper SCM training, triggering a necessary refocusing on human resources and education.

According to Armstrong, production is returning to North America and companies here are rediscovering the advantages of the long-standing Free Trade Agreement. Firms that established production facilities in China and Southeast Asia are keeping those operations but reaffirming their Canadian market position.

IT'S ABOUT BUSINESS STRATEGY, NOT SECTOR

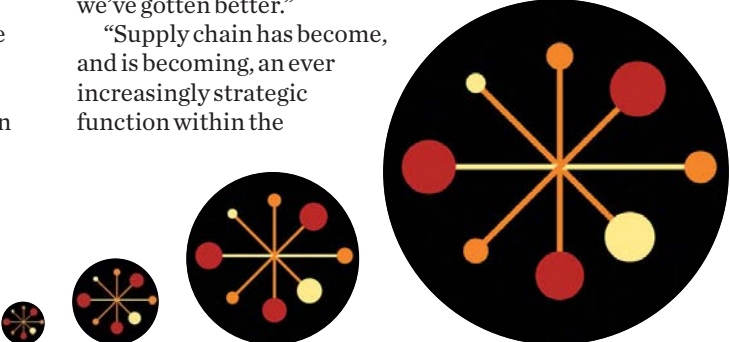
Not long ago, SCM was something only big companies such as Walmart focused on, says Laurin. Now it's everywhere.

“Supply chain management is really strategic. Five years ago I was getting calls from people asking ‘What are the winning and losing sectors?’ But it's not about the sector. It's about the business strategy, the supply chain.” Companies that do well in supply chain management are growing in sectors that were thought to be disappearing, says Laurin.

Investment in SCM by smaller firms is increasing, especially in distribution centres, which saw a 106 per cent increase in the past five years, from \$675 million to \$1.38 billion, says Armstrong.

“SMEs (small to medium-size enterprises) are investing in new distribution centres to integrate themselves into the global value chain,” Armstrong says. Collaboration with customers is de rigeur and technology advances have helped. “Now we have more Canadian companies investing in (better) technology and that's where we've gotten better.”

“Supply chain has become, and is becoming, an ever increasingly strategic function within the





“There’s been a shift from a supply to a demand focus.”

organization,” adds Richard Kingdon, a partner at the accounting firm Meyers Norris Penny. Optimizing the “supply chain footprint” is essential, in that “functions may continue to be directed by managers at an operational level, but many decisions and strategic directions take into account a more holistic view of the organization.”

COST UNCERTAINTIES STILL A CHALLENGE

According to Kingdon, supply chain and risk are now often linked together. “Being able to link the two, and lower risk while improving supply chain processes and technology, is a competitive advantage,” he says. “Few have begun to master this, although Cisco and GE are leaders.”

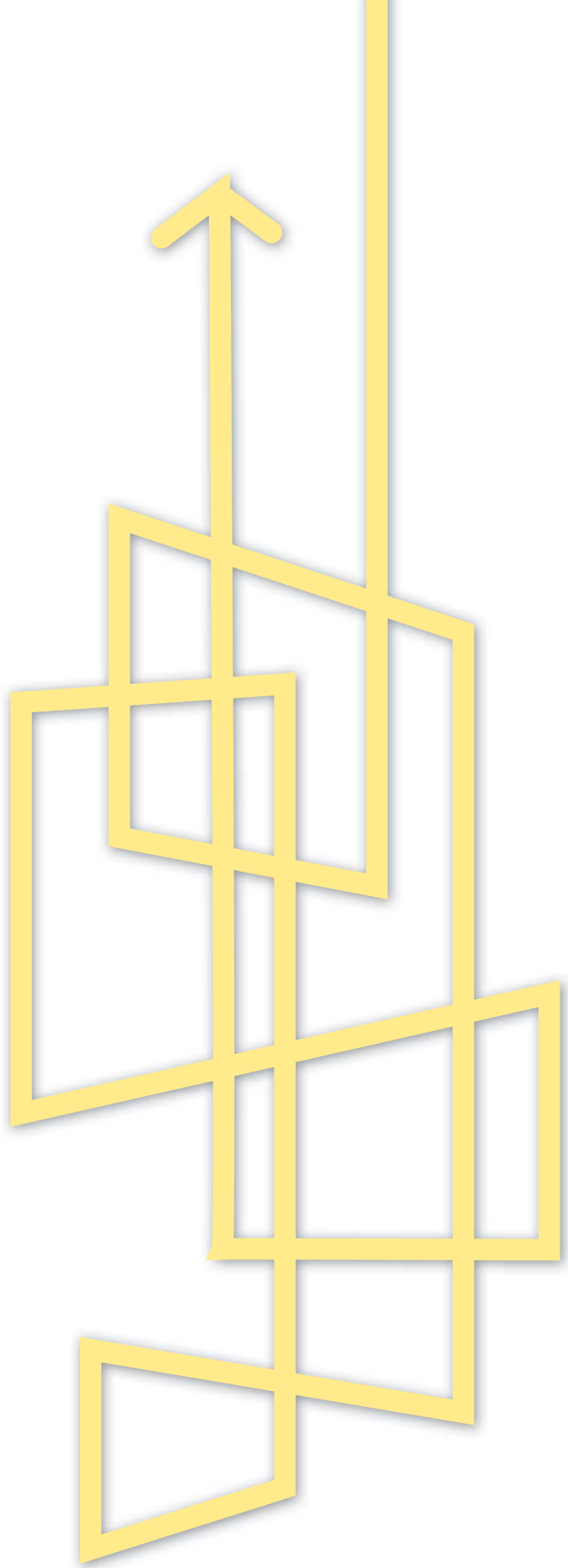
And risks may be monumental and surprising, warns Mark Pagell, associate professor, operations and management of information systems at the Schulich School of Business. He says cost uncertainties will continue to be problematic, dashing a long-held notion of cheap and accessible raw materials, labour and transportation, especially internationally.

“Companies created supply chains based on the assumption of easy and cheap access to transportation, energy and water. (In the future) these will not be as cheap and easy as they have been,” says Pagell.

While technological gains have created greater efficiencies, they might not be enough to offset the costs of just getting things made and distributed. Pagell says decision making becomes a crapshoot: do you go with short-term cost savings or seek guarantees that may be more costly, but better long-term? Production-efficient enterprises must also be cost-efficient.

“If you can’t predict what it will cost to move things and how you can obtain those materials, it will do no good in how well you predict efficiencies,” says Pagell. In addition, companies need to rethink how they buy materials and perhaps move toward greater assurances on cost and availability. Getting guarantees by paying more per unit might work, “but it’s not traditionally what we’ve taught students to do,” he says.

Still, Armstrong is convinced that a combination of sound technology, distribution improvements and education will pay dividends. Outsourcing of supply chain services is



on the rise. As American companies become bigger, more sophisticated and more competitive, Canadians follow suit. And while, according to Kingdon, finding trained staff to manage complex supply chains continues to be a challenge, there's also a major growth curve in certifying supply chain professionals.

"We're taking it to a whole new level, and universities and colleges offer more training than they did five years ago," says Armstrong.

It's also an area where the multi-dimensional skill sets of CMAs can easily find a fit.

"There are a lot of accounting/purchasing system and personnel/training issues/decisions that need to be made," says Harris. CMAs are well-prepared to dig into the details to ensure operations are cost and time efficient.

Companies are beginning to position SCM as a core component of the organizational business model.

The benefits are clear: when companies have the potential of operating at increased levels of efficiency, reducing their bottom line and boosting profit margins, the ROI looms large, says Armstrong. He adds that studies show that 60 per cent of businesses making investments in SCM immediately improve their customer service performance. "They (a) keep their customers, and (b) get more customers," he says.

And that's a big picture that should make any CEO sit up, notice and invest in SCM. ■

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



Demers: Integrated supply chain, customer service, flexibility

Demers Ambulances' business model reflects its deliverables: build excellent products, get them to customers on time and follow up to ensure a healthy long-standing business relationship. It's a model that has worked well for the 50-year-old company in Beloeil, Qué.

The company designs, builds and distributes ambulances for clients in 20 countries and has sold more than 15,000 units. In addition to a quality product, success is credited to impressive customer service.

Striving to maintain its world-class industry status drives Demers' business philosophy. Procurement director Nadine Bernier says the supply chain is a core component of strategic planning.

"Our role in procurement is to support business development by finding high-quality innovative products at competitive prices," says Bernier. "The suppliers we are working with need to be very sensitive to our industry lead time and meet a shortened delivery schedule."

Demers works with customers on 12-month forecasts that allow the sharing of strategic information critical to production

planning and raw materials acquisition. This information is passed on to suppliers, allowing them to plan their production cycles. The company also makes significant investments in training employees and building supply chain relationships.

"We have put in place different technical and management-skills training sessions for our employees," says Bernier. "In terms of procurement, we're developing strategic relations with key suppliers to develop important parts for our ambulances." This is bolstered by clear objectives, performance indicators that are checked twice a month, and regular forecasting. Product orientation committees gauge new trends and make strategic decisions about market development.

The company's supplier pool is flexible. It's able to work with low volume and customized designs and is capable of meeting Demers' lead time. The company engages two suppliers for each component it needs, successfully securing its sourcing, and most suppliers are within a 1.5-hour drive of Demers' facilities.

"Our customers often have quick needs, so we have to try to reduce lead times and keep quality high while respecting the price in order to respond to their requests," says Bernier.

Revolution or evolution?

Emerging non-financial assurance standards

By **David Crawford**, CMA

The past
10 years have
seen significant
changes in
non-financial
reporting.

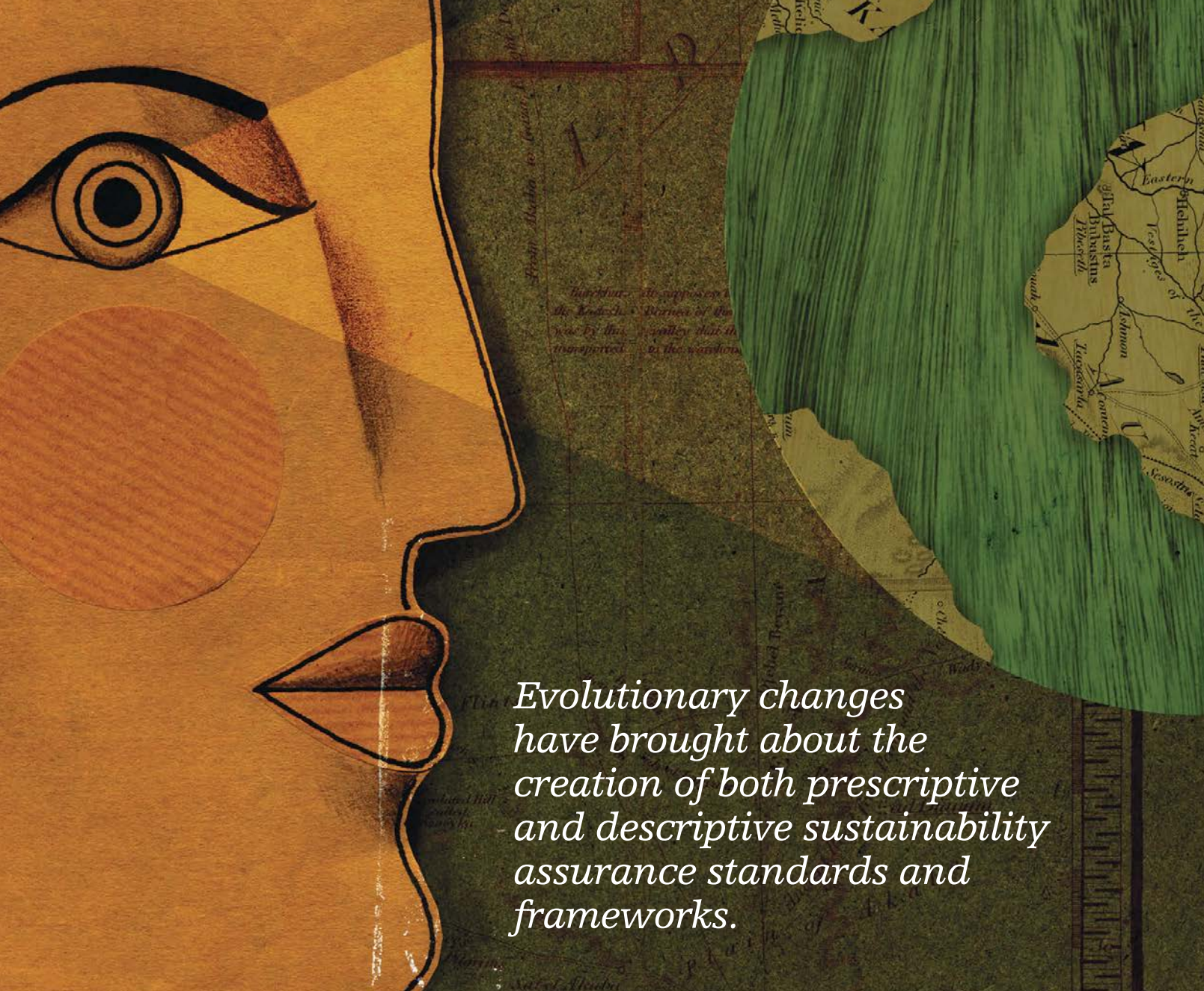


Climate change, fair trade food and stakeholder engagement have all become mainstream issues. Both private and public organizations now claim to be environmentally and socially responsible about these and a host of other concerns.

But can these claims be verified in a structured and credible manner subject to third-party verification? Yes. A global set of standards and frameworks developed over the past decade has important implications for traditional audit and assurance practitioners.

About 10 years ago, financial professionals began to apply the principles of financial assurance practices to non-financial assurance engagements. While intentions were good, the assurance process was effectively left to personal decision making and professional judgment, which led a group of like-minded sustainability assurance providers to create principle-based assurance standards.

Why principle-based? In its infancy, assurance of sustainability-related performance and impact was voluntary and not subject to independent verification by stakeholders and regulators. Evolutionary changes have brought about the creation of both prescriptive and descriptive sustainability assurance standards and frameworks. Important principles still form part of these new standards and frameworks, but they are now



Evolutionary changes have brought about the creation of both prescriptive and descriptive sustainability assurance standards and frameworks.

augmented by well-established financial assurance practices that improve transparency and comparability.

Two important items form the basis of today's non-financial assurance standards. First, a global framework measures and reports on the so-called "triple bottom line." Second, a set of standards enables documentation and assurance of organizations' corporate social responsibility (CSR) or sustainability performance, including the intensity of stakeholder engagement.

GLOBAL REPORTING

Launched 14 years ago, the network-based Global Reporting Initiative (GRI) created the international sustainability reporting framework based on principles of transparency and reliability. According to the book *Accounting for Sustainability*, this framework "sets out the principles and indicators that organizations can use to measure and report on their economic, environmental and social performance." Commonly referred to as the G3.1, the GRI's prescriptive framework is currently in its third version.

As organizations began to adopt and implement the G3.1 to measure and report on their triple bottom line, financial assurance practices were used to confirm accuracy and credibility. But due to a lack of common best practices and legislative reporting requirements, the assurance process was fragmented, which led to both a lack of consistency and comparability. This led to the creation of assurance standards for sustainability performance, results and reports.

AccountAbility is a not-for-profit organization based in London, England, that helps organizations address the challenges of sustainable development. The 2008 AccountAbility 1000 Principles Standard (AA1000 APS) is a descriptive framework to help identify, prioritize and respond to sustainability challenges.

AccountAbility's AA1000 Assurance Standard (AA1000 AS) provides a methodology for assurance practitioners to evaluate the nature and extent to which an organization adheres to AccountAbility principles. Many organizations secure the services of independent auditors who use



the AA1000 AS process to assure performance and corresponding reports. The one challenge that readers of such reports may not be aware of is that this process can be applied at several distinct levels, depending on the intensity of the assurance engagement.

Stakeholder engagement is an emerging field. Some organizations disclose who they believe are their stakeholders and explain why, which can, for obvious reasons, lead to debate and is outside the scope of this article. Fortunately the AA1000 Stakeholder Engagement Standard 2011 (AA1000 SES) provides guidance and best practices for stakeholder engagement and organizational reporting. It also includes ways to assess the inclusivity, materiality and responsiveness of an organization's systems and processes.

Readers new to the subject might assume only AccountAbility has published assurance standards for sustainability standards, assurance and stakeholder engagement. If only life were that simple.

A COMPLEMENTARY ASSURANCE STANDARD

The International Standard on Assurance Engagements, or ISAE 3000, is a framework for the assurance of sustainability reports. It was created and published by the International Auditing and Assurance Standards Board (IAASB), the independent standard-setting body for the global auditing profession initiated by the International Federation of Accountants, of which CMA Canada is a member.

The ISAE 3000 framework provides a structured approach for establishing basic principles and procedures. It also provides guidance for the performance of assurance

engagements other than audits or traditional reviews of financial performance.

Important considerations include the link between stakeholder engagement and the sustainability report, clarification of the scope of the engagement, independence of the assurance provider, the type and rigour of an engagement, and the type and source of frameworks, standards and criteria used to document both the engagement and assurance processes, sometimes called an auditor's report. The ISAE 3000 is particularly good at prescribing a process to develop evaluation criteria where none exist.

One of the potential challenges of the ISAE 3000 is that assurance practitioners should "assess" the appropriateness of the subject matter and the suitability of criteria while considering materiality during the engagement process. Given the level of subject-matter expertise required in some industries, assurance providers may have to decline some engagements simply because they are not sufficiently competent, or do not understand a specific organization and its intricacies.

While the AA1000 AS and ISAE 3000 may not seem complementary, they are in fact good companions, and sustainability assurance providers often use elements of both to address specific requirements. While the AA1000 highlights an organization's management systems and the corresponding strengths and weaknesses in the content of sustainability report, the ISAE 3000 focuses on documenting any real or perceived challenges and limitations in the reporting process.

In the absence of regulatory requirements, all but a few countries have clear, legal triple bottom-line reporting

Jargon buster

Corporate social responsibility

(CSR): An approach that recognizes that a corporation's activities have a wider impact on society and the environment.

Inclusivity: The participation of stakeholders in developing and achieving an accountable and strategic response to sustainability.

The International Federation of Accountants (IFAC):

A global organization of 164 members working to protect public interest by encouraging high quality practices by the world's accountants.

Materiality: Determination of the most relevant and significant issues.

Responsiveness: Decisions, actions, performance and communications related to material issues.

Stakeholder: Individuals or groups that affect and/or could be affected by an organization's activities, products or services and associated performance.

Stakeholder engagement: The process used to engage relevant stakeholders for the purpose of achieving accepted outcomes.

Sustainability reports/ing:

A form of value reporting that publicly communicates economic, environmental and social performance.

Sustainable development: Meeting the needs of the present without compromising the future.

Triple bottom line: Organizational and societal success measured by economic, ecological and social values.

Sources: AccountAbility.org, *Accounting for Sustainability*, IFAC.org, IISD.org, Wikipedia.

requirements, let alone prescribed assurance standards. Over time this gap will be filled in one of two ways. Either there will be a change in domestic reporting requirements, which at this point seems unlikely, or the non-financial assurance process will be guided by case law. As an evolving practice it's probable that an important investment decision will be made based on the interpretation of an organization's social and/or environmental performance contained in an independently assured report. When the decision turns out negative, it's conceivable litigation will commence. The real question is not if, but when this will occur.

OPPORTUNITIES ON THE HORIZON

Some organizations have begun issuing “integrated reports,” or reports that combine financial, environmental and social performance and management disclosure. In many cases two separate auditors are engaged, one to provide assurance for the financial results and report, and another for the CSR/sustainability results and report. For obvious reasons, organizations that issue integrated reports now want one auditor as opposed to two. This trend is a game changer. Traditional audit firms that do not evolve their service offering to include assurance of environmental and social performance will offer one-dimensional services in an emerging three-dimensional world.

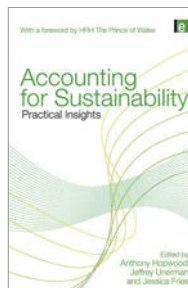
Accounting and business advisory firms that now offer a complete suite of assurance services are building competitive advantage. Early assurance providers of environmental and social performance often acted as business consultants for the very organizations they audited, but a separation of these two roles is critical for credibility. It's also important that assurance providers have a deep understanding of non-financial challenges and opportunities to address risk and governance issues.

Assurance providers who offer a structured and credible approach to validate the impacts of non-financial performance will be in a position to offer better value than their competitors. Additionally, should investors, regulators or governments challenge actual non-financial performance or the statements in a sustainability report, credible assurance practices could make the difference between success or failure in both courts of law and public opinion.

Prescriptive supply chain standards, carbon intensity, ethical procurement, biodiversity and stakeholder engagement are issues all organizations now acknowledge as critical. The good news is that CMA Canada's core competencies enable organizations to both embed sustainability into the core of their business strategy and lead the assurance of financial and non-financial performance. This unique skill set is also what will continue to evolve emerging assurance frameworks, standards and best practices. ■

David Crawford, CMA, is president of CAF Consulting Inc., a firm based in Coquitlam, B.C.

Best practices: The U.K.



Accounting for Sustainability: Practical Insights (Earthscan, 2010)

Accounting for Sustainability is the product of His Royal Highness The Prince of Wales' accounting

for sustainability project (A4S), established in recognition of the fact accountants play a key role in the achievement of sustainable economic development. (For more, see the March/April issue of *CMA magazine*.)

The connected reporting framework (CRF), a key aspect of the A4S, is a new approach to reporting that improves the link between financial and sustainability performance by better connecting an organization's operating environment, risks, available resources, governance and relationships.

The CRF is applied to nine of the book's 10 case studies, illustrating how sustainability reporting can be integrated at operational, tactical and strategic levels. Two examples are summarized below.

Public sector performance management

The U.K.'s West Sussex County Council (WSCC), like many local governments, takes direction from its national government. Ultimately, it's responsible for both on-the-ground implementation of many public policies and the cumulative impact of day-to-day decision making by elected officials and council employees.

WSCC initiated the creation of a sustainability strategy based initially upon the CRF, local priorities and national sustainability standards. The resulting sustainability action plan identified priorities under its direct and indirect control, which led to the creation of a five-year corporate sustainability plan.

Private sector supply chain performance measurement

One of the U.K.'s largest supermarket chains, Sainsbury recognizes its suppliers have environmental and societal impacts, particularly in rural areas.

Sainsbury applied the integrated A4S Decision-Making Tool (A4S), described in the book, to better understand inputs and intended outcomes of its sustainability policies. The results enabled Sainsbury to effectively document and communicate both qualitative and quantitative impacts to stakeholders.

Sainsbury candidly describes both the challenges and opportunities involved in disclosing its sustainability results using the connected reporting framework.

By **David Crawford**



Performance evaluations: Subjectivity + traditional measures

Despite the benefits, managers need to use subjectivity with caution.

By **Suzanne Landry**, FCMA, and **Eduardo Schiehl**, CMA

ONE OF THE MAIN CHALLENGES OF designing an incentive compensation system is choosing the criteria for evaluating and rewarding performance. The metrics have to be informative and timely, and must take into account how today's actions will affect tomorrow's performance. And it all has to be done without transferring too much risk to the manager.

Traditional financial outcome-based measures rarely fit the bill. Although they're objective and verifiable, they tend to be too backward-looking. They can reward unwanted behaviour and don't emphasize intangibles such as intellectual capital or managerial skills. In addition, bonuses are increasingly linked to broader business goals such as quality, customer service, reputation, and hiring and retention policies.

For these reasons, there's now a trend to combine qualitative, subjective measures with traditional outcome- and profit-based measures. The result is a greater reliance on the supervisor's judgment — in other words, subjectivity.

Subjectivity allows supervisors to offset uncontrollable factors that can adversely affect managerial performance and to adjust performance ratings when they uncover performance manipulations. In short, subjectivity can improve incentive compensation by reducing risk for managers and incentive costs for the organization.

Subjectivity survey

We surveyed 339 CMA members from the Quebec CMA Order in mid- and upper-level management. The survey's results revealed that multiple performance measures, including subjective criteria, are widely used for evaluating and rewarding managerial performance. The average number of performance measures within the three metric categories — financial, non-financial and subjective — is 11.2. On average, a performance evaluation system is based 19 per cent on financial measures, 37 per cent on non-financial measures and 44 per cent on subjective measures.

Each performance measure category was also weighted, with a mean of 29 per cent for the financial, 38 per cent for the non-financial and 32 per cent for the subjective category. This confirms that the use of multiple performance dimensions are used and that financial and non-financial measures are systematically combined with a good dose of subjectivity.

Most importantly, the study revealed that this balanced approach is consistent across the 11 industry sectors surveyed. Subjective criteria even accounted for 42 per cent and 44 per cent in traditional sectors such as manufacturing and consumer business.

The study also revealed less emphasis on financial measures in public sector firms. One explanation is that measuring financial performance in the

public sector is more difficult than in the private sector. Many government programs are not profit-oriented and have multiple and changing objectives, justifying less use of financial measures to evaluate and reward managerial performance.

Determining bonuses

About 61 per cent of managers indicated that more than 50 per cent of their cash bonus was based on a supervisor's use of a subjective approach. Unlike a formula-based approach which uses objective and quantifiable (financial and non-financial) measures with predetermined weights, a subjective approach entails a supervisor's judgment based on an assessment of potential performance indicators, some of which may not be easily quantified.

The survey also revealed the use of two other forms of subjectivity. About 30 per cent of managers reported that the performance dimensions were weighted flexibly. Supervisors either did not predetermine the weights for the performance criteria or did use their discretion in weighing them after the evaluation period. They adjusted for uncontrollable factors and made incentives more representative of managerial efforts.

Supervisors also used subjectivity to define and allocate the amount of a bonus award. Twenty-seven per cent of managers surveyed said that their supervisors had full discretion in determining the total amount of a cash bonus, and about 33 per cent said that their supervisors could adjust the bonus award by considering factors other than predetermined measures and weights. This approach keeps managers motivated when pre-set performance targets become unreasonable or difficult to achieve, and allows supervisors to adjust compensation to better reflect collective and individual efforts.

The survey found that subjective measures are widely used together with outcome-based financial and non-financial measures. Two other forms of subjectivity can be

incorporated: flexibility in weighting multiple performance measures and a supervisor's discretion in determining the bonus amount and allocation. Often used in combination, these three forms of subjectivity can improve the performance evaluation by filtering out uncontrollable events, offsetting problems with inadequate objective measures and neutralizing the effects of outside influences on performance. In the case of bonus payouts, subjectivity can also lessen the drawbacks of tying bonuses to outcome-based performance measures.

But the survey also revealed some downsides. Surveyed managers perceive that subjectivity may introduce bias in rating and ranking their performance. Subjectivity is meant to build incentives, but if performance outcomes cannot be properly verified, the assessment can become problematic and even discouraging for managers who may view the system as uncontrollable and unfair.

More specifically, cognitive limitations in the processing of performance information and the inability to verify performance outcomes can create assessment problems that limit the incentive-strengthening role of subjectivity in performance evaluation. Ultimately, despite the benefits, subjectivity needs to be used with caution. ■

There's now a trend to combine qualitative, subjective measures with traditional outcome-and profit-based measures.

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Suzanne Landry, PhD, M.Fisc., FCMA, FCA, is a professor at HEC Montréal; **Eduardo Schiehl**, PhD, MSc, CMA, is a professor at HEC Montréal. The authors would like to thank François Renaud, CEO of the Quebec CMA Order, for his collaboration and support in conducting the survey.

DIVERSITY OF PERFORMANCE MEASURES

All industry sectors	All performance measures	Financial performance measures	Non-financial performance measures	Subjective performance measures
Average number	11.2	1.8	4.5	4.9
Average weight attributed to performance measure category		29%	38%	32%
Industry sectors	Number of firms (339)	% Financial	% Non-financial	% Subjective
		Mean	Mean	Mean
Public sector	64	9.8	43.1	47.2
Resources	30	24.0	33.5	42.5
Manufacturing	112	22.5	35.5	42.0
High-tech/biotech	35	17.2	34.7	48.2
Banking	50	20.6	40.1	39.4
Consulting	17	16.4	43.7	39.8
Health care/pharmaceutical	10	24.9	20.0	55.1
Consumer business	16	20.4	35.7	43.9
Missing information	5	—	—	—
Number of performance measures per category as % of all measures		19.1	37.2	43.7



Moving up from shrink wrap: When is it time to make the leap?

Cloud computing lets smaller organizations use big-player applications.

By **Jacob Stoller**

AN INTERESTING ASIDE IN THE unfolding cloud computing story is the idea that smaller organizations, freed from the need to acquire their own infrastructures, will find it easier to adopt enterprise business applications similar to those used by larger players. They will have the opportunity, essentially, to use technology with integrated functionality for managing all aspects of a business.

“One thing that cloud does is level the playing field,” says Doug Jones, cloud computing business executive at Markham-based IBM Canada. “The small guys can now get access to the same computing power and the same solutions as the big guys.”

Smaller organizations have traditionally been short-changed when it comes to business software, as leading-edge tools tend to be geared toward “tier one” players such as major banks, telecoms and governments. Many smaller companies, in fact, did no computing at all until the late ‘80s and early ‘90s when PC-based business programs such as Quicken (later QuickBooks) and Peachtree Accounting (later acquired by Sage Software) became widely available.

The limits of shrink wrap

Today’s shrink-wrap business applications are vastly superior to their early prototypes, but some

important limitations remain, as Ottawa-based toy vendor Plasmart learned when they outgrew QuickBooks. “The biggest thing was that it wasn’t scalable,” says Tim Kimber, Plasmart’s president. “When our business got to a certain point, it just ran too slowly. It wasn’t working.”

Kimber got the capacity and scalability Plasmart needed by adopting NetSuite, a cloud-based enterprise-scale software suite that’s designed to support larger and more complex business environments. The on-premise equivalent would have required a substantial investment in infrastructure, but the cloud meant this wasn’t necessary – the solution was implemented quickly and easily.

The case for taking this leap is especially strong in multiple-site scenarios, explains George Goodall, senior analyst for Info-Tech Research in London, Ont. “You’re dealing with multiple versions of the truth,” says Goodall, “and you can’t get a real image of what’s going on until you consolidate every 30 days.” This lack of real-time monitoring is unacceptable for many businesses.

Functionality gaps

While scalability problems often force the issue, other limitations are more subtle. Because shrink-wrap applications are both limited in scope and functionality and difficult

to customize, they provide only an approximate fit for the businesses they support. This means people have to compromise, either by adapting their business processes to fit the software, or supplementing their systemized processes with manual workarounds.

An example familiar to CMAs is the phenomenon known as “Excel hell.” The problem starts innocently enough. A company needs to report on a detail that the financial software won’t support – for example, the cost of inventory – so the monthly financial report is supplemented with an Excel spreadsheet. Soon another gap is found, and again, it’s Excel to the rescue. As the business grows, so do the spreadsheets, and so do the reporting delays at month end.

The problem is not limited to financials. Spreadsheets become the de facto solution for order processing, inventory, maintenance management, expense tracking, and a host of other functions.

Overuse of spreadsheets is a resource drain at best, especially in situations where they have to be revised frequently to accommodate changing business conditions. The manual aspect also introduces the factor of human error, which can be easily hidden in formulas, exposing the business to serious risks. Finally, spreadsheets tend to operate as islands of information, making it

difficult for decision-makers to gain a consolidated view.

“Module creep” – the acquisition of a continuous string of software modules to fill functionality gaps – is another common problem. Once again, it can start innocently enough. “Say you’re using QuickBooks – general ledger, accounts receivable, accounts payable, maybe order entry, but then you start to warehouse components,” says Goodall, “so you get a solution for inventory management.”

Next, the company might offer a few products for retail, and need a module to manage transactions and sales tax. Then comes the issue of managing retail employees. “Soon you’re managing a whole pile of products,” says Goodall, “each of which has its own upgrade cycle, each of which has its drama going on of product development and everything else. And that can become overwhelming.”

The human factor

When all else fails, people have to make systems work. If there’s an error in the bottom line of a spreadsheet, somebody has to trace it. If there are add-on software modules that don’t integrate well, somebody has to manage this and create workarounds. If order entry and accounts receivable are on two different systems, an administrator might have to manually copy the customer information from one system to another.

An example familiar to CMAs is the phenomenon known as “Excel hell.”

All these extra steps affect productivity, which is the ultimate measure of the effectiveness of any IT system. If managers and employees are getting the information and functionality they need to run the business as efficiently as possible, their IT system is probably okay. On the other hand, if a shrink-wrap system is plagued with added modules, workarounds, errors and missing information, it might be time to think enterprise – possibly through cloud computing. ■

Jacob Stoller is a Toronto-based writer and researcher.



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Emotional intelligence: One part of the equation

EI should not be the only tool used when hiring a new employee.

By **Jennifer Campbell**

STUDIES HAVE FOUND THAT

people who score higher on emotional intelligence (EI) tests are better performers in the workplace. Rotman School of Business professors Stéphane Côté and Christopher T.H. Miners found EI can predict sales performance and even supervisory ratings of job performance.

But experts, including Côté, caution that EI shouldn't be the only tool used when hiring a new employee. And sometimes, it shouldn't be used at all.

A concept dating back to Darwin, EI became widely understood with the 1995 release of psychologist and *New York Times* writer Daniel Goleman's best-selling book *Emotional Intelligence*. EI rates a person's self-awareness, understanding of social awareness and ability to manage oneself and relationships.

Generally, emotionally intelligent people are the ones you want to have as friends. They're the kind of people who turn anger into energy. They take

responsibility for their feelings, respect the feelings of others and are social beings. But that doesn't mean they're suited to every job.

When hiring, consider EI within the big picture and keep in mind nuances and social context.

1/ Think about how EI relates to the job in question. Shawn Bakker, a psychologist for Psychometrics Canada, which specializes in career suitability assessments, warns that a job requiring a person to sit in a backroom filing documents may not be suited to someone who is highly emotionally intelligent. "Remember that you're not picking a friend, you're picking someone for a task," Bakker says.

2/ Be mindful of the powers of EI. One of Côté's 2011 studies, *The Jekyll and Hyde of Emotional Intelligence*, found that people can use their EI for self-serving purposes — to satisfy their personal needs at the expense of others or the organization.

"People who have a goal of moving up the organization will use other people as a means to an end, and they're able to do so better if they're also highly emotionally intelligent," says Côté, an associate professor of organizational behaviour and psychology.

The solution? Use career assessment tests to determine a person's "pro-social orientation," or a person's tendency to want to benefit or help others, says Côté. Behaviourists provide subjects a list of adjectives such as "caring, giving, being helpful" and ask them to what extent these words define who they are.

3/ Watch for ethnic considerations. There can be bias toward ethnic groups, Côté says. "The right way to manage emotions might vary quite a bit by culture. A lot of the measures might be rooted in a certain cultural context and the assumptions might not be the same as ... in Europe, South America and particularly Asia."

A study by one of Côté's PhD students, Sue Moon, found that when U.S. President Ronald Reagan died, Americans were stoic, standing on the roadside with stiff upper lips. In North Korea, the people "sobbed loudly and wailed dramatically" after the death of ruler Kim Il-sung. Culture plays a role in what's emotionally appropriate, says Côté.

4/ Balance EI results. EI must be weighed against other assets, says Toronto-based organizational psychologist Scot McFadden. McFadden, whose area of expertise includes executive coaching, career planning and talent development, spends hours pre-screening candidates. While his corporate clients don't ask him to test EI specifically, he says "some of the competencies they want to know about are relevant to emotional intelligence."

McFadden breaks down EI into empathy, optimism, humility and interpersonal sensitivity and looks for a nice balance. He then weighs those criteria against assets such as analytical and strategic skills, and work ethic. ■

Jennifer Campbell is an Ottawa-based freelance writer.



Supply chain contracts: The best agreements align interests

Relationship agreements are based on win-win.

By **Donald B. Johnston**

LAWYERS MAKE THREE KINDS OF mistakes in drafting supply chain contracts. They fail to remember that an agreement in a supply chain is a “relationship agreement”; they approach a supply chain agreement from the point of view of “rights and remedies” instead of considering the confluence of interests and alignment of parties; and they manage risk on the assumption that Chicken Little was right – the sky is definitely going to fall – instead of understanding that when things go wrong the cause is more likely to be death by a thousand cuts.

Relationship agreement

Any agreement with a member of your supply chain is a relationship agreement. They can be as simple as agreements for the continuous supply of product under pre-agreed terms and conditions, or as complex as inter-supplier agreements among a buyer and multiple sellers.

Supply chain agreements are not “pay-and-walk-away” real-estate-type transactions where the better one party does, the worse for the other. As soon as you sign a supply chain agreement, your future and that of your supply chain co-party are bound by function and business interest. Your attitude in a supply chain relationship has to be different from your attitude in an agreement where there’s no ongoing relationship.

By entering into an agreement with a member of your supply chain, you’ve formed a relationship that functions like a living, breathing organism. Like all organisms, it has to be flexible and deal creatively with change.

But a “legalistic” approach to change, whether bad or good, may not work. Rights and remedies have to do with default and blame, damages and compensation, termination of agreements and elimination of business relationships. Rights and remedies are what’s left behind when the relationship is nothing but a bitter memory.

For example, a natural health products start-up recently entered into a highly legalistic agreement with a contract manufacturer. Sadly, the contract was drawn as a “zero-sum game” rather than a relationship agreement. Things went well for a while, but after a year or so it became apparent the contract put the parties at odds.

The buyer’s counsel, who created the agreement, urged the buyer to terminate to get leverage. What she didn’t know was that the contract, as drawn, had become financially untenable for the supplier, who welcomed the termination. If there had been better alignment, the parties would have responded effectively to the challenges of change and would not have thrown their money away on subsequent litigation. Ironically, the lawyers were

mutually aligned in the process of litigation, the continuance of which produced good fees.

Win-win

Alignment of interests works like a charm. If you can draft a relationship agreement that ensures that if I act in my own best interests, you win, and that if you act in your own best interests, I win – then you’ve got alignment.

We see alignment all the time. Take how wise parents make kids share. If there’s a piece of cake to be shared between two kids, one cuts and the other gets to choose her piece first. After the kids have finished with the protractor and ruler, there are no complaints because the one who cuts makes sure both pieces of the cake are exactly the same. That’s perfect alignment. Let them eat cake indeed.

Wise lawyers will think carefully about the actual needs of the particular supply chain relationship and opportunities of mutual interest. They will draft a relationship agreement that achieves alignment and ensures parties work for, not against, one another.

A wise lawyer will ensure there are provisions in the agreement that always promote the relationship, even when there are errors and bad luck. Those provisions will include communications protocols, governance committees, alignment committees, informal dispute resolution, executive review and encouragement of joint activities of all kinds. In short, all the “organs” that the body of the relationship needs to not only stay alive, but also thrive.

Chicken Little was right

The rights and remedies sections of supply chain agreements are often drafted in a way that takes into consideration bankruptcy, major breaches, infidelity, earthquakes and alien invasion. In many cases, however, they ignore the far more likely events that plague business relationships, such as competitive interference; customer preferences; changes in laws, technology and costs; adverse publicity; bad middle managers; slowness; or bad production quality. As a result, these agreements address unlikely events, but not the things most likely to happen.

This is often the result of a lawyer using a “precedent” – a template that’s an amalgam of previous work. While the use of precedents and templates makes sure you don’t miss anything, it’s no substitute for considering the best way to achieve alignment. ■

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Donald B. Johnston is a partner at the law firm of *Aird & Berlis LLP* in Toronto.

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A broken link

Japan's crisis threatens the supply chain system.

By **Andrea Civichino**

IN THE AFTERMATH OF THE CRISIS

in Japan, companies around the globe have been scrambling to identify alternative sources of supply, assess the scope and magnitude of the impact, and figure out ways to respond.

The earthquake that struck coastal Japan on March 11, 2011, was followed by a massive tsunami. According to the National Earthquake Information Center, the earthquake generated almost the same amount of energy the U.S. consumes in a year. It had a magnitude of 8.9 on the Richter scale and was the sixth largest earthquake in the world since 1900.

The U.S. Energy Information Administration says Japan is the world's third largest economy in GDP, second largest in oil importing and third in oil consumption. Supply chain disruption as a result of the earthquake, tsunami and radioactivity crisis forced industries around the world to close plants and rethink their logistical infrastructure.

"The whole concept of the effectiveness of lean operations, shallow supplier base and global outsourcing is being challenged," says Joong Y. Son, PhD, chair of the supply chain program, School of Business at Grant MacEwan University in Edmonton, Alta. "All these worked seamlessly during normal non-disruption times, but easily exposed the entire supply chain to imminent risk during the recent crisis."

Japan is known globally for its cutting-edge automobile, electronics and semiconductor parts. It is the world's biggest producer of silicon wafers used in semiconductor chips, and supplies manufacturing plants in Asia, North America and Europe.

"The global supply chain is so integrated and lean, even a few days of disruption at the upstream of suppliers will have immediate ripple effects onto the rest of the chain in auto, consumer electronics and smart phone industries," says Son.

Although auto makers are known to keep about two-to-three months of inventory on hand, semiconductor producers may feel an immediate impact from the disruption. The parts are expensive and are flown out of Japan with only a few weeks of buffer inventory. "The question is," asks Son, "do companies have viable alternatives in terms of sources of supply?"

Where's my iPad?

The impact of the supply chain disruption, when felt, will not go unnoticed. For example, global manufacturers of smart phones and iPads are considering plant closures, layoffs and short production runs due to the crisis in Japan — all of which will have significant financial consequences. Furthermore, Son predicts infrastructure damages sustained throughout Japan will

negatively impact the logistics of the supply chain for quite some time.

The financial effects are as yet unknown. However, if history is a good indicator, financial damages may be much greater than originally assessed.

Moved by the recent incidents of supply disruptions caused by port closures, hurricanes, plant fires, labour unrest and the global recession, Son and his colleague Ryan Orchard are researching the significance of supply chain risk management when both the occurrence of and recovery from supply disruptions are random and unpredictable.

Son says a closer review of current practices of lean operations and global sourcing is warranted. Today's supply chains are becoming more vulnerable to disruptions because of global trends toward lean operations and outsourcing. Companies are more dependent on their business partners overseas, which make them more susceptible to slowdowns or shutdowns passed on from supply chain partners.

Some of the world's largest manufacturers are regionally concentrated in Japan. In the future, companies may start to diversify their supplier base, not just in terms of numbers, but also location.

"Supply chain is about building relationships between supplier and customer with the intention of

reducing the amount of time and product inventory needed to deliver high value in the end use customers' hands," says Lynn Sugden, FCMA, accounting curriculum lead at Grant MacEwan University. "Accordingly, risk management in a supply chain must involve cooperative scenario-planning amongst inline suppliers."

Sugden uses Toyota's response to a fire in a supplier's factory a number of years ago as an example. By reducing the number of suppliers per component part, Toyota was able to restore operations within five days of a fire that wiped out the supply of a key component. Strong relationships with supply chain partners combined with sufficient risk-management plans minimized the impact.

Replacing links

"It's unfortunate for the Japanese, but this situation is going to create opportunities elsewhere," says Mitch Free, a global supply chain specialist and chairman and CEO of MFG.com. "Other companies who can manufacture similar components are going to get spooled up quickly."

There's already a lot of activity, primarily in the automotive sector, to find suppliers who can adapt components, says Free. He believes we'll see increased business opportunities as companies pay newcomers to rush through the

"The global supply chain is so integrated and lean."

research and development cycle to develop new components.

Building a responsive supply chain is critical amid today's growing global uncertainties. "CMAs are positioned to have a positive impact on an organization's supply chain due to the entity perspective from which a management accountant must work in contrast to the shareholder perspective taken by other accountants," says Sugden.

"Specifically, a management accountant plays an active role in connecting corporate strategy to supply chain operations through the design, implementation and maintenance of the performance measurement system employed," he adds. "The metrics used to manage the supply chain must be predictive and include the appropriate mix of non-financial and financial indicators." ■

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Andrea Civichino is editor, research, at CMA Canada.

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A life-changing odyssey

Neville Tencer, CMA, technology expert turned travel publisher

By **Arda Ocal**

BECOMING A MILLIONAIRE AND SURVIVING A

life-threatening illness was just the beginning of a longer journey for Neville Tencer, CMA.

In 2004, Tencer used his CMA skills and training to successfully sell his mobile security software firm, Sonic Mobility, to U.S.-based Avocent for \$13 million.

Soon after, Tencer was diagnosed with Guillain-Barre syndrome, an illness that can lead to non-trauma paralysis. After a prolonged recovery, Tencer and his wife decided to walk Spain's Camino de Santiago.

"My wife and I were contemplating creating a lifestyle where we could make a living and travel at the same time," says Tencer.

Ironically, the solution lay under their feet. "Right then we decided to walk another trail in Italy and write a book. That led us to set up a company to publish the book."

Electronic and print-on-demand publishing are at the foundation of Verdera Media. "In a traditional print publishing model, the distributor gets 65 per cent of the revenue, while the publisher and author get 35 per cent," says Tencer. "With our business model, it's the other way around."

Printing "on-demand" also lowers costs and helps the environment, as over 40 per cent of published books are returned or trashed.

Tencer's marketing efforts are mostly online. He uses social media tools such as Facebook, Goodreads and his blog to build an international community of readers, drive sales and attract clients.

Verdera Media's first offering, *An Italian Odyssey*, chronicles the couple's 1,000 km journey along Italy's medieval Via Francigena trail. ■

Arda Ocal is a Toronto-based freelance writer.

Employer: Verdera Media
Role: Founder and partner
Most valuable piece of advice: "Plan, execute, persevere."
Website: www.verderamedia.com



Photograph: Jemma & Tristan Shouldice

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*No purchase required. Contest ends on January 13, 2012. Each winner may choose the prize, a 2011 MINI Cooper Classic (including applicable taxes, preparation and transportation fees) for a total value of \$28,500, or a cash amount of \$30,000 Canadian. Odds of winning depend on the number of eligible entries received. Skill-testing question required. Contest organized jointly with Primum Insurance Company and open to members, employees and other eligible persons belonging to all employer and professional and alumni groups who have an agreement with and are entitled to group rates from the organizers. Complete contest rules and eligibility criteria available at www.melochemonnex.com. Actual prize may differ from picture shown. MINI Cooper is a trade-mark, used under license, of BMW AG, which is not a participant in or a sponsor of this promotion.

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