

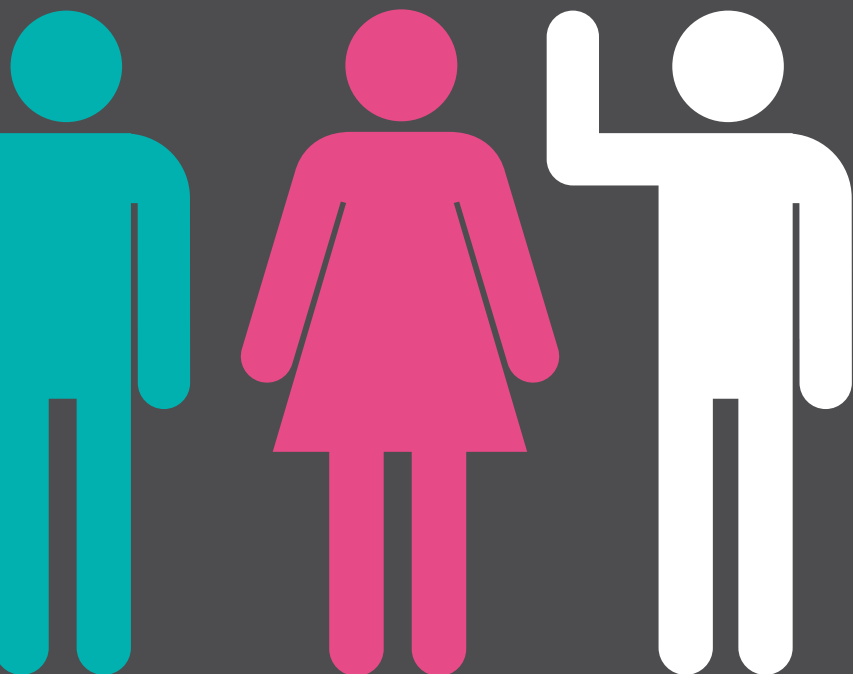
CMA magazine

THE VOICE OF MANAGEMENT ACCOUNTING
WWW.CMAMAGAZINE.CA



NOVEMBER/DECEMBER 2012

Should you trust your gut?
Fleet-footed forecasting
Dambisa Moyo says yes to China
Don't tick off the tax man



NATURAL HIGH

The payoff
of volunteering

IFRS
Now what?

Extract it, make it, move it
The outlook for 3 key sectors

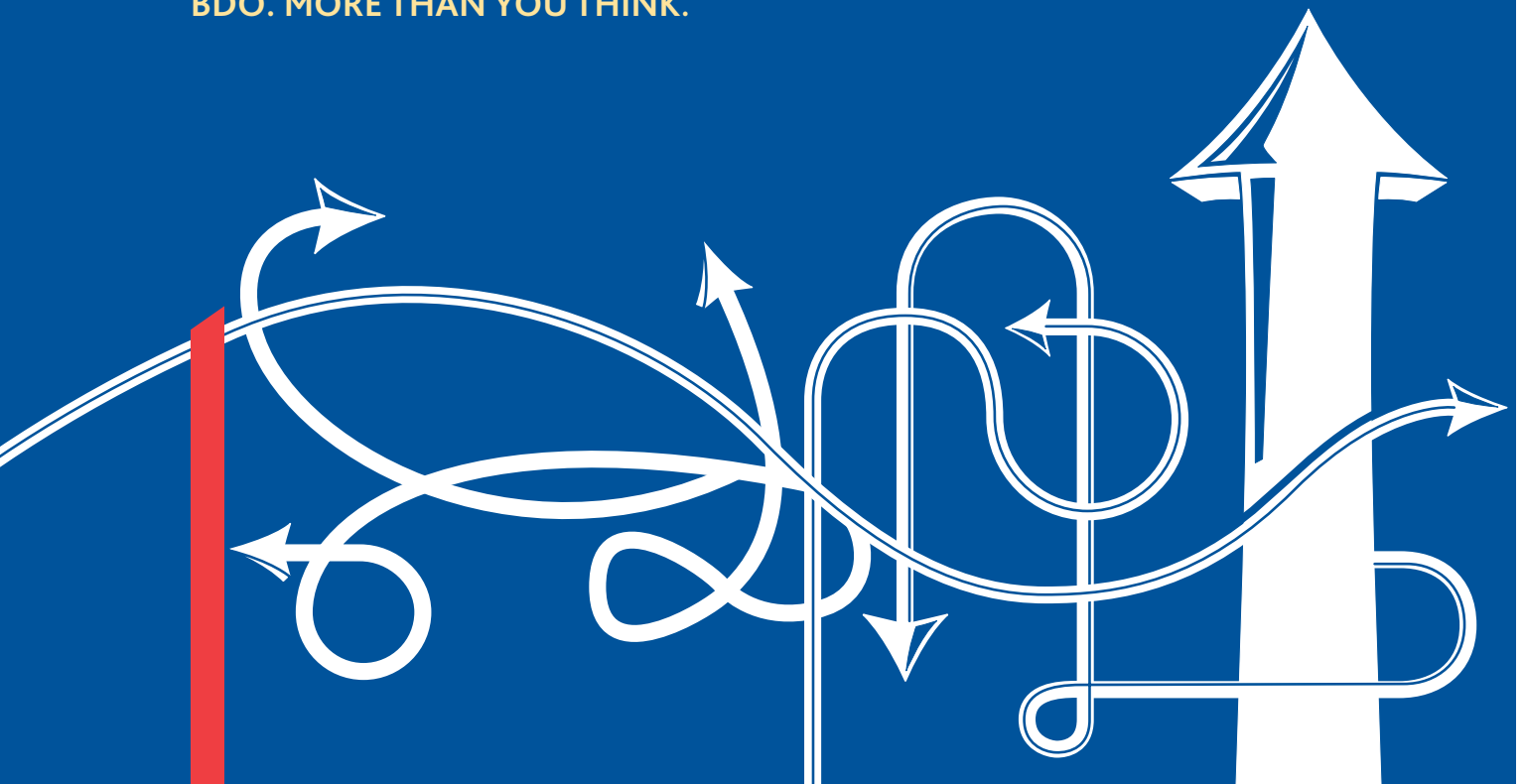


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Are you a CMA who volunteers?

That question, posted on LinkedIn and Twitter a few months ago, garnered a huge and unprecedented response.

“I’m currently on two boards and two steering committees.”
“Volunteering is such an important part of our community.”
“It feels good to give.”

CMA-related volunteer work, as spelled out in our “CPLD Refresher” (Sept./Oct. 2012), gives you credit hours. But as many of you know, volunteering is so much more. Five CMAs spill the beans in “Why I Give” (p. 26).

In my book, the flip side of volunteering is gratitude. So in this last issue of the year, I’m sending out a big thank you to those who have helped elevate this magazine to the next level.

To members: For your letters. (Want to know where the “Giving Back” story began? Flip to Feedback in the Jan./Feb. 2012 issue of this magazine). Also for agreeing to be interviewed as we work toward getting more CMA voices onto our pages.

To staff: For input on finding ways to incorporate every CMA competency, every industry CMAs work in and every corner of Canada that CMAs are represented into this magazine.

To writers: For insightful articles that build on one another, generate new story ideas and yes, you guessed it, inspire members to send in letters.

As we head into this most beautiful, crazy time of year, take a moment to think about where you could volunteer. How could you enrich yourself and make the world a better place? What are you thankful for?

The year 2013 promises to be a time of great change, especially for Canada’s accounting profession, as CMA Canada and the Canadian Institute of Chartered Accountants develop a national body (p. 12). We’ll keep you apprised of the progress and, more importantly, continue to deliver in these pages what *you* need to make the most of your designation.

Enjoy the read and please keep *us* informed!

Mara Gulens

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www.twitter.com/cmamagazine





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CONTROL the OUTCOME





19



40



28

Contents

NOVEMBER/DECEMBER 2012

FEATURES

22 **INTUITION MATTERS** The art in the science of business starts with your gut. *By Craig Roberts, CMA, and Stephen W. Bauld*

26 **WHY I GIVE** Five CMAs share their stories on volunteering. *By Astrid Van Den Broek*

28 **VIEW FROM THE FRONT LINES** How transportation, manufacturing, and oil and gas are positioned for 2013. *By Diana McLaren*

33 **COUNTING WHAT COUNTS** Collecting the right numbers is key to organizational performance. *By Sharon Aschaiek*

36 **IFRS: DID IT WORK?** We examine the implementation — and benefits — of the new standards. *By John Lorinc*

DEPARTMENTS

6 FEEDBACK

8 NOTEWORTHY

COLUMNS

14 **CONVERSATION**
With economist Dambisa Moyo

16 **SPECTRUM**
Quick or complex?

19 **LEGAL**
'Tis the season

40 **TECHNOLOGY**
Accounting for internal IT

42 **SPOTLIGHT**
World view

Lots of balls in the air

Maybe it's the basketball analogy, but Ajay Pangarkar's article in the July/Aug. 2012 issue keeps scoring points with readers: we've printed a small selection of the letters received to date. CMAs are also busy sharing our articles and their opinions through LinkedIn and Twitter. Have something to say? Don't be shy!

I was impressed when *CMA magazine* published Dr. Erik Fok's letter regarding the insignificance of the CMA designation in the global market (Mar./Apr. 2012).

I spent my first 40 years in Canada, where I obtained my BA and CMA. Today I live south of the border. Three years and \$35,000 later, I have my BSc in accounting from a recognized U.S. university and am preparing to sit the exam for my U.S. CPA designation.

It was frustrating enough that a CMA with 20 years of experience was paying \$1,500 to sit in an introductory accounting class. Even more frustrating was the knowledge that the education and experience I received through CMA Canada was far superior to any other recognized program in Canada or the U.S., yet prospective clients, employers and peers place a higher value on the U.S. CPA. I believe CMA has failed to promote, educate and build reciprocal agreements with accounting boards outside Canada.

— **Rick Brodeur**, CMA
Phoenix, Ariz.



I was shocked to see the sidebar to "Waving the Green Flag" (July/Aug. 2012) listing "green" sponsors of the London Olympics.

Sustainability is as much about what businesses do as how they do it. BP was responsible for the biggest oil spill North America has ever seen and is still fighting in the courts over the clean up costs.

General Electric has subsidiaries that are involved in manufacturing arms that fuel deadly conflicts around the world. No serious athlete should even consider eating McDonald's food.

If this is the best the Olympics can do, then it's time to put an end to this over-priced spectacle.

— **Pam Munroe**, CMA
Courtenay, B.C.

Just a quick note to say that the July/Aug. 2012 issue was great. I'm a huge corporate social responsibility fan, so I certainly enjoyed that part. As well, I really liked

Ajay's creative article on Jeremy Lin. I found it a very interesting look at how we can view principles from distant professions and apply them universally. Well done!

— **Cam Scholey**, CMA
Milton, Ont.

I agree with the author of "Lessons Learned from Basketball" (July/Aug. 2012) when he says that "managers must calculate the opportunities needed for their team to succeed."

Every good manager that I've had challenged me to take on tasks that were beyond my qualifications in a controlled environment where my work would be scrutinized before being disclosed to third parties. This creates a win-win situation: employees become more qualified professionals and managers reduce the risk of having their team drop the ball. (Pardon the pun.)

In the long run, this strengthens the

team and provides it with redundant capabilities, an asset if ever the team's roster changes.

— **Michael Mangione**, candidate
Montreal, Que.

One of the reasons Lin was denied by other teams was his ethnic background. As in the business world, some minority groups have to work twice as hard to gain recognition.

— **Chao Ling Pan**, CPA, CMA
Montreal, Que.

I wanted to touch base about the positive impact of *CMA magazine*. Several non-CMA colleagues told me how Jacob Stoller's article "Going Public: Mastering Government Finance" (Sept./Oct. 2012) was quite interesting and relevant.

— **Rocky J. Dwyer**, PhD, FCMA
Ottawa, Ont.

Positive vibes

You think the most critical element of a thriving workplace is

- a) an employee wellness plan 16.9%
- b) team-building days away from the office 12.7%
- c) flex hours 29.6%
- d) group meetings to review annual goals and targets 31.0%
- e) the CEO's presentation on company vision and mission 9.9%



Here's a sample of the comments we received:

- * "None of these really matter unless senior management is willing to commit to goals that value and respect the staff."
- * "Flex hours allow people to work when they're most effective and adjust their schedules to meet the demands of their lives."
- * "A clear understanding of goals, responsibility, accountability and expectations is key to success and job satisfaction."

CMA welcomes letters to the editor

Contact us at letters.editor@cma-canada.org or www.twitter.com/cmamagazine
Join us in the LinkedIn group, "Certified Management Accountants of Canada"

Letters may be edited for clarity and brevity.

What do you think? It's said you'll never *find* time for anything. If you want time, you must *make* it.

I make time by

- a) knocking off emails as soon as I get them
- b) feeling it's OK to say no sometimes
- c) not taking work home
- d) keeping my phone with me at all times, so issues are addressed quickly

We'll be digging deeper into time in the Jan./Feb. 2013 issue. Stay tuned! Respond online at www.cmamagazine.ca

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ANNUAL REPORT

Exciting times ahead

How much can change in one year? A lot, if we're talking about CMA Canada.

The 2011 – 12 annual report tells the story. It focuses on the key strategic themes adopted by CMA Canada's National Board of Directors in 2010: intellectual property, program effectiveness, CMA growth, partnership excellence, member engagement and the newly added strategy of CPA unification. These themes build a pathway toward the accomplishment of CMA Canada's mission and vision.

Read the report at <http://bit.ly/RgJLBA>. — C.R.

VIEW FROM THE C-SUITE

Who's hiring whom?

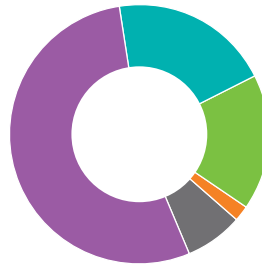
Thirteen per cent of Canadian execs surveyed for the quarterly *Robert Half Professional Employment Report*, released in September, said they would add full-time professional-level staff in Q4 of 2012. Eighty per cent said they wouldn't make any changes to their staffing, and 3 per cent said they would be cutting professional-level numbers.

The chances are that any newbies in the accounting and finance department won't come from inside the company, according to a separate Robert Half Management Resources survey, published in July. The 270 Canadian CFOs interviewed said, on average, that only 29 per cent of management roles in their departments were filled by internal candidates.



WATER COOLER WISDOM

Pssst ... Wanna know the most common form of office politics?



- 54%** say gossiping or spreading rumours
- 20%** say gaining favour by flattering the boss
- 17%** say taking credit for others' work
- 2%** say sabotaging others' projects
- 7%** say something else

Source: Robert Half International survey of 700+ North American office workers, August 2012.

THINK GLOBAL

Canadian companies tying the knot in Europe

Canadian-led mergers and acquisitions in Europe reached a post-crisis high during the second quarter of 2012, according to PwC's *Capital Markets Flash Q2* report, published in July.

International mergers and acquisitions can be key to innovation when the domestic economy is sluggish, says Nicolas Marcoux, Canadian deals leader at PwC. And innovation is something Canada needs help with, according to the World Economic Forum's *Global Competitiveness Report 2012 – 2013*.

Canada, which has slid five places since 2009, fell to 14th place from a 12th place showing in 2011. European countries dominated the top 10; Switzerland stayed on top for the fourth year straight.

Unfortunately, fewer than one in five finance execs surveyed for a study released in August 2012 described their merger and acquisition transactions as "very successful." However, one in two said their transactions were "somewhat successful."

Read the full study, released by the Canadian Financial Executives Research Foundation, at <http://bit.ly/MIVxEx>.

HAVE YOUR SAY

Proposed changes to ethics standards

The International Ethics Standards Board for Accountants is stepping into the breach.

Its proposed changes to the *Code of Ethics for Professional Accountants* clearly delineate circumstances when an accountant should breach client confidentiality to disclose a suspected illegal act.

People may post comments at www.ethicsboard.org. The deadline for input is Dec. 15, 2012.



COOL TOOLS

A win for the team

Building and tracking budgets is a team sport and involves the exchange of information.

But circulating spreadsheets to people so they can fill in their bits, figure out which version is current, and dig through inputs and outputs to get an accurate picture of the business is messy and imprecise. And it's a pain to manage.

Prophix, a software company based in Mississauga, Ont., has produced Prophix 10R3, a corporate performance management suite. It automates pesky non-transactional financial functions such as reporting, forecasting and budgeting, and pulls together information from multiple sources.

Whether you're using spreadsheets or enterprise resource planning systems, the program allows you to interact with budget files without the fear of using old information.

This version's detailed planning module also allows item-by-item budgeting and the specification of benefits costs for individual employees.

For more information, see www.prophix.com. — L.G.

HR MATTERS

Are formal evaluations an effective way to improve worker performance?



91% of CFOs say yes



57% of workers say yes

Source: Accountemps survey of Canadian CFOs and workers, July 2012.

CONSULTANTS CORNER

Go for gold

The *Organizational Excellence Framework (OEF)* is a unique publication that consolidates the principles and best management practices of leading global excellence frameworks, providing practitioners with implementation guidelines.

Supported by a practical, cost-effective methodology, the publication allows an organization to conduct a self-assessment against the *OEF* and prepare an improvement plan to address gaps.

Initial workshops within and outside Canada have received extremely high satisfaction ratings. To learn more, see www.organizationalexcellencespecialists.ca. — D.R.



PROFESSIONAL RESOURCES

They want you, but for less

The pressure to reduce fees is the biggest challenge now, say one in 10 accountants in North American small and medium-sized practices.

These findings, from the May/June 2012 quick poll of the International Federation of Accountants (IFAC), have prompted IFAC to offer timely advice:

- First, consider ditching the hourly fee model in favour of value-based pricing that emphasizes what your clients get instead of what it costs them.
- Focus on your best clients.
- Use technology to increase efficiency and lower costs. Minimize your overhead.
- Specialize in a niche market.
- Add low-cost services that offer value to clients.
- Package your services.
- Find cheaper suppliers yourself.

More details are contained in IFAC's practice management resources at <http://bit.ly/VIDGOC>.

CONSUMER TRENDS

Debt check

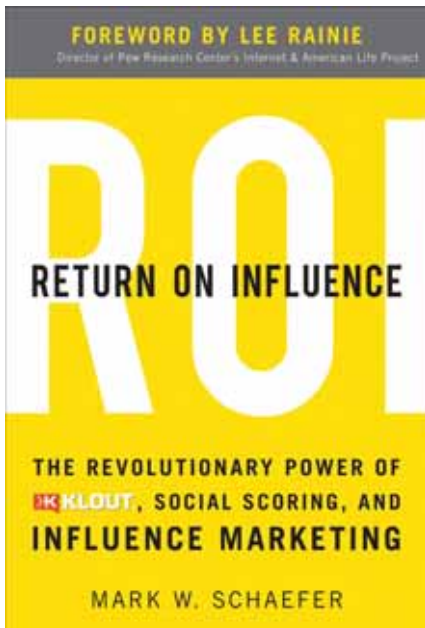
Canadians who say they'd be challenged to keep up with mortgage or debt payments after a significant interest rate increase: 50 per cent



Canadians who say they'll still be paying off debt at age 65: 40 per cent



Source: Canadian Institute of Chartered Accountants and Harris/Decima, *Canadian Institute of Chartered Accountants Canadian Finance Study 2012*.



BOOK REVIEW

Score yourself

Social influence can be measured within social media (Facebook, Twitter, Goggle+), according to *Return on Influence: The Revolutionary Power of Klout, Social Scoring, and Influence Marketing*. Author Mark Schaefer explores this emerging field from his academic perch at Rutgers University. He has firsthand knowledge as well: his Klout score is 70/100, while the average sits at 40.

Ideally, social-media measuring tools such as Klout reflect the actions of people: higher scores are assigned to those who take actions that could affect the decisions of others in the social media community.

Should marketers care about Klout? When people with high social scores are given special deals, gifts and coupons, they'll try some brands and speak fondly of them with their many followers.

Return on Influence also discusses moral questions such as, Is it correct to use social metrics for choosing friends, making hiring decisions or grading students?

Author: **Mark W. Schaefer**

Publisher: **McGraw-Hill**

Reviewer: **Patrick Buckley**, CMA, PhD

BOOK REVIEW

Tips for teaching

What do examiners look for when marking business cases like the ones that appear on CMA exams? How can students be better instructed?

Sylvie Deslauriers, FCMA, lays it out in *Teaching Tips for Accounting Cases*. Her tips for doing effective case analysis are based on over a quarter century of experience. Examples:

- Determine the context of the case, the student's role and the major questions asked.
- Create an outline that highlights important problems.
- Present both qualitative and quantitative arguments that integrate principles with facts. Indicate in concrete terms what needs to be done.

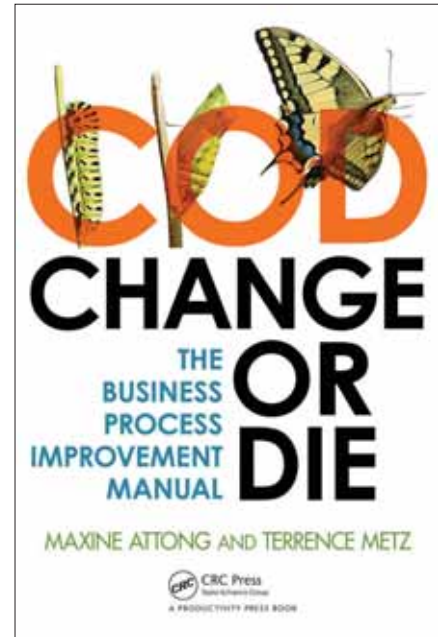
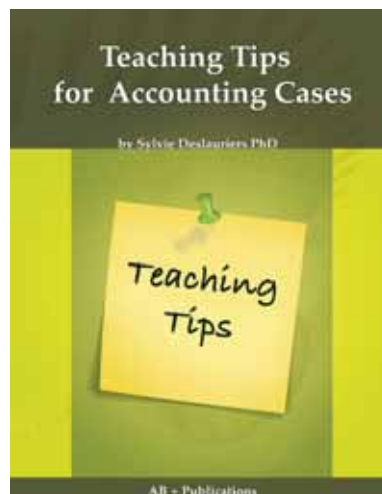
A few chapters are devoted to the interactions of students and teachers, and students are encouraged to examine teachers' marking schemes to obtain better grades.

Teaching Tips for Accounting Cases concludes with two cases that are marked up with comments and pseudo sticky notes to provide insight into the author's teaching principles.

Author: **Sylvie Deslauriers**, FCMA

Publisher: **AB + Publications**

Reviewer: **Patrick Buckley**, CMA, PhD



BOOK REVIEW

Making change

Is an organization operating as effectively as possible, or does it need a business process improvement (BPI) project to examine its what, why and how? Maxine Attong, CMA, provides answers in *Change or Die: The Business Process Improvement Manual*.

Promoting the use of facilitators to bring about collaborative change, Attong provides more than 70 pages and a CD packed with facilitators' tools, agendas and activities.

A case study based on the author's own success demonstrates the six-step BPI process.

Authors: **Maxine Attong**, CMA, and

Terrence Metz

Publisher: **CRC Press**

Reviewer: **Patrick Buckley**, CMA, PhD

Noteworthy is compiled by Jennifer Dawson and Mara Gulens with assistance from Patrick Buckley, CMA, Lynn Greiner, Dawn Ringrose, CMA, and Cindy Ruocco.



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UNIFICATION

Better as One

Long-term vision. All participating Canadian accounting bodies working toward the Chartered Professional Accountant (CPA) designation. The promise that CPA's values and capabilities are derived from the best of Canada's CA, CMA and CGA accounting designations. Those are the main messages behind One, the new CPA promotional campaign launched in September.

"Participating bodies firmly believe that unification will benefit Canadians, our members, businesses and our capital markets," says Joy Thomas, president and CEO, CMA Canada.

Built on the theme "we're better as one," the One campaign includes promotional materials as well as a website with entry points for members, candidates and anyone considering a profession in accounting or business.

Program notes

A key component of the new www.cpaone.ca website is an updated description of the CPA certification program, which provides the foundation for the CPA vision.

The CPA certification program will meet or exceed all standards for education, assessment and practical experience from the International Federation of Accountants (IFAC) as well as leading global accounting bodies. It will be nationally developed, regionally delivered and built on the CPA Competency Map, which is expected to be released as this issue of the magazine goes to print.

For more information on the CPA certification program, go to www.cpaone.ca/members/program.html.

The transition

The One website also contains detailed information about how the transition to the new CPA certification program will unfold for current candidates and anyone considering a career in accounting or business.

- **CMA candidates** can find out about the timing of the final CMA Board Report and the transition to the new CPA Common Final Evaluation. Visit <http://cpaone.ca/candidates/transition.html>.
- **Anyone considering a career in business and accounting** can find detailed, provincially specific information about how they can shift into the CPA certification program. Visit <http://cpaone.ca/become-a-cpa/transition.html>.

— Mara Gulens

STAY INFORMED

CPAOne

www.cpaone.ca is the place to go to understand what unification means to you personally and how the transition will unfold.

CPACanada

www.cpacanada.ca provides information on the status of unification and the new CPA Certification Program.

To receive updates on the progress of CPA unification, sign up for e-alerts on CPA Canada's website. Go to <http://cpacanada.ca/blog/category/news/> and click the subscribe link.

CPA CERTIFICATION PROGRAM TIMELINE

- 2013** • CPA accelerated bridging program and CPA professional education program available in parts of Canada
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- 2015** • First CPA Common Final Evaluation



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Global economist **Dambisa Moyo** takes on the East, the West, and everything in between

By **Gabrielle Bauer**

Q: Is China really progressive, or is it just catching up with the rest of the Western World?

A: I think the Chinese are going where nobody else is going. They have a systematic approach to resource scarcity. They're doing deliberate, organized multilateral deals and building symbiotic relationships with emerging-market economies. They're also investing in a lot of R&D — for example, in desalination — in the hope they'll figure out a way to continue on the path toward greater collective wealth.

Q: Are there social and environmental costs to the predicted commodities boom?

A: While the Chinese are being aggressive in extracting resources, they're also very sensitive to the need to make the process sustainable. They have more solar panels than anyone, are leaders in desalination, and import a huge amount of uranium to fund nuclear energy. At the same time, higher commodity prices will leave the world with a higher risk of conflict. As we speak, about 25 wars are already raging in the world with commodities at their source.

Q: Where does renewable energy come into all this?

A: Right now it's not cost-competitive to fund R&D in renewable energy; sun and wind are fickle. I do hope that energy innovation will ultimately bail us out, but it won't be tomorrow.

Q: Is there anything in your new book [Winner Take All] that might be of particular relevance to Canadians? What can we learn from it?

A: It's important for Canadians to understand that China is open for business and interested in symbiotic relationships. Energy and copper represent particularly good trade opportunities.

I don't think people should be too worried or wary about how China approaches such deals. As far as I can see, the country has no political desire to colonize. Its motives are purely economic.

Q: What should be done with the economic mess in Europe?

A: I'm not very hopeful that we'll be able to stave off an economic depression in Europe. With the high rates of youth unemployment, it's not just an economic issue but a social one. There needs to be a long-term move toward fiscal and political integration.

Q: Is the West still bailing out Africa too much, and what are the consequences?

A: It's illogical for the U.S., which is up to its eyeballs in debt and unemployment, to be borrowing money from China and handing it out to Africa. The financial crisis did have a silver lining in that the donors are running out of money. African governments will have to figure out how to finance development in other ways.

Q: What strategy do you recommend for long-term investors?

A: Commodity prices have increased by 150 per cent since 2009, and I believe they still have a long way to go. Some experts are forecasting oil will reach \$200 per barrel by the end of the decade. Despite the current softening in the global economy and the Eurozone's financial crisis, I think long-suffering commodity investors should hang in.

Q: What's in your investment portfolio these days?

A: Commodities, definitely. I've also invested in some private-equity technology in California. I try to invest in things that can change the world. ■

.....
Internationally renowned economist Dambisa Moyo has written three bestselling books and numerous magazine articles on the macroeconomy and global affairs. Named one of the "100 Most Influential People in the World" by Time magazine, Moyo holds an MBA in finance from the American University in Washington, D.C., and a doctorate in economics from Oxford University.

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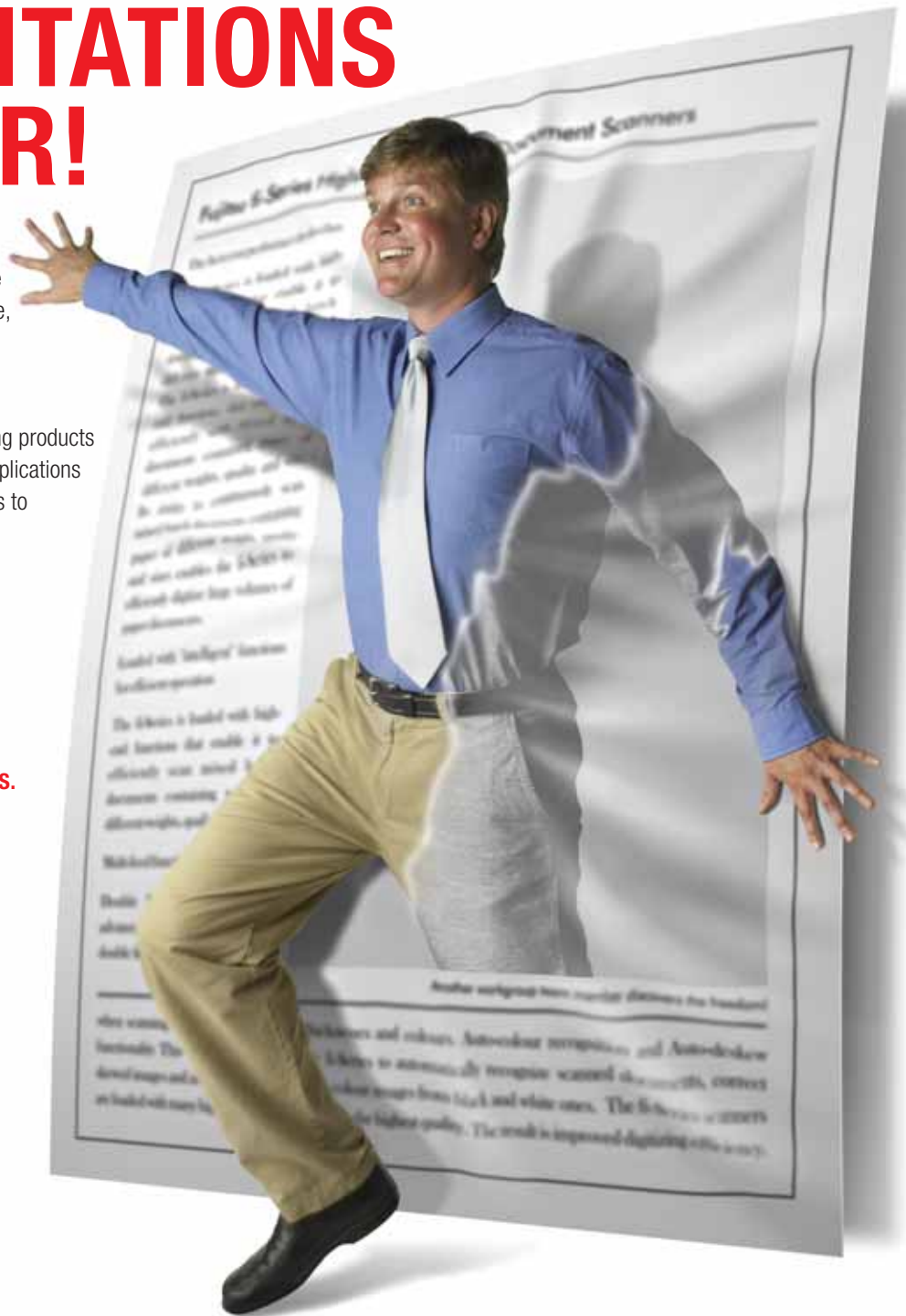
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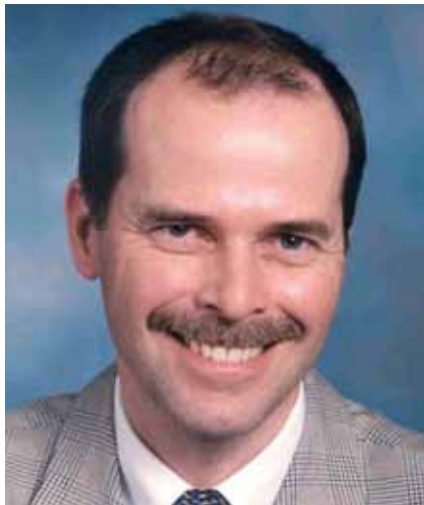
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Quick or complex?

Forecasting approaches for turbulent times

What gives
your organization
an edge?

By **Andrea Civichino**



AGILE FORECASTING

Brett Knowles is a competency expert for CMA Canada's Research Foundation. His organization pm2 (Performance Measurement and Management) has completed more than 2,000 scorecard projects around the world.



COMPLEX FORECASTING

David A.J. Axson is an executive director with Accenture who has more than 27 years of consulting, industry and entrepreneurial experience in more than 40 countries. An accomplished author, Axson specializes in advising clients on the challenges of doing business in a volatile global marketplace.

IT DOESN'T MATTER IF YOUR ORGANIZATION IS BIG OR SMALL, or if you operate domestically or globally. The business environment is volatile, and corporations have to adapt accordingly. In many cases, management looks to accounting and finance departments for tools and context to help make effective decisions.

Forecasting approaches are an integral part of planning and risk management. An agile forecasting process allows an organization to reforecast whenever it needs to. A more complex forecast allows an organization to "see through" uncertainty without the need to reforecast.

In this column, we explore the two approaches. Which one best suits your organization?

THE QUESTION



We asked members of the Pulse, a core group of volunteer CMAs, whether organizations should increase their forecasting agility or build more complicated forecasts to remain competitive.

Increase forecasting agility 88%
Build more complicated forecasts 12%

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FOR AGILE FORECASTING

Brett Knowles

Organizations can react to turbulence by building resilience or agility.

Resilience comes from building cash reserves and inventories, or locking in customers. To have a successful resilience strategy, organizations must build robust forecasts.

Agility, however, is built by decreasing process cycle times, increasing sensitivity to market trends and being able to shift quickly in and out of markets. To be successful, organizations must build driver-based, agile plans. Agility gives organizations greater flexibility and reduces risk.

When it comes to forecasting, organizations will never learn enough about their environment to accurately predict the future. Organizations have no choice but to increase risk by increasing resilience or decrease risk by becoming more agile.

Many organizations have created success through agile planning. Think McDonald's. The company uses forecasting and process agility to react to short-term shifts in demand. McDonald's doesn't forecast in the long-term because the organization has processes that allow employees to detect and react to demand at whatever level it occurs. These processes help maximize food orders and minimize food waste.

If your organization can adapt to market changes with agility, then you have a better chance of gaining market share while others remain locked into

resilience anchors such as inventory.

An unfortunate example of resilience is Sony. Although Sony did a great job developing technologies such as Betamax and Walkman, the firm tried to build resilience with extensive copyrights. Sony didn't see that the world was changing with alternative technologies (such as VHS) and emerging technologies (such as memory chips used by MP3 players). As a result, Sony ended up with products that were eventually overtaken by the VCR and iPod.

The previous decade's financial implosion was largely caused by risk levels becoming unacceptable. Agility is one way to deal with risk.

Think of organizations that have done well because of the iPad. Stores are full of fancy cases, power units and other iPad-friendly devices that didn't exist two years ago. These are examples of agility kicking in.

FOR COMPLEX FORECASTING

David A.J. Axson

Developing an accurate forecast is difficult, but the process is essential for a business to make effective decisions about resource allocation.

The concept of forecasting agility is overused. Getting into a cycle where an organization continuously reforecasts can create uncertainty. How are employees supposed to define goals, set trajectories or develop plans if the targets keep changing?

It's very easy to say whenever something changes that we'll just ditch our

old plan and our old goals and come up with a new plan and new goals. The real world doesn't work like that.

Organizations can increase forecast rigor by crafting plans that have the highest probability of success under different scenarios. Scenario-based enterprise performance management applies scenario planning to budgeting and forecasting, giving people the confidence to make decisions without constantly changing forecasts.

The second argument for increasing forecast rigor is the availability of rich data. We're dealing with a world that's more volatile, but we have a lot more data.

These days, we're collecting sales information whenever a barcode is scanned. Using advanced analytic tools and models to analyze the right data — not all the data — can uncover information that delivers real-time insights about market trends and customer behaviour that can inform an organization's forecasting and offer insights into future performance.

Remember, the purpose of forecasting is not to get the forecast right every time, but to make better, more confident decisions. Developing plans that can be successful under different forecasts helps an organization capture growth or mitigate risk.

The answer is not to constantly change the forecast, but to ensure the forecast includes likely drivers of variability so that managers can react with speed and confidence and take corrective action as events dictate. ■

Andrea Civichino is editor, research, at CMA Canada.

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'Tis the season The ABCs of charitable giving

How corporations should deal with gifts and sponsorships

By **Melanie McDonald**

AS THE HOLIDAY SEASON APPROACHES, business owners and executives will be thinking about how their corporation can give back to the community. With significant resources allocated to charities, corporations need to be aware of the pros and cons of giving.

Corporations can support registered charities through gift giving or sponsorship. By law, a gift is a transfer of property accepted by the charity. Legally, one of the key elements of a gift is that the charity does not give the corporation anything in return.

A sponsorship, however, is a payment of money by a corporation to a charity. In exchange, the charity provides a clear list of items that the corporation will receive. The charity could agree to post the corporation's signage at the charity's event or insert the corporation's logo on the charity's website.

Canada's Income Tax Act (ITA) has a broader definition of charitable gift than the one listed above. The ITA permits corporations to receive limited benefits in exchange for a gift such as a cash payment to a charity, as long as the advantage received by the corporation from the charity does not exceed 80 per cent of the fair market value of the gift.

In contrast, a sponsorship (which is not defined in the ITA) is a payment by a corporation to a charity in exchange for advertising or other benefits such as free tickets to the charity's dinner. Such benefits can exceed 80 per cent of the fair market value of the gift.

Talking to the tax man

Charitable gifts and sponsorships offer very similar tax benefits.

When a corporation makes a charitable gift, it's entitled to deduct the amount listed on the donation receipt from its taxable income, as long as the deduction does not exceed 75 per cent of the corporation's taxable income. Any excess amount can be carried forward for five years.

If a sponsorship is a reasonable outlay or expense for the purpose of generating profit, then the sponsorship qualifies as a business expense that can be deducted from a corporation's Canadian taxable income. A business expense differs from a charitable gift as a business expense, is not subject to the 75 per cent limit and cannot be carried forward for five years.

Corporate gifts can include gift certificates, inventory, real estate and the right to use some of the corporation's office space free of charge, but they generally exclude services because there must be a transfer of property for the exchange to be considered a gift. The ITA has special rules and tax incentives for certain types of property that for policy reasons deserve special tax treatment. They include medicine, the corporation's inventory, cultural gifts and land that the federal government has determined preserves Canada's environmental heritage.

Some corporations may want to create a parallel charitable foundation

to deal with charitable giving. Such a foundation could enhance the public's perception of the corporation because there would be a separate entity to manage the money collected from staff, customers and others.

Within certain parameters, the foundation could build up an asset base to support ongoing charitable activities if corporate profits fall. These benefits need to be weighed against the initial and ongoing creation and maintenance costs of a separate governance structure which include bookkeeping and preparation of financial statements.

What to look out for

When considering corporate law and governance, corporations need to carefully review ongoing gift and

sponsorship activities. Consider the following issues:

- Do your corporation's articles of incorporation or other originating documents authorize the corporation to make donations to charity?
- What level of approval is required for a donation or sponsorship? Do you need board approval, executive approval or some other approval?
- Should a board committee or another internal group be created to develop policies related to gifts and sponsorships?
- Is there a sponsorship agreement that outlines clearly what benefits

and information the corporation is entitled to receive?

- A corporation should also consider the risks associated with a charity or project. Be mindful of anti-terrorism laws, tax shelter rules, appropriate levels of fundraising expenses, and the activities and policies of the charity.

A good working knowledge of the legal and tax issues will help ensure that corporate gift giving is a positive step forward. ■

Melanie McDonald is a partner in the Calgary office of Borden Ladner Gervais LLP. She specializes in wealth management, personal tax and estate planning, charities and not-for-profits. See www.blg.com.

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INTUITION MATTERS

Three business leaders' take on insight

The art in the science of business

By **Craig Roberts**, CMA, and **Stephen W. Bauld**

The role of intuition in business decisions is controversial. At one end of the management continuum, empiricists prefer to let the numbers speak for themselves. At the other end, some managers rely on gut feelings. Most of us fall somewhere in between.

We set out to explore intuition in business, defining it simply as “keen and quick insight.” We interviewed three accomplished entrepreneurs in unrelated fields: Bruce Allen of Bruce Allen Talent, an entertainment talent management firm; Brian Scudamore of 1-800-GOT-JUNK?, a junk removal franchise; and Charles Juravinski, a philanthropist and past owner-operator of Flamboro Downs.

We found that intuition is still relevant today.

PEOPLE POWER

“Entrepreneurs rely heavily on intuition,” says Brian Scudamore, founder and CEO of 1-800-GOT-JUNK? “There’s a place for data, but there’s also a place for testing your gut.”

Scudamore built his idea from a one-man, one-pickup-truck operation into the world’s largest junk removal franchise. His guiding principle has been to attract and retain exceptional people. His “It’s all about the people” mantra guides the business and adorns the wall behind reception at 1-800-GOT-JUNK? headquarters in Vancouver, B.C.

Scudamore believes intuition applies to people both on professional and personal levels. “When we choose our friends, we aren’t relying on spreadsheets, and more often than not we’re accurate in picking our lifelong friends. We just know,” he says.

In October 2011, after a lengthy search and hiring process, Scudamore welcomed Erik Church as the company’s new chief operating officer. (Scudamore had held both chief executive and operational roles for the previous two years.) The synergy between CEO and COO is central to the organization’s growth.

“The CEO sees the possibility; the COO reverse engineers how to get there,” explains Scudamore. The synergy, in this case, is between Scudamore’s intuitive and ambitious vision and Church’s abilities as “a strong numbers guy.” As a result, 1-800-GOT-JUNK?’s 2012 revenues have rebounded and surpassed pre-recession benchmarks.

Early on, experts told Scudamore that his business could not be franchised. “They said that the industry was too fragmented, that this was a bad business,” recounts Scudamore. The advice was clearly wrong, and today Church evaluates new franchise markets.

Scudamore also wanted to give all employees five weeks paid vacation, an HR policy almost unheard of in North America. His accountants tried to talk him out of it, saying it would cost the business too much in lost productivity. “I did it anyway,” says Scudamore, “because my gut said ‘Do it.’”

Scudamore’s people instincts were accurate. All HR metrics, including attrition and key performance objectives, improved. His respect and value for employees and their personal time helped build a strong culture that grew the business.

The take-away: Follow your instincts. Aim to understand what motivates people and build teams of people whose skills complement one another.

THAT SPECIAL TOOL

Charles Juravinski grew up during the Great Depression in Saskatchewan. Through a combination of tenacity, timing and sharpened intuition, he built a fortune in construction and harness racing.

A construction millionaire in 1970, Juravinski “retired” for six hours before a gut feeling pushed him to pursue his dream of harness racing. Going door-to-door at farms to buy land for his future racetrack, Flamboro Downs,

WE ASKED THE EXPERTS

In business, are you more attracted to accountants or artists?



BRIAN SCUDAMORE
Founder and CEO, 1-800-GOT-JUNK?

“Artists. I believe in taking the road less travelled, as the Frost poem says. But businesses need good accountants, no question.”



CHARLES JURAVINSKI
Businessman and philanthropist; founder and past owner of Flamboro Downs

“Accountants.”



BRUCE ALLEN
Entertainment manager and entrepreneur

“Both. I love artists because of their vision, their creativity and their talent. It’s very seductive. I’m drawn to accountants because of their skill in determining the bottom line, which is reality. With artists, reality can sometimes ride in the backseat — not a good idea.”

Juravinski built up his dream over the decades and in 2002 sold the enterprise to Magna Entertainment for \$73 million.

While Juravinski has been out of racing for a decade, his “insight into the racing game is still being felt today well beyond the confines of his beloved Flamboro Downs,” wrote the *Hamilton Spectator* in April 2012.

People who know Juravinski well describe him as “the most driven man you’ll ever meet.” Today he focuses on investing and philanthropy. Together with his wife, Margaret, he has donated over \$55 million dollars to health-care projects near their community of Hamilton, Ont.

“Business intuition comes from what you’re exposed to and can see,” Juravinski says. Ask yourself: “Can I do it? If ‘yes,’ then grasp your intuitiveness. If ‘no,’ then don’t go there.”

Raw intuition, however, is not enough. “You need a complete toolbox to draw on, a whole equation.”

The take-away: Along with other factors such as hard work and perseverance, intuition contributes to success. It helps determine the ventures that entrepreneurs pursue.

A THIRD EYE

“Intuition, to me, is the ability to see something when no one else does,” explains Bruce Allen. “Business is the stuff that gets in the way.”

For over 35 years, Allen’s business has flourished along with his artists, which include Bryan Adams, Michael Bublé, Jann Arden and renowned producer Bob Rock. Allen signed Adams when he was a relatively unknown young rocker and helped guide him to international stardom. More recently, Allen scored with Michael Bublé.

“I had to think outside the box to move forward [when signing Bublé],” Allen says. “But I moved forward with the knowledge that David Foster was producing the album.”

Allen took a calculated risk and mitigated the potential downside by aligning with a world-class producer. Allen’s gut check on Bublé said “winner” and Foster’s collaboration helped ensure it.

Allen recalled Michael Bublé’s early days when the label thought it had him pegged perfectly by demographic. “The label marketed [Bublé] to an upper demo, which is what it gleaned from its research,” says Allen. “The research was correct except it didn’t take into account the younger generation, who were discovering *all* types of music due to YouTube and the Internet.”

Allen realized they could expand their original base and geared Bublé’s material more broadly. Allen’s deep experience guided him and the strategy worked. “Now the Bublé demo is 18 to 70!” he exclaims.

The take-away: Look at the numbers; then look for what the numbers don’t tell you.

THE INTUITIVE EDGE

Brian Scudamore’s business would have been handicapped if he had followed the advice of franchise experts or even his own accountants. Bruce Allen saw beyond the data to reposition Michael Bublé to a wider audience. Charles Juravinski’s intuition is one of several tools that helped him move from venture to venture on a grand scale.

Intuition matters. Oftentimes, our professional judgment — which can’t be measured on a spreadsheet — counts the most. Effective business decision making is a science, except when it’s an art. ■

Craig Roberts, CMA, is director of business development for RCD Group, Reed Business Information. Stephen W. Bauld is Canada’s leading expert on government procurement, an author, and president and CEO of Purchasing Consultants International Inc.

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Why I give

FIVE CMAs SHARE THEIR STORIES ON VOLUNTEERING

By Astrid Van Den Broek

All CMAs have the opportunity to incorporate CMA-related volunteer work into their Continuous Professional Learning and Development (CPLD) credit hours. While volunteering can be work related — it increases networking opportunities and broadens your skills — it can also be so much more.

We asked CMAs from coast to coast why they give. Here's what they told us.

NAME

BRENDA CRIPPS, CMA

Stay-at-home mom, Ballinafad, Ont.

YOU'VE BEEN VOLUNTEERING FOR MORE THAN 12 YEARS. WHAT ROLES HAVE YOU HELD?

After my second child was born, I decided to stay home and shortly after that I began volunteering. I joined a review committee at our church because I was one of the younger congregation members and had a finance background. This role led me onto the church board for the next seven years; then I became church treasurer four years ago.

I've also been a hockey and soccer team manager, the church chair of stewards as well as chair of session, and storytime coordinator for a parent-tot program.

HOW DOES YOUR VOLUNTEER WORK RELATE TO YOUR CMA SKILLS?

While I'm not preparing balance sheets or doing accruals on an income statement, I'm using my financial skills to put together budgets as well as forecasts. More important are my managerial skills. I've learned over the years that not everyone is a numbers person.

In my previous job as financial controller for Rogers Media's *Chatelaine* group of magazines, I had to learn how to make financial statements easy for a non-numbers person. I've taken that same approach when presenting figures at team and church meetings.

WHY DO YOU DO IT?

I didn't get involved with CPLD credits as the objective, but it's a nice benefit. Volunteering has expanded my managerial knowledge and broadened my experiences.

NAME

CHARLES BRUCE, CMA

CEO, Nova Scotia Public Service Long Term Disability Plan Trust Fund, Halifax, N.S.

YOU SIT ON THE CANADIAN MENTAL HEALTH ASSOCIATION'S NATIONAL BOARD AS THE NOVA SCOTIA REPRESENTATIVE AND ALSO VOLUNTEER WITH THE MENTAL HEALTH COMMISSION OF CANADA. WHAT DREW YOU TO THESE ORGANIZATIONS?

Mental health issues are the leading cost driver in my organization and disability plans across Canada. After gaining an understanding of the risk to business and workplace productivity, I was constantly reminded of the impact on individuals and families. More intimately, people close to me have been impacted by mental illness.

WHAT ARE SOME OF YOUR VOLUNTEERING ACCOMPLISHMENTS?

We've reached accomplishments in fundraising, governance improvements, creating awareness and long-term planning to ensure the organizations are self-sustaining.

WHAT DO YOU GET OUT OF VOLUNTEERING?

To give back is a natural high! Through these activities, I've expanded my network and gained tremendous friendships.



NAME

DUANE MALCOLM, CMA

Independent consultant, Tillsonburg, Ont.

YOU VOLUNTEERED FOR THREE MONTHS IN MALAWI. HOW DID THAT HAPPEN?

I came across a volunteer position with Accounting for International Development (AfID) for MicroLoan Foundation Malawi. For almost three months, I worked there on applying a new accounting package, testing and implementing an interface between their loan portfolio management application and the accounting package. I was later brought back for two more paid months to finish the project.

DO YOU DO ANY OTHER VOLUNTEER WORK?

For more than five years, I've volunteered with Lions Clubs International. Initially, I had networking in mind. But I was soon hooked by the voluntary service bug. Currently, I'm the first VP of my club, and I have served in a number of roles in the district, including training other Lion members and serving as the treasurer of a charity.

WHAT HAVE BEEN SOME OF THE CHALLENGES IN BOTH VOLUNTEER POSITIONS?

For the Lions, the biggest challenge was working with a diverse group of people, uniting their vision and helping them advance their objectives. For AfID/MLF, the challenge has been communication: language, variations in accounting terminology, and distance. For instance, it took me a few days to figure out that "nominal ledger" was the same as "general ledger."

NAME

KEVIN MACDONALD, CMA

Consultant, PU Technologies Inc. Edmonton, Alta.

HOW DID YOU COME TO VOLUNTEER WITH YOUR CONDO BOARD?

After moving into my condo five years ago, I was asked to be involved at the board level. After one year on the board, I was asked to become the treasurer since I had noticed ways the condo corporation could save money.

ANY KEY VOLUNTEERING ACCOMPLISHMENTS?

I changed how the condo corporation pays its insurance, which saved approximately \$1,500 per year. I also changed how the budget is developed: it's now shown on a monthly, not yearly, basis. Using this method allows the board to better manage its cash flow and reserve fund. It also made developing the budget easier.

WHAT VOLUNTEERING ADVICE DO YOU HAVE FOR OTHER CMAs?

For someone with a long track record in the corporate world, I think many not-for-profit (NFP) organizations want to start operating like for-profit corporations, but there's a skills gap. CMAs have the skills that many NFP organizations require.

Volunteering is also a way to meet new people and gain CPLD credits.

NAME

DEBBI KILL, CMA

Controller, International Submarine Engineering, Port Coquitlam, B.C.

YOUR WORK RELATES TO THE OCEAN. WHAT ABOUT YOUR VOLUNTEER POSITIONS?

I serve on the board of directors for the Marine Technology Society as treasurer and vice-president of budget and finance, and as the financial liaison on the joint OCEANS administrative board, to name a few. [OCEANS is an annual conference sponsored by the IEEE Oceanic Engineering Society which advances marine technology and education.]

IS THERE CROSSOVER BETWEEN YOUR WORK AND VOLUNTEER LIFE?

There are many parallels between my day job and my board work. Internal control, financial policy and procedural issues are the same no matter whether they're in industry or non-profit.

WHAT ADVICE WOULD YOU GIVE OTHER CMAs REGARDING THEIR VOLUNTEER WORK?

Look for something that interests you. Your CPLD credits will be secondary to the reward of using your skills and education to help others. ■

Astrid Van Den Broek is a freelance writer based in Toronto.

If you'd like to weigh in on issues for CMA magazine, please send an email, along with a brief description of your interests and expertise, to mgulens@cma-canada.org.



VIEW
FROM THE
FRONT LINES

*Challenges and
opportunities across
three key sectors*

How transportation, manufacturing, and oil and gas are positioned for 2013

By **Diana McLaren**

Canada's economy fared better than many others in 2012, but we still had our share of challenges. Falling oil prices affected not only the industry itself but virtually every sector of the economy. Passenger rail service saw cuts, but there was money for expansion of freight rail. Job losses continued in traditional manufacturing sectors, but there was some strength in emerging technology.

We check in with CMAs in three key areas — oil and gas, transportation and manufacturing — for a glimpse from the front lines.

STEADY FLOW: OIL AND GAS

No industry is in the media spotlight more than the oil and gas sector. The year 2012 saw the development of Alberta's Keystone pipeline threatened by political decisions outside Canada's borders, as well as rising inter-provincial tensions over both the Northern Gateway and West-to-East pipelines.

And no one can afford to ignore the oil and gas sector, says Esther Mui, CMA, an industry consultant and president of Andest Consulting Inc. "All sectors are affected by energy."

North American crude oil prices are being discounted against world pricing (known as Brent pricing), putting us at a disadvantage, Mui says. "Our oil prices are lower than [those] outside of the continent due to the lack of pipeline capacity to the Gulf coast refineries. The upside is that Canada has a lot of resources and a stable economy with a good level of regulation. This, coupled with new technology, should encourage production."

For industry CMAs, Mui adds, there's also the issue of reporting. "CMAs need to look at trends and reconcile IFRS to the Canadian GAAP to determine whether there's a real change in a company's operating results, or just a change in reporting principles."



In Alberta, a pumpjack extracts oil from the ground. Canadian oil and gas producers could sell more to Chinese markets.



In Winnipeg, the James Armstrong Richardson International Airport is a major hub for freighter aircraft. The city aims to better integrate air, truck and rail transportation.

OPEN DOORS

Future opportunities lie in opening up new markets. “With the U.S. closing its door to Canadian oil and gas exports (due to a surge of shale gas extraction there), we have to develop markets such as China,” says Darrell Nimchuk, CMA, former CFO of a Calgary energy investment company.

However, he adds that China has huge shale deposits for future extraction, and political decisions still affect pipeline approvals. “Eventually, the boom of the U.S. shale gas deposits will subside, and then the price for imports will increase.”

Nimchuk is confident about Canada’s oil and gas because for the foreseeable future, “there’s really no scalable alternative energy source.” CMAs will need to ensure companies hold sufficient cash reserves to acquire new assets and to weather economic downturns.

“There will be opportunities in the shorter term to acquire assets — even blue chip companies — at large discounted prices,” says Nimchuk. But he cautions against focusing on quick profits.

“Companies need to be more long-term focused because these tough economic times will eventually pass,” he says. “Capital programs with shorter returns on investments or quicker payback will generate cash that can be used to buy assets that are undervalued or [to help] ride out unforeseen challenges from such things as low commodity prices.”

ON THE MOVE: TRANSPORTATION

Increased global movement of goods is exerting pressure on existing transportation networks, bringing with it opportunities for growth and innovation. One such example that has garnered significant government investment is CentrePort Canada in Winnipeg, Man. Billed as an “inland port,” it connects business to rail, truck and air transport.

Transportation is a new sector for CentrePort CFO Kelly de Groot, CMA, who until recently worked in non-profit and government roles. But this background stands her in good stead, as her current role relies heavily on knowledge of government legislation and multipartner collaboration.

“I have to be accountable and meet public reporting and transparency requirements set out in provincial legislation [i.e., the CentrePort Canada Act] in addition to meeting accounting standards,” she explains.

As for investment, all levels of government are involved in funding CentrePort and investing in infrastructure to support transportation growth. A good deal of consultation and collaboration is required among municipal, provincial and federal governments as well as CentrePort clients.



A foundry melts and moulds metal. Despite a steady decline in recent years, Canadian manufacturers hired more workers in the first half of 2012.

THE BIG INTERCONNECTION

De Groot says the biggest issues facing the transportation sector are the same as those affecting other key industries: the world economic market downturn, government spending restraint and budget cuts, and increased focus on border security. Of particular concern to Canadian companies is growing U.S. protectionism and the Buy America policy.

The U.S.-Canadian supply chain is “so integrated, it’s like an omelette that you can’t unscramble to separate the green pepper.” There are countless examples, de Groot says, of products that move back and forth across the U.S.-Canada border. “Pigs that are raised here are shipped to the U.S. for processing and then back here for sale. There’s an intricate set of trade laws that govern such transport, and we have to deal with all of them in addition to issues of safety and security.”

In such integrated settings, it takes a good deal of cross-border diplomacy to keep things moving smoothly.

Overall, GDP in the Canadian transportation and warehousing sector increased from approximately \$50 billion in 2002 to almost \$60 billion in 2011, according to Statistics Canada. Between 2010 and 2011 alone, the total value-added in the sector increased by 3.8 per cent. Analysts indicate this rate of growth slowed in 2012; however, transportation is still predicted to be robust in the foreseeable future.

One such future development in which CentrePort is involved is the “over-the-pole route.” In this plan, the Port of Churchill, Man., becomes a trade-and-transport route linked to Asia, Europe, Russia and Nunavut.

But this route won’t come about easily or quickly, says de Groot. “It will need significant coordination and sustained development, as well as more government investment in times of uncertainty and restraint.”

As with other northern development proposals, environmental concerns and aboriginal interests will undoubtedly play a major role.

SUPPLY AND DEMAND: MANUFACTURING

Manufacturing has experienced neither the energy sector’s ups and downs nor transportation’s burst of growth. While Canadian manufacturing has been steadily declining in


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recent years, there's still optimism. In fact, in the first half of 2012, manufacturing was responsible for more than half of the increase in new jobs in Canada.

A CIBC analysis of job creation in the first half of 2012 found that manufacturing added approximately 88,000 of the total 155,000 new jobs. The report also indicated that the new jobs appeared not in traditional manufacturing industries such as textiles, but in more high-tech, heavy machinery manufacturing. And with the slowdown in construction and exports, the upswing wasn't expected to continue.

Growth has been steady for A.P. Plasman, a private company specializing in painted plastic parts for the auto industry in Windsor, Ont. CFO Kim Amonite, CMA, attributes this growth to tight scrutiny of both the competition and the heavily hit auto industry.

Last year alone, both Nissan and Toyota announced that they were considering a move to U.S. production, and GM planned to reopen its Tennessee plant. With its "close proximity to customers is key" motto, Plasman opened a production plant in Alabama. "We made a strategic decision to expand in this way while retaining our main operations in Windsor," Amonite says.

Plasman's strategic plan follows its customers. "We did study global expansion and while that may be in our future, we found that there's still room for substantial growth for us in the U.S.," Amonite says.

TWO SIDES OF LIQUIDITY

Amonite agrees with Nimchuk that it's important for companies to have sufficient cash to weather downturns and take advantage of opportunities. "A big part of my job is ensuring there's sufficient liquidity to grow and (to deal with) turns in the market," explains Amonite. "In my book, cash is king."




However, in the latter part of the year, both federal Finance Minister Jim Flaherty and Bank of Canada Governor Mark Carney warned that corporate Canada is sitting on excessive cash reserves estimated at more than \$500 billion and that this reserve is stalling economic growth.

Perhaps we'll take a peek at these sectors a year from now to see how they've fared. ■

Diana McLaren is a freelance writer based in Toronto.

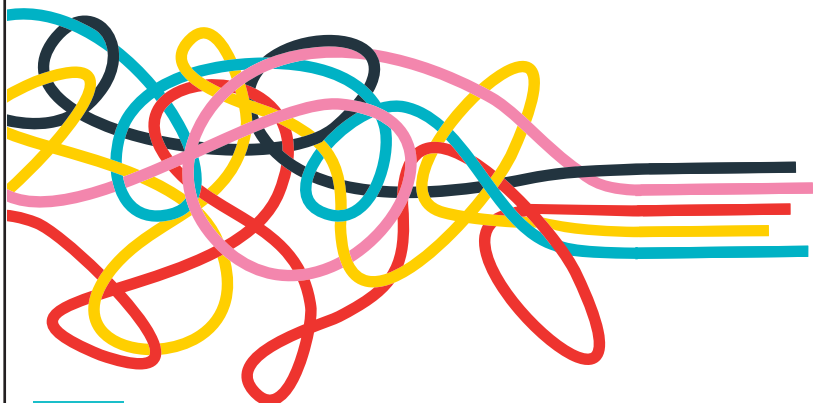
BY THE NUMBERS

One of the most significant measures of Canada's economic health is employment which directly affects the lives of Canadians and signals trends in individual sectors.

	2012	2011	2007
EMPLOYMENT (in 1,000s)			
ENERGY			
	225.6	187.5	191.8
TRANSPORTATION			
	658.3	649.5	629.4
MANUFACTURING			
	1,752.5	1,792.5	1,095.4
TOTAL	2,636.4	2,629.5	1,916.6

SOURCES: Conference Board of Canada and Statistics Canada. All statistics reflect the first quarter.

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Counting what counts

Collect the right numbers to make the right moves



A mock bombing mission offers insights into organizational performance

By Sharon Aschajek

When it comes to using data to make better decisions, organizations can learn a lot from Great Britain's Royal Air Force.

That's what organization performance specialist Bernard Marr discovered in June of last year, when he found himself in the cockpit of a BAE Hawk aircraft, participating in a mock training mission to bomb a mountain bridge. It was a long-sought thrill for the founder and CEO of U.K.-based Advanced Performance Institute, who also ended up gaining important insights into optimizing organizational information.

Before boarding the plane, Marr and his trained pilot developed a detailed flight plan, which they each inserted into a clear plastic pocket on their flight suit pants.

Taking off from an air base in Wales, the pilot and Marr relied on an intelligent dashboard featuring many key indicators reflecting the jet's position relative to where it should be. Also helping them navigate were mission control staff, who radioed information on anything pertinent in the local air space. After the "mission" concluded, a debriefing was held to review successes and failures, and to determine ways to improve.

What Marr took away from that experience — aside from fatigue, nausea and wobbly knees — was the realization that the air force's rigorous and well-organized approach to planning, executing and reviewing training and combat flights provides many useful lessons for organizations that want to better harness data.

"It's a good example of being very clear on operational data needs, collecting and using data to deliver on a strategy, and learning and improving in the future," says Marr, who helps companies, associations, schools and governments worldwide use data more effectively.

GET THE RIGHT DATA

Marr recently presented his five steps on evidence-based management (EBM) in a CMA Canada webinar panel entitled "From Data to Decisions," which summarized how to more effectively collect, organize, present and otherwise use organizational information. The webinar is available at www.ManagementAccounting.org.

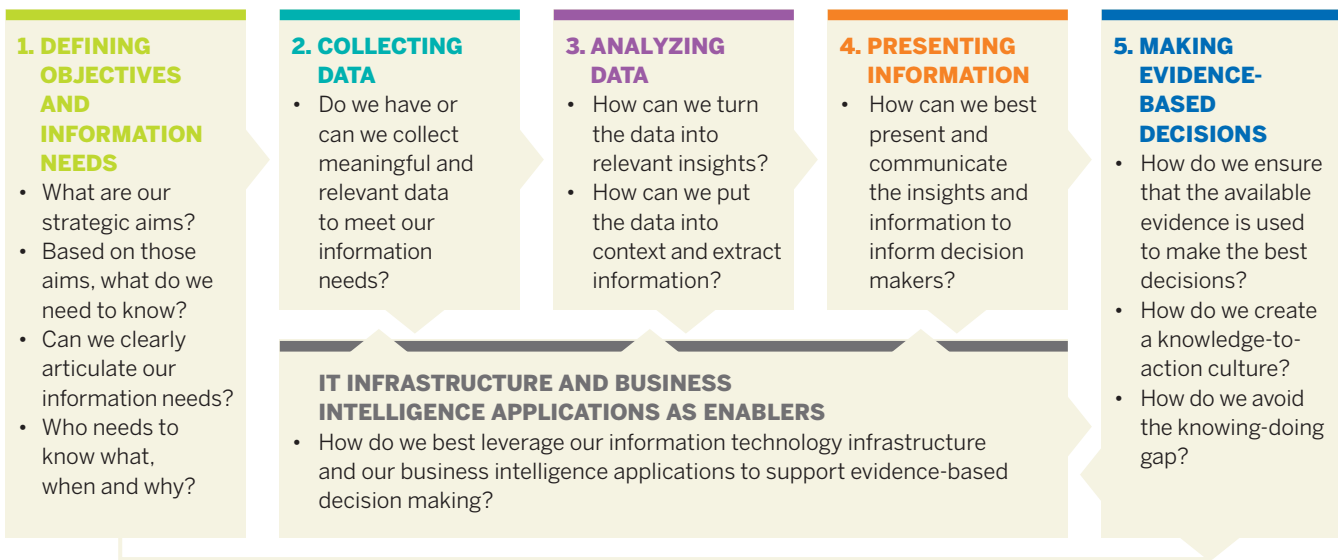
In his almost 20 years in organization management, Marr has observed that less than 10 per cent of the information that companies gather supports meaningful decision making.

"We collect everything that walks and moves, and nothing that matters," says Marr, author of seven books on enterprise performance management, including *The Intelligent Company* and his latest, *Key Performance Indicators: The 75 Measures Every Manager Needs to Know*. Marr is also author of CMA Canada's Research Foundation's new package, *From Data to Decisions*. It includes a concept overview, a Management Accounting Guideline, case studies and a webinar.

Marr compares the data-usage approaches of most organizations today to the crude tactics of California

Using data to drive your business

Evidence-based management expert Bernard Marr suggests this systematic approach for optimally using information to make intelligent business decisions.



gold rush prospectors, who sifted through tons of silt and dirt to find a few precious shiny nuggets.

His view is echoed by Jean Kimpton, CMA, who was on the panel with Marr. “We can collect lots of information, but we don’t necessarily always know why we’re collecting it. If we could narrow it down and connect it to our strategy, we’d probably be much further ahead.”

Kimpton is the controller of the Prince Edward Island government’s Department of Innovation and Advanced Learning, and a recent graduate of the University of P.E.I.’s MBA program, which emphasizes an EBM approach. She’s using the insights learned in her program to help her department use data more strategically, and is currently trying to create a dashboard of metrics to measure and evaluate decisions.

According to Marr, the first — and most important — step to collecting the right data is understanding your organization’s strengths, abilities and objectives. He references Google’s approach of developing 30 strategic questions to spark focused discussions about its business activities and innovation goals. An organization should then develop a strategy map, says Marr — a concise, one-page document articulating why a company exists, its value proposition, the core processes or activities at which it must excel, and the human, relationship, information and institutional resources that will help drive its success.

Once an organization knows its strategy, it can take the next step of collecting the right data to meet information needs.

When conducting surveys, Marr suggests, companies should stop asking customers what they do and don’t like, and focus instead on discovering their net promoter score, which indicates how likely customers are to refer the company to others.

“If customers tell you they’re happy, you have no way of knowing if they’ll be loyal. If they say they’ll recommend you to a friend, then you know you’ve exceeded their expectations,” says Marr.

WHAT COUNTS

Figuring out which information is most important is trickier than ever, because of the emergence of “big data”: the abundance of information generated by social media posts, Internet search logs, even computer chips in smartphones. So it’s important for companies to use tools such as Social Mention or Google Analytics to parse out the most meaningful gems.

One piece of information never influences a business decision, Kimpton says. You look at “the local context, your stakeholders, your experiences, your judgments and then ... the evidence as well.”

To analyze resulting insights, Marr suggests organizations bring on board corporate intelligence staff to bridge the gap between the people who collect the data and the people who present it to senior leaders.

When presenting insights to managers, Marr advises following the approach of newspapers. Use bold headlines, concise and relevant facts, and clear and meaningful graphs and other visuals; relegate supplementary data to the back pages of reports.

“Storytelling is the way we’ve shared knowledge since the beginning of time. A good written narrative and picture gets people talking about the important story,” he says.

Information collected and used to drive an organization’s EBM strategy should be regularly re-examined for its relevance, Marr says, citing Yahoo’s and eBay’s approach of directing web surfers to multiple versions of its home page to test the efficacy of each one.

“We need to review past performance to improve the future and change the focus to learning,” Marr says. “All of this will help you to embrace a culture of evidence-based management.” ■

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Sharon Aschaiek is a Toronto-based freelance writer. See www.cocoamedia.ca.

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IFRS:

Did it work?

CHECKING INTO THE SUCCESS OF IMPLEMENTATION

Putting new standards in place has been “a ton of work” and the benefits are still up for debate

By **John Lorinc**

One Earth Farms, based in Saskatoon, is something of an anomaly. With 100,000 acres under cultivation and thousands of cattle, the three-year-old company is the largest corporate farming operation in Canada. It's also part of a large publicly traded conglomerate, Sprott Resource Corp., which has invested almost \$60 million in the company and now has a 58 per cent stake.

Which is to say that the company's senior management team was accustomed to taking a new approach to business. Indeed, as senior vice-president and CFO Derrek Wong, FCMA, points out, the company began gearing up from the get-go to report its results

according to the new International Financial Reporting Standards (IFRS), which for many companies have replaced the old Canadian GAAP.

“We went through the IFRS guidelines almost mechanically, like a cookbook,” Wong observes, adding that One Earth's goal was to ensure they'd covered all the accounting bases. Wong's group had to restructure One Earth's financial reporting templates and hired extra accounting staff to make the necessary changes.

THE BIG SHIFT

IFRS is based on fair valuation and has focused on shifting the emphasis from income statements to the balance sheet. With a large commercial farm, Wong discovered, the guidelines meant the company had to obtain current market value appraisals for its “biological assets” for each reporting period.

That meant obtaining going rates for heads of cattle at auction, and futures prices for grain, based on a calculation of the quality and yield of One Earth's vast crop holdings. “We have to mark to market every quarter,” says Wong.

For all the additional work, Wong believed what many other Canadian corporate finance executives had heard about IFRS — that by reporting according to an internationally uniform standard, the company's results would be comprehensible to global investors, not just those who are familiar with Canadian and U.S. GAAP.

The result, however, has fallen well short of expectation. After all the effort, Wong discovered that accounting bodies in many other countries simply allowed large commercial farms to opt out of IFRS because of the difficulties associated with appraising biological assets. At home, there are no other firms like One Earth, so investors have virtually no basis of comparison.

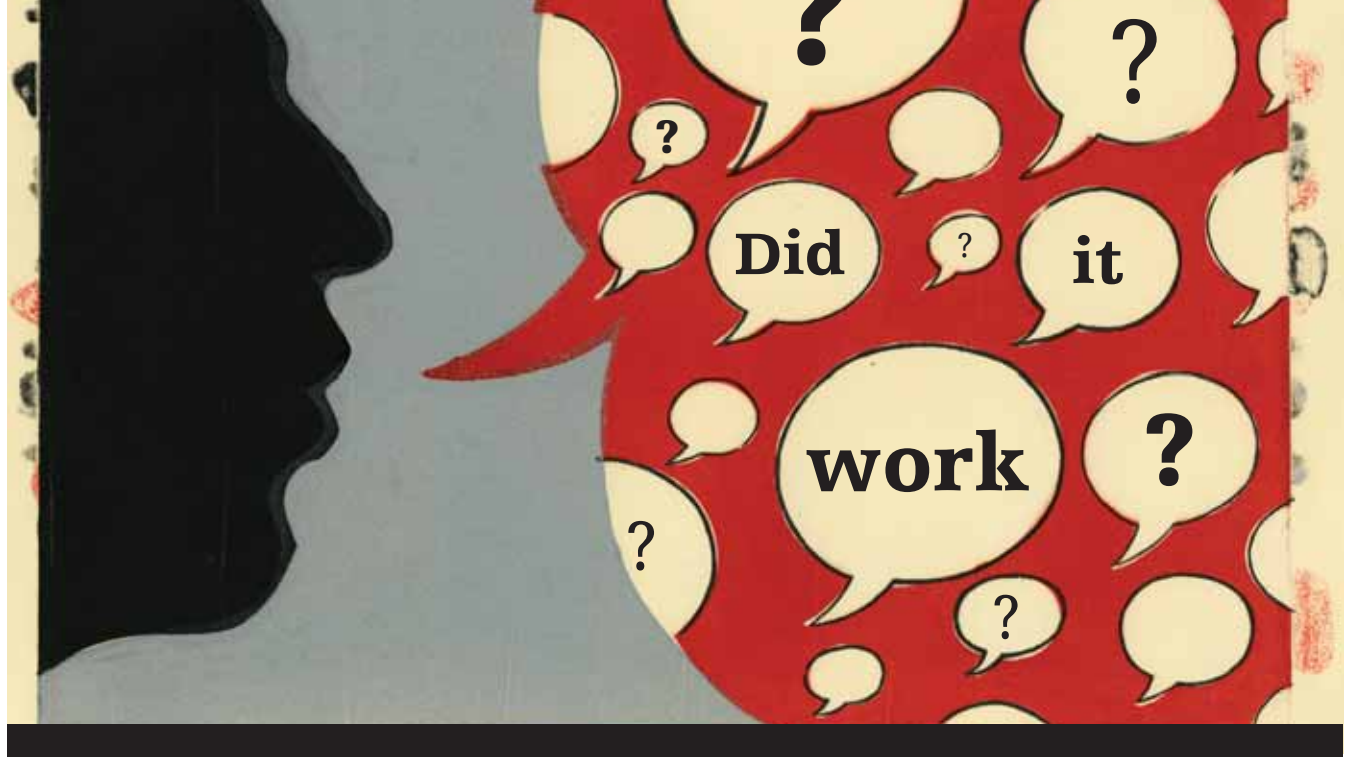
“I was disappointed because we went to great effort to do things properly, only to find out that the rest of the world didn't do this,” Wong says. He's still hoping the firm's IFRS-compliant figures will lure in foreign capital. “But we'll see ...”

Y2K ALL OVER AGAIN

Such tales of IFRS anti-climax are by no means unusual, and represent a curious postscript to a transition that was seen by some accounting professionals as the financial reporting equivalent to the frantic preparations for the Y2K bug.

Over the past several years, many companies hired external consultants, invested in new accounting software and set up internal teams as they pushed ahead with a complex re-engineering of their financial reporting practices.

For many practitioners, however, the outcome remains ambiguous. “The question becomes, have we achieved the benefit?” wonders John Hughes, director of accounting standards at MSCM LLP, a Toronto accounting and advisory practice. “I think we avoided



the downside. But are we really collectively better off?”

Corporate Canada came relatively late to IFRS implementation, compared to Europe, the United Kingdom and Australia, all of which adopted the new rules in 2005.

Canadian securities regulators began pushing issuers to embark on IFRS transition projects in 2008, starting with revised management discussion and analysis reports. Some set up internal systems and began educating audit committees, investment analysts and other stakeholders on the shift. But for many firms, the process was delayed by the fallout from the September 2008 financial crisis and the ensuing recession.

Regulators and accounting bodies decided that in fiscal 2010, publicly traded companies should disclose two sets of financial reports, one using Canadian GAAP and the other using IFRS, with the goal of moving to full IFRS disclosure in 2011.

Despite early delays, reporters have largely completed the changeover. Hughes points out that the Ontario Securities Commission (OSC) website has a list of firms that have been asked to refile financial statements for various reasons, but no companies at the moment have had problems with the new IFRS reporting rules. “There were no tales of delayed reporting or horror stories about drastic variations between GAAP and IFRS results,” he says.

For smaller firms, Hughes (a former

OSC official) points out that the transition “wasn’t a big challenge,” and only involved a few changes to their accounting practices.

BIG ISSUES

Some larger firms, however, did face significant interpretive and valuation issues, especially those in businesses that require significant capital assets, namely property, plant and equipment.

“You have to figure out how to get from the old rule book to the new rule book,” comments Dan Lefaiivre, an FCMA who is senior vice-president and CFO of Stantec Corp. in Edmonton.

Konstantin Gregovic, a CMA who works as a business manager for Superior Propane and also runs a small professional services firm called Byzantine Consulting, notes that companies in the airline sector, for example, had to deal with the “compartmentalizing property” process. They had to break down large capital assets, such as planes, into their component parts and obtain current market valuations for each for the purposes of balance sheet reporting. “A lot of companies took writedowns on fixed assets,” he says.

The calculations in other cases proved to be quite challenging, such as assessing the valuation and balance sheet impact of stock options, embedded derivatives, or capital leases for oil and gas companies. In the case of flow-through shares, popular in Canada’s natural resource exploration sector but

otherwise unique to this country, firms had to scramble to figure out some kind of equivalency.

Hughes cites another example that proved to be temporarily contentious in the real estate world: the IFRS treatment of income trust units issued by real estate investment trusts (REITs). Were these to be considered equity or liabilities? In the case of the latter, there was an implicit obligation to pay cash. If IFRS standards required REITs to be recognized as liabilities, “it would have produced huge problems on the balance sheets.” To get around that potential problem, REIT boards had to go to their unitholders and obtain permission to alter the trust declarations so their holdings could be recognized as equity.

“In terms of the end result, it wasn’t a huge deal,” Hughes says. “At the time, it struck people as [causing] a lot of turbulence for no good reason.”

MORE SEE-THROUGH

Daphne Rixon, an FCMA and an associate professor of accounting at St. Mary’s University in Halifax, also observes that the shift to IFRS brought with it significantly more transparency and disclosure than what was required previously under Canadian GAAP.

She’s tracked how Canadian credit unions that made the shift have been reporting changes in market value of employee benefits plans. Under IFRS, issuers have an option to retroactively restate the values to reflect cumulative



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losses, but they can choose other reporting options as well. She discovered that some credit unions did take this step, while others did not. "The annual report certainly provides a lot of detail in how they're measuring and what choices they've decided to go with," she says, adding, "You really have to read the notes."

But while the calculation process has shifted, Rixon notes that with large firms such as Vancity — one of Canada's largest and best-known credit unions — the results have not. In fiscal 2011, she says, Vancity reported a current ratio of 1.050 under Canadian GAAP, restated as 1.049 under IFRS. "It's negligible when you look at the impact."

Not all companies sailed through as smoothly. Gregovic says the markets reacted negatively to the introduction of impairment changes required under IFRS.

THE BOTTOM LINE

So after all that, accounting professionals are still trying to get a fix on the bottom line of the IFRS conversion. According to Gregovic, the downside was that it proved to be an expensive undertaking for many firms. On the other side of the ledger: "If you're an international company, you can match your statements to international companies' [statements]" around the world.

Yet Hughes points out that this promised high-level benefit may be diluted by other factors, such as the accounting and regulatory culture in a given country, as well as imponderables, such as the sorts of metrics that analysts and investors like to focus on.

Indeed, he notes that IFRS hasn't stopped companies from emphasizing certain controversial performance measures, such as cash flow or earnings before interest, taxes, depreciation and amortization (EBITDA). "As long as things keep churning along, people are happy to look at adjusted earnings."

Was the change worth the effort? Gregovic says time will tell whether the standardization of the reporting leads to improved access to international investors. Others are just glad it's over. "A lot of companies came up with the same conclusion," Lefavre says. "There was a ton of work to do and quite a robust process. But the market kind of shrugged it off." ■

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John Lorinc is a Toronto journalist who writes regularly about business and politics. He tweets @johnlorinc.

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Accounting for internal IT

Take a look at overlooked costs

Estimating costs is better than ignoring them

By **Jacob Stoller**

OF ALL THE COSTS THAT COMPANIES have to manage, the costs of internal IT operations are among the most elusive. Because of the many variables involved, many companies simply write off IT as necessary overhead that's too complex to track.

Not having the resources to get a precise read on IT costs does not mean the issue should be ignored, however. By focusing on the largest cost areas and employing a few shortcuts, managers can assess an investment in a new technology, weigh the financial advantages of a cloud option or avoid surprises at year end.

Here are the key cost areas to watch and some practical ways to account for them.

1. IT labour

Projects ranging from a non-standard data query to the implementation of the latest business intelligence application may require hours, days and even months of IT time. Accounting for this time alone will get organizations much closer to understanding IT costs.

Establish a standard rate based on the average cost of an IT employee, suggests Andy Woyzbun, lead research analyst for Info-Tech Research Group of London, Ont. "You don't want to overcomplicate this," says Woyzbun. "With a standard rate, you can get a pretty good picture of what it's actually costing you without having to do overly detailed cost accounting."

When coming up with a number, be sure to factor in staff turnover, absenteeism and training, suggests Rob Bracey, president of IT service provider Quartet Service Inc. in Toronto. These costs can be substantially higher in IT than in other areas.

2. Data entry

The people who support IT systems are not exclusively in IT. ERP (enterprise resource planning) and other business support systems may require significant, regular data entry to keep current.

"You have to put the data in, it has to be accurate, and people have to be able to rely on it," says Sheldon Needle, president of CTS, a firm based in Rockville, Md., that advises companies on software selection. "That's not something you can take for granted."

As with IT labour, Woyzbun suggests using an hourly rate to approximate what this activity is costing the organization. It makes sense to use a conservative figure that nobody can quibble with. Some companies use \$20 an hour. Even at that rate, the costs can add up. If 100 hours a month is required to keep an ERP system up to date, the \$24,000-per-year total might raise some eyebrows. "The big sin is to omit it," says Woyzbun.

3. Training

If employees aren't properly trained, even a routine software upgrade such



as installing a new version of Microsoft Outlook can wreak havoc on an organization's workforce.

"People struggle to do things that they used to be able to do before," says Adam Davis, president of IT service provider Next Dimension Inc. in southwestern Ontario. Davis notes that a significant proportion of help-desk calls — 25 per cent or more — occur because the end-user didn't understand how to use the application.

Many companies simply write off IT as necessary overhead that's too complex to track.

The true costs of neglected training are not directly visible. Instead, they show up in the poor use of software features, buddy systems in which employees interrupt one another to get assistance and countless hours spent deciphering user manuals.

"It costs the organizations thousands and thousands of dollars in lost productivity," says Davis. "Most organizations don't see that, and don't track it."

Real training costs, which include the training itself and employee time spent in classrooms, are substantial. Two weeks per year is not unusual for

IT people, and people who could be considered power users — administrators, coordinators, analysts — may require five days or more.

Delegating end-user training to the IT department is a common mistake. IT people are not necessarily good teachers, and they often can't spare the time to train. [For more on IT training, see "Taking on the IT Training Deficit" in the July/August 2011 issue of *CMA magazine*.]

4. Change management

When an organization acquires significant information management capabilities that affect daily operations, big changes can occur in a workplace. Months can also pass before the workforce becomes comfortable with a new system.

The costs can be especially high when the affected workforce deals directly with customers. "I call this the cost of disruption," says Woyzbun. "You really need to have sufficient planning, testing and training to get people not just to a rudimentary level of user capability, but to a point where they are reasonably proficient." Once again, labour costs should be approximated.

5. Infrastructure

Hardware and software quickly become obsolete, and because many organizations see annual data storage increases of 30 per cent or more, capacity is an ongoing concern. Changes in an IT

system can also cause existing infrastructure to reach capacity and set off a spiral of upgrades. For example, a new software system might require more storage capacity which could trigger upgrades to operating systems, servers and network hardware.

The best way to stay on top of infrastructure costs is to create standard rates for machine capacity and storage, and track usage in dollars. This strategy prevents surprises. It also ensures that the cost of upgrading isn't unfairly allocated to one department or project when an existing system reaches capacity or is incompatible with a new application. "No project is free in terms of machine capacity and storage," says Woyzbun.

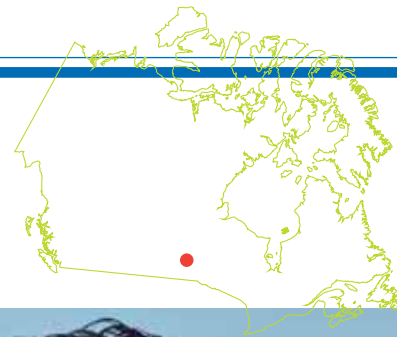
Add it up

A rough system for estimating and tracking the costs of IT is far better than no system at all. By establishing standard rates and applying them continuously, organizations can bring much-needed transparency to IT funding.

In addition to allowing organizations to manage their recurring IT expenditures more effectively, this strategy also gives decision makers the cost benchmarks that they need to create business cases for new technology or outsourcing options such as cloud computing. ■

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Jacob Stoller is a Toronto-based writer and researcher. See www.jacobstoller.com.

World view



Mark Mandzik, CMA, gives back to the global village

By **Jaclyn Law**

MARK MANDZIK HAS A SURPRISINGLY RICH

and varied career for a guy who's been at one company, Manitoba Hydro, for over 20 years.

He started with management accounting, then took on pioneering roles that combined finance and IT. "I worked with engineers and programmers on modelling and forecasting programs," says Mandzik. After a stint in corporate relations, he became a project manager. Now, he works with utilities in developing countries — everywhere from Mongolia to Liberia — and travels about a third of the year.

The holistic approach of CMA training, which Mandzik completed in 1995 after finishing his commerce degree, helped prepare him for each challenge. "You study everything from business planning to human resource management. That and the exposure you get to a variety of people and organizations help you adapt to different, sometimes rapidly changing, scenarios."

About a year ago, Mandzik took on an additional role: director of sales for Pantheia, a jewellery company that supports impoverished Balinese communities by teaching girls marketable skills.

Pantheia's founder, a friend of Mandzik's, asked him to help with international operations. "Bali is a special place with a lot of talented people," Mandzik says. "My vision is to build a sustainable company with fair employment practices that give people opportunities to improve their quality of life."

Mandzik feels lucky to have such a diverse career, and credits CMA Manitoba with helping him thrive in an environment of constant change. "It's helped me parlay my knowledge into scenarios I never thought I'd be in, and given me the confidence to throw myself into new directions." ■

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Jaclyn Law is a Toronto-based freelance writer.

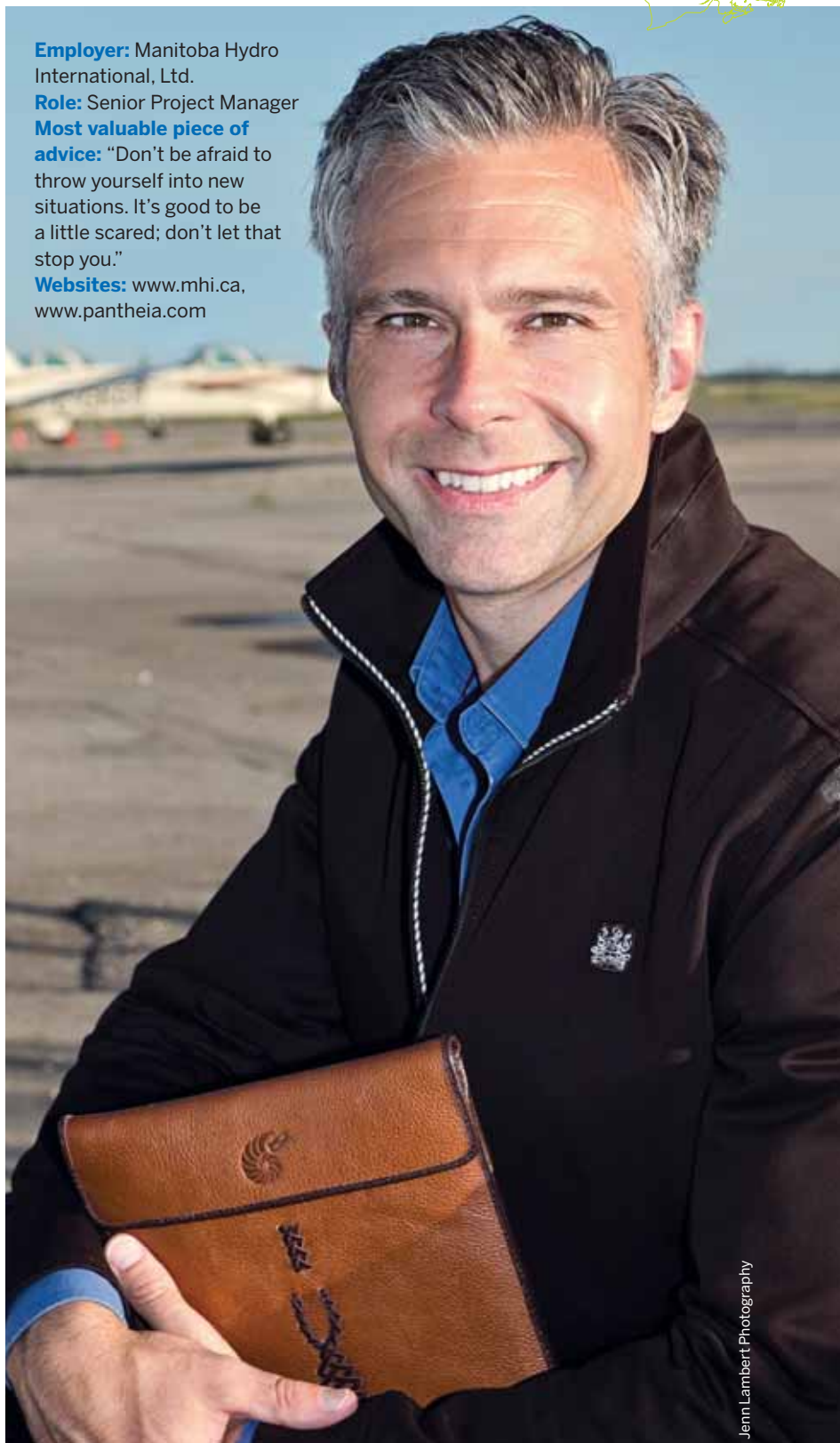
Employer: Manitoba Hydro International, Ltd.

Role: Senior Project Manager

Most valuable piece of

advice: "Don't be afraid to throw yourself into new situations. It's good to be a little scared; don't let that stop you."

Websites: www.mhi.ca,
www.pantheia.com



Jenn Lambert Photography

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