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corporate finance and product FP&A
for Research In Motion



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Preparing for change

Scenario planning is relevant for today's increasingly uncertain and volatile world — a world that's experienced its fair share of unpredictable events — the dot.com bust, 9/11, SARS, Hurricane Katrina, H1N1, etc.

Scenario planning teaches us something about the future by allowing us to understand the nature and impact of uncertain events. Given the chain of events, it has become an important strategic management tool.

A working knowledge of scenario planning can help CMAs apply core management accounting disciplines, such as cost management, profitability analysis, risk management, performance management, as well as forward-looking strategic and operational planning, budgeting and forecasting. Planning with the rest of your team encourages knowledge exchange and an understanding of issues important to the future of your business. Leading a group in scenario planning gives management accountants an opportunity to demonstrate added value to their organizations, and reinforces finance and accounting's role as a business partner. It's also a significant addition to an accountant's skill set.

In this issue, David A.J. Axon joins us with *Scenario Planning: Navigating a course through an uncertain world*, based on the most recent Management Accounting Guideline, available free to download to CMA Canada members. His article focuses on the key steps needed to build a scenario plan, followed by identifying key drivers, scenario development and scenario implications.

Denise Zaporzan, CMA, FCMA, joins *CMA Management* this issue with a look at multigenerational groups in the workplace — a shift that is affecting the way employees of a company work together. Business leaders face the challenge of not one, but four very diverse groups, each with different work attitudes, beliefs, experiences and work habits. Never before have we seen and experienced such a diverse workforce. While it's easy to imagine the challenges this might pose to a leader, less obvious is how this diversity presents opportunities for maximizing team performance. Understanding and leveraging these differences can help an organization maximize retention, productivity and employee motivation. A Robert Half research report, *Workplace Redefined*, released this year, offers a different perspective on multigenerational groups. Although communication styles or even the use of technology may vary from group to group, multigenerational teams learn from each other and increase productivity. Those surveyed in the report recognize the top benefits of working with multiple generations as: it brings people of varying experience levels together; and it allows greater diversity and mentoring opportunities. The greatest challenges; however, include: different work ethic and approach to work-life balance; conflicting communication styles and different points of view, which makes it harder to reach consensus.



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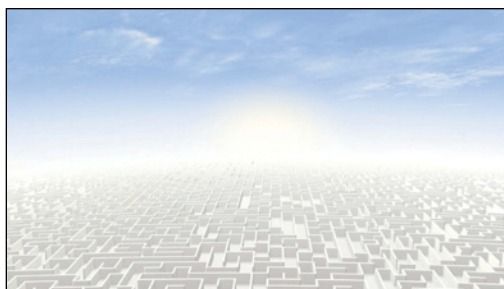
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By **Arda Ocal**

Special insert

Introducing the 2010 FCMA's. These CMAs have demonstrated excellence in management accounting, a commitment to CMA Canada and a civic mindedness that brings community respect to the member and the profession.

Introducing this year's FCMA's

Cover Photo: Stephen Uhraney/Lemon Sky Images

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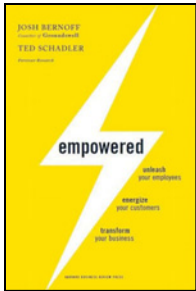
New and noteworthy information you can use

- Avoiding another black hole: IFAC article series
- CFOs say benefit of consulting is variety and challenge
- Regulatory risk ranked top threat to business performance: Ernst & Young
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Tools for improvement

Empowered



Customers today are hyper-informed thanks to social technologies that provide unprecedented amounts of information and tools. Inside every company, there are

employees who have what it takes to build innovative solutions to meet their needs. It's up to businesses to unleash them.

In *Empowered*, authors Josh Bernoff and Ted Schadler argue that the only way to succeed with empowered customers is to empower employees to solve their problems. The authors have aptly named these employees HEROes; highly empowered and resourceful operatives. *Empowered* offers a blueprint for creating a HERO-powered company that energizes customers with innovative ground-up solutions rather than top-down management initiatives.

Customers vocalize their opinions about products and services through groundswell technologies — Twitter, Facebook, blogs and product reviews — and they can spread either positive or negative messages. Bernoff and Schadler suggest companies consider these customers as a marketing channel rather than a customer service cost centre, and provide a four-step strategy called IDEA for connecting with them: 1) Identify the mass influencers and concentrate on the people most likely to spread messages about your company; 2) Deliver groundswell customer service by reaching through groundswell channels such as Twitter, Facebook, blogs, YouTube; 3) Empower your customers with information, especially mobile information and keep them happy by surrounding them with the information

they need; 4) Amplify your fans, find the people who admire your company, and boost the impact they have on their peers.

Josh Bernoff and Ted Schadler. Harvard Business Review Press. ISBN: 978-1-4221-5563-9.

You Already Know How to be Great



We're constantly finding ways to improve — whether it's adapting to a healthier way of life, overhauling finances or stepping up your game at work. Most people approach self-improvement

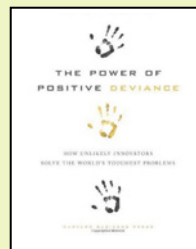
by looking for new information. But according to performance expert Alan Fine, the key to great performance isn't gathering new knowledge. Fine offers a

new paradigm, principle, and process for achieving breakthrough performance in any area of life. He believes that in most cases we already know what it takes to achieve our goals — we just don't always have the tools to effectively apply all that great information.

He developed the G.R.O.W. model to help individuals focus on their performance goals. The model helps you make decisions about your goal — decisions which lead to actions, which lead to results. The following are fundamental questions that will help individuals move through Fine's G.R.O.W. process: 1) Goal: What issue do I want to work through 2) Reality: What's happening? What have I tried so far? 3) Options: If I could do anything to make progress on this issue, what might I do? 4) Way forward: Do any of these options interest me enough to take action?

Alan Fine with Rebecca R. Merrill. Portfolio. ISBN: 978-1591843559.

The Power of Positive Deviance



Just think of the toughest problems in your organization or community — they may have already been solved and you didn't even know it. Positive deviance (PD) is founded on the premise that at least one person in a community — working with the same resources as everyone else — has already conquered the problem that confounds others.

The Power of Positive Deviance unveils a new way to tackle the thorniest challenges in a company and community. The

book, written by authors Richard Pascale, Jerry Sterlin and Monique Sterlin, presents a counterintuitive approach to problem solving. They explain that the concept is simple: look for outliers who succeed against all odds. The authors use first-hand stories to show how PD has alleviated some of the world's toughest problems — malnutrition in Vietnam, staph infections in hospitals, and infant mortality — along with the process to follow: 1) Identify the PDs; 2) Discover their practices; and 3) Disseminate them to the broader community.

Richard Pascale, Jerry Sterlin and Monique Sterlin. Harvard Business Press. ISBN: 978-1-4221-1066-9.

News and views

New and noteworthy information you can use

Avoiding another black hole: IFAC article series

The International Federation of Accountants (IFAC) has completed the second article in a series of five on business reporting. The article, *Business reporting beyond the crisis: How to make sure that we don't tumble into another black hole*, provides insight into how the financial crisis developed and what should be done in the areas of governance, financial reporting, and auditing to prevent such a crisis from happening again.

Four interviewees generally agree on the main issues that caused — or at least exacerbated — the financial crisis, including governance failures by all stakeholders in the financial reporting supply chain, such as a short-term focus and flawed risk management.

According to Jane Diplock, chairman, Securities Commission of New Zealand, "Corporate governance is really at the core of the global financial crisis," because the links between risk management, performance, and remuneration "all influence the behavior of company management." John Coombe, chairman, Hogg Robinson Group plc, adds, "Too many people



were gambling with other people's money and getting huge bonuses when it worked, but losing nothing when it went wrong." On the other hand, as Jules Muis, a former partner at Ernst & Young points out, investors are also part of the problem because "a lot of the pressures on management have come from 'short-termism' by investors, turning up the heat on management to seek short-term, ever more high-yielding, hence riskier business models, at the expense of long-term, sustainable performance."

Risk management practices were also flawed, according to the interviewees. "You cannot imagine anything more inimical to the interest of the company than management and boards of directors engaging in such risky activities that could bring the company to ruin," Diplock says. "The fundamental error was in not pricing risk appropriately when the original investments were made," Richard Petty, associate dean and professor, Macquarie Graduate School of Management, adds. "Far too few people had a proper understanding of derivatives and their inherent risk: no one on the board understood it, the CEO did not understand it, nor did other people in the organization." The same was true for many auditors, Petty continues: "I think that too few auditors currently specialize in the type of work that needs to be done to accurately assess risk for complex entities."

One valuable lesson with respect to risk is that black swans do exist. Coombe recommends that directors increase their focus on risk, and engage more in a detailed understanding of the risks in their company's products and services.

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Petty agrees, emphasizing the need for more education across the whole range of parties involved in this complex business. “Especially on the buy side,” he says, “there should be much clearer guidance and advice given to people along the lines of ‘you will lose money if you invest in things you don’t understand.’” He also sees the rise of a specialist class of auditors “who really can pull apart the various financial products and process the risk independently of the company,” so that their impact in terms of value and risk can be expertly assured.

The complete interviews can be downloaded, free of charge, at www.ifac.org/frsc. Readers are encouraged to respond to the recommendations of the interviewees by completing a brief survey found at the conclusion of each interview transcript.

CFOs say benefit of consulting is variety and challenge



They may be ready to hand over the keys to the company car, but they aren’t ready to hit the links full-time. For this group, a career in consulting can hold appeal, suggests a Robert Half Management Resources survey. Nearly one in three (32 per cent) CFOs surveyed say the variety and challenge of work was the number-one reason they’d consider consulting. This top response was followed by flexible schedules (17 per cent) and attractive compensation (13 per cent).

The survey includes responses from 270 CFOs from a random sample of Canadian companies with 20 or more employees. CFOs were asked, “Which of the following is the most attractive aspect of a career in consulting?”

“Many firms are looking for financial consultants with extensive leadership and business acumen, and a former CFO can prove to be a valuable addition,” David King, president, Robert Half Management Resources’ Canadian operations, says. “Small- and medium-sized businesses in particular are benefiting from the cost-effectiveness of consultant engagement for projects ranging from audit and financial reporting to IPOs and mergers/acquisitions.”

King adds, “Consulting can be an appealing career choice as professionals are often drawn to the challenge, flexibility and attractive compensation that it affords.”

Regulatory risk ranked top threat to business performance: Ernst & Young

Despite an easing of the stress stemming from the financial crisis, business organizations still face recurring and new threats, according to the third annual Ernst & Young Business Risk report. This year, executives rank regulation and compliance as the top business risk, but others, such as risks related to talent management or to emerging markets, also strongly concern global executives as the presence of these risks grow.

The survey reveals the most important business risks varied dramatically across sectors, regions and companies. Regulation and compliance regained the top spot across the majority of sectors, prompted by a general uncertainty in the marketplace driven by regulatory reform. Limited access to credit and the threat of continuing weak economic performance in certain regions of the world remain high on the list of potential concerns, ranking second and third, respectively.

“Within our report, the majority of the risks identified fall into four distinct quadrants: financial, compliance, strategic and operational risks,” Gerry Dixon, Ernst & Young LLP’s global risk leader, says. “This highlights the importance of taking a broad, holistic view of risk issues, then focusing on the risks that matter most to your business — those that are present today and others just on the horizon.”

The report also looks at the top business risks that will have a strong presence in the near future. Across all sectors, a number of innovation-related themes are evident, such as the internationalization of R&D activity.

As global companies seek to capitalize on the growth of emerging markets by drawing on an international talent pool, the ability to nurture a culture of innovation in diverse geographies will become increasingly important. For other industries, the challenges associated with innovation are relatively constant. Within the life sciences sector, this issue rose in importance as technology continues to play a vital role in improving products and business models.

We welcome your comments and article ideas

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Strategic tax planning ignored?

Confronted with growing and immediate regulatory and compliance issues — such as the expansion of the Harmonized Sales Tax (HST) — Canada's corporate tax managers are concerned that the growing complexity of the taxation system is forcing them to neglect strategic tax planning. This situation could prove costly over the long-term, according to a survey of financial executives by the Canadian Financial Executives Research Foundation (CFERF) and sponsored by tax services firm Ryan.

The study, *Current management issues in Canadian corporate taxation*, by FEI Canada and sponsored by tax services firm Ryan, shows that long-range planning, which could cut future costs to Canadian business, is being sacrificed due to the increasing complexity and

uncertainty in areas such as transfer pricing and foreign income taxes

“An overwhelming majority of Canadian tax executives reported that the primary allocations of tax resources are devoted to compliance, as opposed to strategic tax planning,” Garry Round, managing principal, Canadian operations, Ryan, says. “Canadian tax executives must reallocate resources to strategic tax planning, or they will likely find themselves exposed to increased risk.”

Many companies entrenched in the HST conversion are also worried about the implications for increased audit risk, and the only way for them to get any comfort around their numbers is to invest more at the front end on control and tax planning.

Forty per cent of companies surveyed

said resource constraints would be among the most significant challenges in 2010 and 2011 and almost 60 per cent of companies are concerned about the lack of skilled tax management talent in the Canadian labour market.

“While companies will be looking for talent in today's market, many will have to fill their resource requirements by spending more on increased training of existing staff,” Michael Conway, CEO and national president, FEI Canada, says. “Many will also be turning to the tax expertise of external consultants or simply have to do more work with the current pool of talent and resources they already have, putting even more strain on already stretched finance departments.” To review the full study, please visit http://www.feicanada.org/cferf/cferf_research_papers.html.

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Debbie de Lange's article, *CMAs in the USA: Some advance thinking*, (*CMA Management*, March 2010) highlighted similar challenges my family and I encountered when we moved to California in 2007 — health-care coverage, working VISA eligibility, housing and credit availability, etc.

Having a family with four children presented some additional challenges as well:

- 1) Visa status of dependants: My wife didn't need a social security number because she stayed at home to home-school our three youngest children. There have been issues with opening bank accounts for our children. Because I am on a TN visa, a non-immigrant status in the U.S. for Canadian citizens, my oldest son is not eligible to get a part-time job.
- 2) My Visa status: While working with an immigration lawyer, I looked at various ways to move away from the TN visa because of its limitations:
 - a) If your employment terminates, you only have a small block of time to leave the country;
 - b) As a TN visa holder, you are unable to be both an employee and an owner of a company.

I'm currently looking into applying for my green card. Unfortunately, it costs approximately US\$20,000 and my position will be posted on several job boards or publications to verify that there are no qualified domestic candidates.

Before we moved to Huntington Beach, CA, I was not confident that my two sons would have opportunities to continue playing the sports that they did while we lived in Canada — hockey, for example.

We were pleasantly surprised that we had moved to an

area that was five minutes from an ice hockey arena. There were, however, some positive/negatives. The other parents welcomed our family into the network, the competition was surprisingly good, and my oldest son — being a 14-year-old, 6 ft. goalie — drew a lot of attention. Unfortunately, the cost of hockey is expensive (coaches are paid vs. volunteer; plus the cost of ice time) and my son was not eligible to participate in the U.S. national development program because of his citizenship.

Overall, the experience has been enjoyable. We experienced three earthquakes so far and we're handling them a bit more rationally. Thanks, Debbie, for writing an article that we could relate to very well.

Robert Neable, CMA



The article *Accounting made easy* (*CMA Management*, April 2010) by Karine Benzacar, CMA, promotes the benefit of using accounting/bookkeeping software packages for small- and medium-sized businesses instead of manual bookkeeping or Excel spreadsheets because they are much easier to use.

It has been my experience while working in the public accounting sector and reviewing the books of SMEs for year-end purposes that, for the most part, these accounting packages are not easy to use. Let's use QuickBooks as an example because it promotes itself as the accounting package for non-accountants. I suggest that unless you are professionally trained in using QuickBooks and/or have formal training as a bookkeeper or an accountant, at best, the SME is utilizing 10-20 per cent of the software's capabilities. At worse, the outcome can be simply nonsensical gibberish. This is a classical case of "GIGO," (garbage in, garbage out). And at times, the output I have seen is actually from a professionally-trained accountant. The only guarantee you have with accounting software packages is that all the debits will equal the credits. Unfortunately, some of the reports the software package produces are usually useless.

I suspect some of these business owners wonder why their external auditor fees are so high. But for all intents and purposes, the books have to be redone before any meaningful year-end financial statements are prepared.

Many SMEs are just as well off using Excel spreadsheets or even manual ledgers, or they can simply review their bank statements periodically to determine how well they are doing.

Peter Pederiva, CMA

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Four generations, one workplace: Watch us work

Understanding and leveraging workplace diversity can help an organization maximize retention, productivity and employee motivation.

By Denise Zaporzan, CMA, FCMA

Never before have we seen and experienced such a diverse and multi-generational workforce in the workplace. Today's business leaders face the challenge of not one, but four generational groups, each with different attitudes, beliefs, experiences and work habits.

While it's easy to imagine the challenges this might pose to a leader, less obvious is how this diversity presents opportunities for maximizing team performance. But understanding and leveraging these differences can help an organization maximize retention, productivity and employee motivation.

What exactly is a "generation?" It's big. Just ask Pepsi, which successfully branded an entire generation of young adults as "the Pepsi generation," or Canadian author Douglas Coupland, who coined the term "Generation X," or American author Landon Jones who did the same for "baby boomer."

Zemke et al. (2000) define it as "a group of people who share birth years, history and a collective personality as a result of their defining experiences." Historical, social and political events shape each generation's values and attitudes.

The four generational groups:

1. Traditionalists (born before 1945)

The Depression and World War II heavily influenced this generation. Their experiences make them hardworking, financially conservative and cautious. Organizational loyalty is important to them and they feel seniority should determine career advancement. This group is waning in influence, as most have now retired from the workforce.

2. Baby boomers (born between 1946 and 1964)

Baby boomers grew up in a healthy post-war environment. They are optimistic and value self-



expression. Baby boomers are known for their strong work ethic, and are sometimes described as "workaholics." Work is a defining part of their self-worth and how they judge others.

3. Generation X (born between 1965 and 1980)

Generation X experienced a major shift in the family structure. Many Gen Xers were raised in a single-family home, as divorce rates soared, and this was the first generation where both parents worked full-time. The term "latchkey kids" was defined in this generation. During their formative years, there were great advances in technology and massive layoffs, which led to values of self-reliance and work-life balance.

4. Generation Y (born after 1980)

Generation Y grew up in a time of economic prosperity, but also in the peak years of terrorism and drugs. The lives of Gen Ys were nurtured and structured by their parents. This is the techno-savvy generation for whom technology and instant communication are part of everyday life.



So what does this mean in terms of coaching and motivating, communicating, and resolving conflict? Each generation has its own unique needs in each of these areas. Leaders must recognize these as “needs,” not simply “preferences.”

1. Coaching and motivating

- Traditionalists prefer a one-on-one coaching style, which is accompanied by formal performance reviews. They value recognition that is personal (award plaques, photos with the president, etc.)
- Baby boomers enjoy working with colleagues on projects and peer-to-peer coaching. They value lifelong learning, public recognition, perks, prestige, professional rewards and long-term compensation.
- Generation Xers believe recognition and advancement should be based on merit and expect rapid advancement toward their goals. They value time off, work flexibility and cash awards, and dislike micromanagement. They need to feel empowered and want to be asked for feedback.
- Generation Ys expect more coaching than any other generation. They want structure, guidance and extensive orientation. They want to challenge and change things, but also require personal feedback. They seek out internships, self-improvement opportunities, formalized coaching and mentoring programs, and work flexibility. If their needs are not met, they will leave for a new opportunity somewhere else.

2. Communication strategies

- Traditionalists prefer inclusive, face-to-face or written communication.
- Baby Boomers prefer open and direct communication that is less formal. They enjoy staff meetings and face-to-face or phone communication.
- Generation Xers prefer technology-based communication (e-mail, cell phone). They are bored if meetings include a lot of discussion prior to making a decision. They like the bottom-line approach — results and plenty of them.
- Generation Ys prefer text messaging and immediate feedback. They like having informal team meetings to communicate, and dislike having to read and remember lengthy policies and procedures.

3. Conflict resolution

- Differences in generational values, behaviours and attitudes can naturally lead to significant conflict.
- The two major sources of conflict in the workplace for

these generational groups are: perceived differences in work ethic and use of technology. However, as a leader, you must understand and work with the characteristics of each generation to maximize employee satisfaction and team performance. Each generation offers unique value based upon their attitudes and experiences.

- Traditionalists have wisdom and organizational history.
- Baby boomers have organizational experience and a passion for lifelong learning.
- Generation Xers have innovative ideas and creative approaches.
- Generation Ys have a deep understanding of technology and insights on how it can be used.

What leaders can do

Given these vast differences among generations, what’s a leader to do? Simply put, now more than ever, the strategies we use to communicate, coach, motivate and resolve conflict need to be tailored to the profiles of each of these generations. To do this — to understand, communicate and lead your workplace — there are a number of strategies you can employ:

1. Conduct an employee “generational inventory.” Know the generational makeup of your organization and tailor your messages accordingly.
2. Hold all of your employees, no matter what generation, to the same expectations. Your expectations of each group should remain the same, it is your approach that should vary.
3. Consider individual needs and generational differences when dealing with employees one-on-one. This is particularly important when accommodating for coaching, motivating, communicating and conflict resolution.
4. Capitalize on differences to enhance productivity (e.g. Generation Y can teach baby boomers new technology, and baby boomers can explain business processes, etc.)

As a leader, you have an opportunity to work with a diverse group of employees. It’s an exciting time to develop a dynamic workplace based on each of these generations’ traits and skills. If you can effectively manage these different generations, you will not only achieve employee satisfaction and fulfillment, you will optimize team performance and organizational results. ■

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Internetworking the factory floor proves strong value proposition

Using real-time data to assess, measure and improve performance.

By Thomas R. Cutler

Using the Internet to “internetwork” machine tools on the factory floor is proving to be a strong value proposition. This form of computerized networking for machine monitoring and control provide manufacturers with relevant production information in real-time, boosting efficiency by up to 20 per cent with minimal capital investment.

In the past, the key to maximizing productivity on the manufacturing shop floor was to automate machines, thereby minimizing costs and maintaining consistent quality. Process manufacturers have met the challenges of today’s extremely competitive environment by achieving a high degree of automation. Today, discrete manufacturers are asking: Can the advances of the process control world and the networked office be applied to automated machines on the shop floor? In other words, can the automation be automated? For certain discrete manufacturers, the answer is clearly “yes.” The productivity of these companies has been greatly enhanced when new technologies that shave off machining time, optimize labour efficiency, and extract high levels of quality are applied to existing automated machine tools.

Imagine placing an order over the Internet to a manufacturer and having it filled and shipped all automatically without human intervention.

John Rattray, a senior executive with Memex Automation suggests, “Modern machine tools remain largely closed ‘islands of automation’ whose isolation hinders the establishment of a fully connected, enterprise-wide information system. Unfortunately, largely because of the proprietary nature of the applications used by the 60 plus



machine tool manufacturers, the computerized numerical controls (CNCs) that run most modern machine tools do not communicate adequately with each other or with management information systems. Rather, these machines are primarily passive recipients of part program data. This lack of connectivity is a huge constraint on productivity — a problem recognized for many years by the machine tool industry.”

Almost two years ago, the Association of Manufacturing Technology (AMT) spent millions of dollars to establish a consortium, called MTConnect, whose mandate is to generate an Internet-based networking standard that will result in every machine tool becoming a node on the corporate network. The implementation of this standard connection will allow a manufacturer to identify and monitor every machine on the factory floor, and optimize total production throughput. The goal is to make every machine tool a vital part of management’s information system, and to integrate e-manufacturing into the enterprise-wide profit process.

Connecting machine tools on the shop floor to create an overall



plant “nervous system” unleashes the valuable information trapped in each machine. An ARC Survey Report suggests: “The largest reservoir of untapped operational information is locked in the machine tools on the manufacturing floor. Employing open architecture CNCs in a plant is fundamental in gaining a competitive advantage. Open architecture CNC integrated into the information technology mix is equally critical in optimizing production in both job shops and high production lines.” Once a company gains access to machine tool data, it can manage this information to increase profitability. The dynamic nature of internetworking extends the availability of production information far beyond the factory floor. Machine tools become active servers of information

in real-time, feeding their data to other functions within the corporation anywhere in the world. This increase in information dissemination leads to enhanced productivity and a sustainable competitive edge due to improvements in six key areas.

Increased machine utilization

Operations on any factory floor are linear (or sequential) in nature, with one event usually dependent on a preceding one and with considerable variation in time consumed. Machining, therefore, is currently a start-stop-wait-repeat process. Internetworking allows managers either to reduce or eliminate these wait periods or to exploit them by making key machine tools productive during these gaps. “Access to real-time data, including the monitoring of specific factors such as spindle load and cutting temperature, as well as DNC program loading, is necessary to accomplish this type of integrated systems

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business strategies

optimization. Internetworking also eliminates or significantly reduces the ‘wait-periods’ now common in the manufacturing information process. Instead of having to wait for program delivery, tool offsets by hand, set-up, management approval, and the realization by front office accounting that inventory is ready to ship, the seamless integration of machines and management information systems turns ‘just-in-time’ processing into ‘just-in-seconds’ processing,” Rattray adds.

Business systems integration

Imagine placing an order over the Internet to a manufacturer and having it filled and shipped all automatically without human intervention. By establishing machine tool internetworking on the factory floor, the point of production can be connected directly to the supply chain on the one hand, and to the demand chain on the other. Ultimately, the factory floor can be linked to information systems already in place, such as enterprise resource planning software and standard accounting packages. The most common stumbling block to achieving such synchronous e-manufacturing integration between management planning, purchasing, production, operations, sales and service is establishing the direct link to the machine tool.

Establishment of OEE metrics

Overall equipment effectiveness (OEE) is a percentage value that reflects a composite of machine availability, performance and quality. Companies aiming for a lean manufacturing process strive to implement OEE as a corporate-wide key performance indicator of company, division, plant and individual machine productivity. Currently, if OEE information is captured at all, it is typically written down on clipboards by hand and later transposed to a computer spreadsheet. The process is labour-intensive, subjective, prone to errors, and delays reporting of results. Real-time OEE determination allows for timely reporting and an immediate response if necessary. Rattray notes that, “Ideally, OEE information should be captured directly from a machine and conveyed electronically in real-time to both operators and management.

Internetworking allows the automatic capture and integration of OEE information from each machine, giving a complete digital picture of plant productivity at any given moment. This picture can then be viewed via the Internet by company personnel anywhere in the world.”

Web enabling

To date, very few manufacturers have adopted an e-manufacturing paradigm in which machine tools function as web-enabled appliances. However, all that is required to achieve web-enabling is to give every machine tool hardware and software upgrades that allow it to host Internet Protocol (IP) addresses. The machines can then be connected to each other and to the wider world, shattering the glass wall between the factory floor and the management functions that depend upon it.

Ease of service diagnostics

Making a machine tool “smart” and a node in the corporate network introduces intuitiveness and transparency to the manufacturing process. Internetworking can allow the “neural network” on the shop floor to continuously optimize itself, bringing a new level of service to the entire corporation. Using a standard TCP/IP connection, remote monitoring of any machine can be done from anywhere in the corporation at any time, meaning that diagnostics and parts program recovery can be carried out from any location. Moreover, these services can be provided automatically, if and when the machine tool control itself sends out an alert to the corporate network. This concept of machine “self-healing,” along with predictive and preventive maintenance, empower the operator to focus on more important details such as reducing bottlenecks and increasing availability.

To date, very few manufacturers have adopted an e-manufacturing paradigm in which machine tools function as web-enabled appliances.

Continuous improvement

The machine tool industry recognizes the need for internetworking machines on the factory floor and is moving to a set of standards that will permit integration with existing corporate information systems. At the September 2010 International Manufacturing Technology Show in Chicago, a consortium of major industry players including the top machine tool manufacturers continue to develop and advance a set of standard protocols for machine tool connectivity.



The goal of these protocols is to extend open architecture to all CNC machines and facilitate internetworking. Extending network connectivity to the factory floor brings the following benefits:

- Cost savings: inventory and operational expenses are reduced.
- Increased uptime: OEE information is provided to allow for continuous improvement. Preventive maintenance can be based on actual tool usage.
- Faster production: Machine operators and management can be alerted to adverse operational events and react to them very quickly. Increased bandwidth and speed

of internetworking decreases part program cycle time and aids production optimization.

- Improved service: Operational problems can be solved using remote diagnostics, decreasing downtime.

Humans originally built machines to make manufacturing easier. The time has come to let machines do what they do best — repetitive, high-volume and even dangerous tasks. This frees humans to do what we do best — create, design, build and dream. An internetworked factory floor is an advance that will enhance a manufacturer’s bottom line and give the company a sustainable competitive edge through business productivity. ■

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Acquisition opportunities are plentiful

Business owners and executives often look to corporate acquisitions as a key component of their company's growth strategy. But where can attractive opportunities be found?

By Howard E. Johnson, FCMA

If corporate acquisitions are an important component of a company's growth strategy, then an active approach to finding deals must be undertaken. It is not sufficient for the buyer to alert its auditors, lawyers and investment bankers that the company is on the acquisition trail, and hope that the phone will ring with an opportunity. Rather, the buyer must actively search for opportunities, either by committing internal resources or by engaging external resources to undertake that task.


An active search for deals offers several benefits to the buyer. First, it forces the buyer to pre-establish its set of acquisition criteria. This helps the buyer to avoid spending time and resources exploring acquisition opportunities simply because they become available, as opposed to being a strategic fit.

Second, an active search helps the buyer to find proprietary deals. In many cases, business owners have not given much thought to selling their company. There are numerous reasons for this phenomenon, including the fact that business owners tend to defer succession planning discussions, and because they might believe no buyer would be interested in their company.

By uncovering proprietary opportunities, the buyer can avoid an auction process, which often compels the seller to seek the highest price. This is not to suggest that an active search will allow a buyer to take advantage of a seller by undervaluing the target company. Rather it allows the buyer and seller to work together on a more confidential and expedited basis in order to structure a deal which is believed to be fair to both parties.

Buyers that venture on an active search process should not expect that it will yield immediate results. In many cases it can take several months, or even years, to entice a business owner to engage in discussions about selling their company. However, a





Many private equity firms operate on the so-called "2-6-2 rule."



Companies that have identified corporate acquisitions as a key component of their business strategy should take an active approach in order to identify proprietary deals.

prolonged process can allow for a trusting relationship to develop between the buyer and the seller, which can help the buyer identify things that are important to the seller beyond maximizing price (e.g. ensuring that the target company's employees are taken care of).

An active search can also be used for public company acquisitions, particularly small cap public companies that may be below the radar of large corporate acquirers.

Equity positions in turnaround situations

As the economy begins to show signs of life following the recent downturn, companies are anticipating better times ahead. However, many businesses have found themselves in a weakened financial position and thus inadequately capitalized to take advantage of the recovery. In some cases the owners of these businesses will look for an equity partner rather than having to sell their company at fire-sale prices.

An equity investment can be an attractive alternative to an outright acquisition for many reasons, including:

- It reduces the amount of capital deployed, and hence the level of risk to the buyer;
- The existing owners still have a meaningful equity position in the business, which makes them motivated to succeed; and
- The ability to structure the investment in creative ways to reduce risk, such as using convertible debt (which provides the buyer with a preferred return on capital as well as upside potential) and “ratchet” clauses, which allow the buyer to receive an increased equity position if certain performance criteria are not met.

However, a minority equity position in a privately held company carries additional risks as well. This includes risks arising from the inability to control the affairs of the target company and the diminished level of liquidity normally attached to minority interest positions that are not freely tradable. These risks can be mitigated to a large extent through a well-documented shareholders agreement that provides the investor with the ability to veto major corporate decisions and minimal (if any) restrictions on transferability.

Ideally, the shareholders agreement would provide the buyer with a call option to acquire the balance of the shares at some time in the future. In any event, the buyer should be afforded a right of first refusal on the sale of the remaining interest in the target company.

Debt acquisitions

Beyond turnaround situations, as a result of the recent economic downturn many companies have found themselves in dire straights with their bank or other creditors, and at

a point where those lenders may seek to realize on their security. This can be a challenging and emotional situation for business owners. A strategic buyer may be viewed as a “white knight” that can help the target company to continue as a going concern (usually in some downsized form) as opposed to being liquidated.

Buyers that are interested in debt acquisitions should approach the special loans division of major financial institutions. In many cases, the buyer has an opportunity to acquire the debt against the target company at less than its face value where the lenders believe that such an offer would yield greater returns than those available by realizing on their security.

Debt acquisitions often present numerous challenges for the buyer, such as those associated with post-transaction layoffs (e.g. wrongful termination), disenchanted suppliers (e.g. tighter credit terms) and concerned customers (e.g. reputational risk). Furthermore, debt acquisitions often are met with some remorse by the seller, who may believe that the buyer has taken advantage of their situation. The buyer should plan for increased transition risk in its valuation and pricing analysis, as well as its integration plans. Sound legal advice will also be essential.

Small cap public companies

The public equity markets are filled with companies that, in many cases, should not be public. This is particularly the case in Canada, where approximately 63 per cent of the 3,000 public companies traded on the TSX, TSX Venture, and Over-the-Counter markets have a market capitalization of less than \$25 million [see Exhibit on p.g. 21].

Many small cap public companies are closely held and thinly traded which has resulted in their major investors becoming “stuckholders” — individuals who are effectively unable to divest of their interest in the public markets.

Public companies have been faced with increasing challenges and costs in recent years. The growing demands of corporate governance, financial reporting, and now the required implementation of IFRS have eroded public company earnings. Furthermore, many small cap public companies are undercapitalized, and it may be difficult for them to raise capital through the public equity markets on a cost-effective basis.

There are several benefits to looking at small cap public companies as a source of acquisition opportunities. First, it is easier to pre-qualify public companies. This is because the public information available in the form of financial statements, annual reports, management discussion and analysis, the management information circular, annual

information form and other documents, allows the buyer to gauge whether the potential target company meets its acquisition criteria (such as size, markets served, etc.) prior to initiating contact.

Second, and perhaps more important, is that the market price of the shares is already established. This provides the buyer with a significant advantage in terms of negotiations. While the shareholders and directors of the public company can argue that the market price understates the true value of their company because of thin trading, restrictions on disclosure, and a variety of other reasons, the fact remains that the market price exists. The buyer may be in a position to offer a meaningful premium to the market price (say in the range of 30 to 50 per cent), and still receive good value for money.

However, the takeover of a public company can pose other challenges, such as compliance with prevailing securities laws and the requirement for the board of directors of the target company to discharge their fiduciary responsibilities to the shareholders and other parties by ensuring a fair process. The buyer will need to retain legal counsel who is familiar with the relevant securities legislation.

Private equity portfolios

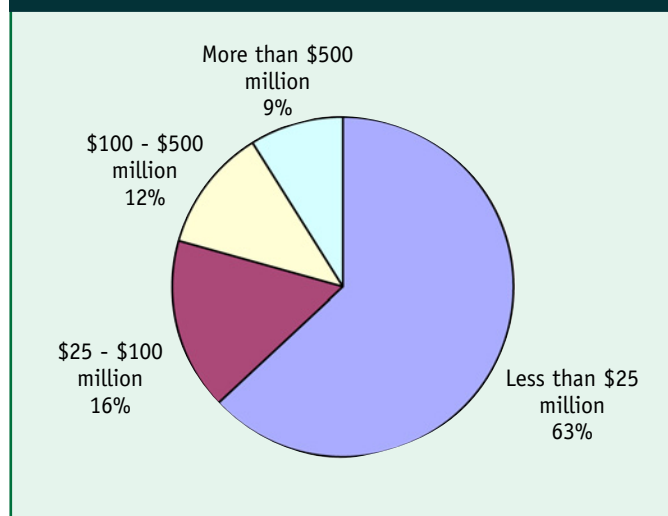
Many private equity firms have found themselves in a challenging situation over the past couple of years. This is because the ability to raise new capital is significantly more difficult today than it was during the 2005 to 2008 era. Furthermore, the market for divestitures and initial public offerings has been depressed in recent years, which has meant fewer liquidity events. Consequently, many private equity firms have found themselves unable to meet their obligations either to their investors (in terms of a return on capital) or to provide follow-on financing to their portfolio companies. In order to do so, they need to divest some of their holdings.

Many private equity firms operate on the so-called “2-6-2 rule.” That is, for every 10 investments, two will be a total write-off, six will essentially move sideways, and two will be home runs. Private equity firms need to finance the companies that they believe have home run potential as those successes generate the returns for the entire portfolio. Therefore, private equity firms may have a need to divest of portfolio investments with modest upside potential in favour of supporting those investments with great potential.

Private equity firms may be keenly interested in divesting of portfolio investments that they have held past the desired holding period (e.g. five years) of the fund. Private equity firms often post their portfolio companies on their web-sites, along with their investment criteria (such as industries of

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March 2010



interest). This facilitates the buyer’s efforts in identifying the right private equity firms to approach.

Buyers of private equity portfolio companies should be wary of the unique challenges that they may present. For example, private equity firms often provide senior management of their portfolio companies with significant incentives such as stock options and other forms of equity participation. The buyer may find it impractical or undesirable to offer similar incentives following the transaction. This may increase transition risk with respect to the potential loss of key employees, and possibly key customers as a result.

The current economic environment has created tremendous opportunities for companies to create shareholder value through acquisitions. Companies that have identified corporate acquisitions as a key component of their business strategy should take an active approach in order to identify proprietary deals. In addition, buyers should look for opportunities such as turnaround situations, debt acquisitions, small cap public companies and private equity portfolios. While these avenues can offer attractive upside potential, they are not without risk, and appropriate financial and legal advice should be sought. ■

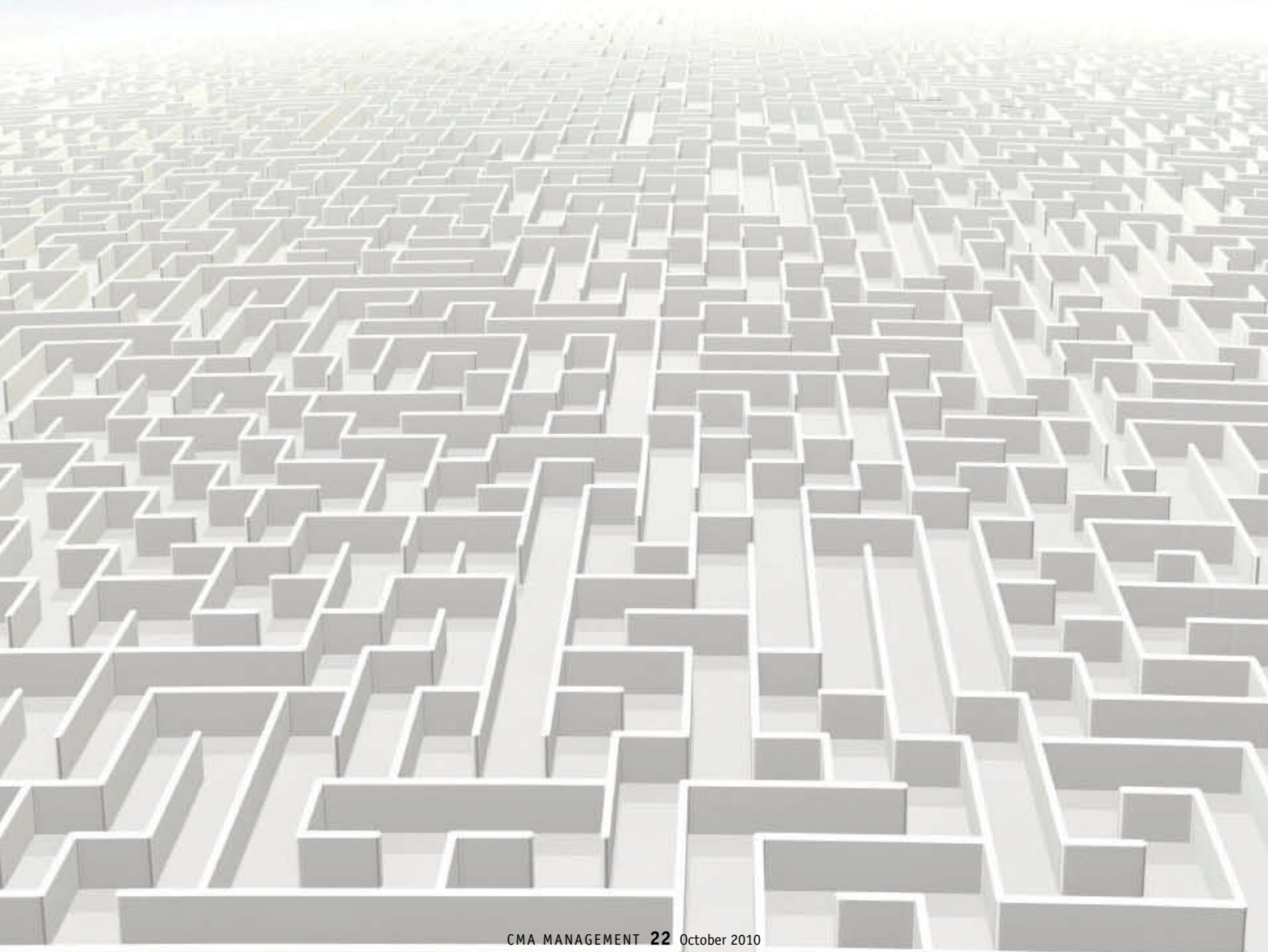
Howard E. Johnson, FCMA, is a managing director of Veracap Corporate Finance and Campbell Valuation Partners. He focuses on business valuations, acquisitions, divestitures and related corporate finance matters. He can be reached at 416-597-4500 or hjohnson@cvpl-veracap.com.

Scenario planning
is largely focused
on answering three
questions:

What could happen?

What would be the
impact

What are the
implications?



Scenario planning — Navigating through today's uncertain world

For CMAs, a working knowledge of scenario planning can help apply core management accounting disciplines, such as cost management, profitability analysis, risk management, and performance measurement.

By David A.J. Axson

Imagine you are sitting at your desk: it is September 2007, the Dow Jones is close to 13,900; U.S. unemployment is 4.5 per cent; oil is \$45 a barrel; the U.S./Canadian dollar exchange rate is 0.95; and the U.K. economy is growing at a healthy three per cent rate. You are in the middle of developing your organization's plans and budgets for 2008.

How likely is that the assumptions in your 2008 plan accurately forecast that one year from now (September 2008) the Dow Jones will be below 9,000; U.S. unemployment will have risen to 6.5 per cent on its way to more than 10 per cent; oil will rise to over \$140 per barrel before falling back below \$40; the U.S./Canadian dollar exchange rate will rise to more than 1.25; and the U.K. economy will shrink by five per cent? Never mind the impact of terrorist bombs in Mumbai, a collapsing housing market in the U.S. and U.K., a global H1N1 pandemic, and an almost total freeze on credit. An aberration? Unlikely, not with European sovereign debt crisis, massive oil spills in the Gulf of Mexico and riots in Bangkok. Uncertainty, volatility and risk are here to stay. The world has been transformed from a series of loosely connected economies with reasonably predictable flows between them to a complex web of relationships where the global impact of local events is felt almost instantaneously. Managers are realizing that the past is not a good predictor of the future or as Michael Hofmann, the chief risk officer for Koch Industries, says, "First, don't believe your own predictions. Whatever you consider most likely probably will not occur. You have to be ready to question every — and I mean every — significant assumption."

What is scenario planning?

Scenario planning has been used by many organizations as diverse as The Australian Government, Autonation, British Airways, Corning, Disney, General Electric, The U.S. Federal Highways Administration, JDS Uniphase, Mercedes, Royal Dutch Shell, UPS and The World Bank. Scenario planning today is being widely used by many small- and mid-size organizations operating in uncertain or volatile markets.

Two forces are fueling the changes — the rapid and broad global impact of unpredictable one-time events such as the collapse of the Soviet Union, 9/11, or the global credit crisis; the acceleration in the pace at which new trends become material. Be it the switch from analog to digital technologies, the increased interest in environmental sustainability or the emergence of China and India as economic powers.

Scenarios are a way of understanding the forces at work today (e.g., demographics, globalization, technological change, environmental sustainability, biotechnology) that will shape the future. There are four broad types of scenarios:

Social — What are the implications of increasing obesity?

Economic — How will the rapid economic growth of China and India change global markets?

Political — How will the expansion of the European Community change the political power of sovereign governments within the community?

Technological — What will be the impact of increasing adoption of smart phones on desktop and laptop computer usage?

Although there are numerous methodologies for building scenario plans, they all follow the same basic approach. Figure 1 includes the steps needed to build a scenario plan.

Before embarking on a scenario planning exercise, it is essential (a) to be clear about the issue you are seeking to address, and (b) define the appropriate scope and time horizon for the scenarios to be constructed. Answering the following questions will help in determining whether a scenario planning project makes sense and, if it does, then defining the objectives and scope:

- What issues or decisions are we trying to evaluate?
 - Is there a high degree of uncertainty about the future environment in which we will face these issues or make decisions?
 - What is the time horizon for making decisions and then executing them?
- After the organization has agreed on

deliverables to be produced, and then (b) secure approval from senior management.

Scenario planning in action

Let's see how scenario planning can work in practice by following the progress of ElectricIQ, a software company that develops smart systems for the managing of electricity use. The company was founded in 2005 and sales have reached £25 million a year, primarily from the installation of electricity management systems in new office buildings in Western Europe. Management believes that ElectricIQ is at an inflection point. With environmental sustainability becoming a hot public policy issue, the company believes it is time to enter the emerging smart grid market for digital

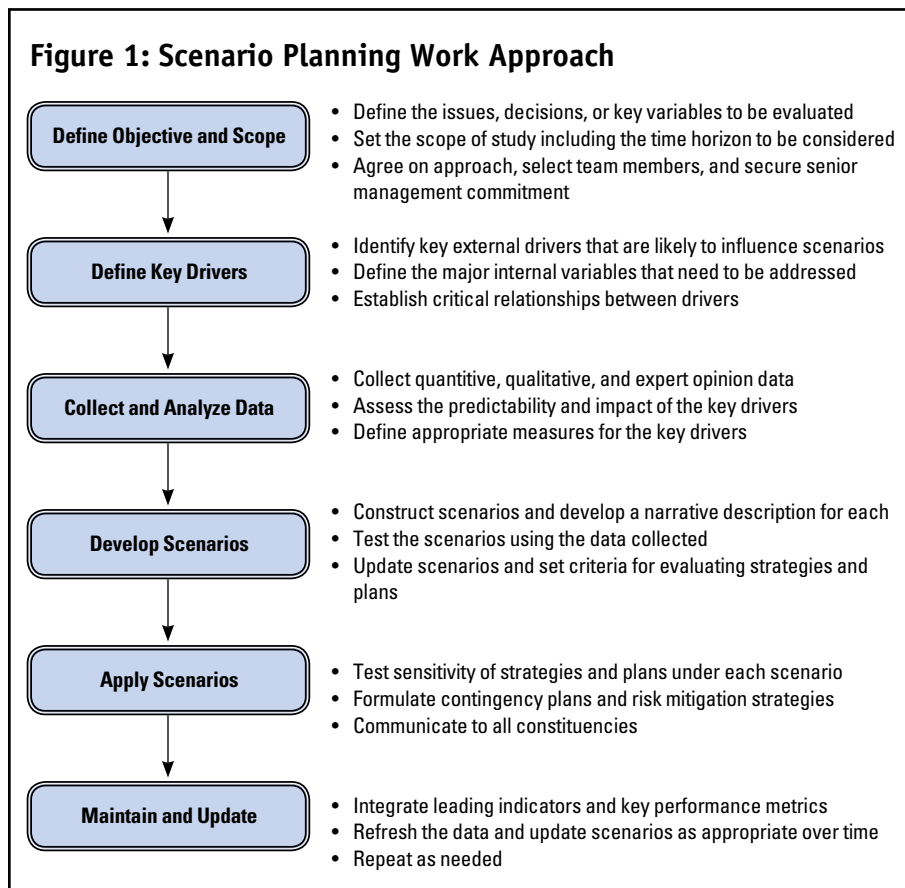
are defined as, "Developing a better understanding of the markets for smart grid, the risk profiles of each market and the ease of market access."

The first step for the ElectricIQ team is to identify the likely drivers of the future environment. Through discussions with the management team, customers, investors and external thought leaders from the OECD, General Electric, IBM and Shell the team develops a simple driver model around the issue of the demand for renewable energy sources. Two level one drivers, social opinion and political action, are identified and each level one driver is then mapped to three level two drivers. For social opinion, these are the credibility of climate change data, the technical viability of potential renewable energy sources and the price of such options. For political action they are the availability of government subsidies, the regulatory framework and the role of tax policy in energy use (Figure 2). The team then uses this framework to identify the types of data to be collected. This includes data about economic growth; forecasts of construction activity; likely government actions to encourage adoption of environmental control systems; and the likely players in the market for environmental control systems. Not all the data is quantitative, some of the most interesting inputs are the opinions of experts who specialize in conceptualizing alternative futures. The key is to collect a broad range of data with a view to developing credible scenarios of what the future might look like.

The team then prioritizes the drivers by mapping them against two axes. The first axis is an assessment of each driver's impact on the issue being analyzed and the second looks at the predictability of future trends for each driver (Figure 3). Drivers that are both material and predictable (top right hand circle) will form the basis for all the scenarios that are to be developed. Those that are material, but difficult to predict (top left hand circle) will define the differences between the scenarios. The team isolates those drivers that are most likely to shape future demand.

They then develop four scenarios across two dimensions (Figure 4). The dimensions are public opinion, which describes the level of consumer demand for environmentally friendly solutions

Figure 1: Scenario Planning Work Approach

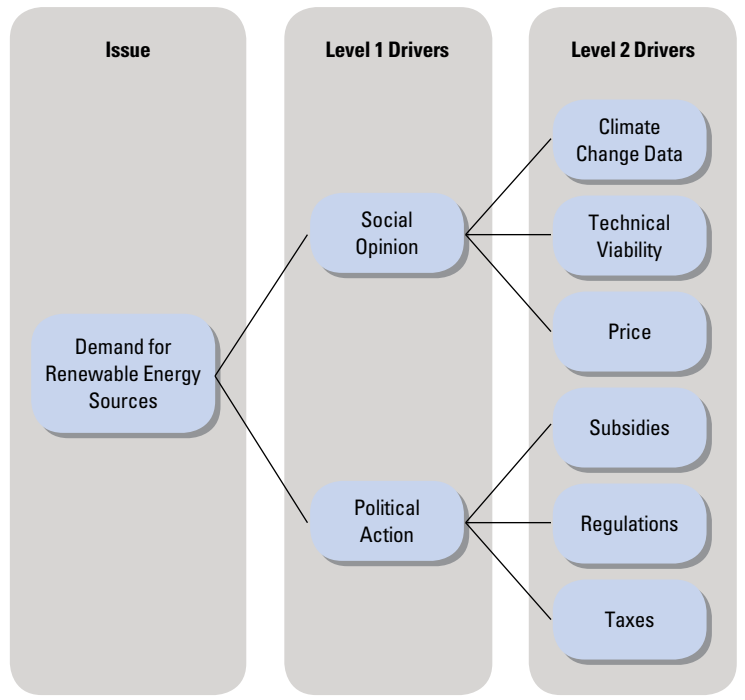


the issue(s) to be studied and defined the scope and time horizon for the project, these should be documented, agreed with senior management, and clearly communicated to all those to be involved in the project. At the end of step one, the project team should (a) develop a project charter that clearly states the objectives, scope, issues to be addressed, and

environmental management systems. They want to gain insights as to the relative attractiveness/risk of the market.

The company decides to embark upon a scenario planning project to help understand the alternatives to guide R&D, marketing and product development plans. After initial discussions with the management team, the project's objectives

Figure 2: ElectricIQ driver map

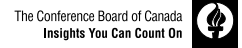


and public policy, which describes the extent to which government policy mandates “green” standards.

The team then develops narrative descriptions for each scenario:

- **Necessity: “Do it or die”** — public opinion swings rapidly to green solutions and dramatically changes customer buying patterns. Products not seen as being green are shunned in the marketplace. Governments mandate adoption of environmentally friendly technologies.
- **Market driven: “Better be the best”** — Public opinion moves to green and consumers will pay extra for the best products. Adoption is balanced between market innovation and tax-based incentives. Being green is a source of competitive advantage.
- **Mandate: “Cost of doing business”** — Governments mandate adoption without incentives. Adoption becomes a “cost of doing business.” Consumers will not pay more for green solutions unless forced to do so.
- **The “S” curve: “Steady as she goes”** — Demand follows a traditional cycle of early adopters leading the way at high prices; as the market scales and prices drop, mass market adoption takes-off before flattening out as maturity is reached.

ElectricIQ then uses these scenarios to frame strategies and make decisions affecting key elements of



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Figure 3: Evaluation and identification of key drivers

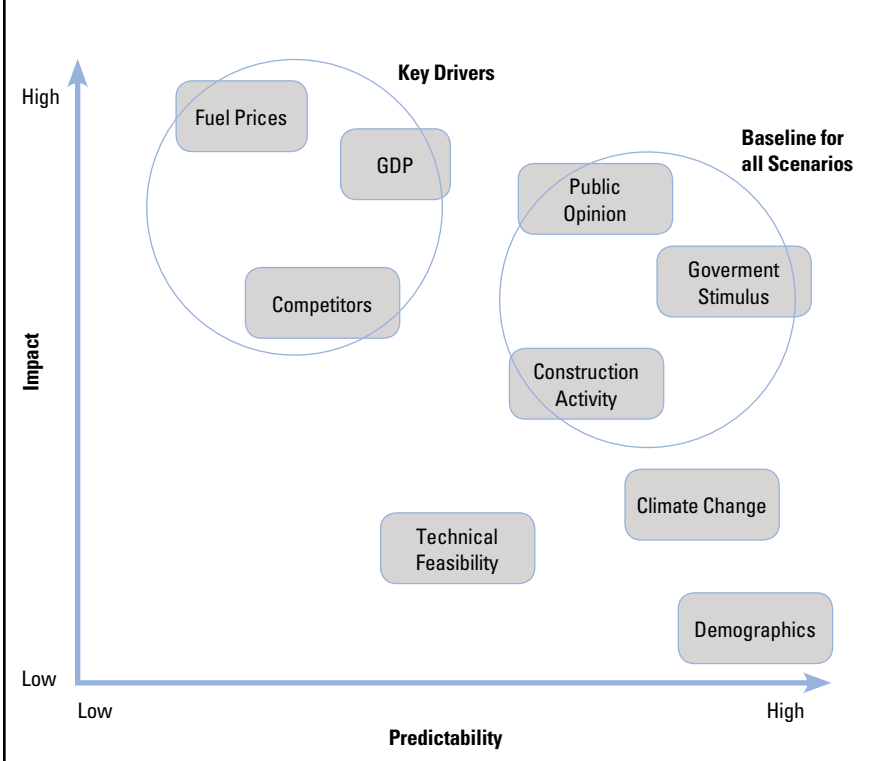
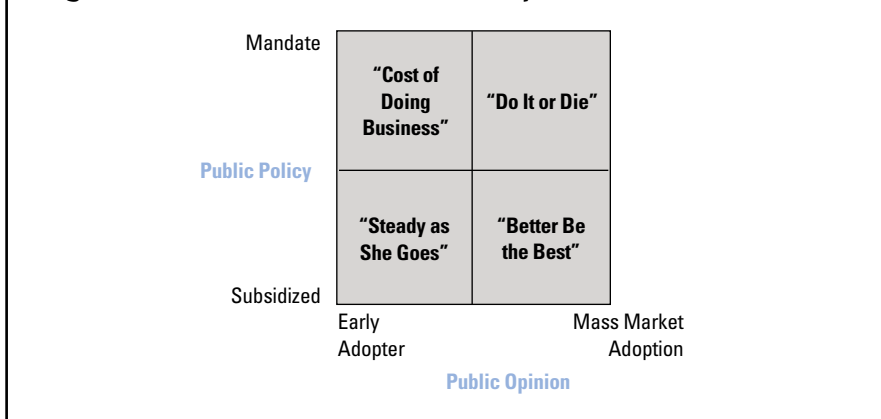


Figure 4: ElectricIQ scenario development



the business (Figure 5).

Using the scenarios, ElectricIQ's finance team recasts budgets under each scenario to assess the financial implications and identify key performance metrics that can provide the organization with an early warning as to which scenario is actually playing out. But the work is not done—scenario planning is not a one-off exercise. For example, what if just six months after the initial scenarios are completed, oil reaches \$200 a barrel and the G20 impose strict mandates on CO2 emissions that must be met within five years? ElectricIQ must revisit its plans and may decide to focus on only two of the original four scenarios: "Do it or die" and the "Cost of doing business." After more detailed modeling of these two scenarios, they could decide to focus on delivering solutions that far exceed the mandated minimums while keeping pricing reasonable. Their scenario plans allow them to make fast, confident decisions by giving them a sound basis for evaluating the impact of changing market conditions.

Applied judiciously, scenario planning can provide valuable insights as to how the future may unfold thereby equipping organizations to react with speed, agility and confidence. Finally, remember the words of Benjamin Franklin: "Those who fail to plan, plan to fail." ■

This article is adapted from the MANAGEMENT ACCOUNTING GUIDELINE (MAG)®: *Scenario planning — Plotting a course through an uncertain world*, published in July 2010.

David Axson is an author and consultant. He was a co-founder of The Hackett Group and a former head of corporate planning at Bank of America.

Figure 5: Scenario implications

	Do it or die	Better be the best	Cost of doing business	Steady as she goes
Approach to innovation	The minimum is not enough; must be the best to win	Innovative leadership has real value	Must meet the standards; little advantage in being a leader	Focus on select areas where there is strong demand
Marketing strategies	Either be the safe option (compliant) or the best	Must be a leader	Partner with builders to secure share	Be #1 in select niches
Market goals	Own the high end	Acquire share	Be the preferred supplier	Build share in niches
Financial goals	High margins	Focus on size and scale	Low cost producer	Modest growth over time

Staying ahead of the curve



By Arda Ocal

There are many reasons why one would pursue the CMA designation — the skill set it helps build; the breadth and depth of information it provides; the managerial component that helps in every day work challenges; and even a general thirst for knowledge are just four of many reasons.

For Roula Nasser, CMA, all of the above apply, as well as one other peculiar reason — the CMA, as she puts it, is part of her DNA. Not only did she pursue the designation, but she feels she truly is a CMA.

“Earning a CMA designation is different from being a CMA,” she says. “The CMA designation is part of my DNA. Learning is only effective when you apply it. My CMA background influences my day-to-day activities — from effective presentations to analyzing business results and decision making to assisting in driving profitable growth for the company.”

Long before she enrolled in the CMA Strategic Leadership Program™ (SLP), she was surrounded by great role models who guided her down the path to the CMA designation.

“In 1993, when I worked at Strike Energy, I was surrounded by great role models, all with CMA designations,” she says. “I’ve always had a thirst for knowledge and knew eventually

I would want to pursue the CMA designation. These co-workers left a great impression on me and always talked about the benefits of being a CMA.”

Obtaining the designation was a decision that she certainly doesn't regret. “The CMA designation was one of the catalysts that helped me propel my career,” Ms. Nasser says. “In my opinion, hard work, perseverance, taking risks and the desire to succeed were some of the essential elements that contributed to my success. The support of my husband, children and my immediate family and their unconditional commitment to my success was paramount. The work-life balance continues to be under development.”

Ms. Nasser's career has spanned multiple large firms such as Anderson Oil and Gas, Synavant Inc., ATI Technologies, and Advanced Micro Devices (AMD). Since 2007, she's been the senior director, corporate finance and product FP&A for Research In Motion (RIM) — the maker of the world renowned BlackBerry wireless solution — where she leads the finance analytics centre of excellence, corporate finance function, P&L management, financial planning and fiduciary oversight for product divisions, and overall RIM CAPEX and Opex. Her role is to ensure all decisions support the overall strategy and that the financial plans of RIM are compliant and operationally possible.

“I am always fascinated by innovative product leadership companies that are raising the bar and reinventing our lives and industry for the best,” she says. “Creativity and innovation are the lifeblood of RIM. RIM has created new market space and reinvented our lives by being ‘always on and always connected.’ Career success requires that you look for companies that are in a secular growth industry and have a winning product and go-to-market strategy. These elements combined create a powerful earnings trajectory. When I was interviewed at RIM, I could clearly see that all these elements were present and would create an unmatched opportunity for me given my ambition and core competencies.”

Ms. Nasser's responsibilities require her to constantly be aware of a rapidly changing environment where issues, tactics, deadlines and technology could change and evolve at any time. This calls for an attentive self-starter dedicated to the organization and most importantly has the ability to recruit, build and develop the right finance team and infrastructure. On a daily basis, she listens to the issues, understands the problems, separates what is critical from what is a nice to have and collaborates with other functions at RIM to formulate a strategy for success.

“We want to help RIM succeed and be ahead of the curve,” she says. Ms. Nasser and her team of strong financial professionals are responsible for all new business models, pricing deals, P&L management, reporting, planning and forecasting for value-added services as well as the software and services product divisions, BlackBerry operations, corporate IT expenditure and CAPEX.

According to Ms. Nasser, three ingredients have contributed to her career advancement — strong skill set/core competency, finding the right opportunities, and good timing. She says the CMA designation has helped her with two out of the three.

“The designation has equipped me with strong technical and managerial skills which were fundamental to my success,” Ms. Nasser adds. “Being presented with opportunities at the right time of my career, supported with a strong CMA foundation opened new doors and opportunities for personal growth and advancement. When I was in the SLP, I was fortunate to work with some high-calibre people. One of my classmates, a finance director at ATI Technologies, recruited me for a business management position with the company. I've been very fortunate that others have recognized my thought leadership, power of execution, and people management skills.”

The confidence that others had in her has inspired Ms. Nasser to give back to the CMA community. She currently sits as a moderator for CMA Ontario in the Kitchener-Waterloo area.

“I assist in facilitating the strategic leadership curriculum,” she says. “My emphasis is to translate theory and case studies to practice and to show how CMAs can effectively apply these concepts into real-life situations. For example, when we talk about strategy, mission and vision and value discipline, the candidates are asked not only to describe the concept, but also to show how this is applicable to the organization they work for. My role as a moderator is to initiate discussion and encourage learning and get people to think critically and outside the box.”

“This is all done in a cooperative environment with my co-moderator where we encourage the candidates to challenge the status quo and get out of their comfort zone and seek innovative solutions,” she adds. “I try to boost the candidate's confidence, improve his/her presentation delivery and help him/her shape convincing arguments as well as assist in continued development. This is at the core of what I have gained from my CMA experience and my opportunity to give back the invaluable lessons that I have been fortunate to have been exposed to.”

When asked how the CMA has helped her in projects and tasks, Ms. Nasser was not short on providing examples.

“At RIM, I have been empowered into driving the ‘People pillar for Finance,’ ” she says. “It began with the FP&A on-boarding program aimed at getting the employees to understand RIM's entire value chain and competitive landscape. Then, we introduced a learning curriculum designed for different levels and competencies to enhance our employees continued development in technical and soft skills. In June 2010, partnering with HR, we rolled out DiSC personality profile and team building activities related to it. DiSC did not only help employees understand their

behaviour and how they interact with others but also they were able to leverage their DiSC profile to improve and facilitate communication and team work.”

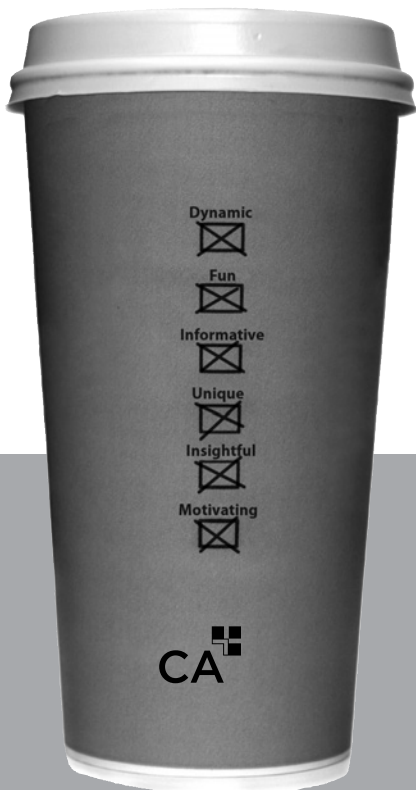
Another example is related to a fundamental management accounting concept. As RIM continues to grow their product portfolio, it became more important to understand price/volume/mix analysis. Ms. Nasser collaborated with her team to first implement this concept at the corporate level and then cascaded it and standardized it to all management reporting across all product divisions.

“The SLP is a disciplined program that promotes change and creativity. It’s focused on strategy, business management and leadership,” she says. “Following the acquisition of ATI Technologies by AMD, a core integration team was put in place to ensure seamless integration between the two companies. I was nominated as the finance lead and responsible for various processes including pricing, accounting, finance, and business operations. The CMA program has prepared me well to ask the right questions and look for interdependencies throughout the broader organization as well as address system integration issues, cultural challenges and change management.”

Ms. Nasser adds that the SLP also helps candidates get different perspectives on business topics, develop group dynamics and help them to improve their confidence and increase their technical accounting skills that they can then use to manage finance functions in global and public organizations where accounting standards are constantly evolving.

For someone like Ms. Nasser who has such a thirst for knowledge and a lengthy educational resumé, which includes a double major in finance and marketing from the University of Calgary (With distinction where she was awarded membership to the international honour society — Beta Gamma Sigma) the Canadian Securities Course (with honours), the Six Sigma — Green Belt and is currently a candidate in the Executive Leadership at Harvard Business School — hearing Ms. Nasser speak so highly of the CMA truly speaks to its importance to one’s career — or DNA. ■

Arda Ocal is a Mississauga, Ont.-based writer and on-air personality with The Score Television Network.



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Legal considerations to think through before moving on

Planning on leaving your current employer and starting your own practice? A recent Ontario Superior Court ruling explains what constitutes breach of fiduciary duty.



By Sarit E. Batner and Alexi N. Wood

A recent commercial list case provides some insight on how to navigate the minefield that can result when a senior, or fiduciary, employee departs.

In the case of *Aquafor Beech vs. Whyte*, Justice Barbara Conway of the Ontario Superior Court of Justice was asked to decide whether Robert Whyte and Bill Dainty could legally set-up a competing firm while working at Aquafor Beech, a civil engineering firm, and then begin to work there immediately upon their departure from Aquafor. She determined that they could, so long as they followed certain guidelines.

Whyte and Dainty were both senior engineers and project managers. Between the two of them, they were responsible for most of Aquafor's mining work, including overseeing projects that accounted for approximately 25 per cent of Aquafor's revenues. Despite a company history of departing employees, neither Whyte nor Dainty was asked to sign a non-compete or non-solicitation agreement. In fact, they did not even have employment contracts with Aquafor.

In 2003, Whyte and Dainty decided to leave Aquafor to open their own firm. They laid the groundwork for their life after Aquafor, including drafting a business plan and leasing space. They gave four weeks' working notice, and worked on wrapping up existing projects and transferring others during that time period. They hired a secretary and sought bank financing. Between the two of them, they notified five of their closest clients of their departure.

Of particular interest is Justice Conway's analysis regarding the "secret" planning steps taken by Whyte and Dainty.

Whyte and Dainty launched their new company, Calder Engineering Ltd., in October 2003. Many of their former clients immediately followed them to their new company.

In 2005, Aquafor sued Whyte, Dainty, and Calder, alleging that Whyte and Dainty had been fiduciaries of Aquafor and that they had breached their fiduciary duties when they left. Specifically, Aquafor alleged that Whyte and Dainty had:

- 1) Not given adequate notice;



- 2) Secretly planned to leave Aquafor;
- 3) Took steps to set-up a new company while they were working for Aquafor;
- 4) Solicited clients and employees; and
- 5) Took and misused confidential information.

Aquafor claimed damages ranging from \$2.3 to \$3.2 million. Whyte and Dainty denied the claims. Madam Justice Conway found that Whyte and Dainty were fiduciaries in part because of how Calder job proposals described their roles at Aquafor. However, she found that they had not breached any fiduciary duties and dismissed Aquafor's claim.

Justice Conway addressed each of Aquafor's alleged breaches, starting with the allegation that Whyte and Dainty had breached a fiduciary duty by failing to give proper notice. She stated that all employees, regardless of whether they are fiduciaries, must give proper notice. In this case, four or five weeks was enough time for Aquafor to work through any issues of transferring files, and was even enough time for Aquafor to arrange to bring in other staff to cover some of the work previously done by Whyte and Dainty.

Of particular interest is Justice Conway's analysis regarding the "secret" planning steps taken by Whyte and Dainty. Aquafor alleged that they had breached a fiduciary duty when they started planning Calder while still employed at Aquafor. Justice Conway disagreed, holding that "mere planning is not a breach of fiduciary duty." She held that it would be "unrealistic" for Whyte and Dainty to have to wait until after they had departed to take the preliminary steps necessary to set-up a business. So long as Whyte and Dainty had not competed with Aquafor while employed (and there was no evidence that they had), they were free to start the process to establish their own competing company. Some of Whyte and Dainty's clients came over to Calder immediately after it was created. Aquafor alleged that solicitation could be inferred from the volume of clients that came, the speed with which they came, and the fact that the Calder business plan mentioned targeting "key business contacts." Justice Conway was not persuaded. The law is clear that a departing fiduciary

can compete with his or her former employer, but cannot do so unfairly. Solicitation of former clients for a period after departure is considered unfair competition. In this case, there was no evidence that Whyte or Dainty had in fact solicited their former clients. The evidence was that those clients followed Whyte and Dainty because of their skills and personal attributes.

Similarly, Whyte and Dainty were not required to turn down work that came to them, unsolicited, from former clients. Justice Conway recognized the special relationship that exists between a professional and a client. Clients are entitled to choose to contract with whichever professional they consider to be best for the job — and in this case, the evidence was clear that the clients had chosen to contract with Whyte and Dainty at Calder. The evidence was also clear that some Aquafor employees had chosen to join Calder; Whyte and Dainty had not solicited them.

The case recognizes that senior employees are not expected to leave a company first, and then start planning their next job — they can lay the groundwork for their next job while still employed.

Finally, the mere fact that Whyte and Dainty used the same format and phrases in their bid documents at Calder as they had at Aquafor was not a misuse of confidential information. It was not clear that the bid documents were actually confidential documents, but more importantly the substance of each document was tailored to the specific job.

So what does all this mean? The case recognizes that senior employees are not expected to leave a company first, and then start planning their next job — they can lay the groundwork for their next job while still employed. The case also recognizes that professionals, whether they are doctors, lawyers, accountants or engineers, have a special relationship with their clients. So long as there is no solicitation on the part of the departing employee, professionals can notify their clients of their departure plans, and clients are free to follow a professional to a new company, even if that new company is in direct competition with the former. ■

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Fear of risk

ERM is rapidly becoming an accepted best practice in Canada.

By Stephen Mallory

Old news is that Standard & Poor's has expanded its ratings analysis of nonfinancial corporations to include an Enterprise Risk Management (ERM) review. New news is that whether its TSX good disclosure requirements or CICA guidance, ERM is now rapidly becoming an accepted best practice in Canada which executives and boards cannot ignore, and this applies to all organizations, public or not. Moreover, in a very important move which will impact corporate governance in the U.S. and eventually in Canada and elsewhere, the Securities and Exchange Commission (SEC) in December 2009, has mandated enhanced disclosure guidelines governing the board's role in risk oversight. "By adopting these rules, we will improve the disclosure around risk," says SEC chairman Mary L. Schapiro.

What is the expectation of management regarding risk practices? Standard & Poor's advises that it looks for "...a management team's ability to understand, articulate and successfully manage risk..."

Managing risk seems like a simple concept, but many executives don't know how and where to start. "The biggest ERM failure in organizations is the fear of starting toward an enterprise-wide approach to risk oversight," Mark Beasley, director of the ERM Initiative at North Carolina State University, says. "It's hard for business leaders to argue against being more risk aware; however, many are intimidated to begin. The key is to start and to keep it simple, allowing it to evolve over time."

In the winter 2009 edition of *CorporateGovernor*, accounting and professional services firm Grant Thornton LLP advises in the article Enterprise risk management: Avoid history repeating that firms need not take on too much too soon. Formalizing an ERM program does not require over-complicating the process. Grant Thornton advises that risk is not static, and that resources should be committed periodically to refresh the risk universe and risk priorities. Clients are advised to remember that

ERM is an ongoing process, not a project with an end date. Grant Thornton advises that clients implement ERM in manageable increments.

A good place to start is by examining the language of the board's Audit Committee charter. For many Canadian public and private organizations, this usually contains details on what the board must oversee in terms of the risk management responsibilities of the executives. Typical language reads like:

- Review and monitor the processes in place to identify and manage the principal risks that could impact the financial reporting of the Corporation.
- Assess, as part of its internal controls responsibility, the effectiveness of the overall process for identifying principal business risks and report thereon to the board.

These types of risk related activities are summarized in CICA guidance: "The board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for ... (c) *the identification of the principal risks* of the issuers business, and the ensuring the *implementation of appropriate systems to manage these risks.*"

In conclusion, formalized risk management and the ERM process is now a best practice in North America and in most western countries, and plenty of guidance exists from numerous sources to help facilitate the implementation. Most important is that executives and boards needn't fear taking on yet another management fad- this is just good business which will help organizations better reach their objectives and more confidently seek opportunities.

Steps to ERM improvement

1. Integrate strategic planning processes and risk assessment activities to take advantage of risk opportunities and consider risk variations across strategic goals;
2. Develop practical risk response action plans and regularly report progress to the board;
3. Reward risk ownership and effective risk management action plans. ■

Stephen Mallory is president of Directors Global, a professional services firm dedicated to counselling organizations on managing risk.

Sources/additional reading

- *CorporateGovernor* newsletter, winter 2009, Grant Thornton LLP.
- Standard and Poor's to Apply Enterprise Risk Analysis to Corporate Ratings, May 7, 2008. www.ERM.standardandpoors.com.
- Source: CICA, *20 Questions Directors Should Ask about Risk*



Spreadsheet users often lack advanced design capabilities

The skills that make designing and building spreadsheets possible are often neglected. It's not just about getting the numbers right.

By Jacob Stoller

For those who make a living analyzing numbers, the spreadsheet can be as essential a tool as a hammer or saw is for a carpenter; yet many enter the profession with insufficient spreadsheeting skills.

“Not all the universities use the tool, primarily Excel, in the course of study,” Janet Pierce, FCMA, vice-president, professional programs, CMA Ontario, says. “Students might graduate being able to use Excel, but they can’t design robust spreadsheets to answer questions or highlight issues.”

For investigative tasks where the steps aren’t pre-determined, the ability to follow a common procedure or an existing spreadsheet isn’t enough — what’s needed is the confidence to apply the tool in uncharted territory. “You have to uncover what is driving performance and how it can be improved,” she says, “and that defines the role of the CMA — not just to be told what to do, but to generate some of the questions. Without superior spreadsheeting skills, you are not going to be able to do that as effectively.”

Handling data

One of the major stumbling blocks is that spreadsheets often place users face-to-face with huge arrays of numbers. “In many cases, you’ll get 5,000 rows of data or 8,000 rows of data,” Jeff Wilts, director of reporting, enterprise integration and data warehousing at Loblaw, Inc. says. “You need to be able to consolidate, rationalize and make sense out of that particular data.”



Understanding how data is stored and accessed is important. “The sources for a lot of these spreadsheets are databases and data warehouses,” Wilts says. “As you’re pulling data from here and there, your job is to take the data and make it easier for others to understand.”

“You might get an extract from your data warehouse with respect to your costing data,” Pierce says, “and then you will get another extract for revenue, with the customer account number as the common field. Then you are able to use that common field, using a vertical lookup to merge all of the information together for the customer.”

In her experience, Pierce has found that analysts often lack the basics. “Analysts, often CMAs, had to be shown how to use basic Excel tools such as vertical and horizontal lookups and how to use pivot tables,” Pierce says.

Presenting data

An equally troublesome area, according to Wilts, is making complex spreadsheets readable. “I don’t know how many times you’ve received a message that says ‘see attached,’ and you open the spreadsheet and it has 26 tabs and there are 5,000 rows of data on each tab and you’re supposed to try to make some sense out of it,” Wilts says.

Wilts teaches courses in spreadsheeting, and much is devoted to best practices around design and presentation. “You need to be actually able to format the spreadsheet in such a way that the ‘so what’ becomes obvious — ‘this was the old number, this is the new number,’” he says. “You do that through the organization and the layout of the actual workbook, the spreadsheet.”

Like any piece of business communication, a spreadsheet that’s intended to convey information should get to the point right away. “A lot of people tend to build their spreadsheets from the top left to the bottom right; however, what they really want to do is get the message first,” he says. “What I’ve been training people to do for years is to put their



formulas and their summaries on top, so everything else is supporting data — as opposed to having to scroll down through thousands of rows to get the message.”

Sometimes spreadsheets are simply too large. “It’s amazing how many people will create just one monster worksheet and the worksheet will have 10,000 populated cells in it, when in reality it should just be four or five tabs, where each tab contains its own information, and the formulas reference it,” he adds.

Creating an audit trail

Perhaps the strongest case against incomprehensible spreadsheets is that they hide errors, which, if undetected, can lead to erroneous conclusions. “There’s a huge issue with organizations relying on spreadsheets, for decision making,” Pierce says. “A CMA is expected to construct sound spreadsheets, and find and correct common errors. It is not uncommon for errors to be made within spreadsheets and users often do not question the results. If errors are uncovered by users, the CMA can lose credibility.”

A practice to avoid in particular is putting a hard number, such as an interest rate, into a formula within a cell instead of using a named variable. “When calculating a growth rate of five per cent,” says Pierce, “rather than inputting ‘B12 * .05’ a better approach is for the analyst to place all their assumptions on a separate sheet, or in named ranges within the sheet. For example, the formula ‘2010_Revenue * ‘2011_Growth_Rate’ provides an audit trail, and changes in assumptions can be made more efficiently.’ ”

Another factor behind the need for transparency is that spreadsheets may have multiple authors. “In the past, Excel tended to be a one-person kind of activity,” Wilts says. “It’s becoming more collaborative in certain organizations and the same workbook might get passed around to different people, with each person adding his/her own tweaks.”

Sometimes the issue is not doing too little, but doing too much. Because of its familiarity, Excel has become the tool of default for tasks like asset management, customer relationship management, and project management — areas where better tools are readily available.

“One of the biggest problems with spreadsheets

is that people rely on them as a reporting tool,” Wilts says. “There are some people whose full-time job is to wake up every morning at five o’clock, and they take information from this, and import into that, and then they push it onto other people,” he adds.

Manual repetitive processes like this can easily be automated by replacing the spreadsheet with the right tool. “If every day they’re pushing out the same thing,” says Wilts, “or every single week they’re pushing out the same graph, the same chart, the same everything else, that’s probably something that should be done by either a database or some sort of reporting tool that’s built for that purpose. It’s a much better use of both system resources and people resources.”

“... It is not uncommon for errors to be made within spreadsheets, and users often do not question the results. If errors are uncovered by users, the CMA can lose credibility.”

Organizational standards

While management accountants need broad spreadsheeting capabilities, organizations ultimately need to decide how and where spreadsheets are used in the business. “How is the organization going to use spreadsheets?” Wilts says. “Are you going to use it as a reporting tool? And if you intend on using it as a reporting tool, you need to have a certain skill set to make that happen.”

Organizations should also set guidelines for the use of spreadsheets, with a particular view to the risk of errors. “Just like we have rules on filing conventions and using tools such as Outlook, organizations should implement corporate protocols on the use of spreadsheets to reduce risk to the organization,” Pierce adds. She suggests that employers ensure that all analysts creating spreadsheets can answer some basic questions such as the purpose of the spreadsheet, the risk sensitivity of the financial models being used, and details in areas such as change control, version control, and backups.

“Even things like inserting headers and footers in a particular format and making sure you indicate where the information came from, when it was developed — there are all sorts of protocols that organizations should establish for the way they use Excel,” she adds.

Essentially, the spreadsheet is a powerful tool that frequently influences major business decisions. As such, the use of the tool needs to be managed carefully from the standpoint of leveraging its advantages, ensuring efficient communication of financial information, and preventing errors that could expose the organization to dangerous risks. ■

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The Financial Stability Board: The newest pillar of global governance?

A new report challenges its effectiveness.

By John Cooper

When it comes to models of global economic governance, the world's major trading nations have traditionally looked to the International Monetary Fund (IMF), World Bank and World Trade Organization (WTO) for guidance.

But a new kid on the block is focused on ensuring greater vigilance in international financial matters. Created at the 2009 G20 Summit, the Financial Stability Board (FSB) has raised serious questions among analysts. Will it be successful in the long run, and will its goal of globally policing all things financial help to avert the monetary disaster that shook the world the past two years?

Recently, the Centre for International Governance Innovation (CIGI) released a report titled *The Financial Stability Board: An Effective Fourth Pillar of Global Economic Governance?* Authors Eric Helleiner, Ngaire Woods and Stephany Griffith-Jones question the idealization of the FSB as a purported "fourth pillar" of global economic governance alongside the IMF, World Bank and WTO. They recommend the application of an independent, robust surveillance process that applies effectively to the major powers, the establishment of international consensus and coordination to develop overarching financial regulation, strengthening the voice of new developing country members and boosting governance structures to prevent future financial disasters.

A successor to the 12-year-old Financial Stability Forum, the FSB's goal is to lead change in macroprudential regulation by coordinating the work of international standard-setting bodies. This includes promoting global financial governance through assessing financial system vulnerabilities,



enhancing coordination and information exchange, monitoring markets, generating best practices, undertaking strategic reviews and assisting in crisis management and contingency planning.

It may be uphill at first — the other pillars are bigger, older and have established track records. The IMF, created at the 1944 Bretton Woods Conference, has 187 member countries and works to foster worldwide monetary cooperation, secure financial stability and promote sustainable economic growth. The World Bank, also a Bretton Woods product, provides financial and technical assistance to developing countries

around the world. And the 15-year-old WTO deals with international trade rules, focusing on business agreements that are negotiated, signed and ratified by most trading nations.

In its favour, the FSB has strong G20 representation — and a commitment from members to pursue financial stability maintenance, openness and transparency. Helleiner, a professor in the University of Waterloo’s department of political science and CIGI chair in international governance, admits via e-mail interview that expectations the FSB will emerge as a fourth pillar of global economic architecture “are not realistic. The FSB is, after all, a much more limited body with little power and a tiny staff. Its main function is to facilitate networks of officials concerned with global financial stability issues. It is likely to be fairly effective in that limited role, but the deeper question concerns the effectiveness of those networks in fostering international cooperation.”

Yet, “with the creation of the FSB, the surveillance process over major powers has been strengthened,” Helleiner adds. “For example, all FSB member countries have agreed to undergo financial sector assessment programs on a regular basis and this is a significant commitment since countries such as the U.S. and China had resisted this in the years leading up to the outbreak of the global financial crisis. All FSB member countries have also agreed to a new peer review process which will help to strengthen surveillance of major powers.”

Dr. Chris Bart, professor of strategic market leadership at the DeGroote School of business and principal and lead professor at The Directors College, McMaster University, says his major concern is in the FSB gaining the traction needed to build consensus. As well, “my instinct tells me the other three pillars might not look upon this agency with open arms — how does this impact on



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their mandates? There are power struggles that need to be sorted out.”

Helleiner agrees that it's a daunting prospect. “The cultivation of international consensus and coordination in developing international financial standards is likely to be increasingly challenging in the coming years. This is partly because there are now a larger number of countries involved in decision making concerning international standard setting. It is also because the severity of the financial crisis has politicized financial regulatory issues within many countries in ways that create new domestic political constraints on regulators when they are negotiating international standards.”

Much discussion is also focused around the ability of new developing countries to have a say at the FSB table, and “the experience so far suggests that it may take a little time for them to develop this voice effectively within the FSB,” Helleiner says. “But we are seeing some increasing signs of this and their voice will be more effective if they can coordinate positions on international regulatory issues.”

Dr. Collette Southam, assistant professor of finance at the Richard Ivey School of Business, University of Western Ontario, adds that, “in the past, the G7 controlled world economy, but today it represents only 37 per cent of the world economy. That has changed and the G20 now controls 84 per cent of the world economy. High growth economies have a place at the table now and they have a voice.”

There's also the question of whether the FSB will have a loud enough whistle — and the authority to be heard if

someone in the international financial community breaks the rules; that will require consensus and an agreement to accede to the board's decisions, Helleiner adds.

“Although the FSB's Charter declares that membership comes with certain obligations for member countries, these obligations have no legal force and the FSB has very little formal power to enforce them, especially since its main decision-making body — the Plenary — operates via consensus,” Helleiner says. “Its main influence vis-à-vis members will likely come through the peer review process where peer pressure will be brought to bear on non-complying countries. Already, the FSB is in active discussion with a number of jurisdictions about their levels of compliance with some international financial standards. If those jurisdictions chose to ignore the FSB, the collective FSB membership could choose to apply various kinds of pressures ranging from ‘name-and-shame’ to cutting off access to financial markets.”

Indeed, a little embarrassment could go a long way, Bart adds. “If there is any power, it's through the power of embarrassment. The FSB might have the role of a global ‘auditor general’ — they can name names. It becomes the power of embarrassment and reputation loss that drives the ultimate accountability.”

And if it helps avert another financial disaster, it will be a role that will earn the FSB far more laurels than darts in the years to come. ■

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

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