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The Institute of Certified Management Accountants

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What's On?

December 9th 2009.
ICMA Annual General Meeting

1-3 & 15-18 December 2008, Kuala Lumpur, Malaysia
7th CMA Program on Strategic Cost Management and Strategic Business Analysis Conducted by Multi-Media College

February 10-11, 2009, Sydney, Australia
4th Annual Strategic Management Accounting Forum Organised by the Liquid Learning Group and endorsed by ICMA.
Citigate Central Hotel, Sydney
www.liquidlearning.com.au

March 4-15, 2009, Beirut, Lebanon
5th CMA Program on Strategic Cost Management and Strategic Business Analysis
Conducted by HBS for Training & Certification and www.cmamena.com

March 8-15, 2009, Mumbai, India
11th CMA Program on Strategic Cost Management and Strategic Business Analysis
Conducted by www.cmaindia.net

March 10-16, 2009, Dubai, U.A.E.
4th CMA Program on Strategic Cost Management and Strategic Business Analysis
Conducted by www.cmadubai.org

On Target

Newsletter of the Institute of Certified Management Accountants ct/Nov 08 Volume 12 Issue 3

Inside this issue:

President's Message - 2008: The Year of Turbulence!

The Institute is now in its 2nd Decade (incorporated in 1996). The last year was one of some turbulence and some progress. Two Full-Time Paid Executive Officers left for greener pastures and a third. Mr. Chris Perera, joined in June 2008.

Two new Institutes were launched under the sponsorship of ICMA:

- Institute of Certified Carbon Analysts and Auditors
- Institute for the Advancement of Corporate Reporting and Assurance

Two New Membership Categories were added:

- Registered Cost Accountant
- Registered Business Accountant

However, membership declined by almost 25%, mainly due to increase in fees and turbulent economic conditions. This membership decline was for the first time in the Institute, and affected membership both in Australia and overseas. It is always difficult picking exact numbers at this initial point in the financial year because of the uncertainty surrounding renewals. It would appear, however, that our current membership is:

- Approx: 1,100 Members (CMAs, AMAs and GMAs)
- Approx: 1, 000 Affiliates (MAAs)

Despite this, the services provided by the secretariat continued unabated over the year. These include:

- Maintaining the new website that was in keeping with the enhanced international profile of ICMA
- Dissemination of the New Corporate Brochure to prospective members
- Publishing 6 copies of the revamped On Target Newsletters
- Provision of 12 issues of the CFO Magazine (excellent feedback)
- Increasing the holdings of the Library by over 200 texts and professional and academic publications during the year
- Having an world-Class Customer Relationship Management (CRM) system to handle the membership, invoicing, examinations and accounts
- Links to CEO Institute for Members
- Special offers for Insurance, TIME magazine subscriptions for members

The Institute continued advancing the profession of management accounting by sponsoring the *Public Sector Accounting symposium in Queensland*

CMA not just the numbers

and the *CMA Summit in Bandung Indonesia*. It also provided research grants enabling academics to undertake extensive research on the *5-Star Reporting Framework*.

The Institute published 2 issues of The *Journal of Applied Management Accounting Research (JAMAR)*. This journal was rated by the Australian Business Deans Council as a "*well regarded journal in the field or subfield, and that it publishes research of a good standard in terms of originality, significance and rigour*".

The Branch Activities of the Institute continued with strong programs in existing locations such as the Philippines; India; Lebanon; Sri Lanka; Indonesia (Jakarta and Bandung); Malaysia; Papua New Guinea; Canada and Dubai with a new partner. New Providers are currently being considered in Hong Kong; the Other United Arab Emirates Counties (excepting Dubai); Saudi Arabia; Jordan and Egypt.

Once more I must express my deep gratitude to a hard working executive and council. It is unfair to single out individuals but I am sure my colleagues will agree that the input of Prof Janek Ratnatunga, our Education and Membership Committee Chairman, and Roshani Perera our Treasurer, has been remarkable and well beyond the call of duty. I would also like to thank Chris Perera, our new Executive Officer, Hans Ferdinand, our Secretary, Michael Vincent, our International Director; Tony Pereira, our Membership Committee Chairman, Michael Tse, our Deputy Membership Committee Chairman, Sandy Stewart, our Newsletter Editor, Bill Richardson our Bookshelf and Book Review Editor and Dr Themin Suwardy, our webmaster, for their dedication and professionalism brought to the tasks entrusted to them.

Finally a vote of thanks to our auditor Ben Kaplan who has once again given his time to discharge his duties very professionally.

Leon Duval
President

On Target commences another series of Snapshots on a particular theme over many issues. Snapshot Series!

Performance Management Measures that Enhance Organisational Value

"*Goals and objectives are the starting point for determining what performance measurements are needed in an organisation*".

Corporate financial performance, measured in terms of profitability or return on capital invested (ROI) have been viewed as inadequate as firms began focusing on shareholder value as the primary long-term objective of the organisation. Subsequently, value measures were devised that explicitly acknowledged that both equity and debt have costs, and thus there was a need to incorporate financing risk-return into performance calculations. This gave rise to valuations and performance measures based on Net Present Value (NPV) and Economic Profit (EP). It was also found that maximising such value-based measures was consistent with promoting overall financial health.

In more recent times the importance of evaluating a firm's performance in executing its strategies was recognised, and that financial measures alone (be they profitability measures or value measures) were inadequate to evaluate the totality of performance against strategic objectives. Further it was also recognised that in today knowledge-economy it was the combination of an organisation's tangible and intangible assets that provided it with a strategic capability that competitor's cannot easily duplicate. Two index-based performance and valuation approaches, the Balance Scorecard (BSC) framework and the CEVITA™ measure will be discussed in this snapshot series, the latter based on the underlying premise that an organisation's value in not based on what it has (its assets) but what it can do with both its tangible and intangible assts (its capability)in the execution of its strategies.

Performance measurement is a crucial activity for organisations to do well. It plays a critical part in crafting strategy, evaluating past performance and remunerating managers. Thus, financial performance measurement is central to guiding decision-making - a key role of the management accountant – which is very necessary to focus an organisation's employees on improving results.

The overall goal of most firms is (still) to maximise profits. Often this is because the compensation system is geared towards rewarding the achievement of profit targets. Therefore performance measurement systems should be designed to overcome the temptation of managers to maximise short-term profits and instead seek to improve the long-term financial health of the firm.

While there are numerous measures of an organisation's financial performance, the most informative are those that reflect the aspects of profitability and capital employed. However, most managers understand the income statement of a company and its associated measures (EBIT, Net Income, Net Profit[1] and Profit Margin) more so that values of the company represented in its Balance Sheet. Since managers may have difficulty in appreciating the relationship between the two statements this may be a reason that the most commonly used measures of financial performance are, Net Profit and Sales.

This snapshot series aims to address three objectives:

Objective 1: To illustrate similarities and differences between the performance measures mentioned in the statement and review and contrast their relative usefulness to organisations. To this end, the performance measures are grouped into 'traditional accounting-based financial performance measures' (i.e. ROI, Net Profit and Net Income) and 'Value Measures' (i.e. Residual Income, Economic Profit and Strategic Value).

Objective 2: To compare the traditional accounting based measure of financial performance and the newer value-based measures, in terms of Altman's significant predictors of financial distress. In so doing, an attempt is made to judge how these differing financial performance measures facilitate organisations' critical object of sustaining overall financial health.

Objective 3: To extend the concept of performance measurement acknowledging that that managers have become aware of the need to link non-financial indicators of operational performance to organisation's financial performance and to recognise that it is the 'capability' of an organisation to execute its strategies that provide long-term value. Because strategies implemented today require a 'gestation' period before results are seen in financial performance measures, firms are interested in tracing a cause and effect linkage between current strategies and tactics through to financial measures to determine if they are creating shareholder value. One such methodology that will be discussed is the Balance Scorecard framework and the other the CEVITA™ approach to value organisational capabilities.

In the next issue of On Target we will explore Performance Measurement Metrics

1. Damodaran (http://pages.stern.nyu.edu/~adamodar/) defines Net Profit to be Net Income less expenses not associated with operations and changes in accounting methods. Net Income he defines as operating income (EBIT) less interest expenses and taxes.

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