



ON TARGET

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Australian Company Reports

How They Rate for Quality and Comprehensiveness

The maintenance and enhancement of an organisation's reputation is a powerful force driving voluntary certifications ranked on perceptual and factual data.

Universities, hotels, automotive companies, and airlines pay particular attention to these rankings and spend significant resources on improving their relative rankings vis-à-vis competitors.

In the modern corporate world 'being-ranked' using an index of some type is a value-enhancing proposition. Thus the ranking of *reputation* (RepuTex), *quality* (JD Power), *economic value creation* (EVA[®]), *environment sustainability* (Columbia-Yale rankings), and similar indices are much sought after.

The methodology underlying most of these ranking metrics are based on financial statement analysis and public data gathered by financial journalists from annual reports. The data presented in corporate reports is generally accepted as accurate, i.e. information is assumed to be reliable, consistent and comparable across reporting entities. In such reports, the methodology largely involves the analysis of questionnaires sent out to other companies in the sector to obtain relative perceptions or the reading of the non-financial communications contained in annual reports.

Recently, organisations have extended their reporting beyond the financial/economic values provided in conventional financial statements to include multiple performance indicators in their annual reports and media releases. These multiple dimensions are not, however, combined in any meaningful way to provide an integrated and holistic view of the quality of an organisation's communication with its various stakeholders. This lack of integration ultimately limits the effectiveness and usefulness of the information to users.

In a research study sponsored by the *Institute for the Advancement of Corporate Reporting and Assurance* (IACRA, founded by the ICMA), Professors Janek Ratnatunga (University of South Australia) and Stewart Jones (University of Sydney) contributed to current methodological, theoretical and practical discussions

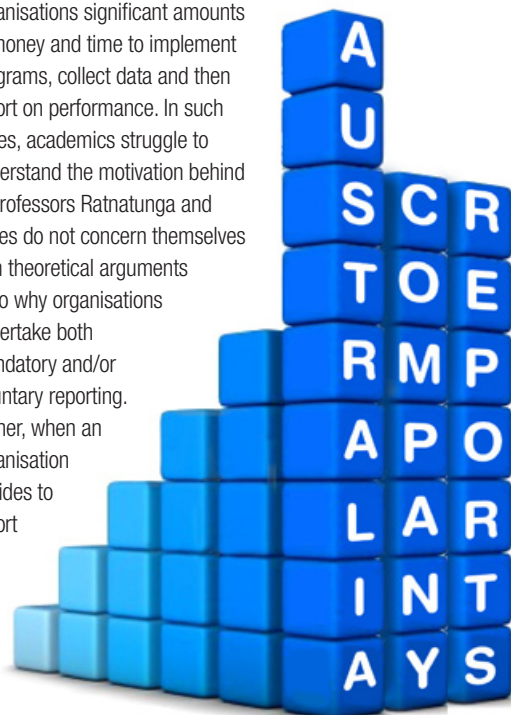
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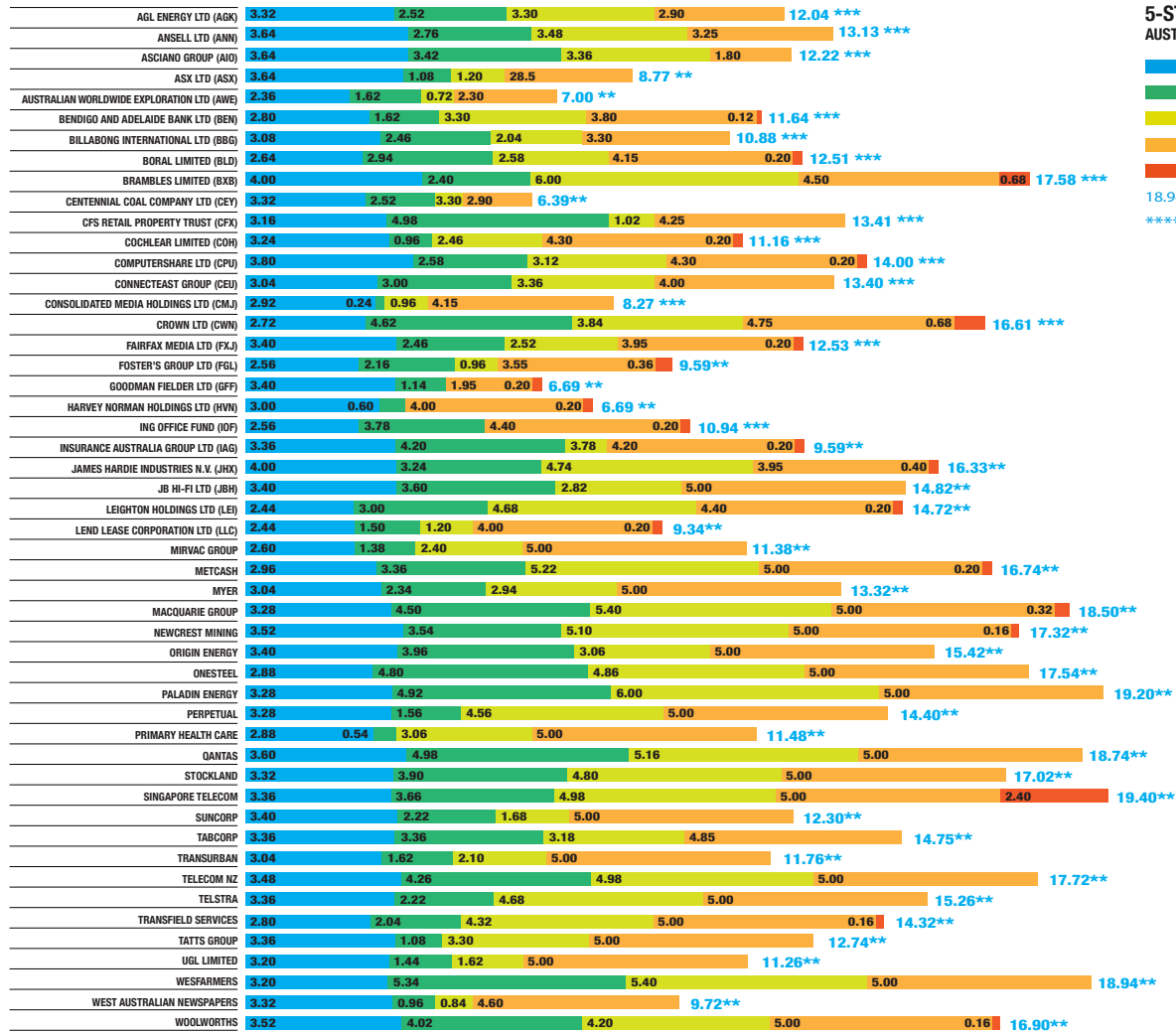
on the usefulness of multiple bottom line reporting measures and how to effectively rate diverse and potentially complex information sources into a single practical performance score or index. They prescribed a process and the required metrics for achieving an integrated approach to rating the quality of a company's publicly available information. It combines the separate reports generated by the economic, environmental, social, governance and empowerment frameworks within a 5-STAR Reporting Index™ and rates the quality and comprehensiveness of reports in 50 publicly listed Australian companies giving each a single star rating relative to the reporting quality of the other companies in the study.

Why do companies report on various types of performance? Reporting on economic performance to shareholders and producing general purpose financial reports is mandatory for listed companies. Even if an entity is not subject to strict economic reporting criteria, financial performance needs to be measured for various other mandatory reasons such as taxation and the obtaining of external finance such as bank loans. Similar mandatory requirements are present in governance reporting (e.g. SOX) and in some environmental reporting contexts (e.g. meeting EPA requirements).

However, much non-economic reporting, especially in the CSR area, is voluntary often costing organisations significant amounts of money and time to implement programs, collect data and then report on performance. In such cases, academics struggle to understand the motivation behind it. Professors Ratnatunga and Jones do not concern themselves with theoretical arguments as to why organisations undertake both mandatory and/or voluntary reporting. Rather, when an organisation decides to report

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**5-STAR RATING:
AUSTRALIAN COMPANY ANALYSIS**

- ECONOMIC REPORTING RATING
- ENVIRONMENTAL REPORTING RATING
- SOCIAL REPORTING RATING
- CORPORATE GOVERNANCE RATING
- EMPOWERMENT REPORTING RATING

18.94 OVERALL RATING
*** STAR RATING

(or withhold from reporting) its performance under various criteria, they are concerned with the relative quality of such reports.

During the last decade, with climate change and social responsibility reporting becoming growing political issues, stakeholders have demanded reports showing not only the economic performance of a firm, but also the impact of its actions on society generally and the environment in particular. Such issues are now well integrated in annual reports and are the extension of the concept of sustainable development defined as “development that meets the needs of the present world without compromising the ability of future generations to meet their own needs”.

Reporting has extended to a fourth dimension with the incorporation of governance and transparency issues resulting from mandatory and voluntary legislation such as SOX (2002) in the USA and CLERP 9 (2004) in Australia.

It is now recognised, however, that financial and non-financial information *on its own* will not motivate the knowledge workers found in many modern organisations to achieve the strategic objectives of

the organisation in a globalised environment. How well companies *empower* knowledge workers - i.e., provide them with all necessary information and resources to steer their organisations successfully in globally competitive waters, is emerging as a fifth reporting dimension.

Thus the prevailing literature on organisational reporting indicates that there are now five dimensions (or reporting criteria) required in modern organisations: economic, environmental, social, governance, and empowerment. Ideally, organisations need to report their performance against all five bottom lines, and these reports need to be appropriately attested and certified. Professors Ratnatunga and Jones developed a framework to analyse the contents of a company’s annual report in terms of its comparability and effectiveness in providing relevant information to end users using a rating and weighting methodology.

The two professors collected, classified and rated the information presented in annual reports of selected Australian public companies along the lines of the following *control framework*.

Primary Stakeholder Expectations: An enumeration of the long-term expectations of the corporation’s stakeholders in terms of each of the bottom lines and the corporation’s response.

Objectives: A statement of the corporate objectives in terms of each of the bottom lines for the reporting period and what it will strive to accomplish including what priority it places on various activities.

Strategies: A description of the activities the corporation will embark on, in terms of each of the bottom lines, in striving to achieve the given objectives.

Implementation: Reports and statements indicating the resources committed to achieve objectives and goals in terms of each of the bottom lines.

Results: A statement of the accomplishments and/or progress made in achieving each objective and each goal.

They then evaluated the annual reports of 50 Australian companies against this framework to give each a relative star-rating. The results of their relative reporting quality research study are presented above.

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Continuing Professional Development (CPD)

In the April issue we outlined the process adopted by the ICMA Council for a 12-month orientation period that will test the proposed CPD model within a live environment.

In this issue we outline some practical concerns for members as they begin planning their professional development programs during the orientation period. The model adopted for testing is as follows:

- The CPD program is to be based on a points system
- CMA status members will be required to earn 30 points per annum
- AMA status members will be required to earn 24 points per annum
- At this stage, GMA, RBA, RCA and CAT members will not have to maintain the CPD requirements
- Attendance at a program held under the auspices of a CMA accredited provider will earn the attendee two points per hour
- Attendance under the auspices of an accepted external provider will earn one point per hour
- No points are to be allocated for reading.
- Members engaged in formal study under the auspices of a recognised tertiary education institution will be able to seek exemption from the points system during their years of study.

The education committee will appoint one of its members to take responsibility for the program together with an experienced practitioner to be nominated by the ICMA council, thus ensuring that oversight for the CPD program is approached from both an academic and a practical perspective. The two persons responsible for CPD oversight will constitute the CPD committee (CPDC)

A core requirement for success will be the availability of ICMA accredited courses accessible to all members either through education partners or the central website. In all locations where education partners have been appointed, access to accredited programs will be through the partner network. In other locations, access will be via the CMA website.

Any member with an idea for a CPD program and the knowledge and educational skills to prepare a course should submit an outline to the ICMA Chief Executive in Melbourne who will forward the outline to the CPDC for consideration. The CPDC will then initiate further contact with the author.

Courses accepted by the CPDC and released for access to the membership will attract a royalty or a fee, the ultimate choice being dependent on the nature of the program, how it is to be distributed, the fee it may attract, and how it is delivered and administered.

Members should be aware that programs on project management and risk management are being developed. They are planned for release in early 2012, and at this stage it is anticipated that enrolment in one of these programs coupled with the submission of an assessment proving it has been diligently worked through will qualify the participant for full annual points requirements.

Other programs under consideration are in IT and data processing, case studies on corporate strategy, carbon accounting and strategic audit.

Members should also note that ICMA will accredit the hours attended at programs delivered under the auspices of other bodies. Credit will be given provided the required disclosure is made on the CPD compliance record which members must maintain and submit at the end of each 12-month cycle. The form will be available for download from the ICMA website in early July 2011.

Academic members can gain the required CPD compliance points based on research papers or other publications, presentation of papers at conferences and any special seminars or workshops delivered out of their required teaching loads. The Education Committee will issue guidelines before the end of July 2011 for publication on the ICMA website and in *OnTarget OnLine*.

Given that the first 12 months of the program is essentially a pilot, we ask members to provide the ICMA with as much relevant feedback as possible, the aim being to ensure that the final program released on 1 July 2012 is a robust and effective model.

We look forward to working with members on this very exciting initiative.



[A core requirement for success will be the availability of ICMA accredited courses to all members.]



Managing Management Control from the Get - Go

Thanks are due to ICMA member Andrew Stephens, a senior executive manager at one of Australia's largest companies, for this fascinating case study of an internship and mentoring program he designed with his company HR department and an external education provider, Navitas Workforce Solutions.

The case study illustrates how many of the so-called softer aspects for achieving effective management control can be extremely successful when they are skilfully applied.

The program was designed and implemented within the corporate finance department with two broad outcome objectives. The first was to provide an opportunity for the finance function to recruit the best and brightest candidates available. The second was to enact social responsibility obligations by facilitating the induction of graduates into the workforce and ultimately into permanent employment.

This is how it works. Prospective interns are required to complete a nine month study program conducted by Navitas. Before entering the nine month program candidates are required to either have completed or be completing an appropriate university degree. Aged between 18 and 30, they also need to prove a successful history of study. Typically, intern candidates are either international students or university graduates looking for work experience, to develop skills and acquire practical training for transitioning into the workforce.

The nine month orientation program focuses on adapting to the Australian business culture, training in the use of Excel, Word, PowerPoint, making presentations, understanding appropriate business etiquette and attire, and networking skills. On completion, prospective candidates are interviewed by an experienced Navitas

HR consultant to ascertain their suitability for the program. An interesting aspect of this process is that the company incurs no costs for partnering with Navitas and accepting an intern into its organisation.

The intern then spends 12 weeks rotating through an area within the finance department. The General Manager Finance is the sponsor and provides career mentoring to each intern at weekly meetings. The meetings focus on the intern's progress within the program in addition to their career motivations and aspirations. The benefits to the interns are immense. One remarked, "I would never normally get the opportunity to spend one-on-one time with the General Manager Finance of a major Australian public company over a 12 week period if it were not for this program". After 12 weeks, the intern may be offered a permanent position or alternatively go into a talent pool for future opportunities.

Initial reactions from the finance management team were interesting and a number of negative initial perceptions had to be overcome. Managers were concerned about the amount of time they thought would be required to spend with the interns, wanted guarantees that the interns would 'stick around' and were unsure if the investment in time had any value creating potential. These concerns ultimately dissipated as the program developed, brought about by the quality of interns. Ultimately the attitude evolved into one of 'they are an integral part of the team'.

The interns were actively involved in a number of major projects within the finance team and proved to be of immense value as the processes were rolled out. The company had many projects in progress, and the additional resource allowed the interns to do much of the hands-on work freeing up managers to do the analysis.

The finance department experienced a number of indirect benefits also. Its managers found they had more

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negative initial perceptions had to be overcome.



time to plan the utilisation of existing resources and to develop role specific succession strategies. The program also provided time to get out in the business to consult and follow through with the divisions, whereas previously the perception was that finance merely delivered month end results. Now managers spend more time with the business providing a higher level of service, which enhances the value of their section and their own self esteem.

Other interesting indirect benefits were the opportunity for finance department managers to further develop their training and mentoring skills, and importantly, the concept of 'try before you buy' which worked extremely well as job vacancies were filled by good calibre interns.

Finally, the additional resource provided by the interns enabled more effective management of annual and long service leave, lessening the impact on the quality of corporate support as they filled temporary vacancies.

This case is an excellent live representation of many of the principles in the literature regarding the deployment of indirect methods to facilitate effective management control over an organisation.

One of these principles is that organisational culture and its ethos impinge very powerfully on individual behaviour. For this reason, a nurturing environment tends to facilitate the desire within a workforce to contribute through self-motivation rather than external pressure. In this way, the internal ethos of the organisation supports effective managerial control as well illustrated by the case study outcomes.

Another block to effective control is overcoming the tendency for dissonance between personal and organisation goals. In the case study interns enter the program eager to succeed and if they

are ultimately awarded with a permanent position there is a very good chance their goals will have been correlated with those of the organisation because of the pathway travelled before entering it permanently.

A powerful indirect lever for achieving control is through effective recruitment, which to quote Jim Collins (*Good to Great*), is 'to put the right people on the bus'. An effective recruitment policy is the result of a careful selection process that ensures cultural, educational and emotional fit in addition to the mandatory criteria set down for education and experience. The process needs to be supported by a program of employee induction and training together with mentoring and support where necessary. The case study ticks every box!

In summary, assuming that the ultimate aim of the overall control process is to encourage all employees to direct their best efforts in the interest of the organisation, namely encouraging co-operative behaviour, the intern program set out in the case study represents an excellent example of control in action.

A powerful indirect lever for achieving control is through effective recruitment.



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And there's more... additional positive results

- The intern pool provides the flexibility to retrain the existing team in other areas of the department.
- It provides the department with an understanding of generational questions, multicultural workforce topics, cutting edge education, and, most importantly, effective communication with a multicultural workforce.

- The program contributes significantly to a young intern's success through the sharing of corporate accounting processes, business knowledge and senior management experience.
- One of the key pieces of feedback from the managers is that interns should be given specific mini-projects or pieces of work to focus on enabling them to achieve real outcomes from their 12 weeks and to work without as much supervision and delegation from managers.

I am writing this column on board a Qantas flight at the start of a **10-day mission** to meet professional associations and management accounting practitioners in New York, Toronto, London and Dublin. With me is ICMA senior Vice President, Mike Vincent, and our objectives are to commence dialogue with associations identified as the key participants in the many initiatives now underway with the potential to shape and change the future of our profession.

Our mission is assisted by the Australian Federal Government's program of support for Australian professional associations wishing to create alliances with counterpart organisations in other countries. We are extremely grateful for this assistance and for its de facto recognition of the campaign to

inform government departments and agencies about the work of our specialist professional body and the value delivered by its academic and practitioner membership.

The ICMA council agreed on the specific objectives for the mission, named Project Outreach. The eventual outcomes will be measured against a list of priorities, and a full report on the discussions and the outcomes from this initial phase of Project Outreach will be published in the next issue of *On Target Online*.

Our continuing dialogue with government has also brought success in **retaining management accounting as a separate designation on the revised Australian Skilled Occupation List (SOL)**. The SOL

determines which occupations are eligible for independent or unsponsored skilled migration and identifies specialised occupations of high value.

We are now making the representations required to secure an appointment as an Assessment Authority for migrants wishing to enter Australia and be employed under the management accounting category. The application is by no means a formality. The issues are complex and will require firm resolve laced with careful diplomacy. We are taking expert advice on how to approach the application in order to ensure that when lodged it will present the

very best possible case. A number of important initiatives have commenced to assist the process.

Our education committee has developed a comprehensive matrix defining the criteria for assessing both the formal education qualifications and the practical experience attained by prospective management accounting migrants. In addition, there are advanced discussions with an international education institution to offer a structured professional

year orientation program for successful migrant applicants entering Australia. The ICMA will accredit the program.

Our objective for the ICMA to become an assessment authority is clear and unambiguous. As the only Australian professional body dedicated to developing management accounting both as a body of theoretical knowledge and as a set of practical skills and applications, we have an imperative to not only preserve the standard and integrity of management accounting, but also to set that standard. Unless the ICMA is fully involved in the migrant assessment process there can be no guarantee that applicants will meet the test of world's best practice, and this may result in a potential dilution of the standards we are striving to set in Australia and beyond.

A disturbing trend we became aware of during our discussions with government departments is the failure of management



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accounting academics and practitioners to disclose this as their occupation on official forms. For example, according to one department there are just over 1,600 management accountants in Australia! Apparently this information was extracted from the 2007 census. What does this mean?

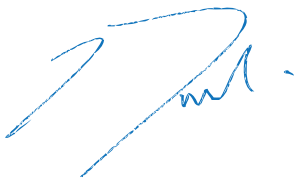
Many management accounting practitioners take the shortcut when disclosing their occupation and merely write 'accountant' instead of the full description. This unfortunate abbreviation is producing misleading data which does not assist our cause, and we must take steps as a profession to rectify it not only in Australia but in every environment where management accounting is practised.

Every professional management accountant, whether a member of ICMA or another body, has an opportunity to make such a campaign effective. If you consider yourself to be engaged in management accounting, (which for the purposes of this discussion is defined as the task performed by a highly skilled management specialist possessing advanced numerate skills and involvement in producing strategic and tactical information for all levels of management, but note our President's challenge!) then, on each and every official form requiring occupation disclosure, write management accountant. Why sell yourself short by ignoring your point of difference?

In support of this initiative the ICMA will launch a nationwide campaign in July prior to the distribution of the Australian Census forms scheduled for August 2011.

My closing message for this edition of *On Target OnLine*, therefore, is this.

Differentiate yourself and differentiate your profession. Do not consider yourself a generalist; recognise that you are practising a specialised profession, one that blends the knowledge requirements of multiple disciplines, finance, accounting, information management, risk management and strategic management. And don't just do it, STATE IT.



Leon Duval

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President's Message

On Target Online circulates beyond our membership. That is a deliberate strategy, which will not just promote us as an institute of professionals but also promote the value ascribed to individual members and holders of our institute designation. However, there is one small problem.

Doctors have designations which help their patients distinguish one professional stream from another. A neurosurgeon for example, is generally understood to be a different type of doctor to a cardiologist or gynaecologist.

Our problem is that we do not distinguish our speciality as effectively. Too few people, both within and outside the accounting profession, understand that there is a difference between a management accountant, a tax accountant and an auditor.

In the past I have included the term 'predictive accounting' on my business cards. It is an accurate description of what I did and do. It alludes to the time-frame in which I work (the future) and attempts to promote one point of distinction of my duties as against those of my historic based, financial and tax return-preparing brethren.

I believe our specialist stream of accountants will benefit enormously by replacing the term management accounting with something more radically distinguishable from tax accounting, financial accounting and auditing. But I believe also that we do ourselves no service by recklessly abandoning the honourable designation of accountant - unless first we have a term which is a lot better to replace it with!

So our membership competition is to find the answer to the following puzzle:

What name, of three words or fewer, should we adopt to project our accounting speciality head and shoulders above our colleagues of the historic accounting profession?

The Prizes? No cigar just,

1. Your name in lights in *On Target Online*
2. The unending appreciation of your ICMA colleagues
3. Your enhanced professional success

I look forward to a flood of creative responses addressed to the *On Target Online* editor, ontarget@cmaweblines.org



Derek Maullin





[the **benefits** flowing from the ease and simplicity of *connectivity* cannot be **emphasised** enough.]

A Practical Approach for Implementing a Strategic Audit

In this issue we continue our series on Strategic Audit, outlining a simple methodology for converting theory into practice. The outcome is a comprehensive assessment of a firm's health, sustainability and risk profile - an organisational stress test. The article is based on a paper presented by Leon Duval to the Management Accounting Convocation held in Colombo on 30 June 2011.

Following the worst financial crisis since the late 1920s it is apparent that the entrepreneurial spirit required to drive growth in many of the more advanced economies may not be the most popular visitor around the boardroom table.

An undesirable outcome of this reticence is the parking of cash reserves into safe havens rather than investing in higher risk, value creating alternatives. An example of this risk adverse attitude was reported by the *Economist* in 2010 wherein it was noted that despite accumulating enormous cash reserves, large US companies were not recruiting additional staff, preferring to invest their liquid funds as a hedge against a potential double dip recession.

Many factors have the potential to overcome this conservative corporate mindset, one being the replacement of caution with confidence. A renewed sense of confidence would flow from a positive evaluation of the external environment combined with faith in a firm's internal capability and management team.

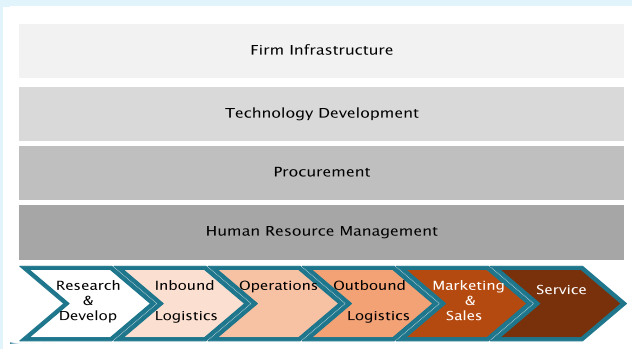
Assessing the external environment's risk profile is not within the scope of this article, but undertaking an analysis to understand the capability and inherent risk residing within the internal environment is essentially the task of a Strategic Audit. Applied effectively, the process becomes an indispensable tool for sustaining responsible corporate governance.

A useful analogy of the Strategic Audit process is that of an organisation 'stress test', and Erik Peterson, Managing Director of the A.T. Kearney Global Business Policy Council says that "too few organisations are rigorously stress testing their businesses at the very time they should be!"

If an organisation wishes to stress test itself a number of prerequisites are required:

- Creating a logical conceptual framework to clearly identify which functions of the organisational structure should be subjected to stress testing.
- Developing a methodology for performing an organisation stress test
- Developing a method for evaluating the results of the tests
- Having a qualified person to run the tests

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Above: Diagram 1, Value Chain.

Conceptual Framework

Michael Porter's organisation Value Chain is an ideal model for developing an effective stress test conceptual framework and is shown in Diagram 1 left.

Developing a Stress Test Methodology

Integrating relevant components of the Strategic Audit framework with the various links of the Porter Value Chain helps design a simple and efficient methodology for performing an organisational stress test. The various components for a Strategic Audit are shown at right.

The methodology emerges from simply linking each of the Porter Value Chain links with the components of Strategic Audit wherever relevant and complementary. An illustration of how the two models neatly integrate with each other and complete the conceptual framework is shown in Table 1 below.

	Research Development	Inbound Logistics	Operations	Outbound Logistics	Marketing Sales	After Sales Service	HR	Procurement	Technology	Firm Infrastructure
Corporate Flexibility Audit										
Corporate Identity										
Corporate Longevity Audit										
Cost of Quality Audit										
Culture Audit										
Customer Satisfaction										
Environmental Audit										
Information Security										
Leadership Audit										
Logistics Audit										
Marketing Audit										
Productivity Audit										
Service Management Audit										
Stakeholder Audit										
Strategic Alliance Audit										
Technology Audit										

Above: Table 1

- > Stakeholder Audit
- > Marketing Audit
- > Productivity Audit
- > Logistics Audit
- > Service Management Audit
- > Customer Satisfaction Audit
- > Cost of Quality Audit
- > Environmental Audit
- > Leadership Audit
- > Culture Audit
- > Corporate Identity Audit
- > Corporate Flexibility Audit
- > Corporate Longevity Audit
- > Strategic Alliance Audit
- > Information Security Audit
- > Technology Audit

Above: Strategic Audit Framework

Designing a method for stress testing

This is clearly an area that will evolve. Any initial conceptual model suggested will be developed over time by the findings from academic research, application and practitioner experience. A suggested commencement point could be a package of standardised questionnaires that identify the data required to form an opinion regarding the health of each value chain component.

Setting out all of the potential questions required for the total process is beyond the scope of this short article, however, the method can be illustrated by suggesting a set of model questions for one component of the Strategic Audit process, namely Corporate Longevity. A word of caution, the questions designed for the purposes of this

article are not intended to be a total package, they are simply a suggestion providing an insight into the strategic intelligence this particular stress test could potentially uncover. The objective of the questionnaire pack is to uncover those critical strategic factors with the potential to affect the firm's capacity for sustaining itself into the future. The questions in the list assume that the subject firm produces products or services.

In Table 1 the Corporate Longevity component is linked to Research and Development, Operations, Marketing and Sales, HR, Technology and Firm Infrastructure. The questions designed to stress test Corporate Longevity, therefore, relate only to the linked value chain components.

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Management Accounting today encompasses a significant body of knowledge.

1 Research and Development

- a. Are there any R & D Activities currently taking place?
- b. Are they internally or externally sourced?
- c. Name the functional areas into which any current R & D is being directed. Use the headings of product, process, technology and infrastructure.
- d. Are there any future R & D projects planned? If so, name the functional areas they will be directed into.
- e. What percentage of the firm's income is appropriated for R & D activity?
- f. How are R & D activities planned, managed and followed up?

2 Operations

- a. What is the age of the operation's capability and what is its expected useful life?
- b. How dynamic is the industry in which you compete?
- c. How specialised is the industry?
- d. How specialised is the operational capability? If it were to be destroyed by fire or other natural disaster how quickly could it be rebuilt?
- e. Does the organisation have a disaster plan? (If it does then the plan should be reviewed and assessed for its efficacy).
- f. Is the operation's capability periodically assessed in relation to its product portfolio lifecycle?
- g. Are operations structured around a Just in Time philosophy?
- h. How reliant is the organisation on any one or more raw materials (or on the means for the delivery of services)?
- i. Are the channels facilitating the flow of raw materials (or the means for the delivery of services) secure and easily replaced if they should fail or become blocked in any way?

3 Marketing and Sales

- a. Undertake a product lifecycle analysis and assess where each product sits in relation to its lifecycle
- b. How reliant is the organisation on its existing distribution channels and what risks do these present in the event of failure?
- c. Does the Pareto principle apply to customers and products? If so, are the products in the 80 per cent category at a critical point in their

lifecycle and are the customers in the 80 per cent category a potential flight or failure risk?

- d. Is customer loyalty dependent on any special relationships, market intelligence, dependent products or services?
- e. How vulnerable is the organisation to relationships between sales personnel and customers?

4 HR

- a. Does the organisation employ any highly specialised employees and, if so, are these employees engaged contractually?
- b. Are employee engagements formalised by letter? If so, provide examples
- c. Is the organisation vulnerable to employee flight, sickness or death?
- d. Is the organisation vulnerable to industrial action by employees?
- e. Are potential changes to capability going to place the organisation in a competitive situation for the recruitment and retention of employees?
- f. What level of risk does the organisation face from employee misdemeanour or failure in duty of care?
- g. Does the organisation disaster plan include responses to manage employee misdemeanour or failure in duty of care?
- h. Does the organisation have an adequate occupational health and safety process in place?
- i. Has the organisation recently surveyed its employees in order to understand attitudes, morale and commitment?
- j. Does the organisation have an effective employee induction program in place? Provide details.
- k. Do the employees have an effective training program in place? Provide details.

5 Technology

- a. Is the organisation capability reliant on any particular technology and, if so, is that technology vulnerable to obsolescence, change, natural disaster, or external threat?
- b. Are there any emerging technologies that threaten existing technologies or core capability?

6 Firm Infrastructure

- a. Is the organisation occupying leased premises and, if so, what period is still available on that lease?

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- b. How available are alternative premises if for any reason the organisation had to vacate its leased premises?
- c. Describe the organisation's data processing platform and prepare a complete questionnaire to describe security, back up, potential obsolescence, alternative technologies, and replacement technologies, and how the organisation disaster plan would manage an infrastructure failure.
- d. What is the firm's debt/equity ratio?
- e. What arrangements are in place for the repayment of debt and what is the capacity of the firm to raise new debt?
- f. What is the capacity of the firm to raise equity?
- g. What is the current "Z" score of the firm and how has this changed over the last five years?
- h. Based on current performance and budgeted performance, what is the predicted "Z" score?

Evaluating the data from the questionnaires

Some of the data produced from the suggested questionnaire pack delivers self evident outcomes, for example, "Z" scores. However, most of the information extracted is in the form of qualitative data which needs to be organised, tabulated, and to be useful, converted from a qualitative format into a quantitative metric. The ideal result produces a metric that when compared with a standardised table indicates the level of risk presented by the outcome from the test. A potential solution for deriving a metric assessment of the risk level would be to award either a score of one or zero in response to the answers obtained from the questions, and then weight each score by a predetermined coefficient based on the level of importance. The result would be a score that could be compared to a standardised scale which has been derived for each of the Strategic Audit components. The final step would be to total the score card for each of the Strategic Audit components to produce one Strategic Health Index.

Qualifications of the person conducting the tests

Management accounting today encompasses a significant body of knowledge and its practitioners are ideally positioned to become the Strategic Auditors of the future. As is the case with any specialisation, a period of education, an examination and practical experience would be a prerequisite for registration.

Conclusion

The Strategic Audit Process is perfect for conducting stress tests on firms. It is hoped that this brief article considering the design for a conceptual framework and a practical methodology will encourage the academic members of the management accounting profession to join with practitioners in developing the ideas into a practical tool for effective corporate governance.

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T Letter to the Editor

Dear Dr. Tucker

I was interested to read your article regarding the research gap in the April/May issue.

I am a management accountant who spent 10 years as an academic from 1988 to 1997 (last position as senior lecturer at UTAS). I left academia and returned to practice for a number of reasons, one of which was the push to publish research that I perceived to have little relevance to practice but was wanted by the journals etc and required for advancement in the academic world – where practical experience was not valued.

I worked with many wonderful colleagues. However, most of them had next to no, or indeed no, experience other than as academics. I formed the view that even the academic subject material taught in many of the accounting courses is somewhat lacking in relevance to practice – not just the research that is being carried out.

I think it would be worth academic institutions drawing their senior teaching staff from those who have significant work experience in the profession and placing greater value on this rather than the 'publish or perish' mentality fostered by academic departments. Practical experience is the best informer of what is happening in practice, what the real issues are, and how these issues are being solved.

During my years as an academic I operated a very successful management consulting practice – based on my industry, not academic experience.

When academic institutions value practical experience over the ability to conduct largely meaningless research (focused on what can fit within the guidelines for publication) I believe this gap can be closed.

Like you, I have had the experience of my professional colleagues viewing the capabilities of my academic colleagues with amusement to outright contempt. The old saying, 'those who can't do, teach' comes to mind.

Andrew Ross

Chief Financial Officer and Company Secretary

Blundstone Australia Pty Ltd
P.O. Box 316 Moonah, 7009
Tasmania, Australia

Henry Ong of Manila has an outstanding record of achievement in expanding the ICMA profile in his region providing a role model for branch development and management. He is a businessman and the CEO of the ICMA's Philippines education partner.

Management accounting is **important** to any economy.



Q. Please describe your role delivering ICMA programs in the Philippines.

A. ICMA Philippines is regarded as the premiere professional organization of management accountants in the Philippines, being the largest and most active in the industry, and I am its founder and chairman. We deliver the ICMA Program by marketing primarily to the leading finance decision makers from the top 10,000 corporations. We conduct the CMA program in 12 Saturday sessions. The first and last sessions are whole days while the rest are half days. We make sure that busy executives are able to make their weekends productive and spend time with their families.

Q. Are they well attended and by whom?

A. Yes. Our ICMA programs have always been well attended because of their popularity and recognition. We averaged about 40 in the early years but as the program matures, we now average 25 to 30 participants per intake. About a quarter of our participants are CFOs, CEOs, presidents and decision makers while 40 per cent are middle management and the balance are auditors and accountants. We position the ICMA program as a training program for future CFOs because a true CFO must have all the skills and competency of a CMA.

Q. Through your initiatives you have greatly increased the number of ICMA 'brand champions' and have been cited as an example for all regions to follow! What initiatives have you taken and why do you think you have been so successful in spreading the ICMA word?

A. Branding is all about positioning in the mind of the consumer. When we first launched the ICMA, we promoted it to the top finance people from multinational and publicly listed companies. We marketed the ICMA program as a post-graduate course and because the ICMA qualification requires candidates to have at least five years of relevant managerial experience, we naturally attracted those who are more senior. Our average age is about 38-years-old. Through the years, we have built up a community of ICMA graduates from top corporations and through word of mouth marketing in their respective

industries we get a lot of referrals from their colleagues and friends.

Q. What tips can you provide for other regions to follow?

A. As part of brand building we conduct regular ICMA forum and networking activities for members. At forums we invite CFOs from publicly listed companies to share their experiences with our members. Our networking activities also provide opportunities for our members to meet members from other intakes and make some good connections.

Q. What for you are the benefits of membership?

A. At ICMA Philippines we enhance the benefits of our members. Aside from the newsletter and magazine we provide our members with regular activities such as forums and networking lunches. We also provide them with exclusive discounts up to as much as 40 per cent on seminars that we organize. We also publish our own local newsletter to update members on our activities and advise them of job opportunities and developments so there are many on-going benefits.

Q. How relevant is management accounting to the Philippines economy and business community?

A. Management accounting is important and relevant to any economy because it is where the accountant stops being a referee and starts becoming a company player. Accountants' work is generally perceived to be boring because they are always focused on numbers and complying with standards. But when an accountant becomes a CMA, their company role becomes strategic because their input will be critical to management decision making.

Q. What was your introduction to ICMA, how did you hear of it?

A. I discovered ICMA and the CMA program through Professor Janek Ratnatunga in 2004. I was looking for a certification program on management accounting to become a CMA. During my discussion with Prof Janek, he encouraged me to promote the ICMA program in the Philippines since there was none at that time. Through his support and mentorship, we organized the first ICMA program in 2004 and invited Prof Janek to fly to Manila to help us launch it.

Q. Did you think joining ICMA would help you in your career? Has it?

A. Yes. Being a CMA helps a lot. I can put the title 'CMA' after my name on my business card and resume indicating that my skills and experience in management accounting are recognized and certified by an international third party institute. It adds to my credibility as a professional and most of the time employers and clients are satisfied when they deal with someone who is credentialed in his field.

In each issue *On Target Online* turns the spotlight on someone of interest and achievement in our ranks. All branches are invited to nominate members they consider to be outstanding management accountants who have contributed both to their profession and the wider community. Nominations should be accompanied by a brief outline of why the nomination is significant and contact details for the nominee. Please address contributions to the editor ontarget@cmawebline.org

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Hong Kong

An agreement signing ceremony was held on February 26 to announce that the Hong Kong Office has established friendly collaboration with three local educational institutions - Lingnan University, Hong Kong Management Association (HKMA) and Dunn's Education Limited. Present were representatives of these institutions, senior Hong Kong academics and Professor Janek Ratnatunga, ICMA's Education Committee Chairman.

Details of the agreements are as follows:

Lingnan University

ICMA members may gain exemptions from Year 1 of the Master of Accountancy Program and apply for direct admission to the Year 2 program.

Hong Kong Management Association (HKMA)

ICMA members are eligible to join the MBA Program of the University of Wales in the UK offered locally by the Hong Kong Management Association.

Dunn's Education

The agreement with Dunn's Education is to develop and expand a framework of co-operation with ICMA Australia to develop mutually beneficial programs, projects and educational activities.



Professor Phyllis Mo (right), Lingnan University Head of Accountancy signed an agreement with Mr. Allen Wong, ICMA Hong Kong Branch CEO (left) witnessed by Professor Janek Ratnatunga, ICMA Education Committee Chairman (centre).

Sri Lanka

ICMA's Sri Lanka Branch hosted an impressive graduation ceremony on 30 June bestowing certificates of membership on nearly 90 graduates who had attained AMA and CMA status. The keynote address was delivered by the guest of honour, Dr Sarath Amunugama, currently Sri Lanka's Senior Minister of International Monetary Cooperation.

Dr Amunugama mentioned the number of graduates receiving membership and the high calibre of knowledge and professionalism they displayed. Praising the management accounting profession he expressed the view that "if non finance professionals across the globe understand the discipline of

management accounting, finance and risk management aspects, the world would see far less financial crisis scenarios than what has shaken the global economy during the last two decades"

Australia was represented at the graduation ceremony by CEO Leon Duval and Education Chairman Professor Janek Ratnatunga.

The graduation ceremony was followed by a Management Accounting Convocation on 1 July at the Galle Face Hotel with the theme of 'New Directions for Management Accounting'. Both Professor Ratnatunga and Leon Duval presented papers followed by panel discussions.

Right: Standing for the Sri Lanka National Anthem from left to right Murali Prakash (Branch President) Dr Nalakha Godahewa (Branch Chairman) Minister Dr Sarath Amunugama, Professor Janek Ratnatunga, Leon Duval

Far right: ICMA CEO Leon Duval bestows honorary foundation membership on Dr Sarath Amunugama at the conclusion of the Graduation Ceremony, Galle Face Hotel, Colombo, 30 June 2011



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