ON TARGET

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President's Message

The Institute is now in its 18th year, having been incorporated in 1996. Over the past year the Institute was successful in canvassing for the role of 'Management Accountant' to be maintained for a fourth year in the Australian Government's Skilled Occupation List (SOL) for General Skilled Migration (GSM). However, we have been informed that all categories of accountants may be removed from the skills list next year. So watch this space!

The ICMA is also lobbying to attain the status of a migration assessment authority for Australia, and to get to get the CMA qualification recognised by the Australian migration authorities. Although the ICMA was not set up as a body for those seeking migration to Australia; but rather as a post-graduate level qualification for those already possessing the basic accounting qualifications required for migration; many members wanted to use their CMA for just that purpose. As such, the ICMA obtained the services of two well connected individuals who lobbied on our behalf. Unfortunately, our timing was not good as the Minister who we lobbied was replaced with another (who had very little understanding of the matter) after the successful challenge to the leadership of the Australian Labor Party by the Hon. Mr Kevin Rudd. Now, with yet another change of Government from Labor to Liberal, another (final) attempt is being made by our Lobby consultants.

Amongst the activities in the last year more under our control, the ICMA has set up a Member's Sectionon the webpage that could only be accessed by current financial members. Along with this was the task of designing and launching the On Target Direct on the Institute's webpage. This was successfully launched with the following sections: Branch News; Career Management; CEO Snapshot; CFO; Cover Story; Entrepreneurship; Events; Institute News; JAMAR; Lifestyle; Management Accounting; Member of the Month; Members Area; Risk Management; Strategy Notes; Study Notes; Tips and Tricks. I urge all members to make use of the membership fees you have paid, and go to this member's section as it provides a wealth of information.

The ICMA continued to publish a world-class academic research journal, the Journal of Applied Management Accounting Research (JAMAR). Two issues were published in the year in both print and online modes. The latest JAMAR issues are also only available to current financial members. Research and professional development also continued in the two organizations set up by the ICMA: The Institute of Certified Carbon Analysts and Auditors (ICCAA) and The Institute for the Advancement of Corporate Reporting and Assurance (IACRA).

At the 2012 Annual General Meeting a resolution was passed to review Membership Fees in terms of country affordability, and that the United Nations categorisation of (1) OECD countries (2) mid-income economies and (3) low-income economies is used as a basis of this review. This review was completed, and the conclusion was that the ICMA membership fees were the lowest of any OECD professional body. As such it was recommended that individual membership fees be kept the same for everybody but that that the percentage that will be refunded for Branch activity be varied based on the United Nations categorizations as follows: (1) OECD countries, 15% (2) mid-income economies, 25% and (3) low-income economies, 50%. The number of members required to set up a Branch was also varied with the following minimum numbers: 1) OECD countries, 100 (2) mid-income economies, 50 and (3) low-income economies, 30 (the earlier minimum for all countries was 100).

The ICMA has also added three new categories of members to its constitution following a motion passed at the 2012 AGM, as follows:

- Life Member (by award of the Institute for persons of high esteem who have maintained their membership and have contributed to the development and growth of the Institute)
- Honorary Fellow (by award of the Institute for persons of high esteem who have contributed to the development of the profession)
- Fellow (by application of for persons who have supported the Institute as a qualified member for a minimum period of 15 years and has demonstrated ongoing professional commitment)

Finally, Best Wishes to all members for the holiday season!

Dr. Michael Vincent, CMA
President, ICMA Australia

CEO Message

I am happy to report that we had a 12% increase in membership in the previous year (this is more than the 7% increase in membership numbers we achieved in the year before). This represents a net-membership increase of 223 members. This is a good achievement as the ICMA's is a specialist professional body for senior executives with education programs at the master's degree level. It takes pride in being exclusive, and strives to differentiate itself from the volume-end of the market which is crowded with professional bodies catering to undergraduate school leavers. The overall membership of the ICMA now stands at approximately 3,800 members in 50 countries, with the majority residing in Australia.

To facilitate its educational objectives the Institute has accredited a number of universities which have master's degree subjects that are equivalent to the CMA program. Some of these universities also provide in-house training and examinations of the CMA program. Accounting graduates can do CMA accredited units at these universities to qualify for CMA status. These universities are as follows (the details of the subjects accredited are listed in the cmawebline):

AUSTRALIA:

- *Victoria:* Monash University; Deakin University; University of Melbourne; Victoria University.
- *Queensland:* University of Queensland; Central Queensland University (CQU).
- *New South Wales:* Macquarie University; Sydney University; University of New South Wales; University of Wollongong; ACU National (Australian Catholic University) .
- *South Australia:* University of South Australia.

OVERSEAS:

- *North America:* University of Southeastern Florida (Florida, USA); Royal Roads University (Canada);
- *Middle East:* University of Balamand (Lebanon);
- *Europe:* Educatis University (Switzerland); Manchester Business School Worldwide (University of Manchester) South East Asia Centre; University of Nicosia (Cyprus)
- *Asia:* MultiMedia University (Malaysia); University of Utara Malaysia (Malaysia); University of Hong Kong (Hong Kong); Nanjing University of Finance and Economics (Nanjing, P.R. China); Jubilee University (PNG);
- *Indonesia:* Parahyangan Catholic University (Bandung); Petra Christian University (Surabaya) ; Airlangga University (Surabaya); Gadjah Mada University (Jogjakarta); University of Indonesia (Jakarta).

In addition to the GMA and CMA education programs, the following short course ICMA certification programs were approved at the recent AGM:

- Certificate in IFRS Compliance (CIFRS)
- Certificate in Islamic Banking & Finance (CIBF)
- Certificate in Enterprise Risk Management (CERM)
- Certificate in Forensic Accounting and Auditing (CFAA)
- Certificate in Global Management Accounting (CGMA)

At this time of the year, it is good to remind members as to the services provided by the Secretariat, and for what their membership fees is being used for:

- Maintaining the corporate website that is in keeping with the international profile of ICMA
- Designing and maintaining a Member's Only area on the website.
- Publishing 5 copies of the On Target eNewsletter
- Publishing the ICMA Member's Yearbook
- Maintaining a Library by over 10,000 texts and professional and academic publications (Expanded Library facilities for members will be opened in 2014).
- Having a World-Class Customer Relationship Management (CRM) system to handle the membership, invoicing, examinations and accounts.
- Conducting Examinations in all Branch locations and in over 20 other countries where students undertake the CMA program by distance education.
- Maintaining the ICMA Blog, with links to Facebook and Twitter
- Continuing with the links to CEO Institute for Members

Please let us know what other services you wish to see from your Institute. We will endure as best as possible to make it happen.

Best Wishes to all members for the holiday season!

Professor Janek Ratnatunga
CEO, ICMA Australia

CFO of the Future: Strategic Contributor or Value Adder?

The traditional finance function has a unique role in any business organization – finance interfaces with all points in the value chain and has more direct contact with other functional departments and divisions than most other areas. The finance function also has overall responsibility for information management and delivery and acts as the interpreter, communicator and educator regarding the financial impact of various management decisions.

However, rapid economic and technological change in the world in recent years has led to questioning among professional accounting bodies of the role of the traditional finance function in businesses, and renewed concerns among professional accounting bodies about the skill sets, knowledge and professional responsibilities of tomorrow's accountants. Key factors driving reappraisal of the traditional finance functions include the rapid globalization of Australian business; the impact of information technologies; changing business and organizational structures; the growing importance of strategic alliances; and a new focus on value creation, resulting in activities that do not add value to the organization being eliminated (see Institute of Chartered Accountants in Australia, Vision 2020, 2002).

Conscious of these changes in the early 2000s, the two leading professional accounting bodies in Australia, CPA Australia and Institute of Chartered Accountants have commissioned a number of studies to assess the future role of the CFO and finance function, and the skills needed of tomorrow's accountants.

The ICAA published two major professional studies "CFO of the Future" (1998) and was followed up by the "The New CFO of the Future: Finance Functions in the Twenty-First Century" (2001).

The future role of the CFO and the traditional finance function has also been considered at an international level. The Financial Management Accounting Committee (FMAC) of the International Federation of Accountants (IFA) has also published "CFO in 2010" (2002) which reports case analysis of ten leading CFO's around the world.

The importance of the CFO performing a more integrated and proactive 'strategic' and 'value creation' role pervades the professional literature. The ICAA report noted: "businesses are increasingly turning to their finance professionals to help them manage through the changes they confront, but not specifically in their traditional finance roles. Leading finance professionals are taking on new roles that add greater value to their businesses" (ICAA, 2001, p.2). And: "Rather than just crunching numbers, finance people will be an integral part of business decision making" (ICAA, 1998, p.1). As for strategic decision making:

"Setting strategic direction to pursue competitive advantage is more important than ever before. CEOs are now thinking it imperative that businesses get financial input to help decide, not just predict the financial outcome of, all facets of their strategies" (ICAA, 1998, p.10).

While it is anticipated that the future CFO will become more a 'strategic contributor' and 'value adder' these terms are not defined in this literature. The distinction between strategic

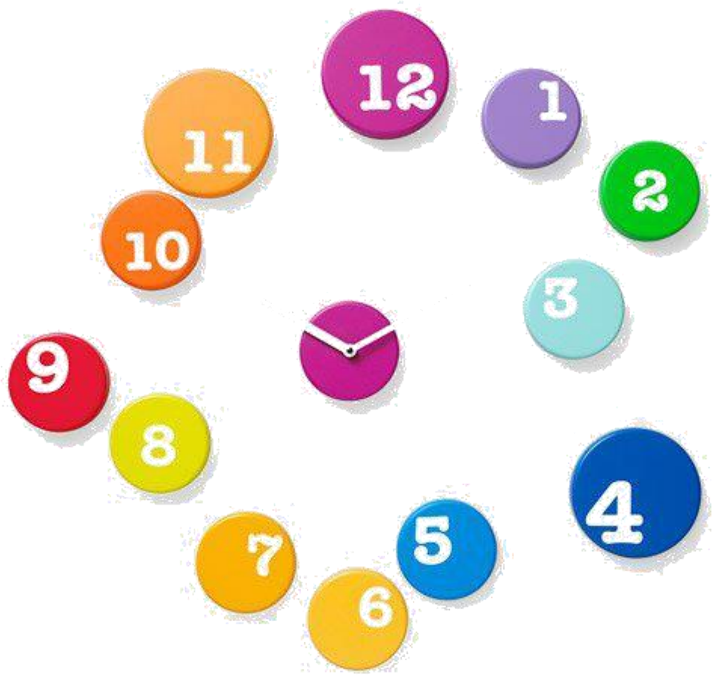
contributor and value adder remains indistinct in the literature. What, for instance, constitutes value adding activity and what outcomes are expected to be influenced by such activity – does 'value adding' imply a contribution directly to firm financial performance (as measured by traditional indicators such as EPS and ROA)? Or is the role of the CFO more a internal facilitation role within the organisation? In this sense, the CFO contributes indirectly to financial performance. Further, what are the attributes most CFO's possess to make a greater strategic or value creating contribution? The ICAA case studies attempted to define certain activities that a value creating CFO must perform. These activities may be influenced by certain key determinants or attributes such as skills, gender, professional education & qualifications and experience in a CFO role.

It has been stated "CFOs need the skills of politicians (to handle difficult situations) and jet pilots (to quickly identify and solve problems)" (Birkett, 2001). The traditional role of the CFO is on an inexorable path of change. Increasingly, CFOs are expected to play vital strategic and leadership roles within their organizations, as well as contributing to overall value creation. This study provides an empirical dimension to these discussions by surveying a sample of 241 CFOs drawn from Australia's top 800 listed companies and top 200 public sector entities. A finding of this study is that CFO management, leadership and strategic skills enhances value creation within the organization more than factors such as qualifications, gender, technology skills and understanding of the finance function. Another key finding of this study is that CFO value creation is most strongly linked to a strategic facilitation role rather than to direct or global measures of organizational financial performance such as EPS and ROA. In terms of performance, CFO value creation activities appears to be more effective at the business unit level, which appears more consistent with the traditional role of a CFO in contrast to the CEO (who has a primary responsibility for external performance measures). Furthermore, CFO ratings on value creation activities, overall strategy, and various CFO skill sets are not significantly different across private and public sector entities in Australia. This confirms the growing importance of the CFO in the public sector. Overall, the results suggest that while the more traditional roles and functions of the CFO still remain important in both the private and public sector domains, the CFO role is fast changing. In terms of value creation, CFOs are placing greater emphasis on leadership and strategy within the organization which are likely to become the vital skill sets required of tomorrow's accountants.

Source: Research done by Rohit Sharma and Stewart Jones [*Click here to see full research*]

Gearing for Growth – Strategise First

All growth strategies can be classified into one of two fundamental categories: concentration within existing industries or diversification into other lines of business or industries. When a company's current industries are attractive, have good growth potential, and do not face serious threats, concentrating resources in the existing industries makes good sense. Diversification tends to have greater risks, but is an appropriate option when a company's current industries have little growth potential or are unattractive in other ways. When an industry consolidates and becomes mature, unless there are other markets to seek (for example other international markets), a company may have no choice for growth but diversification.



There are two basic concentration strategies, vertical integration and horizontal growth. Diversification strategies can be divided into related (or concentric) and unrelated (conglomerate) diversification. Each of the resulting four core categories of strategy alternatives can be achieved internally through investment and development, or externally through mergers, acquisitions, and/or strategic alliances — thus producing eight major growth strategy categories.

Comments about each of the four core categories are outlined below, followed by some key points about mergers, acquisitions, and strategic alliances.

1. Vertical Integration: This type of strategy can be a good one if the company has a strong competitive position in a growing, attractive industry. A company can grow by taking over functions earlier in the value chain that were previously provided by suppliers or other organizations ("backward integration"). This strategy can have advantages, e.g., in cost, stability and quality of components, and making operations more difficult for competitors. However, it also reduces flexibility, raises exit barriers for the company to leave that industry, and prevents the company from seeking the best and latest components from suppliers competing for their business.

A company also can grow by taking over functions forward in the value chain previously provided by final manufacturers, distributors, or retailers ("forward integration"). This strategy provides more control over such things as final products/services and distribution, but may involve new critical success factors that the parent company may not be able to master and deliver. For example, being a world-class manufacturer does not make a company an effective retailer.

Some writers claim that backward integration is usually more profitable than forward integration, although this does not have general support. In any case, many companies have moved toward less vertical integration (especially backward, but also forward) during the last decade or so, replacing significant amounts of previous vertical integration with outsourcing and various forms of strategic alliances.

2. Horizontal Growth: This strategy alternative category involves expanding the company's existing products into other locations and/or market segments, or increasing the range of products/services offered to current markets, or a combination of both. It

amounts to expanding sideways at the point(s) in the value chain that the company is currently engaged in. One of the primary advantages of this alternative is being able to choose from a fairly continuous range of choices, from modest extensions of present products/markets to major expansions — each with corresponding amounts of cost and risk.

3. Related Diversification (aka Concentric Diversification): In this alternative, a company expands into a related industry, one having synergy with the company's existing lines of business, creating a situation in which the existing and new lines of business share and gain special advantages from commonalities such as technology, customers, distribution, location, product or manufacturing similarities, and government access. This is often an appropriate corporate strategy when a company has a strong competitive position and distinctive competencies, but its existing industry is not very attractive.

4. Unrelated Diversification (aka Conglomerate Diversification): This fourth major category of corporate strategy alternatives for growth involves diversifying into a line of business unrelated to the current ones. The reasons to consider this alternative are primarily seeking more attractive opportunities for growth in which to invest available funds (in contrast to rather unattractive opportunities in existing industries), risk reduction, and/or preparing to exit an existing line of business (for example, one in the decline stage of the product life cycle). Further, this may be an appropriate strategy when, not only the present industry is unattractive, but the company lacks outstanding competencies that it could transfer to related products or industries. However, because it is difficult to manage and excel in unrelated business units, it can be difficult to realize the hoped-for value added.

Mergers, Acquisitions, and Strategic Alliances: Each of the four growth strategy categories just discussed can be carried out internally or externally, through mergers, acquisitions, and/or strategic alliances. Of course, there also can be a mixture of internal and external actions.

Various forms of strategic alliances, mergers, and acquisitions have emerged and are used extensively in many industries today. They are used particularly to bridge resource and technology gaps, and to obtain expertise and market positions more quickly than could be done through internal development. They are particularly necessary and potentially useful when a company wishes to enter a new industry, new markets, and/or new parts of the world.

Despite their extensive use, a large share of alliances, mergers, and acquisitions fall far short of expected benefits or are outright failures. For example, one study published in Business Week in 1999 found that 61 percent of alliances were either outright failures or "limping along." Research on mergers and acquisitions includes a Mercer Management Consulting study of all mergers from 1990 to 1996 which found that nearly half "destroyed" shareholder value; an A. T. Kearney study of 115 multibillion-dollar, global mergers between 1993 and 1996 where 58 percent failed to create "substantial returns for shareholders" in the form of dividends and stock price appreciation; and a Price-Waterhouse-Coopers study of 97 acquisitions over $500 million from 1994 to 1997 in which two-thirds of the buyer's stocks dropped on announcement of the transaction and a third of these were still lagging a year later.

Many reasons for the problematic record have been cited, including paying too much, unrealistic expectations, inadequate due diligence, and conflicting corporate cultures; however, the most powerful contributor to success or failure is inadequate attention to the merger integration process. Although the lawyers and investment bankers may consider a deal done when the papers are signed and they receive their fees, this should be merely an incident in a multi-year process of integration that began before the signing and continues far beyond.

Indian Branch Announces New Steering Committee

The CMA Australia – India Branch Steering Committee consist of panel of national and international experts from industry and academia. The Steering Committee is responsible for strategic direction and it is the nerve centre of the CMA Australia in India.

The following people are members of the **CMA Australia – India Branch Steering Committee**.

- Dr. Chintan Bharwada (Branch President)
- Prof. Janek Ratnatunga
- Prof. Dinesh K. Gupta
- Prof. V. R. Iyer
- Chirag Shanghvi
- Vijay Narayan Kewalramani
- Suhas Desai

ICMA Appoints AFA as the CMA Provider in Vietnam

Prof Janek Ratnatunga, ICMA CEO with Mr Long Phan, the Executive Director AFA research & Education office during a recent visit to appoint AFA as the CMA Provider in Vietnam.

Airlangga University CMA Program

Airlangga university ran its first CMA program at its campus in Surabaya, Indonesia over 7-days in October and November. The program attracted its own alumni who were now holding senior positions in companies from around Indonesia; as well as senior academics from other universities in the region.

Telekom Indonesia: In-House CMA Program

Telekom Indonesia runs the CMA program on a regular basis at its Telekom Corporate University at Bandung. The program is organised by the Parahyangan Catholic University (UnPar) which also provides the lecturers for the Strategic Cost Management subject. As Telekom Indonesia is an employer which recruits the very best graduates in Indonesia, the discussion in class are extremely lively.

Dubai: CMA 13th Session

The 13th CMA program was held in Dubai recently, Nov 11-19, 2013. The sessions were organised by the Wisdom Group, the Recognised Provider Institution for UAE and the Middle East.

A batch of 30 participated. Here is a typical remark from a student…

"It was an absolute pleasure to be part of the CMA lectures and we thoroughly enjoyed each and every discussion and learning obtained. We learnt so many new things especially the practical application of topics we had studied earlier but understood before only in theory! Thank you for the vast knowledge and experience, Prof Janek shared with all of us. Thanks once again for a wonderful time and learning"*. (Shakeel Muhammad, Nokia Solutions Networks).*

CEO Visits Hong Kong Branch

Prof Janek Ratnatunga, ICMA CEO with Prof Allen Wong, the Executive Director of CMA Australia, Hong Kong at the CMA office and Training Rooms in Hong Kong during a recent visit.

What's On in the World of the CMA?

- Sept –Nov 2013: Business Sense CMA Program (Philippines)
- Sept –Nov 2013: IPMI CMA regular class (Jakarta, Indonesia)
- Oct-Nov 2013: University Airlangga CMA Program (Surabaya, Indonesia)
- Nov 2013: Wisdom CMA Program (Dubai, UAE)
- Nov 27, 2013: ICMA Annual General Meeting, Melbourne, Australia.
- Dec 2013: Telekom Indonesia CMA Program (Bandung, Indonesia)
- Feb 2014: CMA India CMA Program run by the Academy of Professional Education (Mumbai, India)
- Feb 2014: CMA Sri Lanka CMA Program run by the Academy of Finance (Colombo, Sri Lanka)

Private Providers

Navitas Workforce Solutions, Australia

Wharton Institute of Technology and Science (WITS), Australia

Academy of Professional Education, India

The Institute of Chartered Accountants in Sri Lanka (ICASL), Sri Lanka

Academy of Finance, Sri Lanka

IPMI (Indonesian Institute for Management Development), Indonesia

Multimedia College (MMC), Malaysia

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