

ON TARGET

intelligent innovative invaluable

e-Mag of the Institute of Certified Management Accountants

On Target Online - Feb / March 2011 - Issue 1

L Latest News

2010 AGM Report 4

F Features

Cover Story 1

The Accounting Delusion:
Faith and Trust in Financial
Reporting.

Case Study 8

Australian Retailers Vs the
Internet, have your say!

Member of the Month 10

Sebastian Skrzipek

C CEO Snapshot

Leon Duval CEO 6

Welcome to the first issue of
On Target Online.

Derek Maullin President 7

Best wishes to all members

T Tech Tools

Product Review 5

Adaptive Planning's
cloud-based forecasting
software

B Branch News

Hong Kong 11

The Philippines

Indonesia

Australia

India

The Accounting Delusion: Faith and Trust in Financial Reporting

*By Professor Janek Ratnatunga, School of Commerce,
University of South Australia and Professor Stewart
Jones, Department of Accounting, Sydney University.*

Print media is not the only industry in decline because of its reliance on nineteenth century concepts. Financial accounts are still based on a 160-year-old framework devised in the industrial era when tangible assets such as machinery were the engines of growth.

It is a model largely irrelevant to today's information economy in which the engines of growth are intangible assets such as knowledge workers. But the belief that accounting reports give reliable and relevant information is strongly held by the accounting profession despite invalidating evidence.

The profession cannot maintain this delusion, however, because:

- Divisions are arising among academics and practitioners over the fundamentals of measurement with conventional cost-based procedures being no longer generally accepted;
- The relevance of financial statements in terms of accuracy and timeliness is increasingly questioned;
- The audit expectations gap in public accounting is growing to the point of questioning the relevance of the audit process;
- Accountants are discovering that other corporate management positions are compensated more highly than accountants;
- Accountants are increasingly attacked for tax frauds; and,
- Accountants are increasingly attacked for not recognising sustainability and climate change issues in financial reports.

Historical Costs - The Start of the Delusion

Historical reporting has been driven traditionally by the fundamental principle of matching income with expenditure within a given period and of providing accurate and objective costs at the transaction date. Disclosures of net income are based on a convention



of reliability calculated by determining the actual value of historic costs and deducting these from the actual income. This convention fails to consider changes in wealth or value. The result is growing criticism of financial reporting by management seeking both reliability and relevance, achieved by including current value measurements for which they rely on the accounting profession.

Accounting Standards and Disclosure - Perpetuating the Delusion

The profession has responded to the demand for relevance in a number of ways.

Convergence to one set of international financial reporting standards (IFRS) was the accounting response to the spate of worldwide collapses in the 2000s that saw companies such as Enron, Worldcom, Parmalat, Comroad, and OneTel go under.

Thus the Europe-based International Accounting Standards Board (IASB) and the US-based Financial Accounting Standards Board (FASB) joined to make international accounting standards consistent and comparable. Convergence is founded on the IASB's belief (one that has not been substantiated by research), that differences in accounting policy engender suspicion, particularly when the implementation of standards is slow in different countries. Accordingly, they argue that consistency achieved through convergence minimises asymmetric information and helps make markets more efficient and transparent.

A particularly telling point against convergence, however, is the argument that in practice local applications of consistency and vague rules systems cause the overall framework to lose global consistency. Even today, the US employs a rule-based approach while Europe follows a principle-based one, so in reality achieving consistency through convergence is a myth.

Quit Forward >





Rejecting convergence, many voices within the accounting profession claim that huge corporate collapses such as Enron demonstrate clearly that compliance with rules (form) does not lead to true and fair reporting (substance), a prerequisite demanded by management. Rather than a rules-based approach they are in favour of a principles approach, that is, an if it didn't succeed, why didn't it succeed explanation when principles are deviated from. But European collapses such as Parmalat, Maxwell and Comroad indicate that even this approach is fallible

Either way, we believe both approaches are flawed since the foundation upon which accounting reports and related standards are based are fundamentally

flawed, especially in the measurement and valuation of both tangible and intangible assets.

Fair Value - Multiple Delusions

The accounting profession has heralded fair value accounting as the mechanism for presenting relevant information that more accurately reflects prevailing circumstances. It defines income in terms of changes in net worth or value reflecting the impact of external events on total value. But it is a two-edged sword that opens up new prospects for manipulating accounts and further clouding the true perspective of a company's verifiable financial records.

Fair value is determined easily when assets and liabilities are actively traded on the market, the value being the quoted market price. Difficulty arises when such assets are not actively traded, and with intangible assets for which there is often no market. Then the use of fair value may allow significant variations in asset values further clouding investors' ability to evaluate true financial performance.

When fair values are provided by sources other than liquid markets they are unverifiable and allow firms to engage in discretionary income management and other accounting behaviours. By recognising unrealised gains and losses, fair value accounting creates volatility in owners' equity (including financial institutions' regulatory capital) and net income that need not correspond to the cash flows that will be realised ultimately. Fair value accounting mixes normal /permanent components of income such as interest with transitory unrealised gains and losses.

Accordingly, it is understandable that the proponents of historical costs claim that these are easily determined, and that a charge for the use of the asset calculated against its useful life is logical, understandable and computable.

Historical cost must, therefore, be regarded as a financial hygiene factor that doesn't in itself improve trust, but will be one element that reduces trust if not present.

Government - Legitimising the Delusion

In most countries the Corporations Law requires directors to give a true and fair view of their company's performance, and many governments have introduced a range of strongly enforced initiatives and prescribed practices in relation to corporate governance, auditors and accounting standards.

Most governments are also taking a greater oversight role, for example Australia's Financial Reporting Council (FRC) and the Australian Securities and Investments Commission (ASIC) have significant regulatory roles. In this environment the concept of statutory profit based on IFRS has emerged, as has the concept of non-statutory (non-IFRS) profit.

The Statutory Audit - Approving the Delusion

The objective of accounting reports is to provide investors with true and fair feedback on a company's performance to enable effective decisions on placement and allocation of shareholders' funds. But in the absence of strong internal integrity in accounting (due to an outdated economic paradigm and its only partially successful update) it has become more difficult for audits based on such reports to ensure that the values presented are true and fair.

Understandably, however, auditors have gone along with the delusion presented in accounting reports and been satisfied with minimum compliance arrangements. They are remunerated by those who prepare the reports, supposedly on behalf of the shareholders of the company and, after all, if the extent of the delusion is exposed, what need is there for a statutory audit?

The failure of audit firms to attain true independence and highlight misleading disclosures has been a major cause of concern, and the public has been quick to blame the auditors for the company collapses of recent decades.

[< Contents](#) [Quit](#) [Forward >](#)

But can accountants and auditors be held liable if the very framework they use to provide their reports is flawed? We believe that the foundations of accounting are such that trust cannot be restored unless the accounting model itself is changed.

The New Economic Order

The world economic order has changed rapidly over the last two decades. Competition between nations and corporations has intensified, and the virtual, real-time global economy is an everyday reality. Economic activity in all sectors increasingly involves processing and analysing information, making judgements and providing services rather than the manufacturing and marketing of tangible commodities.

Thus for both manufacturing and service industries, intangible assets - brands, reputation, intellectual property, know-how and copyrights – are more important than ever, and competitiveness is based increasingly on how organisations harness them.

Indeed, in an increasingly open world economy in which it is harder to sustain competitiveness purely on the basis of traditional tangible assets, which are also easily available to the competition, it is the intangible assets that now provide the true competitive advantage.

The Impact on Company Valuations

Take Microsoft with a market value of \$600 billion, of which the book value of assets is less than \$45 billion and physical assets less than \$2 billion or only four per cent of the book value of total assets and only 0.3 per cent of market value. Microsoft is a perfect example of the new economy in which a company's value resides not in measurable features like revenues, P/E ratios or market share but in intellectual capital, that is, organisational culture, customer loyalty and brand equity.

The New Reporting Frontier

New economy companies require the simultaneous provision of:

- Strategic and control information;
- Future-orientated and historical information;
- Financial and non-financial information;
- Profit-motivated and socially responsible information;
- Timely and accurate information; and,
- Motivational information

But while the accounting profession fails to provide such value-enhancing reports its perceived value continues to diminish and the accounting delusion is perpetuated by the vagueness of the framework rules and principles, the drive for global consistency resulting in loss of local relevance and the difficulties of verifiability resulting in intangible assets being kept off balance sheet.

So it is that knowledge economy companies report book values that are widely divergent of prorated market values, and the financial statement valuations of today's companies are even more fictitious than ever.

The Challenge

We challenge the profession to recognise the limitations of both rule-based and principles-based accounting standards for a framework developed in an earlier economic environment and to rethink the accounting model to fit the new economic paradigms of a knowledge economy. In rethinking the reporting model it would be of specific interest to recognise and measure intangible assets, consider timing versus accuracy issues and question the assumptions relating to information stability in today's dynamic environments.

[< Contents](#) [Quit](#) [Forward >](#)



Report

2010 Annual General Meeting

The thrust of the AGM, held on 25 November at ICMA House, Melbourne, Australia, was to review progress on strategic imperatives adopted as the cornerstone for institute policy and action into 2012. The strategic imperatives are:

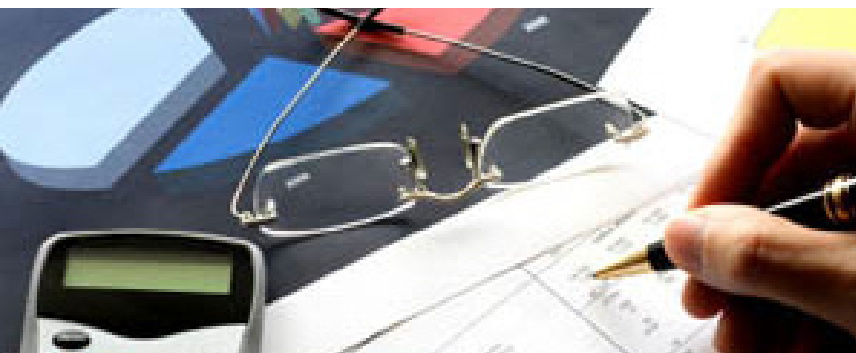
- Attain the status of a migration assessment authority for recognition of the ICMA qualification by the Australian migration authorities
- Form strategic alliances and mutual recognition arrangements with other professional bodies
- Foster the work of our current branch network and increase the number of branches
- Increase communication with members
- Build a global network of CMA champions
- Launch a global professional development program
- Build greater awareness of the Institute both in Australia and wherever it is represented.
- Encourage membership growth and retention
- Increase the opportunity for non-accounting graduates to attain ICMA membership after undergoing the required education and training

Highlights from the detailed report are as follows:

On attaining the status of a migration assessment authority and achieving recognition by the authorities

As a result of a ICMA lobbying campaign management accounting was recognised as a specialised profession when the revised Skilled Occupation List (SOL) was published in May 2010. Discussions are ongoing with the relevant government departments in Canberra regarding appointment as a migration assessment authority.

The ICMA was invited to participate in a conference and briefing for assessment authorities in November 2010. This invitation was further proof that the ICMA is now a recognised lobby group for the management accounting profession.



Relationships with other professional bodies.

The ICMA leadership in Australia and elsewhere is gradually coming to the realisation that management accounting is a management

specialisation. Accordingly, our most valuable relationships and alliances should be with management sector associations. To this end we have commenced dialogue with the Australian Computer Society and other initiatives are in the pipeline for 2011. Our Hong Kong branch is also very active and visible in this area

Branches

The ICMA is now active in nine regions including Australia, and there are plans to expand to 14 before the end of 2011. The excellent promotional work and education services being provided by all regional partners was acknowledged in this regard.

Communication

Members heard of advanced planning for the ICMA electronic magazine (e-Mag) launch scheduled for February 2011. The institute will also publish an annual hard copy year book in December, and a members blog is planned for the last quarter of 2011.

Once more the excellence of ICMA academic research was evident in our refereed journal JAMAR, and the work of the editorial team was acknowledged and commended.

Building a network of ICMA champions

Much effort has been made in this regard and full credit was given to both Hong Kong and the Philippines. There is progress also in Australia and the first endorsements are being printed.

Continuing Professional Development

After wide-ranging discussion and the assessment of a number of submissions, the council is finalising the CPD model to be launched as a six month trial and evaluation period at the beginning of the second semester 2011. The formal CPD program will be introduced in January 2012.

Building greater awareness of the ICMA

Increased awareness was acknowledged by invitations to the Australian Liberal Party dinner and the Australian Labour Party pre-election dinner in Victoria; meetings with Department of Education Employment and Workplace Relations (DEEWR) in Canberra; recognition by Skills Australia; discussion with the Australian Computer Society; engagement of a professional public relations company to assist in this area; and, the creation of the e-Mag and the year book as effective tools for the future

Membership Growth and Retention

Membership strategies are to sustain and maintain at this stage. At the end of 2011, and following the successful completion of the projects defined in the list of strategic priorities, a more aggressive program will be developed and implemented.

Opportunities for non-accounting graduates

This initiative will be considered for 2012 in line with membership growth and retention considerations.

[< Contents](#) [Quit](#) [Forward >](#)

Product Review

Adaptive Planning's cloud-based forecasting software



Cloud-based services now provide a way for companies to plan ahead without relying on cumbersome spreadsheets while reducing the high costs of business forecasting

It may not look like a crystal ball, but Microsoft's venerable spreadsheet software, Excel, is often used as one by businesses trying to peer into their financial futures.

The problem is that many companies have so many different budgets and divisions that many different spreadsheets need to be linked together. Errors crop up if formulas are off or different departments have different budgeting styles. That makes it difficult to drill down from one spreadsheet to the next, or to come up with a financial forecast for the whole enterprise.

Yet for many companies, this low-cost option made sense compared with the traditional alternative: sophisticated but expensive packages from giant vendors such as SAP, IBM, and Oracle. Those typically require new IT equipment and training that can send total costs for big companies into the hundreds of thousands, if not millions, of dollars. Now, a third path has opened up—thanks to a new class of cloud-hosted forecasting services that are sold through annual subscriptions costing about \$500 per user.

These new tools, from Silicon Valley companies such as Adaptive Planning, are letting companies of all sizes replace their legacy Excel spreadsheet models with a more automated, less error-prone, packaged application," says Craig Schiff, CEO of BPM Partners, an advisory firm focused on performance management. And because the software is hosted with the provider, companies avoid capital outlays for new IT resources. The systems can typically be up and running in less than a month.

When spreadsheets are used, typically only one or two people truly understand how they work—a situation that's not conducive to collaboration and checking accuracy, Schiff says. "Adaptive Planning has adopted the ease-of-use mantra more than any of the other vendors in this category," he adds. For instance, managers sometimes want to create new what-if scenarios. With spreadsheets, that means creating

multiple versions that are hard to track. The Adaptive Planning software has built-in version management so that managers can browse the different scenarios.

That's why fast-growing companies such as Zipcar and Pandora have signed up for these cloud-based tools. Such companies "undergo rapid—and significant—changes as they grow," says Adaptive's acting CEO, Greg Schneider. Those changes include introducing new products and services, expanding to new locations, adding new distribution channels, and changing pricing structures. Companies typically forward spreadsheets among teams of people, so that each member can review them and make changes in turn. But with the new software, managers can log in to a single version that tracks everyone's notes and comments. The result is a system that promotes collaboration.

Any company that wants to grow fast requires this kind of agility—the flexibility to come up with new scenarios about the future and change plans accordingly. A recent survey by Adaptive Planning of some of its 750 customers revealed that the percentage of companies that re-plan, re-forecast, or run what-if scenarios more than three times a quarter has doubled. "It has always been important to know whether or not you are going to be able to meet your targets, and if not, what can be done to adjust your business in order to do so," says Christopher Reale, director of corporate planning and analysis for Konica Minolta USA, a maker of imaging equipment that is among Adaptive Planning's newer customers.

With these kinds of customers signing on, the new tools are disrupting the market for higher-end predictive modeling software—finally bringing this technology within reach of almost any company, no matter what its size. The lower costs and the simplicity, Reale says, mean "we're able to involve more people, and include more detail in the budget and forecast processes."

Adaptive Planning software is distributed in Australia by Online One

<http://onlineone.com.au/index.php/products/adaptive-planning>

< Contents Quit Forward >



Welcome to the first issue of *On Target Online*, the ICMA's digital response to extending, improving and increasing communication with its membership and branches.

The expanded coverage of news, issues and information is reflected in a bright new corporate design aimed at capturing our profession's point of difference and its directional thrust into the future.

But while our primary aim is to communicate information relevant to members it cannot be our only responsibility. As a responsible professional body the ICMA must also voice concerns, make comment, and raise issues relevant to members, to the management accounting profession, to the wider business community and to both professional and elected government representatives. Business owners, professional managers and government are, after all, both our clients and our partners; we work with them to create organisational value and to promote ethical and sound governance practices.

For these reasons our focus will include risk management, the capacity of organisations to create and sustain value into the future, the protection of the environment, the promotion of social responsibility and ethical behaviour and, government policy, wherever and whenever it may impact on these areas.

In keeping with editorial policy, therefore, I take the opportunity in this inaugural issue to communicate my personal concerns about the way our profession is organised globally. We are a fractured and fissiparous profession, and the strategies of the management accounting membership bodies outside Australia are parochial and largely destructive. In some environments, the efforts of local management accounting organisations to protect their little areas of turf actually breach the principles of free trade, one of the cornerstones for the smooth operation of a global economy.

The financial accounting profession is my benchmark for these serious accusations. The professional membership bodies are involved in financial accounting and assurance and compete freely with one another, yet they engage also in structured, constructive dialogue. In this way

professional standards and quality are maintained and developed and issues of mutual concern are debated and dealt with.

Contrast these behaviours with management accounting profession examples.

When the Australian ICMA approached both its Canadian counterpart and the UK Chartered Institute of Management Accountants (CIMA) seeking to establish ongoing dialogue and wishing to explore the potential for a global management accounting collaborative body, it was ultimately ignored. It would appear that to these bodies protecting their competitive space is of greater importance than entering into a constructive dialogue aimed at promoting and developing globally the profession of management accounting.

The ICMA's experience with the American IMA was even more disconcerting. At the same time as we were engaged in merger negotiations at the highest levels of their organisation, the IMA was attempting to register trade marks in ICMA markets that would effectively have locked us out of those markets – a strange action for an organisation domiciled in a country which prides itself on sustaining competitive behaviour through its anti-trust laws! Needless to say, the negotiations broke down. Interestingly, the catalyst for the breakdown was ICMA Australia's conclusion that the IMA education program was inferior to its own. A merger would have effectively downgrade the quality of the Australian CMA qualification!

Consider also how the financial accounting profession has organised itself globally under the umbrella of the International Federation of Accountants (IFAC). Overtures to CIMA and the Canadian CMA to consider a similar structure for management accounting failed to elicit a response. The IFAC no longer has a standing committee for management accounting, clearly exhibiting its lack of interest in this specialist body of knowledge. Yet our associate management accounting bodies continue to focus their global connection through this organisation that no longer recognises their relevance!

[< Contents](#) [Quit](#) [Forward >](#)

Given this scenario, the major question for the Australian ICMA is where to position itself taking into account the realities of a hostile competitive environment which focuses on parochial rather than global concerns.

I believe that our position is clearly explained by the following statements of intent.

- 1** We are dedicated to developing and supporting management accounting within Australia and the wider Asia Pacific Community, and our objective is to ensure that our profession is recognised as a specialist body that delivers significant value to all organisations.
- 2** Our members are not score keepers. They are participants in the strategic management team while supporting and contributing to operations conducted across the whole value chain.
- 3** The Australian ICMA is the only professional management accounting body that demands a masters education level before granting full membership status. Accordingly, our members can stand tall and proud within the global economic community and have every right to proclaim the esteem value of their membership.
- 4** Our high standards will not allow for geometric growth in membership numbers, a strategy adopted by many other bodies that have diluted their entry criteria as a result. Accordingly, we do not seek

alliances or recognition on the basis of quantity. We will be judged on the quality of both our membership and the contribution it makes to those who utilise its services.

- 5** Management accounting is a specialisation that in time will shed its image as a branch of accounting. It is gradually moving to the point of creating strategic alliances with the academic and membership associations representing management, the IT industry, risk management and all branches of the engineering profession. We intend to place ourselves at the forefront of that process.
- 6** We are always open to dialogue and discussion with professional management accounting bodies wherever they may be domiciled. Our objectives for that dialogue are first and foremost to pursue and enhance excellence in our specialist profession and to do so through mutual co-operation and respect.

We hope you enjoy this new and improved e-magazine that will appear in your inbox bi-monthly. Look out for the next issue in April and share it with your friends and colleagues. It is your forum and we welcome your input, feedback and participation,

Leon Duval,
CEO, ICMA

President's Message

Best wishes to all our members for a successful 2011, and welcome to On Target Online.

ICMA enters this new year with great expectations. At the forefront of progress for our organisation is this electronic magazine, which is welcome for several important reasons, as I mentioned in the last hard copy edition of On Target. It provides for us all, as members of a shared profession, the opportunities to become both better informed of current global views and developments and to make a tangible contribution to the development of our profession by submitting articles and raising and debating issues. I encourage our members from around the globe to engage with this exciting new initiative by contributing critical comment and analysis of issues as they affect our profession as well as those of concern to the wider economic community.

Our evolution to an online presence signifies ICMA's growth from its original Australian nucleus. Discussions I shared with Leon Duval, Janek Ratnatunga and a few others many years ago in offices in Camberwell, Victoria and later at a launch at the Hawthorn Football Club, marked the birth of ICMA. Now we have members in 40 countries and importantly, 60 per cent of our membership

is domiciled outside Australia. To maintain our vitality and relevance, we must involve more of this international branch membership in the strategic direction of our institute.

On Target Online will contribute to that objective by disseminating to you all our strategic objectives and by encouraging your own contributions and feedback. Similarly, we hope to use forms of teleconferencing to enable branch representation at council meetings.

Enjoy this first issue of On Target Online, the latest in a series of important steps to ensure our professional development and maintain our professional relevance. And don't be shy. This is your magazine and an opportunity to access a global audience by sending us your views, suggestions for subjects you would like to see covered, contributions and feedback to the editor ontarget@cmawebline.org

Derek Maullin



< Contents Quit Forward >

Australian Retailers Vs the Internet

Notionally a debate about removing a tax loophole, in reality a symptom of the malaise within an industry struggling to find strategies for dealing with a ferocious and predatory competitor.

As an example of political and public lobbying the Australian major retailer's campaign against shopping online from offshore suppliers qualifies for the Klutz gambit of the year award. Instead of picking up the telephone and engaging privately and directly with the treasurer, the finance minister and their respective departments, the retailers concerned shoved the issue directly into the public arena providing a minority government, highly sensitive to public opinion, a free insight into how the Australian electorate would react to a GST change. A brief, clearly related announcement subsequently appeared in the media indicating that the GST was "not on the government's agenda at this time".



There are aspects of this case that go deeper than merely regarding it as a clumsy strategic miscalculation. It is a symptom of a much greater malaise - the total lack of insight by major industry players about the fundamental and permanent changes taking place in their competitive environment. Management literature abounds with such examples. To survive in our dynamic information-driven global economy, business must constantly reinvent itself to sustain itself. Failure to do so is terminal. [Read more>](#)

Australian retailers must face up to a competitor with the potential to gain such a significant share of certain market segments that they could ruin many existing operators, both large and small. The benefit derived by offshore retailers from the strong Australian dollar is cyclical, and although the cycle is currently tipping the competitive advantage, it will pass. This cyclical event, together with the GST loophole, is creating an annoying anomaly but they are side issues, which should not and must not divert attention from the real concerns. The Internet retailer is open for business 24 hours a day, seven days a week, 365 days a year, and the successful models are not only domiciled offshore but are here in Australia also. They appear to have competitive advantages a bricks and mortar retailer can only salivate over, reducing fixed costs such as staffing, distribution and shopfront exposure while most devastatingly of all harnessing the power of information to strategically deploy knowledge about their customers.

Amazon.com is a superb case study. I purchased a set of specialised titles from them last year. These were offered second-hand for \$US7 each, significantly cheaper than the price from an Australian speciality bookseller whose offer was \$A49.50 new. When they arrived, the books were in pristine condition so even at the then exchange rate of 85 cents to the US dollar this was a fabulous buy. A 10 per cent GST impost would have had

The Issue

In December a group of major Australian retailers alerted the press to what they claimed was foul play. [Read more>](#) The reason - increasing numbers of Australian consumers purchasing online from offshore suppliers and free of GST for purchases under \$AUD1000. The strength of the Australian dollar, particularly against the \$US, was clearly a significant catalyst. Parity with the \$US has reduced offshore prices which in many instances are well below those offered by Australian retailers.

The retailer's campaign implied that the competitive advantage this afforded would force Australian retailers to reduce staff and cost Australian jobs, and called on the Australian government to plug the GST loophole. Of course, no mention was made about the fact that for years many large retail chains have dumped Australian manufacturers and wholesalers by purchasing direct from offshore suppliers, a process that has already cost the economy many thousands of jobs and sent some small businesses to the wall.

Consumer reaction to what was perceived as a self-interested campaign by greedy big business was fierce. And by attempting to lobby through the media the retailers alerted those not yet shopping online to the cost- saving opportunities of doing so!

The Federal Government has announced a Productivity Commission into the effects of online retail, due to report this August.

no influence on the decision to purchase, incidentally. The transaction has a twist as well. Recently an email from Amazon.com arrived offering to buy back the titles I had purchased six months previously!

Contrast this with the following. In December my wife made a number of telephone enquiries about an item she wished to purchase. After sourcing the best price at a large retail chain, she enquired and was told that the item was in stock. Half an hour later at the store, the salesperson politely advised that actually the item was not in stock. Needless to say, this chain won't see my very irate wife in one of their stores again, and no doubt her experience has already achieved viral distribution. Relationship marketing clearly hadn't found a fertile environment within this retail chain which a month later was part of the gang demanding imposition of the 10 percent GST on its online competitors.

The initial battles are being lost in many theatres. If the war is to be won, Australian retailers must move immediately to build up a barrier of strategic walls, which will in turn create significant disadvantages for the cyber predator and convert them into secondary players within selected market segments. After establishing secure positions, strategically planned attacks designed to increase market share can be launched.

[< Contents](#) [Quit](#) [Forward >](#)

On Target Online readers will have their own views and insights as to how a fight- back campaign should be formulated and executed, and the ICMA invites you to submit your solutions to the e-Mag editor ontarget@cmaweblne.org

Your suggestions, suitably acknowledged, will be incorporated into a Productivity Commission submission outlining a strategic approach recommended by the management accounting profession as to how Australian retailers should compete against the emerging power of the online stores.

To initiate the debate here is a brief outline of how I would approach the project.

The rhyming phrase clicks and bricks has been around for many years with its relevance becoming ever more apparent.

Distribution through dual channels, thereby creating an ambidextrous retail organisation capable of reaching customers using both physical and cyber shopfronts is not an exotic fantasy, it is a strategic and structural imperative.

Examples of Australian businesses that have developed and are exploiting an ambidextrous clicks and bricks approach are not difficult to find. No prizes for guessing that their names were not on the list lobbying for a change to the GST. Nor interestingly were those small retailers who have taken the ambidextrous route and are making it work. They are using the Internet to drive traffic to their bricks and mortar niche outlets where customers are met with expertise and loyalty programs. In some instances small and specialised businesses are adapting while large, cost-driven retailers (reflected in the bottom line approach to low stock levels and insufficient, inexperienced staff) are floundering.

Don't pay lip service to having a cyber presence; the website shop front must be an integral part of the drive for developing effective marketing strategies, disseminating information and building relationships with customers. But it and your other bricks and mortar distribution channel must be treated as equals in the allocation of resources.

However, case studies on dual purpose or ambidextrous organisations show success is based on acknowledging the significant cultural differences between the dual structures when process and control systems are designed and implemented.

Understand and select the appropriate strategic options for competing in this globalised world driven by information via a rapidly developing technology.

In the '80s, Harvard Business School Professor Michael Porter published a succinct compartmentalised model outlining the few strategic choices available to the competitors making up an industry: Differentiate yourself in the market place by commanding a premium price for products or service; alternatively, carve out your market share by offering best value at lowest prices. The chosen strategy could be applied either within focused segments or across the market as a whole. Any competitor caught in the middle as neither a differentiator nor a low price leader would ultimately be ignored by the customers and disappear.

The Internet competitors have successfully embraced both strategic options differentiating themselves via a new and powerful distribution channel and structurally presenting also as cost leaders.

The competitive strategy required to deflect this apparent dual strategy will need to be based on a series of strategic barriers through which the Internet competitors cannot pass and on turning their competitive information gathering weapon against them.

The following is a list of a few initiatives I believe form the basis for building a competitive response:

- Find a niche and make sure you are identified with it. This may be based on product, pre and post sale service, knowledge, physical position, pricing, blockbuster sales etc. The list is endless. Do not allow yourself to be caught in the middle with no defining advantage, and remember you have the benefit of two channels. Use it, the cyber competitor domiciled offshore can't match that one;
- If you are a large departmentalised retailer choose your segments carefully ensuring each has the potential to create its own niche. Create a structure that allows the departmental segments to compete independently selecting their own responses to the external drivers shaping each segment;
- Your people are the strategic and process ordinance if you are to win this war. If you have built a capability based on muzzleloaders firing buckshot you deserve to be vanquished! Develop a customer service capability with wow factor, put the right people in place to embrace and execute it, use IT to monitor its effectiveness and weaknesses implementing control action when required, and link this with a reward system that motivates and acknowledges a key competitive advantage - your people. The cyber predator cannot compete against this one either;
- Introduce a culture of relationship marketing. Own your customers, bring them into your value chain and make them a part of the business. Achieve this via your webstore shopfront and your physical presence. Create a database of customers and within the bounds of the privacy laws try and capture every possible feature that will support a comfortable relationship with the customer, then communicate regularly. But, make this a positive experience, not an intrusive communication; and,
- Overlay this with an information system that delivers strategic and process control information. In order to do this you will need to look outside the conventional framework of the financial statements. Non-financial indicators, some of which will be critical success factors, must be woven into your management information system. Ensure that you understand how shortening cycle times (for example, inventory levels and inventory turnover rates) impact on return on net assets (RONA) and how indices explaining customer satisfaction levels increase or decrease the percentage EBITDA representing sales and gross margin.

These are some initial thoughts straight from the modern management accountant's handbook and really only scratch the surface. But they prove how valuable our body of knowledge is and reinforce the imperative to promote the value of management accounting to business, government and not-for-profit organisations. We look forward to receiving and submitting your ideas.

Leon Duval

[< Contents](#) [Quit](#) [Forward >](#)

The strength of the ICMA is its membership and each issue of On Target Online will celebrate this fact by turning 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 the profession and the wider community. Nominations should be accompanied by a brief CV, an outline of why the nomination is considered significant and a jpeg portrait of the nominee. Please address contributions to the editor ontarget@cmaweblne.org

Our inaugural **Member of the Month** is German-born **Sebastian Skrzipek**, 32, who came to Australia in 2006 and is a management accountant with one of the world's leading automotive suppliers based in Melbourne. Sebastian joined the ICMA in 2008.



Q. Describe your work.

A. My management accountant role includes the analysis of financial and non-financial key figures, month-end reporting, forecasting and budgeting as well as the administration of ACIS/ATS - a Federal Government incentive program.

Q. How did you learn about the ICMA and its program?

A. That's quite a story. In Germany organisations like CPA Australia, NIA, CA, CIMA or ICMA mean nothing, and the only German accounting body I know of is for those aiming to become partners of big auditing firms. Furthermore, German companies don't support memberships, and belonging to an accounting body makes no difference to finding work or being promoted. Since this is completely different in Australia my employer recommended joining a professional accounting body. Personally I thought it was important if I wanted to stay in Australia for a longer period and work in the finance area. But it was easier said than done, and it seems there are more accounting bodies here than there is sand on the Australian beach. Being German made it harder. Some organisations weren't supportive of my masters degree, even though it consists of almost 50 subjects as is standard in Germany. Worse still I felt most lacked a clear purpose, were extremely bureaucratic and had poor customer service. Obviously I had to undertake further studies and I wanted to learn something useful for my employer and myself. Joining CPA Australia required studies such as Australian Taxation Law and Corporate Governance, which wouldn't add any value to the management accounting and controlling direction I wanted to pursue. Then I stumbled over the CIMA, which impressed me as being globally orientated, but they'd just held exams. Luckily I made further investigations and found ICMA, the Australian equivalent. Firstly, ICMA offered studies that fully supported my career direction. Secondly, ICMA does away with red tape and is one of the only accounting bodies to recognise masters degrees and acknowledge the importance of work experience. Thirdly, ICMA was playing with an open hand, which means no surprises. Right from the beginning, I knew exactly what I was signing up for. Clearly, no one is offering you a membership for free and the ICMA standards are very high. My masters degree had value and was not being downgraded to

below bachelor level as with other accounting bodies. The free pre-assessment really helped me judge the level of studies required, which is important especially when you're working long hours.

Q. Why did you think the ICMA program would enhance your career?

A. It concentrated on the topics relevant to my job. The studies connected all areas of the business and its inter-relationships, such as logistics controlling, sales/marketing controlling and BSC. It offered a good overview, and I especially liked the indicators of corporate failure like z score.

Q. Which ICMA program did you take?

A. I did both ICMA courses, Strategic Business Analysis and Advanced Management Accounting. It took me about a year to complete both.

Q. You studied by Distance Learning, was that difficult?

A. The Distance Learning Program was great and for me there was never another option. There are advantages having a mentor explaining it all to you, but distance learning offered me the flexibility I needed. My job requires long hours, and travelling to make it in time for class was rather difficult. Distance Learning requires discipline but my motto was, just one year, that's it. The studies included so many real life examples that it was quite interesting (okay, maybe not that interesting after 9 p.m.).

Q. How has the program benefited you?

A. It really helped me to get a better understanding of costings and the disadvantages of incorrect allocation keys (hidden profit and losses). Instead of blindly accepting every new concept from headquarters, you start questioning them.

Q. What are the benefits of membership?

A. I finally think I have brought my professional qualifications in line with local requirements. Furthermore, I appreciate the ICMA being a global player. Sure, it's still a small organisation, but global and growing. I like and support the strategic plans of the CEO and the President. Who knows what happens in the future? Maybe one day I'll go back to Europe and at least my ICMA studies will have been worthwhile. I've learned something of use wherever I go as it is not restricted to just the Australian market. I doubt that I could say the same if I had studied Australian Taxation Law. In a nutshell, the ICMA designations gave me more than just three letters behind my name.

Q. Would you recommend membership to others?

A. Of course, and I have already. If you're out there in the accounting body jungle looking for a home, ICMA is it. Especially if you have a masters degree you don't want to start again from scratch.

[< Contents](#) [Quit](#) [Forward >](#)

Hong Kong Branch Opening

Since opening in July 2010, the Hong Kong Branch has worked hard to promote the institute to universities and educational institutions in Hong Kong and the China region. Already we have recruited 500 professional members including Pro Vice Chancellors, Associate Deans, Department Heads, CEOs, Financial Controllers, Financial Directors, General Managers, and Chief Executives.



We are pleased that accreditations have been established with a number of universities, continuing education institutions and commercial enterprises both in Hong Kong and the China region.

Since its inception the Hong Kong Branch has participated also in many charity events and professional seminars. In September and November, we participated in the Help Actually Charity Golf Tournament and Help Actually Unstoppable Charity Movie Premiere arranged by Help Actually Association Limited to raise funds for the Help Actually Foundation. In December, the Hong Kong Branch was invited to be among the supporting organizations of a seminar arranged by the Institute of Financial Accountants in Hong Kong.

Having got off to such a positive start, we believe that the Hong Kong Branch will provide greater opportunities for grooming future professional management accountants both in Hong Kong and the China region

Left: Mr. Leon Duval, our CEO from Australia and honoured guests performed a ribbon cutting ceremony to commemorate the occasion. From left to right: Dr. Dennis Tam, Honorary Vice Chairman (CMA Hong Kong Branch); Mr. Michael Vincent, Vice President (CMA Australia); Mr. Chu Yam Yuen (JP), Commissioner, Inland Revenue Department HKSAR; Prof. Dr. Dominic S.W. Wong (GBS, OBE, JP), Honorary Chairman (CMA Hong Kong Branch); Mr. Phil Ingram, Senior Trade Commissioner & Deputy Consul General (Commercial), Australian Trade Commission; Mr. Leon Duval, CEO (CMA Australia); Mr. Allen Wong, Chief Executive (CMA Hong Kong Branch).

Philippines

The Philippines Branch will deliver the following ICMA programs in 2011 at the Oakwood Premier, Joy Nostalg Centre Manila, Ortigas, Pasig City.

Program 21 - 8 January to 26 March

Program 22 - 7 May to 23 July

Program 23 - 3 September to 26 November

Under the leadership of Henry Ong the Philippines has emerged as one of the ICMA's most active centres, and we look forward to welcoming the many new members who will join our ranks after successfully completing their examination in that region this year.

Indonesia

The Petra Catholic University in Surabaya Indonesia is preparing to offer the ICMA program. The launch is scheduled for February 2011 with a train-the-trainer program for the two ICMA subjects.

India

The next ICMA symposium is scheduled for Mumbai from 10 - 17 April 2011.

Melbourne, Australia

The ICMA will run both the SCM and SBA programs in the first semester of 2011 at The Hilton on the Park. This is a new initiative for Australia. In the past both programs were conducted by distance learning or through one of the many universities offering the course as electives within a masters degree.



At a CMA Australia Academia cocktail reception in January academics were invited to become foundation members of the recently opened CMA Australia Hong Kong Branch. Pictured left to right are Mr Allen Lau with his certification as Honorary President of the Hong Kong Branch, Mr Leon Duval, Professor James Ding with his Honorary Advisor certification, Mr Dennis Tam, and Mr Allen Wong.

Above right: A meeting took place in Hong Kong recently between the branch heads of ICMA Hong Kong and Philippines. The pair discussed the potential for regional co-operation and described their meeting as constructive. Pictured shaking hands are Allen Wong CMA (Hong Kong) and Mr Henry Ong CMA (Philippines).

[< Contents](#) [Quit](#)

Published by:

The Institute of Certified Management Accountants

Unit 5, 20 Duerdin Street
Clayton North 3168
Victoria

Australian Branches :

All inquiries please contact
info@cmaweblines.org

* South Australia

Professor Janek Ratnatunga, PhD CMA
Branch President
University of South Australia

* New South Wales

Professor Chris Patel
Branch President
Macquarie University

* Western Australia

Dr. Vincent Ken Keang Chong
Branch President
UWA Business School

* Northern Territory

Professor Gweneth Norris, PhD CMA
Branch President
Charles Darwin University

* Queensland

Dr. Richard Whitwell, PhD CMA
Branch President
Central Queensland University

© 2011 - The contents of this e-Mag are for distribution with ICMA acknowledgements.

Editor: Jan McGuinness: ontarget@cmaweblines.org DTP: www.toothpick.com.au

<http://cmaweblines.org>