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STRATEGY » FINANCE » MANAGEMENT

50 SHADES OF 'NEW NORMAL'

**Whipping Companies to
Embrace an Alternate
Societal Lifestyle**

+
CRAZYNOMICS

+
**GLOBAL
INTERCONNECTIONS**



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50 SHADES OF ‘NEW NORMAL’: WHIPPING COMPANIES TO EMBRACE AN ALTERNATE SOCIETAL LIFESTYLE (PART 1)

THE BIRTH OF AN ALTERNATE REALITY

Introduction

The ‘New Normal’ seemed to have happened overnight with the advent of the coronavirus. Whilst there were signs and warnings that major disruption was around the corner before the COVID-19 virus hit us; these were doomsday scenarios of the future, rather than one that required immediate crisis management today.

Climate change was the biggest of the pre-COVID-19 doomsday scenarios. The *Paris Accord* gave us hope that if all the countries pulled together and reduced our greenhouse gas emissions, we could keep global warming below 2°C. The other worry was a potential *Nuclear War* starting in the Middle-East, but then President Obama had brokered the *Iran Nuclear Agreement*, to the collective relief of the whole world. The Economists and Bankers worried about the alternative world of cryptocurrencies such as *Bitcoin*, that could use Blockchain technologies to by-pass the traditional banking systems. *Facebook*, the massive social network, along with 27

other partners, were touting the *Libra digital coin* and the corresponding digital wallet, *Calibra*, as a way to make sending payments around the world as easy as it is to send a photo.

Generational Change

Before the coronavirus pandemic, what is called the ‘New Normal’ today, was simply called “generational change”. Children watched ‘Daniel Tiger’ and ‘Peppa Pig’ instead of Mickey Mouse or Donald Duck. The superhero comic books already had ‘Thor’ the Norse God of Thunder as a female; and Superman had died after battle with the villain ‘Doomsday’. Out in space Pluto was no longer a planet; and Elon Musk had a ‘Tesla’ car orbiting the Sun.

On the political front, we had populist dictators running so called democracies; but the scale of destruction that they would later cause in their mismanagement of their own country’s pandemic response was not on anyone’s radar. In Europe, *Brexit* happened on January 31, 2020, bringing to an end 47 years of British membership of the EU and the institutions



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that preceded it. In Asia and Africa, China’s global intentions were fairly transparent with their ‘Belt and Road Initiative’; and its claims to disputed islands in the South China seas was already causing significant tensions. The *Golden Arches Theory of Conflict Prevention* where the author stated that no two countries that had a McDonalds Restaurant would go to war with each other because of the power of globalisation was being severely tested.[i] Tensions along the India-Pakistan border had resulted in many skirmishes, but no official war had actually broken out. Both countries have McDonalds restaurants, so war was prevented by business interests just as the theory had predicted.

During the COVID-19 pandemic tensions heightened, with troops in the India-China Himalayan border actually killing each other with rocks. Thankfully, no weapons were discharged. Globally, tensions today are at a fever pitch, with USA and Australia accusing China of sophisticated 'hacking' on a large scale. Chinese companies such as *Huawei* were being blocked from being involved in sensitive IT networks; and *TikTok* was being accused of being an arm of the Chinese government, with a USA threat to block it, or take the company over. Business leaders appear to have been effectively silenced by the increasingly hostile posturing of the political leaders of the USA, China, UK and Australia. It was only when President Trump announced that the USA was going to ban WeChat; was there some push-back from over a dozen large US businesses doing business in China, where the ubiquitous app is used by 1.2b people globally. Business leaders around the world need a more proactive strategy to safeguard their interests, as a hostile 'trade war' leaves no casualties.

On the Social front major changes were also happening before the COVID-19; but the pandemic has exacerbated these issues. The global *#metoo* movement brought down some big names, and companies had to rethink their sexual harassment policies. Although the movement is primarily about women who have been harassed by men; the organisational hierarchies of many companies that have women in positions of authority and power, could soon be subjected to a *#MENToo* movement.

The 'Black Lives Matter' movement with the use of the hashtag *#BlackLivesMatter*, began on social media in July 2013, after the acquittal of George Zimmerman in the shooting death of African-American teen Trayvon Martin. The movement became nationally recognized in the USA for street demonstrations following the 2014 deaths of two more African Americans. During the COVID-19 pandemic the movement got supercharged and went global, after a white police officer, Derek Chauvin, knelt on African-American George Floyd's neck for nearly eight minutes and choked him to death. There were demonstrations in almost every country from Europe to Asia to Africa. Many participated in the marches, not only in support of the movement, but also as a release from their 'lockdown' due to COVID-19. During the protest marches many of the statues of those considered as slave traders and racists were attacked and either defaced or

damaged. There were even calls to 'defund' the police.

President Obama in 2019 asked people to be '*Woke*', which is now increasingly used as a byword for 'social awareness'. Such awareness has resulted in previously published literary and artistic works being either 'censored' on a piece-meal basis; or the entire works of that author, director or entertainer being 'cancelled'. This has significant consequences for business. For example, a book published in an earlier generation might suddenly be 'censored' because of language, racial characterization, or depiction of drug use, social class, or sexual orientation of the characters, or other social differences that are viewed by today's moralists as harmful to the readers. Such a posthumously censored book will not only cease accumulating royalties, but worse still be subject to costly litigations against the author's estate. A body of work that is 'cancelled' entirely for whatever reason, loses all its value. There was a move to cancel all of Michael Jackson's music after child-abuse accusations by the victims in the 'Leaving Neverland' program aired on HBO; but *Billboard* said that his work was too extensive to 'cancel'.

The Big Bang of the New Normal

The exact date the world changed dramatically is unclear.

On 31 Dec 2019, the *World Health Organisation (WHO)*'s Country Office in the People's Republic of China picked up a media statement by the Wuhan Municipal Health Commission from their website on cases of 'viral pneumonia' in Wuhan. It was only on 27 January 2020, that the WHO Regional Director for South-East Asia issued a press release that urged countries in the Region to focus on their readiness for the rapid detection of imported cases and prevention of further spread. Finally, on 11 March 2020 WHO announced the COVID-19 outbreak as a pandemic. By then, the global network of international travel had taken the virus to all corners of the Earth.

Since then our "New Normal" has had many shades such as: *Flattening the Curve; Social Distancing; Home Schooling; Travel Restrictions; Self-Quarantine; Lockdowns; Hot Spots; Compulsory Face Masks; Contact Tracing, Intensive Care Units (ICU), Ventilators and Vaccines.*[ii]

We also came to understand the importance of millions of essential 'Front-

Line Workers' who, despite the hardships and health risks, continued to do their jobs during the COVID-19 pandemic. These hardworking heroes continued keeping their country's citizens fed, picking up their garbage, providing them life-saving medicine, delivering their groceries and packages, preparing and/or delivering their food, cleaning their hospitals, caring for those who are most vulnerable, and keeping us safe—often while earning low wages and few benefits.

In addition to direct health care workers such as medical doctors and nurses, such frontline workers include health care support workers such as orderlies and phlebotomists; direct care workers such as home health and personal care aides; and health care service workers such as housekeepers and cooks. Also, those who kept the supply lines working, such as truck drivers, taxi drivers and supermarket staff who diligently controlled shoppers to ensure that a repetition of the "Great Toilet Roll Shortage of March 2020" and similar panic buying and hoarding by customers did not happen.

The pandemic has exposed and accentuated inequities in the economic system. Those in white-collar jobs can work from home, but "essential" front-line workers must continue to work, and are therefore at greater risk of contracting COVID-19, all the while for poor pay. Those in industries such as hospitality (disproportionately young, female and with black or brown skin) have borne the brunt of job losses.

The lockdowns of entire cities created a 'new normal' for our access to news and entertainment. Streaming services such as *Netflix* and *YouTube* had a fifty-fold increase in traffic; as did volume of postings on social media sites such as *Facebook*; which also had a spike in posting of 'Fake News' and 'Alternate Facts'. These often gave confusing, conflicting, non-scientific information about COVID-19 and its origins, treatments and conspiracies. There was even conflicting advice as to the usefulness of wearing masks in public, uploaded or posted sometimes by those claiming to be medical professionals. Sometimes, extremely dangerous utterances such as the advice to use *Bleach* to prevent COVID-19, was disseminated around the world at lightning speed. Facebook morphing into 'Fakebook', was another virulent shade of the 'new normal'.

The greatest short-term impact for most companies has been the sudden transition to a “Work from Home (WFH)” environment. This ‘new normal’ of a WFH culture has raised the multiple issues that come with it, such as: sharing excel files through multiple locations; boosting internet bandwidth; factoring home office costs; building corporate networks; ensuring information security and data protection and consider workplace safety issue as all homes becomes places of work.[iii]

In the corporate world, the big winner has been *Zoom*, one of the dozens of video conferencing services. Zoom has risen to the top, thanks to intense separation measures, a profound resonance within this new social distancing culture and the new WFH environment. A ‘Zoom culture’

has become one major shade of the new normal, with daily downloads of the Zoom app have increased 30x since COVID-19; and daily users have spiked to 200 million in March, up from 10 million in December. Zoom is not only a big winner in business communications, but also with millions of people being forced to stay home to help stop the spread of COVID-19; with many finding creative ways to virtually stay social through happy hours, trivia nights and birthday parties.[iv]

However, this new WFH culture — where either multiple members of a family maybe working from home, or when some are working whilst others a caring for young children or supervising home schooling — has created added pressures on family dynamics. Whilst some have taken this new normal to get healthier by walking and exercising; other have turned into couch potatoes watching endless television and being sucked down the *You Tube Rabbit Hole*.^[v] Also, whilst the WFH culture has enabled some to be closer to their immediate family and enjoy this new normal, the increased incidence of family violence reported globally tells another story.^[vi]

Summary

Prior to the COVID-19 pandemic, significant changes were already happening that altered our view of the world, such as: *The Rise of Populism; Brexit; Tension in South China Seas; Golden Arches Theory; State Based Hacking; Huawei and TikTok; #MeToo; WOKE; Censored; Cancelled; Black Lives Matter; Defacing Historical Statues; Defund the Police; Blockchain; Cryptocurrency and Libra*. All These changes were supercharged during the COVID-19 pandemic, creating lasting shades of ‘new normal’.

Further shades that were directly related to reducing COVID-19 infections were added to our regular lexicon, such as: *Flattening the Curve; Social Distancing; Home Schooling; Travel Restrictions; Self-Quarantine; Lockdowns; Facial Masks; Hot Spots; Contact Tracing; ICU; Ventilators and Vaccines*.

Indirect shades of ‘new normal’ due to the virus included: *Front-Line Workers; Panic Buying & Hoarding; Netflix and the You Tube Hole; Fake News and Alternate Facts (Fakebook); Untested Medical Remedies; Working from Home (WFH); Zoom meetings and changes in Family Dynamics*.

In all, 35 shades of the ‘New Normal’.

In the next part, 9 further shades in the new normal of ‘Crazynomics’ will be covered.

Next... PART 2: THE EMERGENCE OF ‘CRAZYNOMICS’

The opinions in this article reflect those of the author and not necessarily that of the organisation or its executive

[i] Thomas L. Friedman (1999), *The Lexus and the Olive Branch*, Farrar, Straus and Giroux, p.394

[ii] Janek Ranatunga (2020), “Financial Modelling Wars: COVID-19 vs. the Economy” *On Target*, March 31. <https://www.cmaweblines.org/ontarget/financial-modelling-wars-covid-19-vs-the-economy/>

[iii] Janek Ratnatunga (2020) “COVID-19: New challenges for Management Accountants in the ‘Work from home’ environment”, *On Target*, March 18. <https://www.cmaweblines.org/ontarget/covid-19-new-challenges-for-management-accountants-in-the-work-from-home-environment/>

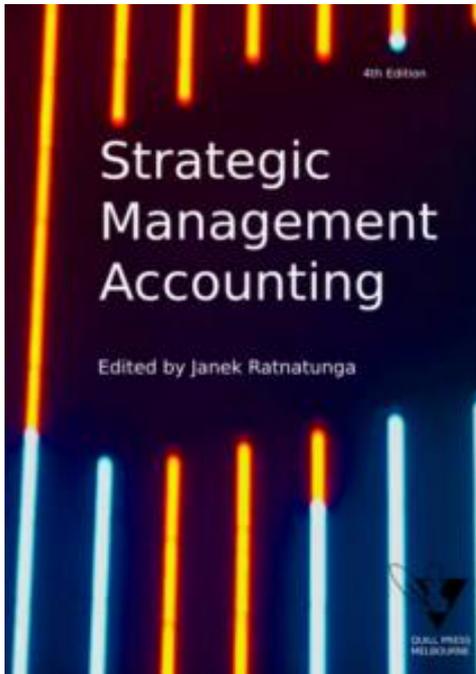
[iv] Dain Evans (2020), “How Zoom became so popular during social distancing”, *CNBC News*, April 4. <https://www.cnb.com/2020/04/03/how-zoom-rose-to-the-top-during-the-coronavirus-pandemic.html>

[v] The You Tube Rabbit Hole is what happens when you watch an embedded YouTube video on another site and then watch a couple dozen related videos that are displayed after the previous video completes. The rabbit hole effect is only encountered after at least an hour has passed and you regain your sense of temporal awareness. This effect usually is followed by, “How the hell did I get to this video?”

[vi] Anthony Galloway (2020), “Domestic violence on the rise during pandemic”, *Sydney Morning Herald*, July 13, <https://www.smh.com.au/politics/federal/domestic-violence-on-the-rise-during-pandemic-20200712-p55b8q.html>



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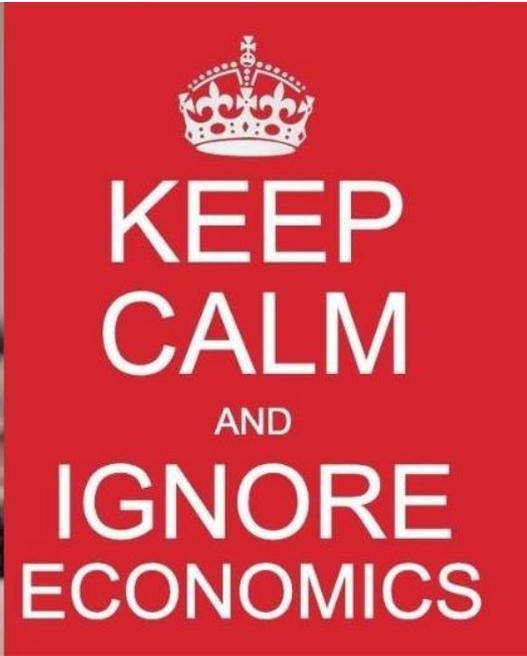
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50 SHADES OF ‘NEW NORMAL’: THE EMERGENCE OF ‘CRAZYNOMICS’ (PART 2)

Introduction

Part One of this series, covered the political and social ‘alternate reality’ that the world finds itself in. Significant changes were already happening prior to the COVID-19 pandemic. These changes were supercharged during the COVID-19 pandemic, creating lasting shades of ‘new normal’. When the pandemic hit, further shades were added to our regular lexicon that were both directly related our efforts at reducing COVID-19 infections; and to our forced lifestyle changes. In all, 34 shades of ‘new normal’ were covered in **Part One**.

In this part, 9 further shades in what we will call the new normal of ‘Crazynomics’ will be covered.

Development of Macroeconomic Policy

In 2005 Stephen J. Dubner, a University of Chicago economist and Steven Levitt, New York Times journalist wrote a book called ‘Freakonomics’ which explores unintended consequences, both positive and negative, of various policies and business decisions. [i] Today we are observing the birth of a ‘new normal’ that can only be described as ‘Crazyian Economics’ or Crazynomics, as some of the most foundational principles of economics are being significantly challenged.

The application of macroeconomics policies began in 1936 with the publication of John Maynard Keynes’s “The General Theory of Employment, Interest and Money”. Keynes’ view was that Governments were supposed to run large deficits (i.e., spending more than they took

in taxes) during downturns to prop up the economy, with the expectation that they would pay down the accumulated debt during the good times. By the 1970s, ‘Keynesian’ economics had encountered problems. The persistently high inflation and high unemployment of that decade (“stagflation”) baffled mainstream economists, who thought that the two variables almost always moved in opposite directions.

This resulted in the ‘Monetarist’ era in the 1980s, most commonly associated with the work of Milton Friedman, who’s critique of Keynesianism was that if policymakers tried to stimulate without tackling underlying structural deficiencies then they would raise inflation without bringing unemployment down. Thus, high inflation could then persist, just because it was what people came to expect. The monetarist ideas were implemented by the US Federal Reserve (The Fed), which enabled inflation to be crushed by constraining the money supply (interest rates at 18% were normal in that period); even though doing so also produced a recession that sent unemployment soaring. Many monetarists argued that policymakers before them had focused too much on equality of incomes and wealth to the detriment of economic efficiency. They argued that focusing on the basics—such as low and stable inflation—would, over the long run, create the conditions in which living standards would rise for everyone.

From ‘Keynesian’ to ‘Crazyian’ Economics

This dominant economic paradigm began to show strain after the global financial crisis of 2007-09, as policymakers were confronted by



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two big problems. The first was that the level of demand in the economy, i.e. the aggregate desire to spend relative to the aggregate desire to save seemed to have been permanently reduced by the crisis. To fight the downturn in spending, central banks slashed interest rates and launched quantitative easing (QE), (or printing money to buy bonds). [ii]

Printing more money does not increase economic output – it only increases the amount of cash circulating in the economy. If more money is printed, consumers are able to demand more goods, but if firms still have the same amount of goods, they will respond by putting up prices. Thus, in a classical economic supply-demand model, ‘printing money’ should cause rampant inflation. However, this did not happen in the USA. Eventually, labour markets boomed, but inflation remained muted. Inflation and unemployment were once again not behaving as expected, though this time they were both surprisingly low.

This was not the only signal of the start of ‘Crazyian’ economics. Between March 2008 and December 2019, the US Fed’s balance sheet in terms of its total assets, ballooned from US\$900

billion to US\$4.5 trillion. This should also have meant that with such an oversupply of dollars, the exchange rate of the US dollars vis-à-vis other global currencies should have depreciated significantly. However, against all economic theory, even as the supply of the dollar increased 5-fold, the global demand US dollar also increased, thus strengthen it against most currencies.

This resulted in the following crazy scenarios. The US purchased billions of dollars of goods from China, and paid for them via quantitative easing (printing money). China used this money to not only improve its infrastructure, but also loan the money for infrastructure projects in its 'Belt and Road Initiative'. It also used the money to purchase assets around the world, from real-estate to listed companies, some of them in highly sensitive industries. After all this spending, China still had money left over to send their US dollars back to USA and buy its Treasury Bonds, which the US Fed printed and sold to China!

The second post-financial-crisis problem related to the distribution of wealth. While concerns about the costs of globalisation and automation helped boost populist politics (e.g. "Make America Great Again"), economists asked in whose interests' capitalism had lately been working. Some worried that big firms had become too powerful^[iii]; others, that a globalised society was too sharp-edged or that social mobility was declining.

Negative Interest Rates – The Brave New World of Finance

By 2014 Crazyian economics was gathering pace; with economists much divided on the perceived wisdom of how to manage the economy. Central bankers were of the opinion that only an interest rate below zero would force a release of savings and generate enough demand to stimulate the economy. That was a point they could not easily reach, since if banks tried to charge negative interest rates, their customers might simply withdraw their cash and stuff it under the mattress, rather than spending it. The countries that have already felt the effects of negative interest rates are: Denmark (2012); Eurozone (2014); Switzerland (2015); Sweden (2015) and Japan (2016). In such countries and economic zones, the central banks usually charge about 0.1% interest on a portion of excess reserves financial institutions park with them.

The concept of 'Negative Interest Rates' turns the world of finance and investing on its head. For example:

Time has no Value in Money: A fundamental tenant of Finance is that there is a 'Time Value of

Money'. Money now is worth more than money later as, as you can invest the money today at an interest rate and get a higher compounded value later. If interest rates are negative, theoretically, companies can borrow money from banks and get paid by the bank for taking the loan. Interest will no longer be an expense but a revenue source; i.e. the more a company borrows from the bank, the more profit it can make!

Capital Budgeting Decision Rules Reversed: The weighted average cost-of-capital (WACC) is the hurdle-rate that drives all investment decisions. The WACC is a composite of the cost of debt and the cost of equity. One component of the cost of equity is the risk-free interest rate (such as the Treasury Bond rate) and another is the market rate of return. With negative interest rates the risk-free return will higher than the market return; thus, reversing traditional Capital Budgeting Decision Rules!

COVID-19 – Back to Keynesian Economics?

The coronavirus finally destroyed the 'monetarist' economic policies with the force of a nuclear bomb. Supply chains and production was disrupted simultaneously, resulting in both raw materials and finished goods becoming harder to come by in every country. This should have caused prices to surge, but notwithstanding some short-term profiteering in essential goods, prices have remained stable. The bigger impact of the pandemic has been on the demand side, causing expectations for future inflation and interest rates to fall even further. The desire to invest has plunged, while people across the rich world are now saving much of their income. ^[iv]

Even before COVID-19, policymakers were starting to focus once again on the greater effect of the bust and boom of the business cycle on the poor. But since the economy has been hit with a crisis that hurts the poorest hardest, a new sense of urgency has emerged. That is behind the shift in macroeconomics. Devising new ways of getting back to full employment is once again the top priority for economists.

But how to go about it? It appears that many rich countries have reverted to Keynesian economics by jointly providing fiscal stimuli worth some US\$4.2 Trillion; proving wrong that policymakers cannot fight downturns. It also created a 'new normal' that was unimaginable prior to COVID-19; i.e. that most governments would actually place the health and safety of its citizens above politics, and close their economies down despite significant resistance from its populace – many of whom lost their sources of income. This enormous stimulus has calmed markets, stopped businesses from collapsing and protected household incomes. But for how long?

Policymakers now have to weigh up the risks to choose from in the post-COVID-19 world. There are many choices: widespread central-bank intervention in asset markets, ongoing increases in public debt or a shake-up of the financial system. However, an increasing number of economists' fear that even these radical changes are not enough. They argue that deeper problems exist which can only be solved by structural reform. ^[v]

A Booming Stock Market in a Recession: WTF is Happening?

The coronavirus pandemic is producing some unusual developments in financial markets, challenging some historic correlations. Sharemarkets have surged since the trillion-dollar capital injections by the central banks; although the spread of the virus shows no signs of abating, especially in the USA due to the total mis-management of the pandemic by President Donald Trump.

Beyond the health crisis and its economic implications of a pending global recession, the upward trajectory of the sharemarkets continue. This is despite the escalation of political tensions between the world's two largest economies – the US and China; China's crackdown on civil liberties in Hong Kong – a key global financial centre; border conflicts between China and India; a potential collision between China and the West over issues as disparate as technology and the South China Sea and a looming election amid massive civil unrest in the US.

A surging sharemarket has historically been positively correlated to the copper price which has also spiked 38 per cent since March. Copper had historically been very sensitive to economic conditions. What is confusing however is that gold and silver prices – which traditionally have had an inverse correlation with the sharemarket, the copper prices and the state of the global economy – have also soared. ^[vi]

The unusual correlations between copper, sharemarkets, gold and silver encapsulate the confusion about the economic impacts of the coronavirus. Clearly, The Fed's multi-trillion dollar infusions of liquidity and credit, and the initial \$US2.9 trillion (A\$4.1 trillion) US Congress stimulus (with more about to come imminently) – along with what are in real terms zero or negative interest rates around the world – are being regarded as contributing to a perceived potential debasement of the US currency; and hence the popularity of gold and silver as alternative investments. Traditionally, investors looking for "safe" investments have sought refuge in Treasury bonds; but with these now essentially yielding almost nothing – precious

metals like gold and silver are seen as 'stores of value' that can also offer much higher yields.

Cash and Conquer: The Rise of Shadow Banks

Traditionally, commercial and investment banks held only a fraction of their assets as reserves and they borrowed short-term to make long-term loans or hold long-term securities. That exposed them to runs. Economic history is littered with the tombstones of banks that were felled when markets for illiquid securities seized up, or depositors rushed to withdraw their funds.

The subprime fiasco of 2007-09 inflicted severe economic pain for all banks, and the US Fed had to inject over 200 billion to bail them out. All types of banks have faced tighter regulation since then, which has made them more risk averse and blunted their competitive advantage.

As banks have grown risk-averse, tech-savvy non-banks, often called 'shadow banks', are stepping up with a new wave of innovation in capital markets that has changed securitisation and debt issuance and led to more direct lending. Technology has also facilitated this shift because it has promoted the growth of payments; and of bank-like activities outside the banking system.

The term 'shadow banking' could apply to a range of financial institutions and activities. It includes long-established institutions like pension, insurance, private-equity and hedge funds, as well as newer ones, like exchange-traded fixed-income funds, which provide a vehicle for savers to deposit cash that is then invested in government and corporate bonds.

Banks' stagnation and their risk aversion has had consequences for how central banks respond to crises. In 2007-09, the Fed had to intervene mainly to prop up commercial and investment banks and AIG Insurance. When the coronavirus pandemic hit and capital markets seized up, rather than acting as a lender of last resort to banks, the Fed became market-maker of last resort, intervening in credit markets with massive capital injections. The scale of the Fed's intervention surpasses any other in its history. As a result, both traditional and shadow banks went relatively unscathed.

The US Fed has intruded into a bewildering array of financial markets in the aftermath of the COVID-19 pandemic, including: the treasury market, the corporate-bond market, and the repo market (where Treasuries are swapped overnight for cash). It is providing liquidity to money-market mutual funds and it has bought up mortgage-backed securities. [vii] The US Fed, acting with the US Treasury, has bought up the bonds of AT&T, Apple and even Coca-Cola, and

lending directly to everyone from bond dealers to non-profit hospitals. Together the Fed and Treasury are now supporting 11% of America's entire stock of business debt. Across the rich world, governments and central banks are following suit. [viii] Australia's second biggest airline, Virgin Australia, hampered by massive debt, asked the Australian government to buy it out. When this was rejected, it went into voluntary liquidation.

Such a broader and deeper reach by a State across all sectors of the economy creates some opportunities. Low rates make it cheaper for the government to borrow to build new infrastructure, from research labs to electricity grids, that will boost growth and tackle threats such as pandemics and climate change (i.e. a more Keynesian approach).

Yet this new normal of massive state spending also presents grave risks in that such policies are vulnerable to capture by lobbyists, unions and cronies. Sprawling macroeconomic management always leads to infinite opportunities for politicians to play favourites. Already they are deciding which firms get tax breaks and which workers should be paid by the state to wait for their old jobs to reappear. Soon some loans to the private sector will turn sour, leaving governments to choose which firms fail. When money is free, they will rescue distressed companies, protect obsolete jobs and save troubled investors with political clout, rather than economic necessity.

This has resulted in a perverse 'new normal' in that even as millions in the USA have lost their jobs and are worried about how to get food and pay the rent, banks and shadow banks are awash with cash. Such cash is finding its way to exotic investments; and 'fire-sale' purchases of companies distressed in the wake of pandemic. For example, Bain Capital an American private investment firm that specialises in private equity and venture capital recently made a bid to buy Virgin Australia, when a government bailout was not forthcoming.

The holy grail is for policymakers to create a framework that allows the business cycle to be managed and financial crises to be fought without a politicised takeover of the economy. There is no evidence that such a shade of 'new normal' will ever eventuate.

Summary

In this part, 9 further shades in the new normal of 'Crazynomics' were covered. These include: Massive Size of Government Borrowing; Quantitative Easing; Central Banks Buying Company Bonds; Negative Interest Rates; Money

Printing vs. Low Inflation; Money Printing vs. High Exchange Rates; Booming Stock Market in a Recession; The Rise of Non-Banks; Private Equity Funds on Spending Sprees.

In the next concluding Part 3, the impact of COVID-19 on various global interconnections, from logistical supply chains that drive our commerce, to physical weather patterns that drive our climate are explored.

Next...PART 3: THE CLASH OF GLOBAL INTERCONNECTIONS

The opinions in this article reflect those of the author and not necessarily that of the organisation or its executive

[i] Stephen J. Dubner and Steven Levitt (2005), *Freakonomics*, William Morrow and Company, 336 pp.

[ii] Janek Ratnatunga (2020), "Pandemic Financing – Stealing Billions from Future Generations", *On Target*, April 8.

<https://www.cmawebline.org/ontarget/pandemic-financing-stealing-billions-from-future-generations/>

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[iv] Economist (2020), "Starting over again: The covid-19 pandemic is forcing a rethink in macroeconomics", *Briefing*, July 25.
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[vi] Stephen Bartholomeusz (2020), "Bulls vs bears: The pandemic has the markets looking confused and divided", *The Age*, July 28, pp.19-20.

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50 SHADES OF 'NEW NORMAL': THE CLASH OF GLOBAL INTERCONNECTIONS (PART 3)

Introduction

Part One of this series covered the political and social 'alternate reality' that the world finds itself in. In **Part Two**, it was shown that the traditional macroeconomic policies that worked in previous crises could no longer be relied upon as, there was evidence of the emergence of what can only be described as 'Crazyonomics'.

In this concluding Part Three, the impact of COVID-19 on various global interconnections, from logistical supply chains that drive our commerce, to physical weather patterns that drive our climate are explored. When the pandemic tsunami hit, the seamless man-made supply chains that could be tapped by both governments and large and small companies came to a grinding halt. In terms of the world's natural logistics of its weather patterns, there was some respite as the emission of greenhouse gases reduced when countries went into 'lockdowns'. However, these very lockdowns have caused a significant increase in plastic pollution in terms of

throw-away masks and take-out food containers — most of which have found their way to our rivers and seas, where the logistics of ocean currents take such pollution to all parts of the world.

The World is No Longer Flat

When Thomas L. Friedman claimed in 2005 that "The World Is Flat", it was a metaphor for viewing the world as a level playing field in terms of commerce, wherein all competitors have an equal opportunity.^[i] Of the ten "flatteners" that he saw then as levelling the global playing field, three of them will require reimagining post COVID-19. These are:

- **Outsourcing:** where service and manufacturing activities are split into components that can be subcontracted and performed in the most efficient, most cost-effective way.
- **Offshoring:** where a company's manufacturing or other processes are



Prof. Janek Ratnatunga
CEO, ICMA Australia

relocated of to a foreign land to take advantage of less costly operations there; and

- **Supply-Chaining:** where technology is used to streamline sales, distribution, and shipping into a seamless supply chain much like how a river delivers water.

It is now clear that it was this very 'flatness' that initially caused the pandemic to spread at warp speed from China to every corner of the world via Air Travel. When governments finally reacted and closed their borders, it was again the 'flatness'



that resulted in scarcities of essential supplies as most of these were being sourced from China. The pandemic, which originated in China, initially led to government-mandated factory closures which shut down China's manufacturing base. Many suppliers temporarily ceased production and logistics providers struggled with transporting goods, particularly across borders. This reinforced the risks for multinationals of being overexposed to one source of supply, and, as the pandemic spread, revealed how dependent the rest of the world had become on China for both the most basic and also the most critical of equipment and supplies, including medical supplies and equipment.

In the wake of the virus-induced supply chain disruptions, some experts have been quick to blame '*Just-in-Time (JIT) manufacturing*', citing modern manufacturers' obsession with lean supply chains as the culprit. Manufacturers around the world, relying on JIT supplies for their basic components for production, could not manufacture as basic supplies dried up. Supply shocks like pandemics highlight how interconnected the supply chain structure is. Your supplier might not be in the affected areas but if their raw material is in an affected region, then you will be affected too.

It must be remembered however that JIT is a 'pull' manufacturing system, where manufacturing starts only when an order is received. No pull system can produce for a future event — because pull systems do not recognise future events; they only meet current demand needs. Pull systems like JIT are responsive, not predictive.

It is the 'push' systems that have sales forecasts and make inventory to meet the predicted demand. But even the best of forecasts, using big-data and other analytics, did not predict the global impact of the COVID-19 pandemic, and were also caught short. Some had enough inventory, but nowhere to send!

Further, one of the key reasons to implement a JIT philosophy is to reduce inventory (ideally to zero) as holding inventory has significant costs. This

includes the *financing costs* of holding inventory. However, if interest rates are effectively zero (or even negative), then a very large component of inventory holding costs are eliminated. In the 'new normal' companies should be urged to hold supplier inventories as consignment stocks in their own warehouses. Those that had already implemented this were caught less 'off-guard' by the supply chain disruptions that ensued; and were able to continue operations under JIT conditions until replenishments arrived.

The pandemic's disruption to supply chains has also added an edge to the previous discussions about diversifying and re-shoring supply chains and is producing some significant action. The Japanese government has recently set aside \$US2.2 billion to provide incentives for Japanese to "re-shore" activity from China and has offered a smaller amount to companies that relocate production elsewhere. The US has indicated that it is prepared to spend a similar amount to Japan to promote the re-

shoring of manufacturing activity and jobs; with Vietnam, Taiwan, Mexico and Europe being the main beneficiaries.**[ii]**

Most Western economies, including Australia, are contemplating creating domestic manufacturing of products such as essential goods, personal protection equipment, medical technology and pharmaceuticals previously sourced from China.**[iii]**

In the near term, China's economy cannot be easily decoupled from America's, let alone those of the rest of the Western world. There would be enormous costs and dislocations for companies to disengage from China and the sheer size and growing affluence of China's domestic market are too seductive for western companies to ignore.

However, the 'new normal' will be that the world will no longer be that flat anymore.



Climate Change: You Can't Do Business on a Dead Planet

Following the pandemic is like watching the climate crisis at warp-speed. Neither the virus nor greenhouse gases care much for borders, making both menaces global. Both put the poor and vulnerable at greater risk than wealthy elites and both demand government action on a scale hardly ever seen in peacetime.

The two crises are not only similar in impact, they also interact. Locking down the economy has led to massive cuts in greenhouse-gas emissions in most big cities around the world. COVID-19 has resulted in the biggest carbon crash ever recorded. No war, no recession, no previous pandemic has had such a dramatic impact on emissions of CO₂ over the past century as COVID-19 has in a few short months. Multiple sources indicate we are now living through an unrivalled drop in carbon output. The *International Energy Agency* expects global industrial greenhouse-gas emissions to be about 8% lower in 2020 than they were in 2019, the largest annual drop since the second world war.

However, even though we will see a massive fall this year, the concentrations of CO₂ that are in the atmosphere and warming our planet will not stabilise until the world reaches net-zero. This is unfortunately the inconvenient truth about the climate crisis. It is much too large to be solved by the abandonment of planes, trains and automobiles. Even if people endure huge changes in how they lead their lives, this sad experiment has shown, the world would still have more than 90% of the necessary decarbonisation left to do to get on track for the Paris agreement's most ambitious goal, of a climate only 1.5°C warmer than it was before the Industrial Revolution.

However, there is one glimmer of hope. Whilst the pandemic reveals the size of the climate challenge ahead; it also creates a unique chance to enact government policies that steer the economy away from carbon at a lower financial, social and political cost than might otherwise have

been the case. Rock-bottom energy prices make it easier to cut subsidies for fossil fuels and to introduce a tax on carbon. Such a tax, when added to the depressed oil prices, will appear seamless to consumers at the pump; as it will merely bring the price up to pre-COVID-19 levels. Such a tax will also enable renewable energies to remain price competitive. Also, the revenues from a carbon tax over the next decade can also help repair battered government finances.

Carbon prices are not as popular with politicians as they are with economists, which is why too few of them exist. The lessons (hopefully) learned from the COVID-19 indicates that their time has come. A relatively small push from a carbon price could give renewables a decisive advantage—one which would become permanent as wider deployment made them cheaper still. There may never come a time again when carbon prices could be introduced without much political resistance; and be able to achieve so much so quickly.

Oil Prices Go Negative: I Will Pay You to Take My Oil

The investing world was gobsmacked when oil futures went negative in April 2020. The new normal of restricted air travel, city lockdowns and work-from-home culture created such a drop in the demand for crude oil that storage capacities around the world started filling up fast. Onshore tanks in most parts of the U.S. were at capacity, and the rest of the world was not far behind.

If refineries ultimately do not want oil, it has little to no value. If a supplier has crude oil and nowhere to put it, it can have negative value. This is what happened in April.

Oil supertankers became floating storage bins, hoping for prices to go higher in the coming months. The OPEC+ and G20 production cuts started on May 1st, but with many countries facing a second wave of the pandemic, prices remain depressed. The industry is facing unprecedented demand, job and wealth destruction. Yet

some continue to pay for the same barrel of oil three times. They spend to take it out of the ground, spend to move it somewhere else, and spend to store it somewhere, perhaps even back in the ground.[iv]

Major oil companies are reporting massive losses. *Chevron Corporation* reported on July 31 2020 a net loss of US\$8.3 billion for the second quarter due to a lower commodity price outlook. It was its worse loss since 1989. Not only oil companies, but all businesses that are at the heart of the fossil-fuel economy — oil and gas firms, steel producers, carmakers—are already going through the agony of shrinking their long-term capacity and employment.

Such upheaval, as painful as it is for those affected, is tailor-made for investment in climate-friendly infrastructure that boosts growth and creates new jobs. Low interest rates make the bill smaller than ever. Over the past decade the costs of wind and solar power have tumbled, but not enough to shift consumers away from fossil fuels. The COVID-19 pandemic has changed market sentiments. Today, both businesses and individuals are actively seeking alternative energy alternatives in such large numbers that it makes worthwhile in investing in the infrastructure to deliver such energy.

Pandemic of Plastic Pollution: Pity the Oceans!

Consumption of single-use plastic may have grown by 250-300% since the coronavirus took hold, according to the *International Solid Waste Association (ISWA)*, which represents recycling bodies in 102 countries. Much of that increase is down to demand for products designed to keep COVID-19 at bay, including masks, visors and gloves. It is forecasted that the global disposable-mask market will grow from an estimated \$800m in 2019 to \$166bn in 2020.[v]

Staggering though such figures are, personal protection is only part of the story. Lockdowns have also led to a boom in e-commerce. Activity on Amazon's website, for example, had a 65% increase on last year. Much of what is bought online

are often packaged in plastic comprising several layers. Whilst this keeps the contents safe in aeroplane holds and on delivery lorries, it also makes it nearly impossible to recycle the plastic.

In addition to the public's increasing appetite for single-use plastic, there also appears a diminishing inclination to recycle even materials that can be reused. An unwillingness to recycle might be explained by people's nervousness about venturing out to put waste in recycling bins. Or it might just be that lockdowns have put more pressing matters into their minds, prompting a slip in their diligence.

COVID-19 has led to a glut in plastic waste in other ways. As the pandemic caused a crash in the oil price, and because petroleum is a major constituent of most plastics, they have become cheaper to produce. That in turn give firms less incentive to use the recycled stuff. Another reason for the growth of plastic rubbish has been caused by the fact that municipalities around the world have curtailed their recycling schemes over fears about spreading the contagion (the virus can survive for about 72 hours in plastic).

All of which means that much of the plastic produced this year is ending up either in landfill sites or being incinerated. Landfills, especially in poor countries, are often little more than open dumps. They are responsible for some of the biggest leakages of plastics into oceans, because the material is light, it is easily swept by rain or wind into waterways.

Summary

In this Part 3 of the article, the final 6 shades of the 50 shades of 'New Normal' are explored. These are *Changes to Supply Chain Logistics (World is No Longer Flat); Questioning the JIT Philosophy; Decoupling China; Climate Change; Negative Oil Prices and Plastic Pollution Pandemics*.

The three parts of the article taken as a whole discuss the 50 shades of 'new normal' that companies have to adopt to, in order to remain competitive in the post COVID-19 world. It shows the interconnections that range from economic, to political, to finance, to supply chain, to sustainability and more. Business strategies can only be developed with an understanding of this new normal external environment, and the opportunities and threats that come with it.

The opinions in this article reflect those of the author and not necessarily that of the organisation or its executive

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CRITICAL REVIEW OF YOUR BUSINESS DURING COVID-19

By David Cartney

Coronavirus related disruption is a challenging time for all businesses, and especially for business leaders. Now is the time to review the short term and rethink longer-term strategies for an emerging future before your competition beats you to the punch. While it can be helpful to do this with guidance from a **business mentor**, even conducting a review on your own can be beneficial. Business survival is up for grabs, as are the future opportunities that will present themselves for those ready to succeed.

Business leaders should review the following critical strategic business areas during COVID-19:

- Address immediate challenges or major issues to workforce, customers, operations, technology and business partners
- Communicate factually and effectively to all key stakeholders
- Customers
 - Take the pulse of your customers
 - Strengthen your relationships, support them and communicate factually and listen
 - Fix any immediate issues
 - Think how long-term shifts in core markets or business will impact your customers, what you offer and how to best position the business now and in the future
 - Fix short-term cashflow and funding issues
 - Protect revenue and financial performance with faster scenario planning and regular financial modelling to guide actions
 - Create fast start-back plans to get volume up and running and lock in any gains
 - Consider funding needs in the short, medium and longer term and seek funding as appropriate
- Your people
 - Move faster with digital change and ensure that your business' IT is capable of supporting your remote workforce, and all business-critical systems and your people have sufficient digital training and skills to work in this environment
 - Review any global mobility issues, travel rules, social distancing and virus prevention practices, first-aid plans and HR policies
 - Re-assess remote working strategy, including need to stop work or work remotely or relocate individuals
 - Consider a business mentor or coach for your key people
- Supply chain
 - Review supply chains for short-term and long-term sustainability during the pandemic
 - Find alternative supply chain scenarios
- Adapt allocations to customers and pricing strategies to reflect changes and limitations as well as long-term customer relationships
- Regulations
 - Comply with government requirements in individual countries and local areas
 - Get to grips with how regulatory and competitive dynamics will change and impact the business
- Strategy Review
 - Consider how to improve resilience to further shutdowns with contingency planning to cover such disruptions
 - Ask what is the new normal and how can you adapt your strategy to it?
 - Completely review medium and long-term strategy given the above factors
 - Involve your people, customers, operations, sales and marketing, IT, suppliers and funders in researching your strategy
 - Consider business mentoring or coaching to assist you in your strategy review



David Cartney,
International Business
Mentors

General Areas Likely to Change After the Crisis, Impacting Strategy

Businesses will realise that working remotely has worked well during the crisis lock downs, and the demand for large rented offices will likely drop sharply with more remote working in the future and more meetings and presentations held online. This will not be good for the commercial property market, as businesses will demand less space and may move more to shared business spaces and flexible space use.

After the crisis, there is likely to be fewer large department stores, with more online shopping and perhaps smaller retail footprints, and innovative mixed retailing and services evolving quickly. Retailers may partner further with more exotic services such as celebrity chefs, artists, opinion formers, bakers, authors and other well recognised brands offering a mixed service and retail experience. This will aim at improving brand awareness, particularly with those highly attractive online and wider audiences. Values such as business ethics or traceability of product origins and method of production may gain traction. This may arise as the current crisis has focused many people on the right things to be done. Unique and ethical products or services and their fresh brands will attract more customers, especially among the younger demographics. Collaboration between people has clearly increased

during the crisis, and this collaboration will translate back into workplaces and across supply chains in the future.

Customers, particularly the middle aged and baby boomers, have also moved further into the online shopping space during the crisis, and this trend should continue. This is clearly the time to target these age groups with new online offerings of products and services. This move online will reduce both the need for retail premise space and the need to stock the past levels of product in retail premises.

Supply chains for all companies, organisations and countries that rely completely on China or any other single geographical source must re-consider their risk exposure and widen and deepen their future supply chains so they can cope if another pandemic strikes. Businesses should consider how best to support their specific supplier chains in the likelihood of future crisis events and collaborate with them in contingency planning and to solidify the business relationships.

Financial dynamics may have to be proactively re-engineered to reduce fixed overheads of businesses to reduce their financial risk in future crisis downturns. Such adaptation will favour flexible businesses with a history and mindset for lower organisation structures. To succeed in making such changes, business leaders will need to be flexible and develop more efficient work practices. This will need to be combined with developing and retaining good business knowledge, leadership, and understanding of how to maximise cooperation and get results. A well-matched business mentor or coach can help you and your business to adapt.

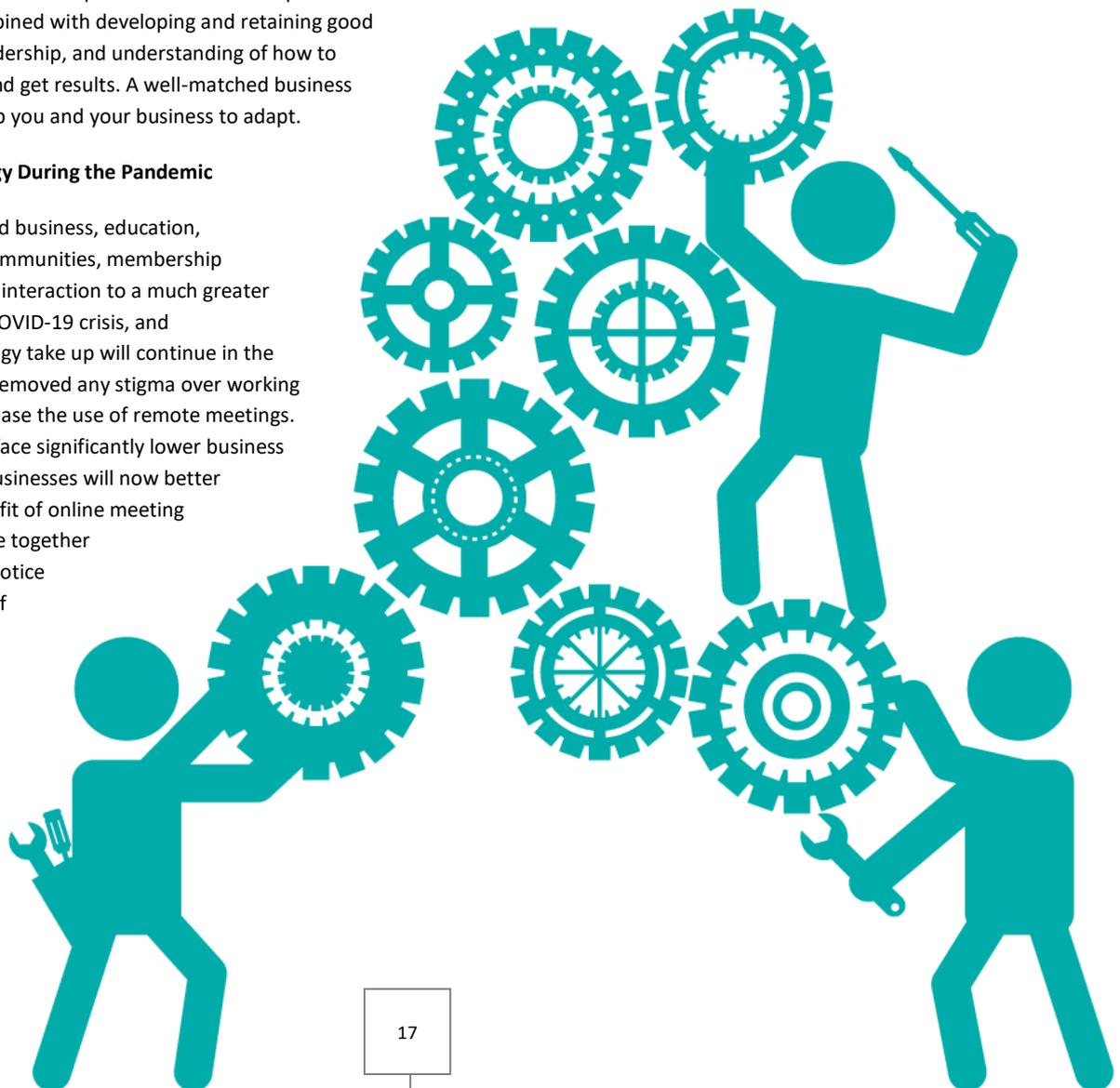
The Impact of Technology During the Pandemic

Technology has facilitated business, education, government, religious communities, membership organisations, and social interaction to a much greater extent than before the COVID-19 crisis, and communication technology take up will continue in the years to come. This has removed any stigma over working from home and will increase the use of remote meetings. The travel industry may face significantly lower business travel in the future, as businesses will now better appreciate the cost benefit of online meeting platforms to bring people together effectively and at short notice at low cost. Also, many of the travelling public may continue to avoid travel after the crisis as they realign their priorities and repair their own personal balance sheets. It is likely that the online travel industry will

flourish further than those in bricks and mortar, who may well decline.

Technology in education has stepped into the pandemic breach and will no doubt play an increased role at all levels in educating future generations. This will further disrupt the roles of educators and change cost structures in education. This shift will suit most students in our educational institutions today who are from Generation Z, a generation that has grown up in a globalised world and are technology natives. This generation, the oldest of whom are now 25 years old, will have reflected on the impact on their education of this global pandemic. Many of them will face cancelled exams, sporting events and even graduations. This generation seems strongly defined by their technology environment, where the terms FOBA (Fear of Being Alone) and FOMO (Fear of Missing Out) express their expectation of instant communication and feedback – effected through apps like Messenger, Snapchat and WhatsApp.

Generation Z values greatly the power of working collaboratively to communicate socially and also to solve educational problems and mega challenges such as climate change and mental health. They also have a collective responsibility to self-isolate to protect older members of the community.



The technology environment dominance now includes not just students, but also older generations, and their parents and educators. This has been amplified with the current shift to remote learning and remote working.

All areas of service will move further online after they have realigned their service delivery during the crisis. This will range from lawyers, accountants and management consultants to medical advice, building services, food delivery, religions, clubs, music performances, training and education, and more.

Other Significant Business Trends After the COVID-19 Crisis

World Trade

The danger with world trade is that countries may revert to import substitution and higher tariffs to protect their domestic industries. This would reduce the potential GDP growth from trade worldwide, leading to significant inefficiencies at a much higher cost with lower choice for consumers.

Aid

Levels of aid budgets may not be renewed as governments struggle with reducing debt and re-balancing their own budgets. As a result, countries and organisations dependent on government funding may find they are no longer able to be funded. The same reduction in contributions will be true for funding that is traditionally provided by individuals who have faced the economic consequences of the COVID-19 fallout. There may be a renewed focus by communities and governments to prefer to fund local charities and organisations to help their own people before providing aid overseas.

Changes to Saving and Investment Behaviour

Many individuals and businesses will reconsider their need for cash buffers and investment risks in the future, and net saving rates will rise. This will reduce levels of consumption and increase the demand for investments.

Innovation and Growth Areas

The crisis has encouraged innovation, and the new economic turmoil will throw up many new opportunities, with whole industries being disrupted. The potentially lower and higher value of real assets and companies themselves will also open up more opportunities for takeovers, start-ups and mergers.

There will also be a marked contraction in smaller businesses that will not survive the crisis, and a tendency for the significantly larger and well-funded organisations to grow as a result and solidify their market shares. Pressure to win business in shrinking or no-growth market sectors will further reduce profitability and marginalise more businesses.

Organisational Changes

All organisations should look at how they have coped during the crisis and adopt positive changes to organisation dynamics, improved service delivery, sales, operational efficiency and cost structures as a result.

Government Planning

Broadly, governments at all levels should urgently review what has happened during the crisis to discover what improvements can be implemented quickly to improve resilience against such events in the future. They may also look at permanently streamlining resources and focusing services to improve the cost vs. benefit of the services they deliver.

Taxation

In general, taxation will no doubt increase, at least in the short to medium term, to cover the much higher debt levels of governments. Governments should also look at what efficiency gains they can implement to reduce the cost of government and roll back any such short-term tax increases.

Employment

Employment will be forcibly restructured in many areas where business has failed or has significantly lower revenues or activity levels. This will lead to much higher unemployment rates than in the last 2 decades. This in turn will put pressure on the government's debt to fund the higher unemployment, making paying back the significantly higher borrowing to fight the crisis much harder.

Conclusion

In conclusion, all business leaders should critically review their short-term and long-term business strategy on a regular basis to reduce risk and plan for the optimal future. You should do this even if the future is unclear, as stepping towards a new approach is going to clarify your thinking and harness your key people so you can proactively approach the future.

Contact International Business Mentors to find out how business mentoring or coaching can assist you with fresh eyes to review your current strategy and give you confidential support in these turbulent times.

About the Author

David Cartney is a well-qualified business mentor with 30 years experience in directing and managing businesses and in training mentors. David Cartney is a Council Member of ICMA.

You can reach David via his website **International Business Mentors** (www.internationalbusinessmentors.com).

REMOTE WORK: EMPLOYERS ARE TAKING OVER OUR LIVING SPACES AND PASSING ON COSTS

by Richard Shearmur, *McGill University*

As many office workers adapt to remote work, cities may undergo fundamental change if offices remain under-utilized. Who will benefit if working from home becomes the post-pandemic norm?

Employers argue they make considerable savings on real estate when workers shift from office to home work. However, these savings result from passing costs on to workers.

Unless employees are fully compensated, this could become a variant of what urban theorist Andy Merrifield calls parasitic capitalism, whereby corporate profits increasingly rely on extracting value from the public — and now personal — realm, rather than on generating new value.

The allure of remote work to employers

After three months of remote work, some companies are moving towards permanent home-based work: Shopify, for instance, has announced that its employees will continue to work from home after the pandemic.

Indeed, pre-coronavirus estimates suggest savings (for the employer) of about US\$10,000 per year for each employee who works from home.

Though employers are backed by a chorus of remote work proselytizers, others note the loneliness, reduced productivity and inefficiencies of prolonged remote work.

Whatever the personal and productivity impacts of remote work, the savings of US\$10,000 per year are the employer's. In effect, this represents an offloading of costs onto employees — a new type of enclosure.

In 16th-century Britain, powerful landowners expropriated common land from communities, often for the purpose of running lucrative sheep farms. Today, businesses like Shopify appear to be expropriating their employee's private living space.

The employee's perspective

If working from home becomes permanent, employees will have to dedicate part of their private space to work. This requires purchasing desks, ergonomic chairs and office equipment.

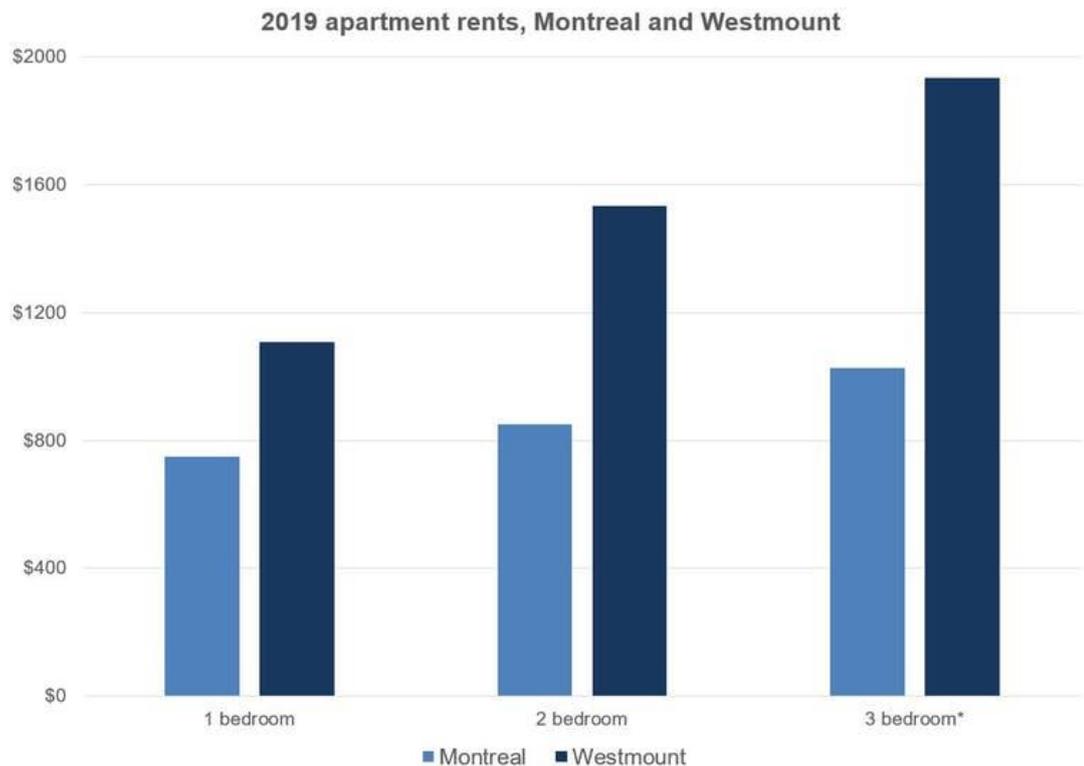
It also means having private space dedicated to work: the space must be heated, cleaned, maintained and paid for. Permanent remote work cannot take place at the corner of a kitchen table peering into a laptop while perched on a stool.

How much will this cost employees?

That depends on many things, but for purposes of illustration, I have run some estimates for Montréal. The exercise is simple but important, since it brings these costs out of the realm of speculation into the realm of meaningful discussion.

Rental costs in Montréal and Westmount

Taking as a starting point 2019 rental values published by Canada's Mortgage and Housing Corp., I estimate what it would cost to rent an apartment with one extra room in the city of Montréal and in its upmarket suburb, Westmount. Here's the data:



CMHC rental values for three-bedroom plus apartments in 2019 in Montréal and Westmount.

The CMHC does not report rental values for three-bedroom apartments; it only reports the average rental value for apartments of three bedrooms and more.

Obviously, the average rent for apartments with three bedrooms is less than the average rent for apartments with three bedrooms and more. I assume that if an employee moves from a two-bedroom to a three-bedroom apartment, the increase in rent is 66 per cent of the increase in rent between a two-bedroom and a three-bedroom-plus apartment.

The extra costs (and savings) an employee would incur working from home, and adding an extra room for work purposes, are presented below.

Transportation savings are modest — half the value of a monthly pass, because it's assumed employees will still need to move around the city for some work purposes even while working from home.

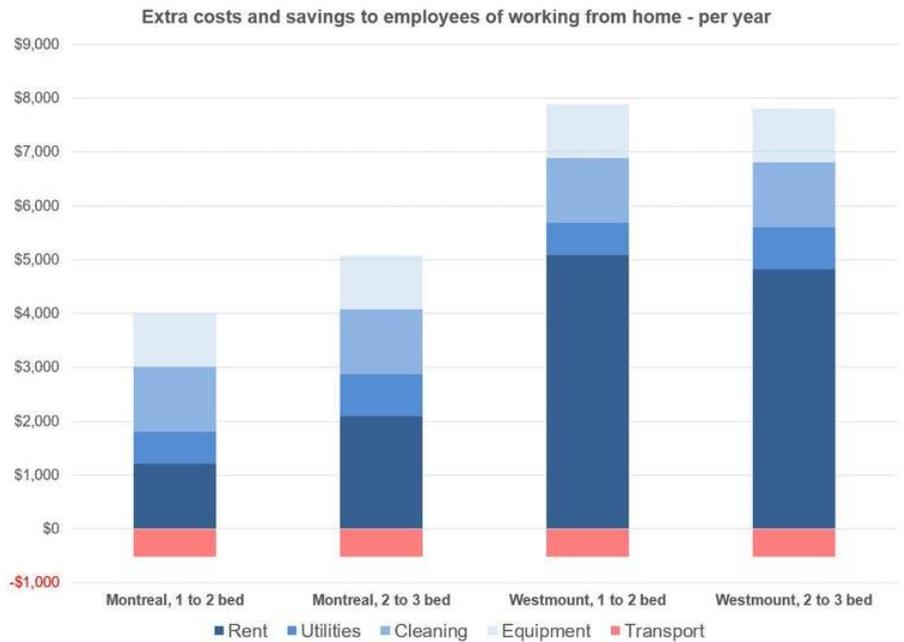
I made some assumptions here of a monthly cleaning service at \$100 a month, \$50 to \$65 a month in extra utilities, the aforementioned public transit savings of 50 per cent of a monthly pass, and \$1,000 a year in office and other equipment.

The total annual costs in the above figures come out of employees' after-tax income. In Québec, the marginal tax rate for earnings of \$50,000 and \$150,000 a year are 40.5 per cent and 54.8 per cent respectively.

Given the costs presented in the above graph, in order to fully compensate employees for setting up and maintaining office space at home, the employer would need to raise employees' pay by between \$5,871 and \$16,285. The lower number corresponds to a move from a one- to two-bedroom apartment in Montréal for an employee earning \$50,000 — in other words, a net of \$3,493 when taking into account the higher apartment rent.

The higher number corresponds to the same move in Westmount for an employee earning \$150,000, or a \$7,369 net. An alternative would be for the employer to cover the total costs directly as expenses, and the employee could require a lower increase in income if they obtain some tax rebates for expenses related to their jobs.

These rough calculations show that the savings made by employers when their staff works from home are of similar magnitude to the compensation workers should receive for setting up offices at home.



What does this mean for offices in cities?

One of two things may happen:

1. Employers offload these costs onto employees. This would be a form of expropriation, with employees absorbing production costs that have traditionally been paid by the employer. This represents a considerable transfer of value from employees to employers.
2. Employees will be properly compensated. In this case, employer real estate savings will be modest.

If savings are modest, then the many advantages of working in offices — such as conviviality, rapidity of communication, team-building and acclimatization of new employees — will encourage employers to shelve the idea of remote work and, like Yahoo in 2013, encourage employees to work (most of the time) from corporate office space.

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USING SHARED SERVICES ARRANGEMENTS TO MANAGE COSTS DURING AND AFTER COVID-19

As Covid-19 continues to disrupt franchised businesses and affect the global economy, franchisors and franchisees should consider shared services arrangements to spread costs, create efficiencies, and leverage knowledge and expertise across brands. In shared services arrangements, an entity provides generally the same type of services to more than one brand operated by a franchisor and its affiliates; the same applies to franchisees and their affiliates. Examples of shared services for brands include human resources, legal, finance, real estate, IT, training, and sales and marketing.

Anecdotal evidence suggests that shared services arrangements are highly beneficial to franchisors and franchisees alike. In the current economic climate, shared services arrangements may help brands cut costs and remain financially viable. Franchisors and franchisees that implement shared services arrangements now to counteract the present impact of Covid-19 will likely

continue to realize the benefits of shared services arrangements long after the Covid-19 pandemic is over. However, there are some risks to consider. The overarching concern in shared services arrangements is to prevent unfair advantage to one brand at the expense of another brand. Here are some critical factors to consider in creating a shared services platform.

Disclosure of shared services arrangement

A franchisor should disclose the shared services arrangement to its franchisees, especially where costs for the services may be passed on directly to the franchisees. Disclosing this information will foster transparency and may avoid legal claims alleging breach of the implied covenant of good faith and fair dealing or tortious interference with contractual relations, based on a franchisee's objections to the shared services arrangement.

A franchisor would disclose the existence of shared services arrangements in one or more items of its FDD. In Item 1, the franchisor may alert its franchisees that certain services will be provided by an affiliate or by personnel or departments that also service the franchisor's other brands, especially where such brands offer competitive services. If the affiliate will sell goods or services directly to the franchisee, such affiliate must be disclosed in Item 1. If the franchisees are required to directly use the shared services, disclosure of the arrangement will commonly occur in discussion of fees in Item 5 and Item 6. In fact, such disclosure is required if the franchisee will pay the affiliate directly or if payment is made to the franchisor for the benefit of the affiliate.

For example, a franchisor may use the real estate services of an affiliate designated as an "approved supplier" by the franchisor to assist franchisees with site selection, lease negotiation, and construction. Item 8

should address affiliates that are designated or approved suppliers or suppliers of goods or services that must meet the franchisor's standards or specifications. Item 11 may discuss shared services in the context of the franchisor's obligations to the franchisee, particularly if the entity providing shared services will provide those services directly to the franchisee on behalf of the franchisor. For example, if a franchisor conducts franchisee training for multiple brands on a shared services basis, the third party that conducts the training would be described in Item 11.

It is also advisable for the franchise agreement to require the franchisee to acknowledge and agree to the franchisor's right to delegate a third party to perform services for or on behalf of the franchisor. The franchise agreement may also require the franchisee to acknowledge and agree that shared services may be performed for competitive businesses within the same territory. The franchisor may reserve the right to allocate costs, personnel, and other resources across its brands.

Safekeeping of confidential information

There should be no transmission of a franchisor's confidential information to a related franchisor for its advantage. Armed with non-public information about a competitor, the brand could have an unfair advantage at the expense of its related franchisor.

Fair and proportional allocation of costs

Because the essence of a shared services arrangement is cost-sharing, much scrutiny will be given to how costs are divided among the brands to determine whether the arrangement is appropriate. The determination of what are fair and proportional costs may vary (e.g., how franchisors split costs for a group media buy), but the costs should be justified and well-documented.

Sharing of customer information

Some shared services arrangements are a vehicle for cross-brand marketing initiatives. Brands have used information

about customers and consumer trends and the successes and failures of their affiliates' marketing efforts to make more-informed marketing decisions. Some brands use customer information to increase cross-utilization of affiliated brands and enhance their affiliates' customer loyalty programs.

Neighborly (formerly Dwyer Group) owns 25 brands including Glass Doctor and Window Genie and supports the cross-brand sharing of customer information through shared services. Thus, Neighborly's 4,000 franchisees "get to share customers... which enables users to buy services from its many brands through a [centralized] portal." Neighborly brands identify customers' other needs and cross-sell the affiliated brands to "mak[e] life easier for our customers." While affiliated franchisors stand to gain much benefit from these cross-branding initiatives, the applicability of data privacy laws to this information sharing should be considered.

Avoiding competitive activity

Shared services such as sales and marketing and real estate are more likely to lead to competition between franchisors or franchisees if the proper precautions are not taken to keep the services provided to each brand completely separate. For example, information sharing may lead to a competitive advantage for one brand over another in advertising campaigns.

Shared real estate services may raise concern. United Franchise Group, for example, provides real estate shared services to its brands including Signarama and Fully Promoted. In the FDD for each of these brands, the franchisor mentions that an affiliate and "Approved Supplier" (Franchise Real Estate, Inc.) assists franchisees with site selection, lease negotiation, construction management, store design and layout, and assistance with obtaining building renovation costs. Thus, franchisees of similar businesses in similar territories may find themselves using the same real estate service to lease, construct, and/or build out a location. Competition issues may lead to actionable claims by franchisees if there is evidence that a shared services arrangement led to

diversion of business from one brand to the other.

Administrative functions

Services such as accounting, human resources, and call centers are largely administrative functions that can be shared without raising much concern. Administrative functions are the low-hanging fruit for a shared services arrangement developed to combat the economic impact of Covid-19. Sharing office space, equipment, management, and personnel can be extremely efficient and economically advantageous. Franchisors may have centralized shared costs (IT, supply chain, accounting) and centralized compliance costs (legal, tax) that can be consolidated without much concern.

For example, DineEquity, owner of IHOP and Applebee's, has set up an affiliated entity, Dine Brands, to provide support services to franchisees through its Restaurant Technology Support Center (Help Desk). DineEquity has credited millions of dollars of cost savings to leveraging the shared services operating structure across these two brands. Similarly, Yum Brands, which owns KFC, Taco Bell, and Pizza Hut, announced in 2019 that it created two new technology leadership positions within the company to "partner with the global brand divisions to elevate the customer experience and accelerate global growth" in the IT space. The announcement referenced Yum's "IT shared services team."

Separation of systems

This can be preserved through a formal shared services agreement or informally through common leadership with different departments to separate the shared services functions. A formal shared services agreement should cover, among other concerns, the parties' obligations, allocation of costs, nondisclosure of confidential information, ownership of intellectual property, and metrics of success.

With respect to informal separation, some companies have created global support

centers to centralize shared services functions and to separate these services from the individual brands' unique departments. Inspire Brands, which owns multiple brands including Arby's and Buffalo Wild Wings, opened a shared services center for its brands in February 2018. Inspire shares services across human resources, finance, legal, IT, development, communications, customer personalization and insight, and media.

On the other hand, a franchisor and its affiliates may have an executive oversee marketing across all its brands. For example, Focus Brands' portfolio includes small and mid-sized businesses such as Moe's Southwest Grill, Auntie Anne's Pretzels, and Cinnabon. Focus Brands has a Global Chief Marketing Officer to oversee marketing, advertising, menu innovation, and digital and mobile commerce initiatives across all franchises. Within the marketing department, there are three social media managers, each of whom oversees two

brands' marketing efforts. These informal departmental combined efforts can be applied to multiple shared services functions, such as real estate and franchisee training.

Franchisors and the entities providing the shared services should develop policies and procedures to ensure separation between the brands. They should also create a plan for taking and investigating franchisee complaints related to the services. Individuals employed by the entities providing the shared services should be aware of the risks inherent in shared services arrangements and should be mindful of keeping the systems separate.

Conclusion

Franchised businesses of all sizes are grappling with how to manage costs during the Covid-19 pandemic. The economic benefits, increased efficiency, and improved experiences of franchisees make

shared services arrangements an enticing option to consider implementing now, and to continue in the future. When developed and administered carefully and with the above considerations in mind, shared services platforms are positioned to become a go-to cost-savings option in franchising both during and after Covid-19.

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- **2020 Certificate of Proficiency in Strategic Business Analysis, SMU Academy, Singapore (3rd Intake)** 10 July 2020
- **[Postponed] 7th CMA Intensive Program at Mercu Buana University Jakarta, Indonesia, organised by Inspire Consulting** 25 July 2020
- **Sustainable Marketing - No longer just a “green” word, but a strategic mindset** 22 July 2020
- **[Postponed] CMA Intensive Program at Mercu Buana University Jakarta, Indonesia, organised by Inspire Consulting** 1 August 2020
- **Virtual Drinks & Networking** 7 Aug 2020
- **CPD – Enterprise Risk Analysis Workshop** 19 August 2020
- **Strategic Business Analysis, conducted by Workplace Skills Development Academy (WSDA), Dhaka, Bangladesh** 21 August 2020
- **Webinar: 50 Shades of ‘New Normal’: Whipping Companies to Embrace an Alternate Societal Lifestyle** 20 August 2020
- **Strategic Cost Management, conducted by SMU Academy** 12 September 2020
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