

CONSULTING

Keeping snafus from blooming into crises

Professional advisers can help small operations stay on top of details, from daily financials to cost control

BY AUGUSTA DWYER

If you thought times were tough for big corporations these days, spare a thought for the small fry. Economists like to say that small and medium businesses are the backbone of national economies. In Canada, they're responsible for about 65 per cent of all private sector jobs, according to Statistics Canada. In recessionary times like these, many people think small companies must be facing a whole array of problems and challenges specific to their size.

Not so, says Christie Henderson, a chartered accountant at Henderson Partners LLP in Oakville, Ont.

The monster breathing down the necks of most small and medium sized business right now is the same one causing havoc in the boardrooms of some of the world's most successful companies: the credit crunch. "There are some serious issues with creditors tightening up," she said. "Your suppliers are tightening up your credit, and then your customers aren't paying you, and so entrepreneurs are really getting squeezed."

"Access to financing and capital is a really significant issue for our clients," agreed Beth Wilson, managing partner for KPMG Enterprise, the firm's private company and small business practice. "Whether that is trying to finance growth opportunities where they have them, negotiating terms around renewal, their existing facilities or situations where there has been a downturn in their business and they're having a lot of challenges complying with their covenants and other restrictions in their current lending agreements."

The key to preventing a challenge from becoming a crisis is being on top of daily financials, said Ms. Henderson, author of *Tax Tips for Canadians for Dummies*.

It seems obvious, but many entrepreneurs are great at coming up with innovative ideas or clinching a sale, but



Chartered accountant Christie Henderson says the biggest challenge facing SMBs today is the credit crunch. PETER POWER/THE GLOBE AND MAIL

not necessarily in following the details of what is going on in accounts receivable, she said.

"But that is truly what gets most people into trouble - ignoring issues that they know are there but that they don't want to deal with," Ms. Henderson said.

Ms. Henderson came into accounting along a fairly roundabout route, obtaining her CA designation through the Institute of Chartered Accountants of Ontario with Ernst & Young after studying Russian history at Dalhousie University. ("It didn't have much bearing on what I do now," she says of her undergrad degree, "but I tend to do pretty well at Trivial Pursuit.")

In 1998, she joined her father, Lawrence Henderson, as a partner in the company, and

is well aware of the kinds of challenges facing family-run and small businesses. While their clients come from a variety of sectors, such as retail, professional services or IT companies, most do between \$2-million and \$10-million worth of business annually. Their clients needs are also variable, whether it's having Henderson Partners on retainer, providing occasional advice, or simply preparing a company's annual financial reports, Ms. Henderson said.

"Because most of our clients don't have CFOs, that's why we are there, holding them accountable, saying, 'This is happening, what are you going to do about it?' Not letting them sweep things under the rug."

In tough times it can be tempting for small companies to shed employees, even if

they are contributing to the bottom line.

But Ms. Wilson said she is seeing clients at KPMG trying other ways to control costs. "They're going back to their suppliers, including their professional services providers, to say 'Can you do something to reduce your fees? Or bring more value to the table for the fees that we are paying you?'"

While some entrepreneurs are trying to find ways to stay afloat in rough economic waters, others are facing the opposite situation: They have the opportunity to expand and take a big step past a competitor, but are spooked by all the doom and gloom. Accountants can help in that situation, too, Ms. Henderson said.

"They have sufficient working capital but they're delaying making decisions, perhaps

their hiring decisions, even though they're weathering the storm. Is that going to cause a business to fail? Well no, not necessarily. But it could mean you lose out, if you had a competitive advantage and you don't act, then someone else does," she said.

Outside analysis from a professional adviser could make the difference between losing your shirt, or losing the best possible position to be in when the economy recovers.

"When there's a downturn, people tend not to spend money on accountants or financial advisers," said Ms. Henderson, "but that's when you need them most, having someone come in and do a diagnostic on your business, just giving you the heads-up that you have issues."

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HOW EXPERTS CAN HELP

MINIMIZING RISK

The right financial advice for small businesses can not only focus on identifying and maximizing growth opportunities but also help with issues such as minimizing exposure to foreign currency fluctuations, said Beth Wilson, of KPMG Enterprise. Accountants can also help with "creditor proofing," managing the credit risk of the company's customer base.

PREPARING FOR LENDERS

An outside adviser can find ways to shore up a company's balance sheet and improve cash flow, as well as help with the preparation of the business plan and even do a dry run on the presentation to a potential lender.

STAYING ON TOP OF ISSUES

At KPMG, clients are encouraged to keep their advisers abreast of what is happening. "The critical thing that I would encourage all small businesses to do is to make sure they increase the number and frequency of conversations and make sure your advisers know what's happening in your business as things change, as your priorities change," Ms. Wilson said.

FOCUSING ON BIG PICTURE

When small companies look to cut costs, "it has to be smart spending as opposed to no spending," said Mario Piccinin, partner in the advisory services practice at Ernst & Young. "They don't always have to jump right to staffing, but look at other areas to get some money or save some money. For example, supply chain management. Are they using their assets to their full potential? Do they have other assets they could possibly sell?"

» Augusta Dwyer

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A new field for accountants: Measuring and monitoring CSR

What her team focuses on is the application of the accountant's traditional role of financial measuring, monitoring and reporting to seven new areas: Environmental impact, responsible products, the supply chain, community impact, good governance and disclosure, treatment of employees and impact on consumers.

"It is no longer good enough to look at these areas in isolation," Ms. Gélinas said. "All must be benchmarked, the path to improvement monitored and then reported on."

That means taking CSR programs created by management, benchmarking where the company now stands in those areas, monitoring the progress of those programs, and then reporting the impact back to the management, board and shareholders on a regular basis.

The process has also given rise to another new field - the auditing of the reports filed by those accountants doing that measuring, monitoring and reporting.

"There is a global movement now under way to create standards for non-financial reporting just as there is for traditional financial reporting," said Julie Desjardins of Desjardins Associates Consulting Inc. of Mississauga, another CICA consultant.

"There are two levels involved: first the measurement of progress and impact, and then the independent auditing of those reports. The CICA is playing an activist role in creating those global standards."

A major challenge to the profession, however, is finding innovative ways to actually measure the impact of CSR programs.

"It goes way beyond the numbers, although the numbers still play a major role in assessing impact on the bottom line," Ms. Gélinas said. "Some areas such as the environment are relatively straightforward because they bring with them potential future liabilities, which can be measured."

"Community and consumer impact can be far more difficult."

The trick is creating metrics that allow the tracking of im-



Corporate social responsibility is a fast-growing business, says Johanne Gélinas, of Deloitte & Touche's Montreal office.

JOHN MORSTAD FOR THE GLOBE AND MAIL

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Johanne Gélinas, Deloitte & Touche LLP

But not so costly to apply that they become prohibitive and counter-productive, Mr. Willis said.

For companies that have decided to show corporate citizenship by working with HIV/AIDS patients in Africa, for example, the challenge in measuring the success of that support can be significant, Prof. Matten said. "Do you do it through patient outcomes?" he asks. "Do you track and report a reduction in deaths, or a reduction in new cases, or both?"

Ms. Gélinas said surveys and focus group studies may play a significant role in assessing

consumer impact. But the cost of those surveys must be manageable and the results verifiable. For example, a Quebec City client of her company wanted to raise public awareness about its products. The way Deloitte & Touche handled that was two surveys: one at the start of the corporate awareness campaign, and another two years later.

Prof. Matten can see two potential changes to drive wider adoption of CSR. First, he can see possible government intervention through regulation to ensure that companies embrace social responsibility. Second, he sees government beginning to offer incentives to industry to speed voluntary acceptance.

Under both scenarios, the role of accountants in measuring, monitoring and reporting is certain to grow mightily.

"What we do is really based on common sense," Ms. Gélinas said. "What gets measured gets done. It is not rocket science."

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