Information Paper

The Crucial Roles of Professional Accountants in Business in Mid-Sized Enterprises

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This publication was prepared by IFAC's Professional Accountants in Business (PAIB) Committee. The PAIB Committee serves IFAC member bodies and the more than one million professional accountants worldwide who work in commerce, industry, the public sector, education, and the not-for-profit sector. Its aim is to enhance the role of professional accountants in business by encouraging and facilitating the global development and exchange of knowledge and best practices.

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TABLE OF CONTENTS

The Crucial Roles of Professional Accountants in Business in Mid-Sized Enterprises

Introduction

Professional accountants in business play crucial roles identifying and addressing unique challenges facing mid-sized enterprises in strategic management, corporate governance, risk management and internal control, financial reporting and accounting and other areas.

IFAC's Professional Accountants in Business Committee commissioned financial journalist Eric Krell to conduct a series of interviews with 10 leading professional accountants in business on their experiences in mid-sized enterprises. How do the challenges of typical mid-sized enterprises affect their work as chief financial officer, controller, advisor or in another capacity? How do they apply their skills and expertise to identify and address these challenges? What key lessons can be learned?

Although those interviewed are from different mid-sized enterprises from all over the world, they deal with similar issues and their solutions point in the same direction. In that way, each article highlights practices that other professional accountants in business might find useful in addressing issues within their own organizations. The key lessons they share can help professional accountants in business and others drive performance and create value for their own organizations.

The appendix provides a brief description of the roles and domain of the professional accountant in business and of the characteristics of a mid-sized enterprise.

This information paper is part of a broader Professional Accountants in Business Committee project on the role of professional accountants in business in mid-sized enterprises. These interviews will serve as the basis for the development of a principles-based good practice guidance on the typical challenges that mid-sized enterprises confront and how professional accountants in business could assist in responding to those issues.

Executive Summary: Eric Krell

Overview

Seize Opportunities for Improvement

Discussions with a highly diverse collection of global professional accountants in business (PAIBs) suggest that these professionals consistently provide similar value to the mid-sized enterprises (MEs) in which they work. The value has two components.

First, PAIBs are ***enablers*** of the ME's performance. They provide crucial contributions to streamlining business plans, installing and improving management information systems, implementing process improvements, mitigating risks, strengthening relations with banks and investors, attracting capital and other activities that enable the current and future success of their companies.

Second, PAIBs operate as ***generalists*** in mid-sized enterprises. While they specialize in finance and accounting management activities, they serve as an integral part of the management team and fulfill a wide variety of responsibilities beyond the finance and accounting discipline.

Unique Challenges

The purpose of these interviews is to better understand the unique challenges that global MEs confront and how PAIBs help address these challenges. The featured PAIBs, who are based in the U.K., Malaysia, the U.S., Canada, South Africa, Poland, Australia, Ireland and The Netherlands, were candid, instructive and, above all, inspiring. Ross Fyffe and Ivan Boardman, for example, are two South Africa-based PAIBs and business advisors who are helping numerous struggling MEs adapt to rapid changes and challenges in the wake of momentous political and socioeconomic shifts.

Combined, the interview subjects have worked at dozens of fast-growing, under-pressure and stable mid-sized companies around the world. These PAIBs' titles include CFO, corporate board member, managing director, (former) CEO, advisor and "turnaround specialist."

While CFO for a Poland-based printing company, Gustaw Duda, now CFO of Krakow-based Orlen Oil, helped transform a sizeable loss into a significant profit. Duda did so by revamping the company's budgeting and control function, establishing a credit control function, and bolstering the skills within the finance and accounting department.

One other title bears mentioning for how well it illustrates the importance of the PAIB's generalist role. "CFO and concert tour director" Roel van Veggel of André Rieu Group, the globally renowned Dutch orchestra and choir, earned his expanded duties by seizing opportunities for improvement within the organization, especially those outside the traditional boundaries of the finance and accounting department. “You can create your own job,” he asserts. “You’re expected and encouraged to look for potential needs throughout the company; if you see a challenge you can address, you pick it up.”

Generating Value

The PAIBs featured in this report have pounced on numerous responsibilities that directly affect the current and future success of their mid-sized enterprises. Their most prevalent duties hinge on helping their companies to generate value by:

- Establishing a common “performance language” throughout the company so that everyone’s activities are aligned with the vision and goals leadership has set;
- Upholding business integrity;
- Creating, implementing and improving management information systems to bolster strategy, planning, decision-making, execution and control activities;
- Managing costs through rigorous planning, budgeting, forecasting and process improvement efforts;
- Managing risk and handling business assurance;
- Measuring and managing performance; and
- Communicating financial and other performance information to internal and external stakeholders, including regulatory authorities, lenders, bankers and investors in a manner that fosters trust.

Although “self-development” may not always qualify as a formal organizational responsibility, each of the PAIBs interviewed for this report treats continuous development as a top priority. Julian Clarke, an Ireland-based advisor who served in several financial management positions for Australia-based MEs, emphasizes the absolute importance of accumulating a variety of business experiences early in one’s career. “Understanding what makes businesses tick makes you more valuable,” he points out. “If you’re a tax accountant and … you [only] spend time behind the tax desk and don’t see how the different parts of the firm and customer companies work and interact, your value will be weaker.”

A PAIB’s value often directly affects the fortunes of mid-sized enterprises, notes entrepreneur Paul Druckman, a PAIB by training, co-founder of U.K.-based mid-size business advocacy association M Institute and current board member to three MEs. “When it comes to funding growth, a medium-sized business needs its finance professional to serve as a liaison between the investors and the rest of the company,” he explains. “That means the finance director needs to look after venture capitalists, bank executives and angel investors. This requires a very different set of competences than managing the budget.”

These competencies can be acquired, as Druckman has witnessed and as Australia-based Harris Scarfe Australia Pty Ltd. CFO Guy Griffiths has experienced.

After helping ice-cream maker Häagen-Dazs establish its European operations as a financial manager with the company, Griffiths returned to the classroom, earning his MBA from London Business School. He did so to help strengthen his operational competencies so that he might one day qualify as a CEO candidate.

Donna Mackenzie has added to her own competencies by "wearing as many hats as possible" on the job. She has served as CFO for a number of high-growth companies and remains in high demand among venture capitalists looking for talented financial executives to help guide the companies they invest in to the next level of maturity. "There are … pressures that are unique to this environment compared to a relatively stable organization," she notes. "Being able to wear many different hats and juggle many different balls at the same time is crucial."

The fact that this juggling act requires traditional PAIB competences – such as risk management, funding growth, management information systems, budgeting and forecasting, and control – is not surprising. Much more surprising is the emphasis these PAIBs placed on communications inside and outside the organization.

While the importance of the PAIB's interaction with bankers, venture capitalists and other sources of funding is well known, the internal relationships – the ones between the PAIB and all other employees – appear equally important, even if they do not receive as much publicity.

In addition to communication, "One of the [other] most important PAIB competencies involves anchoring decisions in facts, and those facts have to be a part of every strategic decision," emphasizes CCM Pharmaceuticals Managing Director Y.C. Lee. A PAIB by training and a former CFO, Lee believes a vital PAIB competence is the focus on numbers. "As an executive, you find that discussions can quickly get complicated because the organization contains so many different mindsets and perspectives, based on different backgrounds," Lee adds. "We often don't spend enough time trying get to the common denominator in terms of what we're actually talking about and the decision we're trying to make. … Numbers provide that common denominator."

Engagement with highly competent PAIBs appears to be the common denominator among a diverse collection of successful MEs from around the world. The profiles on the following pages highlight the experiences of these PAIBs and also extract numerous lessons, which follow each profile in bullet form.

If there is a final lesson to be learned from this useful collection of insights, it may relate to a perspective on the PAIB's role in MEs offered by Zieman Manufacturing Company's former Chief Executive Officer John Pollara. He points out that effective accounting brings about more favorable banking relationships; smoother dealings with sales, franchises and tax authorities; much more beneficial relationships with vendors; and higher levels of trust among stockholders. "I was always a firm believer that there is only one kind of accounting," Pollara emphasizes, "and that's good accounting."

His point is a good one – and one that is driven home repeatedly in these interviews. The discussions suggest that the PAIB qualifies among the most important people in any type of ME. PAIBs are professionals who, according to veteran PAIB and board member Gord Cummings, can "reconcile the urgent with the important" in a way that helps the mid-sized enterprise succeed in getting bigger and/or better.

Profile: Julian Clarke

Addressing the Achilles Heels of Mid-Sized Enterprises

A professional accountant in business helps MEs strengthen their information systems and address questions of right and wrong

After witnessing the problems that afflict mid-sized enterprises (MEs) on five continents, Ireland-based SME Financial Systems Director Julian Clarke has developed a convincing perspective. In his view, MEs have two Achilles heels: information technology and helping to maintain their company's reputation while facing the competitive challenges posed by larger competitors. More specifically, mid-sized companies suffer from ineffective management of information systems while their managers sometimes suffer from not knowing where to turn when business-integrity issues materialize.

"If you cannot access information about your business, how can you make correct decisions?" asks Clarke, who notes that some surveys indicate that 60 to 80 percent of ME managers express dissatisfaction with their accounting software vendors.

Clarke worked in KPMG's corporate tax area and, after earning his chartered accountant qualification, left Ireland for Australia where he led finance and operational functions for a bank, two insurance companies and an entrepreneurial commercial property company. For the past 15 years, Clarke has used his accounting training and experience as an independent advisor to MEs worldwide. Now based again in Ireland, Clarke's advisory work focuses on information systems, financial modelling, strategy development, operational improvement and business integrity within entrepreneurial small and mid-sized companies.

An IT Blindspot

In Ireland, as elsewhere, the biggest problem MEs contend with is getting paid on time, Clarke notes. "They're too busy running the business, which is the interesting thing, to bother chasing payment, which is the boring bit," says Clarke. "Delayed payment becomes a vicious circle and portrays a lack of both basic integrity and common sense as it risks harming the fundamental business relationship. Explain you are not a bank, use CRM to record excuses, and you will find persistence pays."

He also believes that many mid-sized enterprises do not have sufficient financial management capabilities in general and in information systems in particular. "They don't know what they're missing," he says, "and often their professional advisors do not know, either."

That's because their external advisors may be biased, although perhaps not consciously. These advisors, who may include their external accounting firm, often suggest financial systems that work best with their own organization's software rather than what would best meet the ME's unique needs. "The best marketed applications rather than the best programs are often recommended," says Clarke. "The software packages that dominate some markets are old-fashioned and relatively difficult to use."

Although Clarke points out that "expertise is supposed to be a cornerstone of our profession," he says he is very understanding of accounting firms whose "undoubted expertise lies in the areas of audit, accounting, tax and business advice." Yet a lack of wide financial systems expertise can be an external accounting firm's own Achilles heel.

Clarke identifies four reasons for financial system dissatisfaction:

1. The vendor's salesperson, or sales team, fails to fully appreciate the customer's business needs;
2. The implementation team fails to grasp the business needs – either because of their own insufficient understanding or due to lack of hands-on involvement by the managers;
3. Inadequate training of the individual users; and
4. Inadequate technical support once the system is in use.

How can PAIBs help eliminate these pitfalls? It is up to the PAIB within MEs, Clarke suggests, to help strengthen the selection and implementation process. "The most important action is to find impartial advisors," says Clarke. "The advisor needs to be capable of understanding the business deeply and also possess a detailed knowledge of the current financial software market."

Whether or not the ME's management decides to use an external advisor to assist with systems selection, Clarke says that the internal PAIB should "gain a firm understanding of the ME's specific business information needs from discussions with those who run the business in all areas and at all levels." He also notes that the opportunity exists for operational improvement and superb management information throughout the organization.

"Contrary to popular belief," he notes, "MEs can have management information superior to their larger competitors – a great potential competitive advantage." External accountants can also benefit from clients with well implemented, appropriate systems, according to Clarke: "A more efficient performance of their compliance work results, offering a wider scope for business advisory."

Spreadsheets, a powerful but highly error-prone tool, Clarke notes, are often used to compensate for system inadequacies. "Spreadsheets are far better suited to forecasting than to recording and reporting on day-to-day activity," he adds. "Selecting the wrong financial system creates so many problems and only adds to the problem of not getting paid on time. It also prevents MEs from knowing how effective their sales and marketing and other activities are. How can you run a business if you don't really know how it is doing?"

PAIBs' Unique "TRIP"

PAIBs in MEs often face a more daunting question: Whom can I turn to when I confront a business integrity issue?

"One of the more difficult challenges facing PAIBs is when they encounter an integrity issue within their own organization," Clarke asserts. "As one of the few professionally qualified managers in an ME, PAIBs have the professional standards and the responsibility for responding quickly and appropriately when issues of integrity arise," says Clarke. "PAIBs understand the rationale for business integrity – not integrity for integrity's sake, but because of its strong link with reputation and longer term business success, based on mutual benefit, fair play and trust."

He much prefers the terms "trust, reputation, integrity and professionalism," or "TRIP," to the phrase "business ethics," which he believes sounds too philosophical. "Put simply," he asks, "Would you do business with someone you don't trust?"

His approach, as outlined in a 2007 Accountancy Ireland article, includes four reasons for ensuring that the company takes a proper "TRIP":

- Organizations that conduct their affairs with integrity are trusted;
- Trusted organizations gain a good reputation;
- Organizations with a good reputation are consistently successful; and
- The public expects higher standards of integrity from members of professions.

This responsibility places demands on both the PAIB and the professional organizations that support them.

"How can you run a business if you don't really know how it's doing?"

Clarke believes that PAIBs have an obligation to keep informed on business integrity issues – what they are, how to reduce the likelihood of their occurrence within the organization, and how best to respond to them in case they arise. PAIBs can start by seeking out this "TRIP wisdom" more actively. "I've attended numerous conferences internationally on business integrity and business ethics in the past several years," Clarke says, "and most of the attendees are academics, presenting fascinating papers. I've often been the only professional accountant and the only person from industry at these conferences."

"Ethical and integrity guidance from our professional organizations can be very, very helpful," says Clarke. "We need to build on this support and also to make more PAIBs aware that this is available. A profession only maintains its reputation at a macro level when its professionals demonstrate ethical practice at the micro level and are supported, perhaps in trying circumstances, to uphold their standards. Accountancy is the language of business – many others rely on our profession getting it right. Appreciation of this creates an even greater responsibility on us to support our own professionals if business is to function as the business community expects."

Broad Experience Helps

Just as knowledge of business integrity issues helps PAIBs better manage those challenges, so too, does business knowledge help them better manage their organization's overall challenges. One of the best sources of that knowledge, as Clarke sees it, is a broad-based finance and accounting background.

"Too many PAIBs who come up through a Big 4 accounting firm are not receiving a sufficiently varied experience," Clarke notes. "Instead, they tend to specialize too much, too early. This is not a critique of the firms per se. The same applies to the larger firms across all professions. PAIBs should ensure that they complement their areas of specialization with broad-based experience."

Although Clarke worked primarily in corporate tax during his time with KPMG, he expanded his skills and competences by asking for a variety of assignments. He helped manage a supermarket chain in bankruptcy, sought out projects that helped strengthen his financial modeling skills and taught accounting training courses to new hires.

"I strongly advise newly hired auditors to get as much experience as possible in as many areas of the accounting firm as possible during their first four to six months on the job," Clarke adds. "Understanding what makes businesses tick increases your overall competency, hence adding value to the firm and ultimately to the client."

Common Denominator for Business Success

Clarke has worked with firms around the world and says the most successful have been what he describes as "people-oriented organizations," particularly those with a "can do, super-serve the customer focus." Clarke believes "MEs have a huge potential competitive advantage over their larger competitors by nurturing a harmonious working environment and putting their people first. All facets of operations, including internal and external customer service, improve as a result, and business success is far more likely when people enjoy coming in to work and know their contribution is valued."

He believes experience in people management is a critical skill for the PAIB and suggests "one of the many advantages of a professional accounting qualification is the opportunity to manage people at an early stage of a career."

That strength is valuable when broadly experienced auditors and accountants want to become PAIBs in medium-sized entities and face the challenge of addressing common weak spots, such as ineffective information systems and integrity issues.

Key Lessons:
• You cannot make correct decisions if you cannot access information about your business. • A PAIB can help strengthen the finance and accounting system selection and implementation process by gaining a firm understanding of the ME's specific business information needs, conducting a thorough review of the software market and ensuring that end users are properly trained and supported. • If an ME hires an external advisor or systems implementer to help select a software application, the advisor should be independent, should clearly understand the company's unique business needs and should possess detailed knowledge of the business software market. Start with the reports and work backwards. • PAIBs who want to become successful in MEs should seek out a variety of business experiences and avoid "specializing" their skill areas too greatly or too early in their careers. • Professional accountants in business need to appreciate the reputation benefits of running a firm with integrity and know what do to when they encounter potential business integrity problems in their company. The best way to gain people's trust is to give them yours.

Profile: Gord Cummings

Reconciling the Urgent with the Important

Veteran professional accountant in business assists a successful mid-sized company design its next generation of success

Gord Cummings' grooming as a professional accountant in business (PAIB) and his four-plus decades as a successful business leader have taught him to translate prickly problems into manageable terms. Ask him what obstacles frequently prevent growing medium-sized enterprises (MEs) from reaching that elusive "next level" of success, and Cummings frowns in thought for a few moments before replying. "The urgent," he notes, "frequently overtakes the important."

Cummings ought to know. Many of the 18 companies on whose boards he has served in the past 20 years – including RWDI, a privately held Ontario, Canada-based engineering firm – have struggled to overcome this challenge.

Growth Pains and a Warning Sign

Last year, Cummings was appointed as an independent board member by RWDI. The company is one of the world's most sought-after specialty engineering services firms, thanks to a talented collection of wind-testing and microclimate engineers who have helped make some of the world's tallest and most impressive buildings structurally sound. This work includes the Amundsen Scott South Pole Station, Toronto Pearson Airport, China World Trade Center, Seoul World Cup Stadium, New York's new Freedom Tower and the 452-meter Petronas Towers in Kuala Lumpur among hundreds of other projects.

Yet the firm – which was founded in 1972, has been profitable every year since then, and today boasts more than 400 employees – faced a series of "get to the next level" challenges that the vast majority of mid-sized, fast-growing companies also confront. The pressing matter of serving clients and generating revenue distracted attention and resources from the other needs that are highly important to the firm's longer-term success.

Despite the tumult of serving clients and growing revenue at roughly 15 percent annually, RWDI had the foresight to spot a subtle warning sign: profit growth began to level. Rather than responding to its profitability changes with quick-fixes, RWDI's management team dug deeper and, in doing so, took steps that later helped identify longer-term needs that required attention, including succession planning and talent management.

One of the most important steps RWDI's management team took was in response to their recognition that the company could benefit from outside perspective and guidance in addressing these challenges. This realization resulted in the naming of Cummings as the company's first outside director in early 2007. Since then, Cummings and the management team have worked together to assess and plot solutions to its growth challenges. That work produced a series of considerations that the entire organization is currently evaluating as it charts its strategic course for the coming years.

Many Challenges, Limited Time

These considerations relate to two primary areas: the compensation system and succession planning (which includes development of next generation leadership and additional support staff).

Although performance objectives were being set, the organization as a whole had not adopted a systematic approach to measuring actual performance against those objectives; the existing compensation system was not designed to support performance-based incentives. “They knew they needed greater individual accountability throughout the business,” Cumming notes, “but they weren’t certain exactly how to go about doing so.”

As a result, the board and management are in the process of evaluating a new performance measurement system and stronger links between performance and compensation throughout the business.

> *“You’re not born with management skills, nor do you receive them on your 21st birthday. They’re learnable traits.”*

As RWDI began to focus on potential changes to its compensation and performance-management processes, the company’s CEO announced his intention to retire. Of the firm’s six original partners, which included the CEO, two have retired and the three others were expected to retire within the next five years or so. This meant that the firm would need to replace almost all of its senior managers, and, given the firm’s growth, it may soon need even more senior managers.

“Suddenly, you have a need for a next generation of leaders who have to work differently than the previous management because they will be running a much larger company.” Cummings adds, “And how do you ‘source’ your next generation of management?”

RWDI’s leadership team had long preferred to promote from within. This preference emphasizes the cultural heritage of the firm, reflects the absolute importance of engineering expertise in the company’s success and enables the leveraging of a large supply of longtime employees in the workforce.

Yet, the promote-from-within approach posed another challenge: successful engineers don’t necessarily make successful leaders.

RWDI’s engineers had distinguished themselves as a preeminent resource for helping to make some of the world’s most impressive structures safe. Those same engineers also acknowledged that engineering, not management, was their primary competency.

“This is exactly the same sort of realization that a growing – and forward-looking – legal firm or accounting firm would reach,” notes Cummings. “At some point in a growing firm’s development there’s a question of whether the partners should only deliver professional services or also take an active management role in leading the firm to the next level.”

However, Cummings emphasizes that engineers, like other specialty professions, can learn how to manage larger organizations, more mature business processes and functional areas such as finance, HR and IT. “You’re not born with management skills, nor do you receive them on your 21st birthday,” he notes. “They’re learnable traits. Just as accountants can learn to manage, so can engineers.”

He identifies several methods for doing so, including mentor programs, job rotations, the use of “stretch assignments” by high-potential employees, and executive education classes. “However, when it comes to actual implementation, everyone says, ‘Oh, but we can’t afford to lose him or her for a two-month course at Harvard or Queen’s [University],’” Cummings acknowledges. “But, in some cases, you have to do that.”

When a growing ME, like RWDI, favors promoting senior managers from within, it must then cultivate the next generation of leadership. Doing so requires a valuable commodity many MEs believe they cannot afford: time (taken away from billable engagements). “But you have to identify a half-dozen or so key people – those in their mid- to late-40s – and help to prepare those individuals as future company leaders,” Cummings says.

Most, if not all, of the current partners and employees are “busy building the business and delivering services, and none of them has been able to carve out precious time to ensure that up-and-coming managers participate in job rotations, leadership development retreats, executive education classes from top-notch universities or other developmental activities that help groom highly skilled engineers into senior managers,” Cummings explained. “It’s easy to say, ‘Well, they should have done these sorts of activities,’ but it’s also understandable given the challenge of balancing immediate priorities while growing at a fast pace.”

Other Support Needs

While addressing succession planning challenges, RWDI spotted another need. The firm’s leadership realized that it also needed a new breed of managers in support functions, with the ability, experience and voice to implement new management processes and performance measurement systems – and ensure that the organization adhered to the new approaches.

This also represents a common challenge among growing MEs. Rather than hiring, and paying for, chief financial officers (CFOs), chief operating officers (COOs), senior level human resources vice presidents and related executive-level positions, MEs frequently have long term general staff who sort of “grew into” these specific functions.

These supporting managers tend to excel in the technical aspects of the current systems and ways of working yet lack the formal education, outside experience, strategic instincts and, above all, authority to capture the ear of their more senior business colleagues and bring the whole of the support systems to a higher level, necessary to complement the growth of the organization. RWDI’s highest ranking finance manager, for example, is a highly skilled comptroller who prepares the financial figures, shares the financial reports, ensures that payroll is fulfilled and handles other accounting responsibilities.

But growing MEs sometimes need “that senior financial officer who says, ‘Look, this month’s results aren’t all that great, what are we going to do about it?’” Cummings notes. “That person needs the authority to make people sit up and listen." Without that authority, for example, a mid-sized enterprise's finance manager may realize that the company does not possess the right financial information systems but lacks the power to get the management team to approve the purchase of a new system.

Seasoned finance executives offer other value, too, according to Cummings. "CFOs should play a much stronger role in the setting of annual objectives and how those objectives are measured and reported," says Cummings. "And they can greatly assist in the acquisition of businesses by making sure a potential acquisition is valued correctly."

CFOs also can help manage assets much more effectively. The bulk of an ME's assets often consist primarily of inventory and receivables. And while most MEs excel at top-line growth, too little focus is granted to the bottom line, which requires a disciplined and consistent approach to return on investment (ROI) measures.

Act Now, Before it's Too Late

These and other issues are now being addressed by RWDI thanks to the sensitivity of the company and its engineers to an early warning signal and their decision to act upon that, and thanks to the company's identifying the obstacles it confronts as a growing company before it is too late, while it still has ample opportunity to address the challenges in a way that helps it succeed as an even larger entity.

That vision includes the foresight of bringing in an outside PAIB to help assess and select which opportunities it will pursue in focusing on the tall challenge of balancing the urgent with the important while designing an approach for long-term success.

Key Lessons:
• Closely held or private mid-sized enterprises often encounter growing pains; bringing in an outside advisor, board member or executive – particularly one who is a professional accountant in business – can help alleviate those problems. • Common growth challenges include the need for greater accountability for individual results throughout the organization and more sophisticated administrative and support processes. These needs center squarely on the PAIB's areas of expertise. • The highest-ranking CFO/PAIB in an ME should possess the authority to convince the leadership team to carve out time from the urgent business of generating revenue to focus on important long-term issues, such as succession planning and strategic management.

Profile: Paul Druckman

Four Types of Finance Professionals

A mid-market expert explains how different finance professionals can make or break a medium-sized company

The way entrepreneur Paul Druckman sees it, finance professionals around the world speak a single language with multiple dialects.

"Wherever I do business, I have more in common with the finance professionals in the companies that I'm involved with than any of the other executives – including even the entrepreneur – when it comes to managing and understanding the details," says Druckman, a professional accountant in business (PAIB) and co-founder of U.K.-based mid-size business advocacy association M Institute. "That's because we speak the same language."

Yet Druckman, who currently serves as a non-executive director/chairman for three mid-sized companies, can also be hard on his fellow finance professionals. Look closely at a mid-sized company under pressure, he says, and there is a good chance you will see a finance director who is struggling to fund growth. "I think one of the biggest challenges mid-market companies face is finding funds for growth," he explains. "Fairly often, the finance director in a medium-sized company is quite capable of handling the management accounts and running and controlling the finance function and other functions, like IT."

However, when it comes to finding the necessary cash, structuring debt finance, weighing acquisitions and related work, many finance directors fall short. These activities require the right personality and the right competences. A certain breed of finance professional possesses that personality type and those competences, asserts Druckman. He believes it is vital for finance and accounting managers to understand their strengths and weaknesses and then seek out situations and relationships where the former can be leveraged and the latter have less of a negative impact on their organization's development.

Fluency with Mid-Sized Challenges

Trained as a chartered accountant in the 1970s, Druckman quickly embarked down an entrepreneurial path as he successfully founded and sold two highly successful technology companies whose offerings involved accounting software.

Druckman remained close to his roots during his entrepreneurial ventures. He became president of the Institute of Chartered Accountants in England & Wales (ICAEW). During his tenure there, he noticed that the roughly 100,000 mid-sized businesses in the U.K. faced unique challenges and lacked sufficient sources of external support for dealing with these issues. That realization later spurred Druckman and two partners to create M Institute, a membership organization that works exclusively with the leaders of medium-sized companies by equipping them with resources to address their unique challenges. To accomplish its mission, not-for-profit, member-owned M Institute partners with ICAEW and with U.K. business-lobbying organization CBI as well as with Microsoft, Durham Business School, Quoted Companies Alliance and other leading organizations.

Druckman's current board service involves three mid-sized U.K. companies in the technology and financial services sectors. Two of those organizations are fast growing while the third is under pressure, Druckman reports. "Each of these companies has had different experiences with their finance professionals," says Druckman, who emphasizes that all of these professionals play pivotal roles in the successes and struggles of the companies. Despite these differences in experience, Druckman asserts there is one golden rule when it comes to the finance professional's performance in mid-sized organizations: their competences should match the needs of the organization.

Some finance professionals satisfy that rule and others do not, Druckman explains, because corporate finance know-how represents only one of four different types, or "dialects", of financial fluency within mid-sized organizations.

One type is the so-called "bean counter" or "number cruncher," terms whose slightly derogatory connotations mask their importance, Druckman notes. "These are valuable competences," he asserts. "This is the person who maintains the accounting records and produces management accounts every month in a very similar fashion according to a formula. And this person is very happy doing this work."

A second type of finance professional excels at delivering budgeting and preparing financial analyses when requested to do so. These accountants are "very capable dealing with budgets and handling everything that's asked of them about the finances of a potential acquisition or the creation of a new department," Druckman explains. "They provide excellent numbers based on what they've been asked to do."

Finance professionals with a broader set of competences and responsibilities comprise a third type. These finance persons serve as the founder and/or CEO's right hand, primarily in the administrative sense. "They handle all sorts of responsibilities, from IT to procurement to writing up notes at the board meetings," Druckman explains. "They're almost an assistant executive with a financial bias. They want variety, but they also have someone telling them what to do."

The final type of competence emphasis consists of what Druckman calls the "true CFO": the finance professional who also takes an active lead in managing all aspects of corporate finance, relationships with investors and other funding, scenario planning and regulatory relationships. In addition, they take an active role in the development and strategy of the organization, being pro-active rather than reactive.

Fund or Fade

The types Druckman identifies will be familiar to anyone who has worked in or with the finance and accounting function in a mid-sized business. The competence areas are not necessarily discreet. Many finance professionals possess capabilities across more than one type of the above competence areas. However, precious few of them in mid-sized companies are equally adept at crunching the numbers and funding growth.

The purpose of Druckman's categorization is to cultivate greater self awareness among finance professionals and their mid-sized organizations. The unique finance and accounting needs of a mid-sized enterprise at a given point in its development (e.g., fast-growing, stable or under pressure) should continuously be supported by the right finance and accounting competences.

That can be difficult to achieve, because an organization's finance and accounting needs have to keep up with an organization's changing needs. Sometimes that change occurs rapidly, particularly in the area of funding for growth.

Finance professionals around the world speak a single language with multiple dialects.

For example, the finance directors in two of the three companies on whose board Druckman currently serves as a non-executive director were recently replaced. In both cases, the cause related to a lack of support for their organization's funding strategies. Both former finance directors were highly capable, Druckman emphasizes. It just so happens that their competences were mainly in the first three competence areas and not in corporate finance. One of the former finance directors helped guide a £4 million business with 80 people to a £50 million and 250-person corporation. The former finance director recently returned to the original company, now a subsidiary, and a new group finance director has filled his shoes at the corporate level.

"When it comes to funding growth, a medium-sized business needs its finance director to serve as a liaison between the investors and the rest of the company," he explains. "That means the finance director needs to look after venture capitalists, bank executives and angel investors. This requires a very different set of competences than managing the budget."

Those competences can be acquired, as Druckman has witnessed. In the largest of the three companies Druckman currently serves as a board member, the finance director has "grown into" the corporate finance role. "You don't always have to replace your finance director," he says.

This is not to say that one set of finance and accounting competences are intrinsically more valuable than another. Druckman points to an example at one of his companies in which a finance professional who specialized in accounting and control was hired to bring greater rigor and precision to those processes. "The company had been getting by with systems and controls that were not as tight as they could have been," Druckman recalls. "The external accountant clearly communicated that it was no longer acceptable to simply 'get by.' It took some time to instill that discipline, but once it was there, every single person in the company understood that the numbers had to be exactly right, all the time."

The new discipline bolstered the accuracy of forecasting and business planning, with one other notable benefit: the company recently secured a loan of more than £750,000, largely, Druckman reports, because of the strength and depth of the financial information the recently hired accountant assembled.

"I'm absolutely convinced that we would not have received that loan without the management information that was presented and without the sense of security that all of the information was absolutely correct, to the penny."

Friends in High Places

Because different types of finance and accounting competences provide more value to mid-sized companies at different points in their development, Druckman believes PAIBs should be aware of these fluctuations and respond appropriately. That self awareness is particularly important, Druckman says, because CEOs of mid-sized companies often mistakenly believe that their top finance person, often a finance director, can do it all by himself.

"In many cases, the chief executive or the founder of the business doesn't understand that competence in corporate finance and competence in accounting and reporting rarely reside in the same individual," he says. "In a medium-sized business, the expectation is that the finance person will fulfill both roles at the same time."

That's why mid-market PAIBs can benefit from friends in high places, like Druckman. As a non-executive director who remains fluent in finance and accounting, Druckman has devoted time to working closely with finance directors in an advisory capacity. They can tap his experience and knowledge to help maneuver difficult challenges, such as recognizing when they are in over their heads and then taking steps to address those gaps.

Druckman and his finance directors have developed relationships whereby "I can drop them an email saying, 'Hey, why are you doing this? I thought we agreed at the last board meeting you wouldn't do that?'" he explains. "Inevitably, most finance professionals in medium businesses will encounter something for which they have no experience at all. And it is valuable for them to rely on someone close to the organization to talk through those issues with them so they can come up with good solutions."

This sort of guidance, from board members and other trusted advisors with deep finance and accounting experience in mid-sized companies, can help finance persons, no matter their dialect, master the most challenging of all words in their common language: success.

Key Lessons:

- It is vital for professional accountants in business and other finance professionals to understand their strengths and weaknesses and then seek out situations and relationships where the former can be leveraged and the latter have less of a negative impact on their organization's development.
- In a medium-sized business, the expectation is that the finance person will fulfill various roles at the same time.
- When it comes to funding growth, a finance director of a medium-sized business needs to serve as a liaison between the company and the investors.
- Competences can be acquired. Organizations don't always have to replace their finance persons.
- Because different types of finance and accounting competences provide more value to mid-sized companies at different points in their development, PAIBs should be aware of these fluctuations and respond appropriately.
- A "true CFO" takes an active lead in managing all aspects of corporate finance, relationships with investors and other funding, scenario planning and regulatory relationships.

Profile: Gustaw Duda

True Tales of a Turnaround Specialist

A professional accountant in business speaks candidly about addressing large growth obstacles in a mid-sized enterprise

Among the numerous hats worn by mid-market professional accountants in business (PAIBs), the role of turnaround specialist ranks among the most important and most sought after. This challenge helps explain why so many stories about successful corporate turnarounds obscure the real-life struggles PAIBs and their colleagues confront while turning around distressed mid-sized enterprises (MEs).

Gustaw Duda prefers to highlight both the successes and the stumbling blocks he encountered in playing a central role in turning around Poland-based Poligrafia, which is why his story is so worthy of print.

Duda, who now serves as the CFO of Krakow-based Orlen Oil, and his former colleagues at Poligrafia managed to leverage their wins and minimize their losses in such a way that this turnaround story produced a happy ending.

The Ups and Downs of the Middle

Like so many other mid-sized companies throughout the world, Poligrafia's history contains numerous swings among periods of stability, growth and distress.

Poligrafia began its existence in the early 1990s as a printing plant subsidiary within a construction company. The business, which targeted small to mid-sized publishers in Poland, hummed along with modest, but steady profits for the next nine years… until the parent company was acquired by large international construction corporation.

The printing business's new parent company quickly sold it to a private equity fund, whose management took oversight of the business. They quickly injected large amounts of capital into the business, which had been run extremely conservatively for the first nine years of its existence. The investments largely went toward the purchase of new production equipment, giving the business the capacity – and, more daunting, the need – to serve much larger publishing customers.

Poligrafia doubled in size in less than two years, transforming from a stable company on the verge of small and mid-sized status to a full-fledged, rapidly growing ME. Problems arose in equally rapid fashion, and it became evident that the existing management resources were not suited to operate a much larger entity. At the time of this transition, in 2001, the company's president still conducted most of her communications to her departments via letters. She did not use a computer.

The primary problem was that Poligrafia could not generate sufficient production for its new printing equipment. The company's existing customer base consisted of publishers whose publications boasted circulations of 20,000 to 40,000 copies. Poligrafia's new infrastructure demanded more customers with circulations of 100,000 plus to generate sufficient returns on investment.

In 2001, profits decreased significantly as a result of this production gap, and the company's banking relationships began to sour.

Symptoms, Root Causes and Solutions

By 2002, the shrinking profit turned into a major loss of roughly 8 million Złoty (PLN), with PLN 200 million in revenue. Later that year, Duda was hired as CFO. At that time, two other executives also were brought in to replace the previous management team and given the mandate that they address these problems.

"At the beginning of 2003, I had trouble with our banks," Duda recalls. "It was the first issue I confronted because the banks decided not to roll over our credit lines, and the company was quickly losing liquidity.… We needed to convince the banks that the recent change in management would help make our profitability issues temporary."

Duda also recognized that the company's sagging credibility with its bankers represented more of a symptom than a root cause. He set out to eliminate this symptom by making some fundamental improvements, all of which resided within his responsibilities as CFO.

Revamping the budgeting and control function: When Duda joined the company, it lacked a proper budgeting and control function. The budget was prepared on a very high level by comparing the targets for the next year with the previous year and then making small adjustments as needed. The approach was passable when the company was small and profitable, but offered little, if any, guidance and cost-control capabilities now that the company had grown and profits had disappeared. Duda started from scratch while emphasizing the value of a reliable budgeting and control process to the entire company. The work included reorganizing cost centers, implementing processes to more accurately track costs, better understanding different sources of revenue and fostering a more budget-savvy culture. It was a tall task, and one Duda would have liked two years to execute. He accomplished the task in less than half that time, and Poligrafia's banks took notice, he reports. "It included information such as production volume per machine and currency exchange rates." New modeling capabilities also showed the bank what would be the impact of fluctuations in sales volumes, prices, interest and currency exchange rates on the company's profitability.

> *"The banks could see that our new budgeting and control process was much more sophisticated."*

Establishing a credit control function: In addition to remaking the budgeting system, Duda also established a credit control function to attack costly debt-recovery problems and, by doing so, increase working capital. First, Duda trained one of the employees as a credit specialist to manage the newly created department. Second, they established procedures for pre-qualifying customers based on their credit histories and analysis of their financial standing. Third, they communicated the new guidelines to the sales force and the entire company. These procedures instilled greater financial discipline in the sales force that previously sold to customers without devoting much care to whether the customers would pay on time, or at all.

Addressing a lack of specialists: Additionally, a more human problem contributed to the company's challenges. On first glance, Duda thought that the company simply had not hired enough specialists to implement, manage and, when necessary, improve the types of business processes that a growing ME required. He had, in fact, hired a handful of planning and analysis specialists to help strengthen budgeting and cost control. On closer inspection, however, Duda discovered that the problem was more structural. "We had too many different departments," he says. Several departments consisted of only one or two people; when one of those people left, the department practically stopped functioning. Duda and his executive colleagues reorganized the company into a smaller number of larger departments. They also hired managers to lead some of the newly created departments but did so without increasing previous salary costs. The restructuring provided higher-skilled and more reliable support processes throughout the company.

By highlighting all of the improvements, Poligrafia presented a story to the banks that "convinced them that we would be fine," says Duda.

Achieving all of these improvements was difficult and time consuming. Duda would have preferred to delegate the specialists issue to someone better qualified to conduct an external market analysis on skills and salaries. "I had to do this work personally because at that time I didn't have a person I could ask to do it," Duda recalls.

The Right Diagnosis

The lack of executive talent on the administrative front created other challenges, including complicating Duda's attempt to revamp the compensation system. After Duda and his team addressed the process areas at the root cause of performance problems, they wanted to establish greater accountability for executing the new processes through an incentives-based compensation system.

The previous system was highly subjective, Duda recalls; it essentially involved the previous president determining who warranted a bonus each month. Duda and his executive colleagues assembled a team of some 30 key employees from across the company, and they set out to design a new quarterly bonus system based on EBIT (Earnings Before Interest and Taxes) realization that would align behaviors in different functions with corporate objectives. Despite those sound intentions and the highly collaborative approach, the effort did not get off the ground, in large part, due to communications problems. A skilled HR executive – a luxury the company could not afford at the time – probably would have handled communications and training around the new system more effectively, Duda believes. "It was the right diagnosis," he acknowledges, "but the execution was not 100 percent correct."

Although that objective fell short, the other process improvements Duda and his team implemented hit their mark: Poligrafia returned to profitability in 2004, posting PLN 10 million in net income. The success of the turnaround strategy quickly gave way to the need for an exit strategy. In January 2005, Duda and his team launched a due diligence process to prepare the company for sale, which was completed 10 months later when U.S.-based RR Donnelley purchased the business.

Duda then moved on to his current role, content in the knowledge that his efforts had doubled the value of Poligrafia in three years of work, rich with ups and downs.

Key Lessons:
• Make sure that you keep your credit lines open, especially in tough times. • Don't be misled by symptoms; set out to identify and then address the root causes of problems that cause profits to decline. • A proper budget and control function becomes even more important as an organization grows and confronts new challenges. • A proper credit control function instills greater financial discipline in the organization and improves the balance sheet. • A well designed and properly implemented incentive system aligns behaviors in different functions with corporate objectives.

Ross Fyffe

Ivan Boardman

Profile: Ross Fyffe and Ivan Boardman

The High Value of "Middle Men"

PAIBs

Professional accountants in business play a crucial role in helping South Africa's under-pressure mid-sized enterprises

On first look, the call center assignment may have appeared an unlikely match for a professional accountant in business (PAIB).

Ross Fyffe, a professional accountant and a principal of South Africa-based business advisory firm Seamless Business Support CC, was called in to help a faltering call center operation. The under-pressure mid-sized enterprise (ME) had lost roughly 1 million Rand per month during a six-month period. The call center's struggles stemmed from turmoil, including fraud, it experienced under previous ownership.

On closer inspection, however, the work Fyffe conducted in the call center represents an increasingly common assignment for a professional accountant in business. The assignment required Fyffe to scrutinize all areas of the business, hire and fire employees, refinance existing equipment, restructure debt, more accurately account for assets, purchase new equipment, mentor executives and take other steps to quickly reduce the operation's losses. Fyffe's ability to perform these actions stems from his accountancy background.

Fyffe's previous experience, which includes 14 years in numerous roles in the passenger transport industry, began in the finance and accounting function. Fyffe's colleague, Ivan Boardman, a chartered accountant by training, is an associate with Seamless Business Support CC. He previously served as a finance director in some of South Africa's largest organizations.

The PAIB's generalist capabilities are in high demand in South Africa, as rapid changes in the wake of momentous political and social shifts have created new challenges in a fast-growing economy. One of the country's primary challenges is that there are not enough skilled employees to keep pace with the economic growth. This gap hits mid-sized companies particularly hard. The varied assortment of turnaround and process-improvement projects that Fyffe and Boardman regularly conduct reflect the growing value PAIBs offer to under-pressure small and mid-sized companies.

Change and Challenges

The business advisory industry thrives during periods of business change and hardship. That helps explain why South Africa currently boasts one of the fastest growing business advisory markets in the world.

Much of Seamless Business Support's work originates from financial institutions. When borrowers, particularly fast-growing MEs, encounter growth or performance problems, the banks seek outside advisory expertise to help their customers work through their challenges. In some cases, the financial institutions pay most or all of the advisory firm's fee.

Mid-sized enterprises often do not know where or how to draw information for making economic decisions.

While access to the right skills represents South African MEs' most pervasive problems, there are a number of other challenges. Most of these issues require Fyffe and Boardman to apply their PAIB skills. "Unfortunately, the supply of finance and accounting skills has not kept up with the demand," Fyffe notes. "So, the financial and accounting side is often one of the first areas we need to help clients with when addressing their challenges," To help MEs access more capital to fuel growth, Fyffe and Boardman focus on strengthening finance and accounting processes and systems, internal controls and risk management capabilities. Those improvements are designed to instill greater confidence in the MEs among banks, venture capital firms and angel investors.

Fyffe and Boardman determine which areas of an under-pressure ME need attention first by conducting an overall assessment at the beginning of each assignment. The assessment examines the mid-sized company's finance and accounting, sales and marketing, human resources (HR), information technology (IT) and operational areas – what are commonly referred to as the "pillars" of the business.

Fortifying the Business Pillars

This initial assessment allows Fyffe, Boardman and their team to prioritize the issues that require improvement.

If the issues extend beyond Fyffe's and Boardman's personal expertise, they call in subject-matter experts from their firm to address those areas. Sometimes this occurs when the problem involves technical, marketing or HR issues. In many cases, however, Fyffe's and Boardman's broad PAIB capabilities and experiences are sufficient to help clients tackle their problems.

Although the specific nature of these problems varies by company, Fyffe says the following areas, in particular (all of which fall within the business pillars described above), require them to put their PAIB skills to work.

Talent Management: "The biggest problem for every company we work with relates to the limited availability of skills," Fyffe says. He helps companies structure in-house training programs and functions and also to find suitable external training services. This capability requires Fyffe to maintain knowledge of government and higher-education training programs, such as South Africa's Sector Educational Training Association (SETA), and to understand how these programs might help clients.

Management Information: Many South African MEs need support in producing accurate and easily accessible management information. The raw data often exists, but organizations encounter problems when trying to access, analyze and use the data to drive decision making. "In many instances, we need to assist clients with strengthening internal controls around their information systems and the accounting processes those systems support," Fyffe reports. Once that control is put in place, the data in those systems can be turned into information. At that point, Fyffe helps clients identify which measures and metrics provide the best understanding of business performance. Bringing greater discipline to the use of management information serves as the foundation for developing better business plans and strategies.

Financing: Once MEs have access to the right management information, they are better prepared to make their case to financial institutions or investors for additional capital. Besides the skills gap, funding represents one of the most formidable challenges MEs confront. "In South Africa, the major problem with start-up companies is that it is difficult to find people or banks to finance them," Fyffe notes. "And venture capitalists are not prepared to lend a new company money unless there is an overseer in place to help assure that the right management information systems, among other needs, are in place." That's where Fyffe and Boardman provide assistance. "We get involved, to a large degree, as the middle man between our clients and the banks, angel companies or venture capitalists," he explains. "This is quite a big task." That's because the objective of this role is to inspire confidence in lenders. Instilling this trust typically requires the ME to improve numerous processes and strengthen its overall risk management and governance capabilities (which represent another area that Fyffe and Boardman help MEs address).

Supply Chain Management: In addition, the operational processes of MEs often require improvement. Fyffe and Boardman help a growing number of MEs restructure their procurement function and other supply chain processes. Some of this work relates to government rules on preferred suppliers, so advisors like Fyffe and Boardman also need to keep informed of regulations such as South Africa's Black Economic Empowerment (BEE) program. "A number of smaller companies closed down because they couldn't meet BEE requirements," notes Fyffe, who helps MEs comply with the BEE program so that they can not only survive, but also can gain access to new customers. Supply chain challenges among MEs also extend to global issues, given South Africa's advantageous geographical location between new manufacturing hubs like China and Europe and the U.S. "We can be the stepping stone to some degree," Fyffe adds. "We keep informed of what's happening in India, China and elsewhere and feed that information to our clients, so that they can make the right decisions with their imports and exports."

The PAIB Payoff

Fyffe's call center assignment involved work in more than one of the areas described above. "We worked through the whole financial cycle to see how we could save money," Fyffe notes. The work also consisted of transforming data into actionable information. "Again, that's probably one of the main problems among mid-sized companies: they do not know where or how to draw that information," he continues. "So, in this case, I went in and helped them set up systems so that they can obtain that information."

The work paid off handsomely: when Fyffe completed his work, the call center's loss had swung to a monthly profit of R100,000. The improvement illustrates the value of PAIB capabilities in a period of significant change.

Key Lessons:

- An initial assessment of the "pillars" of the business – finance and accounting, sales and marketing, human resources, information technology and operational areas – represents a wise first step to prioritizing issues that require improvement.
- Bringing greater discipline to the use of management information serves as the foundation for developing better business plans and strategies.
- Once mid-sized enterprises have access to the right management information, they are better prepared to make their case to financial institutions or investors for additional capital.
- Instilling trust with lenders and investors typically requires the improvement of numerous processes as well as the fortification of overall risk management and governance capabilities.

No photo available	**Profile: Guy Griffiths** **Finance and Accounting Rises from the Ashes** *How a multi-talented professional accountant in business restructured his finance department in the wake of an accounting fraud*

A "guy" with deep accounting and business experience takes a job at an Australian big box retailer recovering from an accounting fraud that landed one of its former CFOs in jail. Guy helps complete the recovery effort while readying the mid-sized company for sale. Guy remodels the finance function as a strategic business partner.

This suffices as what Harris Scarfe Australia Pty Ltd. CFO Guy Griffiths would describe as a "helicopter view" (a term from his MBA days) of his recent activities. While Griffiths might frown at the corny play on his name and emphasize that most of the credit for the company's recovery rests with his immediate predecessors, who joined the company immediately following the fraudulent activity, he cannot argue with his own successful track record. Since joining the retailer two years ago as its CFO, Griffiths' leadership has helped a successful sale of the company, enabled Harris Scarfe to resume its growth path following major distress and restored credibility to the finance and accounting department.

The secret behind Griffiths' success resides in his training and wealth of experience. This background equipped Griffiths with the business vision to size up the big picture and the technical expertise to simultaneously drill into the different perspectives he gains from "helicoptering" above.

After earning his chartered accountant designation in Australia, Griffiths worked for the Big 4 public accounting firm PricewaterhouseCoopers as an auditor in the U.K., Canada and Barbados. He earned a master's degree in economics and then entered the private sector in a financial management position with ice cream maker Häagen-Dazs, where he was part of the team that established Häagen-Dazs in Europe. Recognizing that he did not possess the operational background necessary to one day qualify as a suitable CEO candidate, Griffiths returned to the classroom, earning his MBA from London Business School.

He returned to Australia where he worked in finance and accounting roles and gained some operational experience in a position with IBM and, later, with Woolworths, the leading Australian grocery and general merchandise retailer. Along the way, Griffiths also earned his certified internal auditor (CIA) designation.

From Receivership to Restructuring

His recent retail experience, deep financial management expertise and business school training attracted Harris Scarfe to Griffiths when the retailer was four years into its recovery from the early 2001 fraud. Following those well-publicized problems, a new entity bought the failing company's assets, appointed a new CEO and set out to remake the company.

From November 2001 through the present, the company's leadership team executed a "long, long process of repositioning and redefining our customers, the products that we sold, the in-store ambiance and many other crucial aspects of the business," notes Griffiths, who joined that effort in 2005.

As a result of these efforts, the company transformed itself from a broad-spectrum department store to a big-box retailer whose four main businesses, or "pillars" are home wares, linens, men's wear and women's wear.

A detailed and lengthy financial evaluation of the business spurred the reorganization. Every business, merchandise category and store location was analyzed; product categories and stores that did not reflect a desired sales growth pattern were shed. The finance function introduced new metrics such as fixed costs, stock turns and gross margin return on investment (GMROI) to help make these determinations.

Going Private

When Griffiths joined the company, he faced two immediate challenges. First, he needed to help complete the recovery effort, in large part by restoring the credibility of the finance and accounting department. Second, he needed to help position the company for sale. The shareholders who, at that time, oversaw the company's recovery did not have the resources necessary to fund expansion and future growth.

The bulk of Griffiths' attention and much of his staff's time during his first year with the company was diverted to preparing the company for sale. "The level of work that's required in the sale process is incredible," he says. "You have nonstop due-diligence reviews on the legal and the financial side. You have strategic due diligence. You have 5,000 questions from the prospective buyers."

> *"The finance department's goal is to inspire business unit leaders throughout the company to treat finance and accounting as their right-hand consultative support resource."*

The company was sold in April 2007, and is now primarily owned by a private equity firm, which accepted the company's strategy and kept its management team intact. For his part, Griffiths adopted a straightforward approach to working with his company's owners-to-be during the sales process. "Any private equity firm has bought and sold more companies than you're ever going to sell," he advises. "And they know exactly what they want the company to do in terms of performance. As CFO, it's your job to get out there and achieve what they want."

Culture of Review

Once the sale was completed, Griffiths turned his full attention to completing the rebuilding of the finance and accounting department that his predecessor had initiated. Griffiths' intention, he says, is to foster a “culture of review” that originates in the finance and accounting function and spreads throughout the entire organization. That review refers to focusing on the balance sheet and treasury as the company returns to growth mode.

“We’re about 50 percent of the way to where I want us to be,” says Griffiths, who says that the remodeling of the finance function required three major steps.

Restoring Credibility: “Without credibility,” Griffiths emphasizes, “you can’t build effective forecasting, you can’t track actuals and you can’t build an effective financial reporting system. Without credibility, you can’t build anything.” His department quickly established its credibility by unleashing skilled management accountants to ensure that stock levels, fixed assets, profits and other key numbers used to manage the business were perfectly accurate and “didn’t need to be amended by 500 audit adjustments.” The initial scrutiny that Griffiths’ accountants conducted revealed errors in previous management reports that gave the board an inaccurate view of profitability. The errors were quickly corrected and reported. “Now when we put the results together, everyone is highly comfortable and knows that they are the right numbers,” Griffiths points out. “That’s absolutely key.”

Adding value: After restoring its credibility, the finance and accounting team sought opportunities to add value via a more collaborative relationship with its business partners. “If my forecast tells me that we’ll have a cost overrun in the distribution center within the next two months and everyone trusts our numbers, we can shift from being the put-the-numbers-together people to more of the consultative/support people for the business,” says Griffiths, who encouraged his staff to use their analyses and reports as an opportunity to suggest solutions to business colleagues. “We’re not all the way there, yet,” he acknowledges. My finance team is starting to work more closely with the business as a consultative resource on the cost side.”

Becoming a True Business Partner: “At the end of the day, I’m seeking to become the CEO’s right hand when it comes to consultative support,” says Griffiths. “I may be pretty well there right now, but the team has progress to make.” The department’s goal, Griffiths explains, is to inspire business unit leaders throughout the company to treat finance and accounting as their right-hand consultative support resource. Griffiths witnessed a similar dynamic during his tenure at IBM. “The business unit manager for a division [in IBM] would take his finance guy with him to meet with clients and make pitches to sales prospects,” recalls Griffiths. “And another manager would take his finance guy to meet suppliers.… That’s what we’re aiming for, and I have a clear model for how that looks.”

A Three-Bucket Skills Mix

Griffiths also has a clear picture of the professional accountants in business (PAIB) competence mix required to execute this blueprint for developing a top-notch mid-sized finance team.

“Typically, an accountant possesses excellent skills related to the day-to-day debits and credits that need to happen, as well as a very good overall understanding of how a balance sheet and profit-and-loss interact,” he says. “But you often need a different person when it comes to forecasting analysis skills. In our jargon we call them ‘planners’… These are mainly the analytical types who can manipulate massive spreadsheets to identify all of the balances among sales, stock levels, gross profit, etc. – it’s definitely a different set of skills.”

It's also a rare capability, which, when combined with the need for specific industry expertise, becomes even more valuable. "Retail planning resources are very difficult to find," he adds, "and they are gold when you get one of them."

Griffiths also values public accounting experience. Public auditors venture into so many different businesses and "have to talk to people to understand the overall business before they do the 'ticking and flicking' in their audit," he notes. This need to interact and talk with clients provides valuable lessons for communications skills which remain with you throughout your career. "In a sense, therefore, there are three buckets of skills I'm looking for: the technical accounting, the planning component, and the communications skills."

The PAIB skills combination Griffiths assembled has proved valuable for the company as a whole. Since the acquisition, when the company operated 34 retail stores, Harris Scarfe has opened five new retail outlets. The previous shareholders' review process for considering such an expansion "would have taken ages," Griffiths notes. However, because of the track record of credibility that has been built with the new owners, "the private equity folks said, 'Five new stores? Okay, we have the funding capability. Are they in good locations?' After a robust afternoon's worth of discussion on each of our proposals, they signed off."

And there are currently plans to open an additional five stores this year. In other words: Guy delivers.

Key Lessons:
• Continuous training and experience represent the keys to success for professional accountants in business. • Create a culture that is focused on results, not only in the finance and accounting function, but throughout the entire organization. • An effective financial reporting system is built on credibility. • Professional accountant in business should use their financial analyses and reports as a "consultative" opportunity to suggest solutions to business colleagues.

Profile: Y.C. Lee

A Fast-Moving Balancing Act

A business executive explains how his background as professional accountant in business helps him balance risks and rewards in a high-growth environment

CCM Pharmaceuticals Managing Director Y.C. Lee's career illustrates the importance of balancing opposing needs. Understanding and managing crucial business tradeoffs – such as striking a prudent balance between risks and rewards, deep research and quick action, and corporate governance and enterprise performance – define Lee's success in his current role. He credits his experience as a professional accountant in business (PAIB) with helping him managing these difficult decisions as a top business executive in Malaysia's fastest growing pharmaceutical business.

A well-rounded mix of positions, office postings and responsibilities helped Lee understand crucial business tradeoffs. He worked in finance and management accounting, information technology (IT), regional operations management and merger and acquisitions in the U.K., Malaysia, Singapore and the Asia Pacific region with ICI. He has also worked in a variety of business division within CCM.

CCM Pharmaceuticals' current parent company is listed on the Kuala Lumpur Stock Exchange and, since 2004, a significant portion of the company's shares have been owned by a Malaysia government-owned investment trust. CCM is currently the largest Malaysian manufacturer in its chosen market segment, although its revenue (which translates to about $420 million U.S.) qualifies it as a mid-sized enterprise (ME) in other parts of the world.

Although Lee moved from the finance function into executive management several years ago, his current challenges make him appreciate the PAIB competences that help him sustain a fast-growing enterprise's success.

> *"You can do a lot more work than a competitor to quantify the risks and the rewards, but the opportunity might not be there any more by the time you finish your work."*

Consider the value PAIBs contribute to the strategic decision-making process. "Like it or not, the problems and opportunities that we have in any enterprise are always very messy," he explains. "The only way to make sense of these problems and opportunities is to define meanings and to make sense in a way that professionals with very diverse backgrounds and specialties can deliberate and reach collective agreement. The PAIB creates that common understanding by putting numbers around the opportunities and challenges. I think that's one of the core competencies of a PAIB in any high-performing organization."

From Engineer to Accountant to Executive

In an appropriate fashion, Lee's professional career began with an intriguing tradeoff. After graduating with a degree in electrical and electronics engineering from Manchester University in the U.K. and completing a year-long production management program at Cambridge University, Lee applied for an engineering position with ICI PLC. The U.K.-based global industrial company wasn't willing to hire Lee as an engineer; instead, the company offered to hire him into their finance department in exchange for training him as a cost and management accountant. Lee earned his chartered management accountant credentials and worked for the next decade in ICI's finance function in the UK and Malaysia.

After eight years in various finance function roles, Lee joined the information technology function in Malaysia for two years. He was based in Singapore briefly as the business controller for ICI Polyurethanes Asia Pacific Region before moving back to Malaysia as the general manager for finance and information technology, including mergers and acquisitions, which also marked his final official position directly within the finance and accounting function.

Back in Malaysia in 1995, Lee helped ICI to restructure its businesses there. That restructuring eventually created CCM. At the time of the change, the new, Malaysian-owned company, a chemicals and fertilizers manufacturer, did not have a pharmaceutical business among its business portfolio. The executive team decided to build a pharmaceutical business through a series of business acquisitions, joint ventures and technology purchases.

CCM currently experiences the challenges of a fast growing business for two reasons, Lee says. First, the pharmaceutical industry itself is in the throes of tremendous changes in terms of competitive pressures, regulatory frameworks, enabling technologies and supply chain fragmentation. Second, CCM's strategic intention to grow the business significantly creates "a tremendous amount of stakeholder expectation to deliver a continuously high level of enterprise performance," says Lee.

Acting Faster on Incomplete Information

Lee also notes that the enterprise's fast growth is spurred on by Malaysia's fast-moving business environment. Part of ICI's legacy culture is challenged by this high speed. What the management team now refers to as the "ICI way of looking at things" translates into a greater emphasis on risk avoidance in decision making and conducting longer and more in-depth feasibility studies to consider business opportunities. These opportunities presented significant regional opportunities, but may not fit well into global intentions. The present management team is well aware that slower decisions also can mean many missed opportunities.

"The ability to balance quick strategic decisions and sufficient information is generally very important in Malaysia and the Asia-Pacific region," Lee asserts. "You can do a lot more work than a competitor to understand risk and quantify rewards, but the opportunity might not be there anymore by the time you finish your deliberations."

That does not mean that Lee and his colleagues need to weaken their risk management perspectives when assessing strategic opportunities. Instead, they need to more efficiently collect and assess the information that fuels their strategic decision making. This need, says Lee, represents a key area where PAIB training and experience adds value.

For example, when a European delegation approached CCM two years ago to propose a substantial strategic investment in biotechnology, Lee and his colleagues had less than a week to come to a conclusion on the proposed offer. To do so, the executive team needed to understand the financial, regulatory and technical risks and rewards of the proposed deal, a technology investment opportunity related to genomic research, which could have transformed CCM's and Malaysia's striving towards this burgeoning technology space.

Rather than churning out tons of research and evaluation reports, the company immediately assembled a panel of 50 biotechnology, business, financial, investment, government, policy and regulatory experts and held a one-day conference to assess this once in a lifetime business opportunity. "We have the strategic intentions to evaluate a 'blue ocean' opportunity, but also needed to quickly understand whether the country's investment, policy and regulatory framework is ready for this type of investment," Lee explains. "And from a larger perspective, we needed to determine whether the opportunity was appropriate for the company and the country."

How PAIBs Add Value

Lee identifies four ways in which PAIB qualities add and sustain value creation of fast-growing mid-sized companies.

Anchoring decisions in facts and figures: "One of the core PAIB competencies involves anchoring decisions in facts and figures, and those facts have to be a part of every strategic decision," Lee emphasizes. Professional accountants also help synthesize different perspectives by focusing the discussion on investment and outcomes based on numbers rather than on viewpoints related to different areas of expertise. "As an executive, you find that discussions can quickly get very complex given the divergent expertise, mindsets and perspectives, based on different backgrounds," Lee notes. "Very often, we don't spend enough time to achieve communicative rationality and derive a consensus over the decision we're trying to make. … Numbers provide that means and common denominator."

Scenario planning: Lee still uses the same planning and analysis skills he developed as a finance manager, particularly when it comes to assessing the "what ifs" of a large potential investment, balancing the risks and rewards of that opportunity. These scenarios add valuable insights to the discussions that precede strategic decisions.

Analyzing potential acquisitions: In a similar way, financial analyses conducted in the due diligence phase can have major impacts. "If your evaluation [of a potential acquisition] is not anchored in finance," Lee notes, "it will be treacherous to balance the risk and rewards of the potential acquisition." This evaluation needs to be conducted in a highly specialized manner, which, Lee notes, marks another PAIB quality. Most due diligence exercises involve a significant amount of modeling and simulation techniques, including complicated pricing formulas and crucial assessments of the target company's control structure. "If any of those evaluations are even slightly off the mark," Lee emphasizes, "the cost can be astronomical."

Balancing corporate governance and enterprise performance: As part of a publicly listed company on the stock exchange, Lee has witnessed the need to balance corporate governance and compliance requirements – internally driven and externally mandated – increase significantly in recent years along with enterprise performance. "As an organization, we continually remain ahead of the curve in terms of external governance requirements," Lee reports. Despite that commitment and agility, the speed of decision making can still slow due to the recent proliferation of new regulations worldwide and in the pharmaceutical industry. "The ability to balance performance and governance is important," Lee says. Those may not qualify as purely PAIB skills, Lee admits, but PAIBs have to keep pace with a complex and voluminous combination of regulatory requirements – including keeping informed of the latest international financial reporting standards (IFRS). As a result, PAIBs can add value in striking the governance-performance balance as well.

Continuous Improvement

Lee mentions one final PAIB quality that he views as valuable in his organization today as well as over the course of his career. "It's something that's not emphasized as much as it should be," he notes, "and it is the area of continuous professional improvement. I mean, you don't see a marketing professional being asked to take on 50 or 60 hours of continuing professional education every year. But a PAIB does."

This component of the profession, he adds, emphasizes the importance of upgrading competency sets, which also helps PAIBs advance in their companies and their careers. Just ask Lee.

Key Lessons:

- The only way to make sense of business problems and opportunities is to define them in such a way that professionals with very diverse backgrounds and specialties can deliberate and reach collective agreement. The PAIB creates a common understanding by putting numbers around the opportunities and challenges.
- Sound strategic decision making is made possible by efficient collection, generation and assessment of information. This is a key area where PAIB training and experience adds value.
- Facts and figures, provided by PAIBs, should be a key part of every strategic decision.
- Scenario planning adds valuable insights to risk and rewards deliberations.
- PAIBs have to keep pace with fast-changing business conditions to remain relevant to the high performing expectation of the investment community.
- Continuous professional improvement helps PAIBs sustain value creation within organization.

Profile: Donna Mackenzie

Keeping Pace with Fast Companies

An entrepreneurial CFO explains how her own due diligence helps her size up fast-growing organizations

IZEA founder and CEO Ted Murphy must make a strong early-morning impression. Murphy lured CFO Donna Mackenzie away from another fast-growing mid-sized company after selling her on his enterprise over a breakfast meeting last year.

The addition of Mackenzie gave Florida-based IZEA and its flagship, blogging and advertising service PayPerPost, an injection of financial and accounting credibility. This is exactly what the world's largest consumer generated advertising network needed to impress investors and help focus its impressive growth. Before accepting Murphy's offer, Mackenzie, a certified public accountant and veteran of several high-growth companies, conducted her own due diligence. Her story is a useful lesson to professional accountants in business (PAIBs) who are attracted to the high-risk, high-reward dynamics of fast-growing, venture-capital-fueled companies.

Personal Due Diligence

Mackenzie's substantial experience with fast-growing companies has familiarized her with the perils they face, yet PAIBs who work for these entities also face a potential personal hazard. "Joining these types of companies often is a bit of a risk," she acknowledges. "You never quite know."

By reducing the unknowns during the courtship phase, Mackenzie has learned to address one of the largest challenges PAIBs who prefer working fast-growing mid-sized organizations confront: the risk of joining a damaged, or doomed, company.

Mackenzie's due diligence exposes her to fewer risks. This enables her to fully concentrate her PAIB competences on the challenges posed by financially managing a fast-growing mid-sized company, which in turn leads to more rewards for both. Joining IZEA and its PayPerPost business has paid off: in the past year, the company has increased its workforce by close to 70 percent.

Big Company Experience

After an early-career stretch in a public accounting firm, Mackenzie joined a management consulting firm. There, she spent six years helping the finance functions in large companies like AC Neilson, United Airlines, Ameritech and Ford to focus on process improvements. Her consulting was heavy on implementation and execution, and the projects covered numerous areas, including strategic planning, financial reporting, technology implementations and other operational improvements. "[These activities] gave me a broad range of experience," she reports. "I gained a lot of skills that still help me today."

> *"Small mistakes committed today can have a major impact later."*

"I'm not saying that every PAIB who wants to work in a mid-sized, high-growth company should go out and do management consulting first," she says, "but they will benefit from gaining a broad range of operational improvement experience."

Mackenzie points to another important, and less tangible, dynamic within fast-growing companies that helped shape her financial management skills. "This work is a bit 'trial by fire,'" she explains. "Either you are successful or you are out. I think it's very important that you have the right personality for this. It's not the right setting for everyone. There are requirements and pressures that are unique to this environment compared to a relatively stable organization. Being able to wear many different hats and juggle many different balls at the same time is crucial."

After the management consulting job, Mackenzie continued to improve her financial management dexterity through an interesting combination of activities. She has worked for other fast-growing mid-sized companies; prior to joining IZEA, she helped guide e-commerce company Channel Intelligence Inc. to significant growth as the company's senior vice president and CFO. During her four-year tenure, she managed the company's strategy development, operations and finance and accounting function.

In addition to successfully negotiating other companies through acquisitions and rounds of investment, Mackenzie has found other innovative ways to develop her competences.

First, she serves on several advisory boards for early-stage companies in search of venture funding. Second, she carves out a couple of hours each week to work in the University of Central Florida's venture lab, helping entrepreneurs get their companies off the ground, primarily by providing guidance on obtaining funding. These activities help her better understand the origins and tendencies of the companies she manages as a small- to mid-market CFO, and they help strengthen her business network too.

Her network proved valuable when she learned that IZEA might be interested in her. Mackenzie was introduced to her current CEO through an IZEA investor whom she already knew through her personal network. "It was a great way to be introduced because I didn't go into it cold," she recalls. "There was already credibility on both sides when we started our meetings."

As the mutual interview process heated up, Mackenzie worked through a fairly methodical screening of IZEA.

Investment and Investors: After getting a sense that the proper funding was in place, Mackenzie researched the reputations of the investors and board of directors by looking at the current and past ventures. "In some situations, investors just throw some money at a company and see what happens," she explains. "You have to avoid those situations because you want investors who are committed." She also meets with investors and board members to evaluate the degree to which their objectives align. "While you're doing that," she adds, "you should also be getting a sense, on a more personal level, as to whether these are people that you can work with."

CEO Personality: The fact that IZEA's founder and CEO, Ted Murphy, had already hired a controller before bringing in a CFO, immediately impressed Mackenzie, who has seen too many fast-growth companies try to cut corners, to ill effect, by using contractors or accounting firms to handle accounting and reporting responsibilities. "That showed a lot of foresight and forethought on his part," she recalls. "It shows a willingness to put together a strong management team." Over the course of numerous meetings, telephone calls and email exchanges, Mackenzie sought to gain a feel for Murphy's personality. Most founders have great ideas, but how they execute the idea, and their flexibility on that count, is vital to long-term success. Mackenzie wants to know how open-minded her prospective CEOs are and how willing they are to turn over more control to their management team.

Management Team: If CEOs are going to let go of the control they exerted during the company's earliest days, they need to assemble a top-notch management team. Mackenzie looks for industry experience, brains and responsiveness in her potential colleagues. "If you don't have the industry experience, it makes it more difficult to understand and respond to competitive threats, and to understand and seek partnerships that can help the company leap forward," she notes. "The entire management team may not need to possess [industry experience], but certain roles, such as business development and sales, should have experience in the industry or a closely related industry." Like most other senior executives, Mackenzie wants to be surrounded by the best, brightest and most entrepreneurially spirited individuals, yet she singles out quick thinking as a key component of intelligence. "Mature business processes and procedures are rarely in place during the fast-growth stage," Mackenzie says, "so you don't want a management team to get bogged down or tripped up by what's not in place. Instead, they should have the agility to find a way around what's not in place today, and then work on putting in place whatever is needed."

Mackenzie offers a final piece of guidance for PAIBs evaluating fast-growing opportunities by interacting with investors, directors and CEOs: keep it simple. "They're busy, and they don't have a lot of time for long explanations," she says. "Keep in mind that they're looking for solutions. You have to be extremely results oriented to get their attention. Once you have it, you should be very concise and straightforward in your dealings with these types of personalities."

How PAIB Skills Defuse Growth Pressures

By investing time and research upfront, Mackenzie is better positioned to concentrate her PAIB skills on the pressures bearing down on fast-growing mid-sized companies as she helps manage as a CFO. That's advantageous, she asserts, because there is often little room, or time, for distractions.

"These investors are typically looking for a minimum of a five-fold increase within a maximum of five years," she notes. "There is a lot of pressure to perform and exploit opportunities as quickly as possible."

In addition to funding growth, the top fast-growth challenges Mackenzie typically confronts include strategic management (including responding to competitive threats), assembling professional teams with increasingly specialized (as opposed to general) skills, cash management (i.e., stretching the cash as far as it will go), and implementing more mature business processes.

Each one of those issues requires PAIB skills and experience. One of the key facets of Mackenzie's role is to apply greater financial and operational management discipline to each area. In addition to her funding competence, she regularly calls on her and her staff's operational experience and public accounting background to bring accounting processes into accordance with U.S. Generally Accepted Accounting Principles (GAAP), implement more rigorous risk management and compliance procedures, establish internal controls and strengthen financial reporting and auditing processes.

"Things are evolving so rapidly that it is easy to overlook small things that grow into major issues later on," she explains. "Down the road, fast-growing companies look for some sort of exit strategy. Bad contracts, legal or human resources compliance issues and other small mistakes committed today can have a major impact later. Some of those errors, which are avoidable with the right processes, can affect the valuation of the company."

Mackenzie has managed to keep those process and procedural issues top of mind, in large part, by balancing these activities with her corporate finance activities and by maintaining healthy and open communications with investors, the board, her fellow executives and her CEO.

"We still have breakfast meetings together on an ongoing basis," Mackenzie says, referring to Murphy. "It was a great way to assess a potential match, and it's a great way to ensure the success of the match."

Key Lessons:

- PAIBs who want to work in a mid-sized, high-growth company will benefit from gaining a broad range of operational-improvement experience.
- A successful financial manager in a fast growing company should be able to wear many different hats and juggle many different balls at the same time.
- Meeting with investors and board members gives a CFO a sense as to whether these are people with whom the CFO can work on a personal level. This sense is important.
- Before joining a fast growing ME, try to find out how open-minded the founders/entrepreneurs are and how willing they are to turn over more control to a new management team.
- A top-notch management team for a fast growing ME consists of industry experience, brains and agility.
- A management team in a fast-growth enterprise should have the nimbleness to find a way around what’s not in place today, and then work on putting in place whatever is needed.
- Be alert of minor risk management issues today that can grow into major problems tomorrow.

Profile: John B. Pollara

From PAIB to CEO

Professional accounting skills kick-start strategic planning – and a successful exit strategy

Long after he moved on from Zieman Manufacturing Company's finance and accounting function, former Chief Executive Officer John Pollara still enjoys sharing the secret of his leadership success. "I liked to tell people that even though I was the CEO, I still thought like a professional accountant in business (PAIB)," he says.

The mindset paid off handsomely for Zieman, a privately held maker of manufactured home and trailer chassis based in Southern California. Thanks to the exit strategy Pollara and his team executed, Zieman was acquired by Drew Industries in 2004. The deal not only gave all of Zieman's private stockholder-employees more money than they would have earned under the previous buy-sell arrangement (and each of them a position with the newly combined company), but it also benefited the business. One year after the merger, Zieman posted a 50 percent increase in revenue.

"Sometimes, the best thing that a professional accountant in business can do for a mid-sized company [and its shareholders] is to get that organization in a position to be acquired so that the organization has an opportunity to grow even more," says Pollara. The positioning Pollara describes, which took place over many years and succeeded in large part thanks to Pollara's PAIB skills and perspective, contains valuable lessons for other professional accountants in business who confront similar challenges at medium-sized enterprises (MEs).

Too Many Hats, Too Few Heads

Zieman hired Pollara full time in 1973 after he earned his undergraduate degree in accounting. Although a large public accounting firm offered Pollara a higher monthly salary – about $400 more per month, a sizeable sum three decades ago – he joined Zieman, where the president immediately placed him in a management training program. Pollara's decision and the hands-on experience he gained welding, painting, assembling and troubleshooting in a manufacturing plant would later pay off in ways he could not have imagined as a fresh-faced accounting clerk.

Pollara rose quickly through the ranks at Zieman, to corporate controller in 1974 and then, four years later, to secretary-treasurer of the company's sales subsidiary. Although Zieman grew during Pollara's initial years there, growth was moderate with periods of stability interrupted by serious challenges. "The company was not on a fast track," Pollara recalls, "although it could have been."

The growth obstacles were typical. "Our biggest challenges related to constraints in financial and human resources," Pollara reports. The closely held private company's board of directors consisted entirely of stockholder-managers. Under the succession plan that Pollara inherited, new managers were required to buy out existing stockholder-managers upon their retirement. Consequently, most of the company's profits went directly to compensation bonuses.

"That antiquated compensation system inhibited our growth because we did not have a lot of money left over for the things we really needed to do," Pollara reports. "And bank borrowing and capital markets were not available to us in the amounts we really needed to grow the company."

Another major challenge existed. "We had too few people doing too much; we were all wearing too many hats," says Pollara, who in addition to leading the finance and accounting function also headed up the legal and human resources functions. "We probably should have hired professionals from larger companies, but the salaries they commanded did not fit with our budget or our compensation system. Our hands were tied to some degree."

The company and Pollara managed to thrive despite those constraints: he was promoted to CFO in 1981 and then ascended to vice president, secretary and treasurer in 1983.

Yet the obstacles challenging Zieman's growth also continued to mushroom. Competition intensified and the profit margins on many of the company's product lines shrunk. A theoretical 10 percent profit margin on a mobile home chassis, for example, would drop to an actual profit margin of 6 percent after unfavorable variances related to material, labor and other realities were factored into the calculation.

Pollara and his team realized that there was no plan in place for addressing shrinking profit margins. In fact, strategic planning had not consisted of much more than "making sure we had the materials available to build products when a new customer came on line," Pollara says.

Strategic Planning as a Starting Point

That realization motivated Pollara and his fellow executives to conduct true strategic planning. From those efforts, the company launched numerous initiatives that increased profitable sales, strengthened risk management capabilities and improved processes – all of which enabled the company to execute an exit strategy that succeeded in enriching the company, the buyer and Zieman's stockholder-managers.

> *"There is only one kind of accounting, and that's good accounting"*

To help design and execute all of the initiatives emanating from the strategic planning, Pollara applied his strategic analysis and risk management capabilities, his operational management competences and his financial reporting skills from his PAIB background. He also relied on his professional association, the Institute of Management Accountants, which Pollara now chairs. "I wound up working for the same company my entire professional life, so I could not call upon my time at other organizations when new challenges arose," he notes. "I had to ask my professional organization for help."

In the mid-1980s, Zieman began crafting a genuine strategic plan. "We knew we had to define the industry that we operated in, look at other products and services we could offer and consider markets we could enter to add value to the company," Pollara says.

The strategic planning process consisted of Zieman's senior team examining the strengths, weaknesses, opportunities and threats facing the company. This traditional "SWOT" analysis, which used accounting analysis as a basis, yielded crucial realizations. "Boat trailers turned out to be a high-margin product line that we had not given sufficient attention to," Pollara explains. "Once we realized that the margins were so great, we gave it much more attention – at the expense of some of the lower-margin items we had."

The company also started making trailers for the recreational vehicle industry, which was beginning to boom thanks in large part to the soaring popularity of jet skis and other personal watercraft. The theoretical profit margins in this product line could be as high as 35 percent, with actual profit margins of 25 to 27 percent, Pollara reports.

"Those decisions and actions really changed the structure of the company in terms of profit margin," he says. "That really helped us later when we structured the company for sale, and it all came about because of a more rigorous approach to strategic planning supported by improved finance and accounting analysis and management."

Process Improvement and Early ERM

This structural approach resulted in other significant improvements at Zieman – each of them enabled by Pollara's PAIB skills.

"We started doing enterprise risk management before it was called ERM," says Pollara, who spearheaded a holistic review of risks, after realizing that the company had barely escaped situations that could have seriously threatened the company's future had they played out a bit differently. An exhaustive review of strategic, operational, financial and hazard risks, for example, showed that "we were totally under-insured for the business we were in," says Pollara. The analysis extended far beyond hazard insurance, and resulted in:

- New product innovations, such as installing disc brakes on many large trailers;
- A business continuity management program; and
- The introduction of numerous new policies and process improvements throughout the organization.

Pollara also initiated a wide-ranging business process improvement push. Managers throughout the company documented and reviewed existing processes, identified gaps and potential improvements, benchmarked their processes against best-in-class processes and then revised their processes to achieve a best-in-class state. These efforts resulted in better sales, order entry, procurement, manufacturing, inventory, collections, budgeting, strategic planning and ERM processes, among other areas.

"I think you can save more money by documenting and improving your business processes than you can with almost any other initiative," Pollara says. He also believes that PAIBs can play a central role in business process improvements. "They have a responsibility to make sure that business processes throughout the company are correct and working," he explains. "Now, there are literally thousands of business processes in a company, and there is no way one person or one team can handle all of them. However, this is an area in which the PAIB can really spearhead the movement as a facilitator."

The Right Kind of Accounting

One area that required little improvement was Zieman's philosophical approach to accounting. "I was always a firm believer that there is only one kind of accounting, and that's good accounting," Pollara asserts.

The privately held company had long adhered to U.S. Generally Accepted Accounting Principles (GAAP) and invested in certified audits each year – on an entirely voluntary basis. "I firmly believe that good accounting and the certified audits paid off for us substantially," say Pollara.

Those rewards included more favorable banking relationships than privately held medium-sized companies typically enjoy, smoother dealings with sales and franchise tax authorities and much more beneficial relationships with vendors.

"We received better terms and higher credit limits from our vendors than our competitors did," Pollara reports. "And, equally as important, we generated high levels of trust among all of our stockholders, who received a copy of our certified audit each year.… Probably the biggest benefit from our dedication to good accounting was the sale of our company. Having all of those years of certified audits and having strong internal controls over our processes played a major role in getting a higher valuation and in cutting out a lot of the costs more typically associated with selling a company."

Looking back at his career with Zieman Manufacturing, where he remains a consultant, Pollara clearly sees how his PAIB skills guided his decision making as he rose from an accounting clerk to CEO. He especially appreciates how his early management training experience added a valuable dimension to his accounting expertise.

He concludes: "By learning how the business ran at the ground level, I understood how the various departments of our business operated. As a result, I was able to help these departments and challenge them to be better. Too many finance and accounting professionals today don't understand their business from the ground up. Yet that insight is necessary as they want to venture into non-financial decisions as business partners."

Key Lessons:
• Sometimes the best thing that a professional accountant in business can do for a mid-sized company is to get that organization in a position to be acquired so that the organization can grow even more. • You can save more money by documenting and improving your business processes than you can with almost any other initiative. The PAIB can really spearhead the movement as a facilitator. • Good accounting and certified audits can lead to more favorable banking relationships, smoother dealings with sales and franchise tax authorities, much more beneficial relationships with vendors and higher levels of trust among stockholders. • Learning how the business runs at the ground level is necessary to venture into more non-financial decisions as business partners.

Profile: Roel van Veggel

The Sweet Sounds of Success

An innovative professional accountant in business' focus on profitability enables his world renowned CEO to concentrate on vision and leadership

When Roel van Veggel was asked to consider working for globally renowned Dutch violinist and conductor André Rieu, his immediate reaction was, "Does he want me to carry his violin?"

Actually, Van Veggel's finely tuned finance and accounting skills attracted Rieu's interest. Their ensuing collaboration during the past seven years has helped Rieu focus more energy on performing for audiences, leading the highly talented musicians in his orchestra and conceiving new ways to make classical music more accessible to his fast-growing worldwide audience.

"André has a unique vision with regard to where he wants to take his orchestra and music," says Van Veggel, André Rieu Group CFO. "It's my role to inform him about the risks involved in executing his vision and to identify ways to manage these risks."

Because he successfully fulfils his primary (CFO) responsibilities, Van Veggel's role has expanded beyond the traditional boundaries of the chief financial officer in a mid-sized enterprise (ME). In addition to serving as a trusted advisor to his CEO and the business, he has taken on business-executive duties by managing the fastest-growing and largest source of revenue, concert touring. These combined activities explain why Van Veggel possesses perhaps the most musical title among any professional accountant in business (PAIB): "CFO and Concert Tour Director."

Traditional Background, Untraditional Experience

Despite his untraditional title and responsibilities, Van Veggel's early career is textbook PAIB. After graduating from Tilburg University in The Netherlands and earning his public accounting certification, he joined PricewaterhouseCoopers. He credits the varied challenges he encountered auditing very large organizations – a government-owned telecommunications company during its transition to a publicly listed company, and the largest pension fund from The Netherlands – with providing ideal preparation for his later work in mid-sized companies.

Van Veggel then joined a private importer of Swiss watches as its finance director. The move was well-timed: the company's growth during Van Veggel's tenure resulted in its becoming part of the Swatch Group, one of the largest watchmakers in the world. During his eight years with the Swatch Group, Van Veggel again accumulated a variety of PAIB experience, including financial reporting, post-acquisition integration and staffing management activities, that helped tune him up for his current role.

When Rieu recruited Van Veggel, the André Rieu Group was already a thriving company contending with the same challenges that most fast-growing MEs encounter. Rieu's talent, success and rocketing global popularity helped sell more than 23 million CDs since his breakthrough album, "From Holland with Love," was first released in 1994. His concerts currently rank as the 16th top-grossing act in the world, and he stages about 120 concerts annually. The quick growth required new staffers and new investments to support a heavier touring schedule; however, accounting and some other support processes were struggling to keep pace. Van Veggel was hired to instill more sophisticated financial management capabilities and controls in the organization.

"I joined the company, in large part, because it was completely unique," he recalls. "You don't see anything like it in the accounting textbooks. And I soon realized that you can create your own job. You're expected and encouraged to look for potential needs throughout the company; if you see a challenge you can address, you pick it up."

One of the challenges that provided the greatest allure to Van Veggel was an issue that commonly confronts finance executives in fast-growing entities: injecting greater finance and accounting discipline into managing growth, but doing so without stifling the founder's vision, creativity and success.

Building a Factual Foundation

Establishing greater control and accountability begins with fact-based decision making, and facts require numbers.

"So many mid-sized companies become successful because the founder has a great idea that really takes off," explains Van Veggel. "When the company just starts out, the founder hires a handful of people to help with the details. All of a sudden, they have a mid-sized company, yet the same people are doing the accounting. And now they have a range of challenges that they did not anticipate when they joined the company."

His first move after he came aboard was to revamp the organization's financial information systems. The bulk of the existing accounting department's time and energy was devoted to accounts payable – processing the invoices and cutting checks. A more sophisticated finance and accounting system would equip the business with greater visibility into its costs and revenue. The company's revenue comes from three sources: touring, CDs and video specials that it sells to television stations and releases on DVD.

While the company understood that touring represented its largest source of revenue, Van Veggel wanted to gain a far more detailed understanding of what drove revenue and costs. "We were not really focusing on what a concert costs, and that is our core business," he explains. "I changed the entire system so it could follow what was truly happening and inform us where our costs were, how we could save money and what it would cost us to expand into new markets."

Second, Van Veggel beefed up the accounting department by hiring specialists. "Just as a Dutch soccer coach always takes his best players along to a new club, I took my best accounting players with me to my new company," he notes. Those professionals included a payroll specialist (to help manage the complexities of compensating international musicians), an accounts payable specialist (whose expertise extends to credit and collections) and a controller (who can manage the accounting department in The Netherlands while Van Veggel executes his new business responsibilities around the world).

> *"At any fast-growing company, the sales team can sell a ton of wonderful products, but if the finance team is not collecting the money from those sales, you have a major problem."*

Third, he sought to open lines of communications on two fronts. Inside the company, he worked to relay the importance of financial management and controls throughout the company. "At any fast-growing company, the sales team can sell a ton of wonderful products, but if the finance team is not collecting the money from those sales, you have a major problem," Van Veggel notes. "That's why I think communications within companies represents one of the most important aspects of a CFO's job." He also strengthened relationships with important external sources, including auditors and tax authorities in the countries and localities where the company operates. "This is not easy to do when you're an orchestra that performs in numerous countries," he explains. "There are so many different regulations and rules that affect us. That's why it's important to let the tax authorities know they have a good contact person within the organization."

Fourth, and perhaps most important, Van Veggel sought to help Rieu focus less on administrative issues while providing greater support with regard to strategic decision-making activities. That objective required Van Veggel to establish credibility with Rieu and his new management colleagues. "At a certain level, the organization and its leaders thought, 'What do we need him for? We pay our bills on time,'" explains Van Veggel. "So, as soon as you've put in the systems, processes and people that let you get much more detailed information, you have to show them the value of your management information."

To demonstrate the value of his work, Van Veggel immediately showed Rieu which countries and venues provided higher touring profits and which costs were creating the greatest drag on profits. He also produced highly accurate forecasts. Equipped with the information, the company took action. It lowered transportation costs by flying less frequently and upgrading its tour busses. It increased the number of concerts it performed each year to increase the returns on its overhead.

And, in an even bigger move, André Rieu Group began promoting its own events in the U.S. in 2003 since Van Veggel's analysis indicated that the company could lower costs and increase concert attendance by doing so.

In addition to his musical talent, Rieu "is a superstar in terms of assembling his orchestra and leading them on a daily basis," Van Veggel points out. "Our team of 130 people really operates as a family. Everyone one of us truly enjoys what we do, and that's because of André's vision and leadership." By having to spend less time in the back of the office, Rieu can dedicate more energy to leading his team and performing.

Beyond Finance and Accounting

As a result of these decisions, all of which were fueled by the information Van Veggel's improvements delivered, the company's profits have grown significantly in the past several years. So, too, has Van Veggel's role within the company.

After Van Veggel dedicated his first two years with the company to bringing its finance and accounting capabilities in line with its growth, Rieu asked him to lead the U.S. operations. While he maintains his CFO title and responsibilities, New York-based Van Veggel also became responsible for devising and executing André Rieu Group's U.S. touring. The work includes negotiating agreements with concert venues and television stations – Rieu's concerts have been televised on Public Broadcasting Service (PBS) stations throughout the U.S.

"Touring is our main business," he notes. "It exerts such a strong influence on our finances that I need to be closely involved with it." This involvement recently expanded: he is now also responsible for managing all contract negotiations with promoters around the world.

While Rieu may not have wanted Van Veggel to carry his Stradivarius, he has enjoyed the rewards of asking his PAIB do almost everything else.

Key lessons:

- PAIBs are expected to establish greater finance and accounting rigor to more effectively manage growth without stifling the founder's vision, creativity and success.
- Help the organization conduct administrative matters more efficiently so it can focus more resources on executing its vision.
- Communications within companies represent one of the most important aspects of a CFO's job.
- Financial information systems should report what is truly happening and alert PAIBs to expansion and cost cutting opportunities.
- Once PAIBs have put in place new information systems, processes and people, the value of those investments should be clearly demonstrated to the entire management team.
- PAIBs within mid-sized enterprises are expected and encouraged to look for potential needs throughout the company; if you see a challenge you can address, seize it.

Appendix: Professional Accountants in Business and Mid-Sized Enterprises

This interview paper illustrates how professional accountants in business are addressing unique challenges facing mid-sized enterprises. Although the interviews are self explanatory, it is useful to further define the roles and domain of the professional accountant in business and what actually constitutes a mid-sized enterprise.

Professional Accountants in Business (PAIBs)

In 2005, IFAC's PAIB Committee developed an information paper to facilitate understanding of the roles and domain of the professional accountant in business. The paper provides a definition of the professional accountant in business and highlights the many roles that professional accountants in business perform, including implementing and maintaining operational and fiduciary controls, providing analytical support for strategic planning and decision making, ensuring that effective risk management processes are in place, and assisting management in setting the tone for ethical practices. For more information, or to download *The Roles and Domain of the Professional Accountant in Business*, please visit the PAIB section at www.ifac.org/store.

Mid-Sized Enterprises (MEs)

Mid-sized enterprises are usually defined using quantitative criteria like revenue, asset total or number of employees. This approach differs among jurisdictions as the typical definitions in terms of revenue or number of employees will vary relative to local conditions. Additionally, defining MEs in terms of behaviors or characteristics (qualitative criteria) could be more meaningful to describe the typical challenges of MEs and to illustrate how professional accountants in business are addressing those challenges. This approach was derived from understanding the characteristics and behaviors of large and small organizations as guideposts. The outcome of this exercise is summarized in the table below. Please note that the table contains an *incomplete* set of *general* characteristics, only intended to differentiate mid-sized enterprises from their smaller and larger counterparts.

Comparison of General Characteristics of Small, Mid-Sized and Large Enterprises

	Small Enterprise	**Mid-Sized Enterprise**	**Large Enterprise**
Organization	• Dominated by an entrepreneur who is clearly identified as the leader • Focused on a specific product or service	• Entrepreneur is less dominant, employs other professionals but probably not a full team • Becoming more sophisticated in its core business, but still basic in supporting processes like management accounting and human resources	• Separation of capital and management – Full board of directors • Head office and divisions • Has formal functions like human resources, public relations and in-house legal team

Strategy	• Reacts quickly to business changes • Managing is intuitive, seat-of-the-pants, often no business plan • Growth is on a customer-by-customer basis	• Reacts faster to business changes than large organizations, though not as quickly as small organizations • Market data and business planning beginning to be employed, often with outside help • Growth is through concentration on developing new products and expanding into horizontal and/or vertically integrated markets	• Slower responding to business change given bureaucracy, yet when they move, they move with great force • Formal planning process and business plan • Multi-year forecast and written strategic plan with a three to five year time horizon • Growth is through erger and acquisition of competing and/or complementary businesses
Customer / Community	• Few customers account for large part of turnover • Close to their customers and customers' business pains	• Growth of customer base • Moving away from the direct proximity of their clients	• Large, international customer base • Success or failure of the enterprise is felt through the whole supply chain, the employee base and the wider community
Financial	• Capitalization through private funding, family and/or employee owned • Reinvestment of profits is owner centric; personal financial/estate planning often overrides long-term economic requirements; excess funds (if any) invested in safe vehicles • Entrepreneur controls all activities. Often no formal budgeting or business planning process • Few conformance requirements – mostly	• Capital structure begins to become more complex. External funding sought • Reinvestment of profits focusing on building infrastructure and/or market share to provide shareholder value in lieu of cash dividends • Annual budget and operating plan for the current year and perhaps next two to three years • Often still weak in applying accounting and tax matters with strong reliance on outside help	• Capitalization through public investors, IPO, SEC reporting, exchange listing • Reinvestment of profits through shareholder returns (dividends) regain focus • Full finance and accounting function

	from the tax authority		
Governance	• The entrepreneur manages and controls by observation • Hands-on management and control • No internal audit (needed)	• Advisory board may be set up to help the owner/manager • If there is a board it is mostly insiders, with few independent members • Internal control often has become more formalized • Internal audit function is likely to appear. May be achieved by financial managers employing an auditor mindset	• Independent non-executive board; external shareholder structure • Formal and clear internal control and reporting structure • Full internal audit function
Work Force	• Individuals are very important: multi-functional, cross-trained and loyal. Many are longtime employees • Financial executive also typically has human resource responsibility with some consultation outside; outsources legal counsel	• People are still wearing several hats, though there is recognition that more formal functions and roles are needed • Looking to employ people with larger company experience to help the organization make the transition and grow • Small, centralized human resources team, likely outsources legal counsel	• Formal and specialized functions and roles • A professionalized human resources function with formal labor and benefit programs
IT Processes	• Technology implementation is as needed; no technology for technology's sake	• Using more automation as a means towards business leverage • Likely has a disaster recovery program focused on IT functions	• Internally self-sufficient (or function outsourced) • Has formal contingency plans and business continuity plan

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