

Managing for long-term growth

Having helped lead their companies through the Great Recession, chief financial officers now have an equally valuable role to play in positioning firms for long-term growth during a fragile recovery.

"Due to their enterprise-wide view of companies' strategic plans and intimate knowledge of their profitability drivers, CFOs are ideally positioned to lead their firms through the recovery," says Michael Conway, CA, chief executive and national president of Financial Executives International Canada (FEI Canada) in Toronto.

CFOs are especially well qualified for this challenge because "they understand the drivers of the business," adds Ron Charles, a Toronto-based managing partner with executive search firm The Caldwell Partners International. "They have the analytical acumen to dive deep into what it takes to grow successfully as well as the skills to finance long-term growth."

"In the first three months of 2010, the M&A market showed renewed signs of life.

Deal volumes are notably up over the prior year and private equity firms are slowly re-emerging," says Dean Mullett, the Toronto-based managing director of the corporate finance group at PricewaterhouseCoopers (PwC) LLP.

"CFOs should consider how to best capitalize on changing market dynamics," he advises. "For some firms, a slow-growing economy may translate into limited organic growth opportunities. As such, it may be an opportune time to implement an acquisition strategy. Conversely, with more buyers comfortable with deal-making, it may finally be feasible to divest of non-core assets at attractive valuations. M&A was widely regarded as a tool to manage through the downturn. Likewise, it can also be a tool to manage through an upturn."



Holly Allen of PricewaterhouseCoopers stresses the importance of expanding relationships with lenders.

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Having gone through the hardships presented by a severe recession and credit crunch, CFOs are also acutely aware that the business landscape has changed. "We're not going back to the status quo of the good old days. Survivability is going to be front of mind for the CFO, and because of that I think there's going to be a lot more worst-case scenario planning," says Mr. Charles.

Experts stress that a number of lessons were learned during the recession, which will be valuable for the CFO to succeed in a tougher

new environment. One of them involves cash management.

"The Canadian Financial Executive Research Foundation, which is FEI Canada's research institute, has done surveys of what senior financial executives are focusing on, and cash liquidity management remains on top," says Mr. Conway.

Cost control is another big item on the CFO agenda in terms of positioning companies for future growth. "Survivors have learned to be lean, and after revisiting how they did business during the downturn, indications are that they won't soon go back to free-spending ways. There will be continued focus on cost control," Mr. Conway emphasizes.

CFOs also need to do a better job "managing the balance sheet," believes Tom Peddie, FCA, chief financial officer and senior vice-president of Corus Entertainment in Toronto and a member of the CICA's Risk Oversight and Governance Board. "There's been too much focus on earnings, and not enough focus on free cash flow and total debt. Debt's been cheap [and] easy to get. There's been too much leverage, and when interest rates rise, more companies will get in trouble," he predicts.

While maintaining a strong corporate relationship with a firm's existing lender remains a key strategy, the CFO must also seek new opportunities to expand such relationships, says Holly Allen, a



FEI Canada's Michael Conway: 'Survivors have learned to be lean.'

partner with the Debt Advisory services practice at PwC in Toronto. “Even though you may have been with the same bank for several years, CFOs need to understand what their other market alternatives are and think through things like ‘when my debt matures, do I have the current relationships to roll it over?’ ” she stresses.

The recent worldwide stock market meltdown also reinforced the importance of a global approach to strategic risk management. “The financial crisis highlighted the complexity and interrelationship of business risk in a global economy, and the need to revise some traditional business thinking about risk and uncertainty,” says Mr. Peddie.

For instance, he notes, there are a wide range of global issues that can originate from certain countries but have devastating impact around the world, as illustrated by what happened with asset-backed securities in the U.S. But crises don’t just have to be in the financial realm; they can also originate from non-financial areas, such as climate change, disease and pandemics or terrorism.

“The CFO needs to have a greater global focus in trying to understand what could blindside their business,” Mr. Peddie emphasizes.

Experts say CFOs must also assume a leadership role in getting members of their own organization to manage risk prudently, and then ensure that focus remains even as the economy improves.

“Now is the time to strengthen and embed stronger risk management practices,” says Mike Harris, CA, a PwC partner and leader of that firm’s Corporate Governance and Sustainability practices in Toronto. “Many companies in the past no longer focused on risk management when things started to improve. This time I’m heartened by seeing a lot of businesses continue to focus on this area.”

Overseeing a strong system of internal controls for financial reporting remains a key staple in the CFO toolbox during both good and bad times, experts note. “I think the downturn reinforced the continued importance of internal control. Maybe the recession reminded them of the real world consequences of getting it wrong, because the internal control risk rises during a recession,” says Mr. Conway.

Acute public concern about corporate and market stability during the recent recession and credit crunch has also made it mandatory for CFOs—of public companies in particular—to expand their reach outside the organization and address the anxieties of investors, analysts and other stakeholders. “People are becoming road warriors,” says Mr. Charles. “I talk to CFOs who are going and making presentations to their ratings agencies. They are taking a much greater role in investor relations, telling the story about the enterprise and its financial health.”

The relationship of CFOs to their boards of directors is also stronger than ever as boards strive to remain on top of financial developments in a changing business environment. It helps that boards are increasingly populated by members with financial expertise.

For instance, notes Mr. Peddie: “Our board wants more frequent reporting on where we stand in the credit market. Everyone wants more information; more answers. The questions I seem to be overwhelmingly getting are, ‘When will the economy turn? When can we get back to normal? When can we start hiring new employees?’ ”

CFOs of public companies will also be affected by increased government oversight and new regulations in the wake of the most recent financial crisis. Another key change will be a demand for even greater financial transparency than what is already required under legislation such as The Sarbanes-Oxley Act.

“In the short-term, at least, everything is going to be under even more scrutiny,” says Dean Mullett of PwC.

On that score at least, CFOs of private companies have “a bit of a competitive advantage,” observes Mr. Peddie. “They’re not subject to the daily scrutiny of their actions. They’re out of the spotlight, and can go about building their business without regulatory interference and market pressures. They still need to deliver their numbers, but not under the spotlight of regulation and the media.” “We’re definitely seeing our clients demand the latest reporting technology and the latest access to information,” says Mr. McClean.

Fast track to the corner office

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The CFO’s professional experience and corporate knowledge are being recognized with increasing regularity as a potent combination in the chief executive officer’s chair.

Marvin Romanow, who was honoured as Canada’s CFO of the Year in 2007, is a prime example. In January, 2009, he took over

from the retiring Charlie Fischer as chief executive officer of the Calgary-based energy firm Nexen Inc.

“One of the important aspects of training for the CEO role is to have a breadth of experiences,” Mr. Romanow says. “A CFO is comfortable with breadth, and the higher you go in an organization, the more that’s demanded of you.”

Claude Mongeau, president and chief executive officer of the Canadian National Railway Co. in Montreal, is another former CFO of the Year who went directly to the top job. He took over the helm at CNR this past Jan. 1 after the retirement of Hunter Harrison. Mr. Mongeau, who was honoured as Canada’s top CFO in 2005, credits his 10 years of experience as the railway’s CFO with providing him

valuable responsibility and strategic experience in diverse areas, including financial management, real estate and CNR's corporate subsidiaries.

"The CFO—to the extent that he or she steps up to the plate—is intimately involved in managing the business and understanding what goes on," Mr. Mongeau says. "So over the years, if you apply yourself to it, you gain insight, understanding, and all it takes to drive the business. When Hunter was ready to retire, I was ready for the challenge when he gave me the nod. I had been preparing myself for that possibility for many years."

CFOs supply many other attributes that are currently in high demand among corporations around the globe.

"With heightened concern and unprecedented corporate scrutiny, the role the CFO plays in ensuring the integrity of the organization and its financial strategy has come to be much better appreciated," says Gino Scapillati, FCA, national managing partner at PricewaterhouseCoopers.

"This appreciation bears tremendous weight in boardrooms when it comes time to decide who is best qualified to replace an outgoing CEO and lead an organization going forward," he adds.

Ron Charles, a Toronto-based managing partner with executive search firm The Caldwell Partners International, notes that the CFO often has exactly the right skill set demanded for the top job by both internal and external stakeholders in a corporation, including its board of directors and shareholders.

"There's an environment of greater accountability, with analysts today asking very precise questions," Mr. Charles says. "There's also a greater demand for transparency and good governance. The finance function drives a lot of that execution, so the CFO's background qualifies him or her to take on the role of a CEO, who has to face all this on a daily basis."

This is especially so now, as firms look for candidates with the fortitude to steer them through difficult economic times. "The market meltdown through 2008 and 2009 provided good experience sets and backgrounders for what I now need to bring to the table," says Brian Ferguson, CA, who became president and chief executive officer of Cenovus Energy Inc., of Calgary last December.

Cenovus was created in 2009 as the result of the split of EnCana Corp. into two independent companies. Mr. Ferguson, who is also chairman of the Risk Oversight and Governance Board at the Canadian Institute of Chartered Accountants, served four years as EnCana's CFO.

While the CFO position provides excellent training to move up the ladder and become CEO, the two positions are different in scope

and emphasis. Therefore, something of a shift in focus is required to master the latter position. For example, while the CEO position is less technical from a pure financial perspective, it requires knowledge in a variety of new areas.



Gino Scapillati of PwC: Appreciation of CFO's heightened role bears weight in boardroom.

Mr. Romanow notes how, for instance, energy companies have to be conscious of environmental issues, necessitating close monitoring of factors such as carbon emissions. This entails more than a large economic commitment; it also adds elements of science, politics and social responsibility to the job of being a CEO in that sector.

"The new thing that's put on you is the greater degree of responsibility you have for employees, governments—even non-governmental organizations at times," adds Mr. Romanow. "You have to worry about the performance of the firm in areas other than just operating solidly and producing good financial results. You have to deal with all of these other areas that contain societal elements, such as how we meet environmental standards and how we drive toward making the company a great place to work. Those are broader responsibilities."

Mr. Ferguson concurs. "One of the things that I've certainly discovered over the last two or three months is the increased amount of communications involved with staff, stakeholders, the board, industry and government. That takes things to a whole different level and requires more of a time commitment than being the CFO." It is also necessary to recognize that a CEO's relationship with fellow executives changes "when you are the one at the helm," he adds.

"What I thought about and frankly discussed with my wife before taking on my new role as CEO was the change in terms of personal obligations and commitments," says Mr. Ferguson, who now has responsibility for about 3,000 employees in the newly created Cenovus, compared with approximately 750 when he was CFO at EnCana. "I wanted to be sure that I was going to be able to maintain some sort of reasonable balance in life, in terms of my family."

There are also career risks and benefits that need to be weighed when making the switch from CFO to CEO.

The potential for a job change of this magnitude forces the CFO to do a serious reality check regarding the true role of the CEO in the particular organization, including what the board and shareholders expect, says Mr. Charles.

Moreover, if contemplating changing companies, the CFO needs to carry out due diligence with respect to ethics and integrity. Otherwise, a professional reputation and hard-earned designation could be placed at risk.

"That's something that a CFO can't afford to do," Mr. Charles stresses.

CFOs adapt to age of uncertainty

If the recession has taught chief financial officers one thing, it's to hedge their bets.

And what that means is a new look to those financial forecasts so important to management. No longer a single set of numbers for the road ahead, now they're a range of "what-if" scenarios and strategy alternatives.

It's all part of the new insight gained by CFOs as they weathered one of the worst economic storms since the Second World War. The job now is to plan for the expected upturn.

"The stature of the CFO in these times can be heightened because management teams are looking to the person with financial expertise to present them with opportunities and 'what-if' scenarios," says Tom Peddie, FCA, chief financial officer and senior vice-president of Corus Entertainment in Toronto and a member of the Canadian Institute of Chartered Accountants Risk Oversight and Governance Board's Directors Advisory Group.

In full agreement is Michael Conway, CA, chief executive and national president of Toronto-based Financial Executives International Canada. "The biggest thing we heard was that forecasting became much more difficult through the downturn," he says. "So some CFOs changed how they did things. They were finding that their forecast to actual variance had significantly increased, and their solution to that was to do multiple forecasts. Rather than focusing on a pinpoint forecast, they would do range forecasts and come up with 'what ifs' on various scenarios; then proactively determine what actions they were going to take if that's what came to pass."

A key strategy for any CFO is to manage the corporate balance sheet in the most effective manner possible in order to protect against a future economic downturn, says Mr. Peddie. Moreover, for those with access to cash, "there's a huge opportunity right now to pick up some pretty valuable strategic assets at a good price. If you were a strong company as the recession started to hit, you could be an even stronger company coming out of it because of the opportunities that have been afforded to you."



Amex's Rob McClean: 'Mandating Corporate Card usage will facilitate greater control for CFOs...'

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Corporate success in the wake of the recession and credit crunch also requires sound cash-flow management strategies from CFOs, experts stress.

"The best in class continue to focus on clear communications and maintaining their relationship with lenders," Mr. Conway says. "You shouldn't go to your lender just when you have a problem," he adds. "You should be a constant companion to your lender. The first thing they base their decisions on is whether they have confidence in

management. If you were forecasting results in the downturn that were different from your plans, you were best served to be up front and go to your lenders to explain what the problems were, and how you were going to fix them."

Having adhered to the practice of constant communication during both hard and good economic times in the past will make it easier to approach lenders now for additional working capital as times improve, Mr. Conway emphasizes.



Tom Peddie of Corus Entertainment: 'Cash is king.'

"Right now, cash is king, and you need to build your strategy around making sure you get the cash to do what it is you need to do," stresses Mr. Peddie. "To me, the real key is managing your working capital; making sure you collect your receivables; managing it relative to your payables; and watching your inventory levels," he adds.

Strategies for managing expenses are also critical for long-term success, especially during a fragile recovery period when some firms are still cutting staff and related personnel costs. "Hopefully the smart companies pick that optimal point where they right-size their organization to become more productive without cutting to the bone and risking their future strength and innovativeness," Mr. Conway warns.

At Corus, explains Mr. Peddie: "We set out a goal of saying that we didn't want to lay people off. We said 'what we're going to do [instead] is take some unpaid vacation, some unpaid days; reduce pension contributions and not give wage increases. But we're going to protect your job.' We got our employees aligned with that," he recalls.

"You've got to make sure that you strike the right balance

between making sure that the corporation survives and having your employees engaged, because when things start to turn you want your people committed to the future,” Mr. Peddie says. “At the same time, you’d better make sure that if you said you were going to restore pension, wage increases or promotions, you follow through on it.”

Another example of potential short-term gain at the expense of long-term pain could be cutting out vital research and development work, Mr. Conway warns. At a technology company, for instance, those cuts might immediately reduce cash outflow and boost profitability. “But in the long-term it could be very harmful if they’ve cut off their next-generation products.

A related hot topic under the CFO’s watch involves aligning compensation with risk and benefits, says Mr. Peddie. For instance, it is important to prevent a recurrence of the situation whereby some people in the financial services industry “were rewarded and incented to take risk without much downside to them.”

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required for business operations”, says Rob McClean, vice-president and general manager of Global Commercial Card Canada with Amex Bank of Canada in Markham, Ont.

For example, he notes: “The American Express Purchasing Card program and solutions we provide can

help companies establish greater cost control over indirect costs. The program has been very successful at helping businesses replace costly paper cheques with on-line processing, cut administrative expenses and improve reconciliations. In addition to this, the program also helps organizations enhance compliance throughout the purchasing process.

“We can also help companies with certain sourcing benefits; and to negotiate discounts with key suppliers,” Mr. McClean adds.

Mandating Corporate Card usage will facilitate greater control for CFOs by establishing policies to track and consolidate spending, automate expense reporting and provide access to comprehensive reporting, suggests Mr. McClean.

CFOs also need to incorporate effective and efficient information systems technology to help prepare their firms for better times ahead. “We’re definitely seeing our clients demand the latest reporting technology and the latest access to information,” says Mr. McClean.

Poised for growth

Here are some tips for fostering long-term growth during the anticipated economic upturn, as suggested by Canada’s CFO of the Year for 2009, David Garofalo, CA, senior vice-president of finance and chief financial officer of Agnico-Eagle Mines Ltd.



David Garofalo, Canada’s CFO of the Year in 2009.

- **Remember that cash is king** – Continue to manage your cash flow, liquidity, and credit diligently in the wake of the credit crunch.
- **Maintain a strong balance sheet** – Be in the best position to take advantage of economic opportunities, especially at bargain prices.
- **Maintain maximum transparency with investors and analysts** – Provide all the information they need to assess the corporation’s performance. This will strengthen corporate credibility and enhance chances of support for new growth initiatives.
- **Manage expenses** – Eliminate unnecessary spending, but keep investing in critical areas necessary for long-term success.
- **Strategic risk management** – Improve risk reporting and forecast modelling techniques so you are prepared for multiple scenarios unfolding.
- **Maintain and strengthen internal controls for financial reporting** – Ensure appropriate controls are in place to protect the integrity of information.
- **Improve information systems technology and make use of it** – Ensure the flow of information available to the corporation provides early indicators of risks and opportunities.
- **Ensure all staff is aligned with corporate goals** – Exercise leadership to be certain that everyone is pulling in the same direction.