

Diversity of talent enriches financial sector

Brian Fiedler, CA and member of the CICA's Canadian Performance Reporting Board, considers himself "blessed" to be located in Toronto, one the world's premier multicultural cities.

That's because the employees at Canadian Tire Corp.—especially the 35 who report directly to him in his capacity as that company's vice-president of finance—represent a microcosm of the rich, diverse cultural mosaic Toronto has to offer, he says.

"Finance tends to have a very diverse representation amongst various ethnicities," Mr. Fiedler says. "We've got people from North

diverse talent pool is coming up the chain. And just look at who is getting promoted to Partner."

While cultural diversity enriches the available talent pool, a CFO or other senior financial leader also needs to have strong people skills in order to successfully manage a widely diverse group, say experts. "There are many dimensions of diversity that influence how people could interact with each other in teams – ethnicity, gender, age, sexual orientation and educational background, just to name a few," says Hazel Claxton, CA, Human Capital Leader for PricewaterhouseCoopers.

For instance, notes Ms. Claxton, CFOs and other leaders should



Ron Charles, Managing Partner, The Caldwell Partners International.



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Kerri-Ann Santaguida, Senior Vice-President, American Express

America, Jamaica, Asia, Europe and South Africa—right across the globe. This builds on itself if you're targeting to get the best talent possible."

That's also the experience of Kerri-Ann Santaguida, senior vice-president, global commercial card, at American Express in Markham, Ont. "The Canadian workplace is as diverse as the Canadian landscape. It's been made richer and more productive by leveraging people from a wide variety of cultural groups," she says.

Ron Charles, a managing partner with executive search firm The Caldwell Partners International in Toronto, takes a similar view. "You just need to look at the number of young people that are going through for financial degrees and accounting designations and the diversity of people joining accounting and audit firms. An incredibly

consider using language that is readily understood by a broad audience—avoiding the use of colloquialisms that may be difficult for some to understand or phrases that may offend certain cultures.

This insight can be obtained through sensitivity or cultural diversity awareness training, she adds.

Another important aspect associated with leading a diverse group involves understanding how somebody's cultural upbringing might play out in a team dynamic.

"Some cultures don't encourage junior team members to contribute to discussions and debate or to challenge authority," Ms. Claxton points out. "In the Canadian business context, such individuals may remain quiet, even when prompted by managers for their opinion. Given the stewardship role a finance team plays, [the leader] really wants to make sure team members are vocal about what they're seeing, and what they're hearing, so that any issues and opportunities can be identified and addressed. As well, they need their employees to challenge things that don't seem right and not just accept what's given to them."

Age diversity is another big issue. There are now four distinctly recognized generational groups in the workplace: the so-called traditionalists, who are small in numbers at about 64 and up, but still influential in some organizations; the baby boomers, who are now between 45 and 63 and dominate many senior positions; Generation X, consisting of workers who are roughly between 30 and 44; and Generation Y (or Millennials), who are largely under 30.

Age-related differences due to differing backgrounds show up in a number of areas, such as the use of technology, where the younger generations who grew up with high tech gadgetry are generally more adept.

However, many organizations, including Canadian Tire, are finding synergies when team members are composed of people of different ages.

“We find that having a good mix of age groups helps,” says Mr. Fiedler, pointing to Canadian Tire’s finance department as an example. “Members of the older generation are very interested in learning new things involving technologies, and find they can usually get assistance from some of the younger generation,” he notes.

But generational assistance is also a two-way street. Mr. Fiedler recalls hiring a new employee who was over the age of 55 a couple of years ago. “We found that he has a lot of experience; and excellent communication and coaching skills for younger employees. The younger employees also respect the experience and perspective that he and others bring to the organization. So there’s an almost symbiotic relationship between the age groups.”

In order to earn the trust of a large, diverse group of people, experts insist that excellent communication and listening skills that promote inclusion are paramount. “Organizations that unite diverse teams and provide employees with an appreciation of their individual contributions, will create empowerment among those team members,” says Ms. Santaguida.

Especially in a culturally diverse group, CFOs and other leaders “need to do everything they can to prevent communication interference blocks or misunderstandings,” says Mr. Charles, who suggests that directions and goals be expressed in writing, so there can be little room for misinterpretation.

Leaders, including CFOs, also need to provide “honest, clear and timely feedback to people,” Mr. Charles stresses.

Sometimes getting everybody on the same communication wavelength can be a challenge. Within the finance group at Canadian Tire, for instance, Mr. Fiedler has observed that older employees tend to be more clear and concise in their written communications than younger employees, more used to the truncated jargon of text messaging.

Consequently, one area of coaching that he focuses on involves improving written communication so that messages can be delivered and understood across the entire age spectrum.

Consistency of message is also required in the leadership role. “Leaders need to say what they mean, and mean what they say” in order to gain credibility, emphasizes Mr. Fiedler.

To get a diverse team of people working toward a common goal, a CFO needs to start with ground rules, advises Michael Conway, CA, the Toronto-based chief executive and national president of Financial Executives International Canada. “A lot of organizations have stated policies concerning diversity, and concerning whistleblower policies that make clear what behaviours are acceptable. You start by establishing the expectations and committing them to writing,” he says.

Then, should the CFO or another member of the group become aware of diversity-related issues or problems from within their group, the whistleblower policy should “lay out all the particular avenues that are open to remedy situations that occur,” Mr. Conway adds.

Embracing diversity can also have a positive impact on a firm’s financial bottom line, a responsibility that falls squarely under the CFO’s purview, say experts.

It can, for instance, assist in the recruitment process and simultaneously cut down on costly employee turnover. Retaining employees who are able to maintain a good relationship with customers can, in turn, enhance customer loyalty.

Hiring good people from diverse backgrounds might also provide access to greater knowledge about products or processes that work elsewhere in the world and should perhaps merit consideration in Canada from a sales and marketing standpoint, says Mr. Fiedler.

Adds Ms. Santaguida: “When you have a team that’s thriving and working together as a collective, that creates a higher performing organization, which will drive to increase shareholder profits and the bottom line.”

Bonding with bankers

Recessionary times and a serious credit crunch have put significant pressure on chief financial officers of public and private companies alike. And even though the world economy appears to be pulling off the bottom of a deep economic trough, it is clear that CFOs will continue to operate in a difficult environment for the foreseeable future.

While there are many similarities between the roles of public- and private-company CFOs, there are also certain differences, including critical strategies for maintaining cash flow.

For example, a private-company CFO often needs to cultivate a closer relationship with his or her banker than does a public-company CFO. With public companies, bankers can track developments through public domain financial information; not so with private firms, however, so regular consultation gains importance, explains Tahir Ayub, CA, a partner in the private company services group at PricewaterhouseCoopers LLP in Vancouver.

“What we’re starting to see now—and I think the recession we’ve gone through has probably precipitated this—is that private-company CFOs have increased the frequency and volume of communication with their bankers, and they’re starting to become more proactive as opposed to reactive,” Mr. Ayub says.

Whereas in past years some private-company CFOs might have felt compelled to provide updates to their bank only on a quarterly or annual basis, today they have to provide information about their financial performance, corporate strategy and how they’re executing against that strategy on perhaps a monthly basis, he adds.

When downturns occur, as they invariably do, a firm’s record of maintaining close communication with its bankers can become even more important, agrees Michael Conway, CA, chief executive and national president of Financial Executives International Canada in Toronto.

“Bankers will be more tolerant of variations in performance if management is able to maintain the communication; come to them up front and say ‘there’s been a dip; here’s the solution we’re bringing to the problem.’ That way they maintain credibility with their funders,” Mr. Conway emphasizes.

The close relationship that private-company CFOs need to maintain with bankers and other potential financing sources such as venture capitalists also reflects the sometimes limited funding opportu-

nities they may face compared with their public-company counterparts. The latter generally have more debt and equity financing sources, plus a wider public audience from which to raise financing.

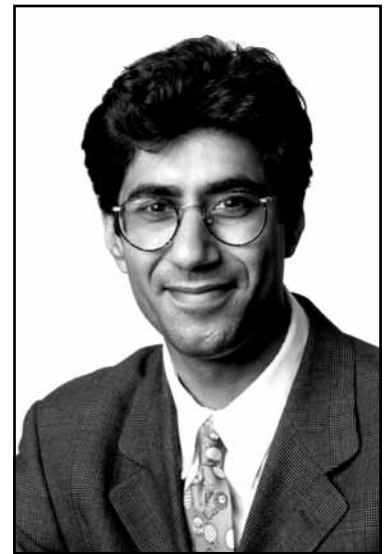
In contrast, private firms are often restricted to private sources of funding, such as debt financing through their financial institution. This difference can be magnified when times are tough because lending terms tend to be tighter and bankers more cautious.

“I think this is one of the significant items that are top of mind for CFOs of private companies today because the banks have definitely tightened up on the covenants and the ratios they apply to their lending criteria,” Mr. Ayub explains.

Another issue of importance to CFOs of private companies in Canada is consideration about whether to adopt simplified Canadian Generally Accepted Accounting Principles (GAAP) for private enter-



Michael Conway, CEO, FEI Canada



Tahir Ayub, Partner, PricewaterhouseCoopers

prises, or International Financial Reporting Standards (IFRS), both of which are scheduled to take effect for fiscal years ending on Jan. 1, 2011.

Publicly listed/accountable entities must adopt IFRS, but private companies have a choice between the two accounting standards. There are, say experts, several factors that a private-company CFO needs to take into account when deciding which of the two standards to adopt.

“A great proportion of private companies are not dealing that much internationally. Nor are they dealing with complex financial instruments or pension plans with significant deficits, and so their banks don’t want or need the same degree of detailed information or schedules they would require for larger, more complex public companies,” says Peter Roberts, FCA, the Vancouver-based chair of the Canadian Institute of Chartered Accountants Risk Oversight and Governance Board.

“For the vast majority of private companies, IFRS just doesn’t

make sense because the same depth and breadth of disclosure as required for public companies is not necessary. Therefore, those private-company CFOs are likely going to select GAAP for private enterprises rather than IFRS,” Mr. Roberts predicts.

On the other side of the ledger, however, there might be special circumstances under which a potential conversion to IFRS would warrant serious consideration for private company CFOs. If, for example, the private firm planned to issue an Initial Public Offering (IPO) over, say, the next two or three years, “the CFO will likely go with IFRS as opposed to GAAP for private enterprises,” says Mr. Ayub.

A situation could also arise whereby most of a private firm’s competitors are public companies. “In that case, some private companies might want to benchmark their results against publicly available information at a public company,” Mr. Ayub suggests. Another reason that some private company CFOs might want to consider IFRS is if they have significant investments and a strong international presence with subsidiaries in jurisdictions that have already converted to IFRS, such as Australia or European countries, he adds.

Another issue of importance to private-company CFOs is Directors and Officers’ (D&O) insurance. Although D&O insurance is generally required to a lesser degree in a private company than a public one, this is something they often tend to overlook, explains Mr. Roberts. “That should be a key priority for CFOs. But a lot of them don’t devote enough time and attention to address the risks and exposures of being a director or officer of a private company—and as a result they have insufficient coverage,” he warns.

Another big contemporary issue for private-company CFOs involves succession. “A lot of private companies are going to change

hands in the next 10 years as we see a generational shift. Succession is starting to become a hot topic for CFOs, in terms of making sure the right kind of succession plans are in place,” Mr. Ayub says.

At some point in their tenure, private-company CFOs might be called upon to do a risk-benefit analysis of whether or not to issue an IPO and become a public company. The potential advantages of an IPO include factors such as: greater access to capital markets; funding for more research and development; and enhanced opportunity for growth via organic expansion and/or external strategies such as mergers and acquisitions.

One major consideration for a private company contemplating conversion is the significant volume of regulatory compliance that public companies face. Publicly listed firms “will need to comply forever with all of the significant regulations of the securities commissions and the regulators,” says Mr. Conway. “There is a regulatory burden that has to be taken into account and weighed against the benefits of access to capital in the public markets,” stresses Mr. Conway.

Another consideration is that public companies often face a great deal of public pressure from shareholders and analysts to meet short-term targets such as quarterly earnings. Free of those particular pressures, the CFO of a private company might be able to focus more on longer-term goals.

However, private-company CFOs still face their own pressures, since bankers or other financiers expect client firms to meet targets and other indicators outlined in business plans and budget forecasts. Private-company CFOs who don’t meet the numbers of those they depend upon for financing face “the same type of risk and challenge,” warns Mr. Roberts.

The price of ignoring eco-issues

Chief financial officers have long understood that their bottom line can suddenly be jarred by events across the globe. Today, climate change is high on the list of those key triggers.

“With the escalating importance of environmental respect being demanded by both customers and various stakeholders, climate change is something that executives, including CFOs, are paying a lot more attention to,” says Michael Conway, CA, chief executive and national president of Financial Executives International Canada in Toronto.

Businesses that don’t pay attention to climate change are placing their reputations at risk, he warns.

How important is that? “If you’ve got a good reputation in the area of environmental consciousness and climate change, your cost of capital can be lower, whereas if you have a bad reputation, the cost can be higher,” notes Julie Desjardins, CA, a Toronto-based independent consultant in performance measurement and reporting, and adviser to the Canadian Institute of Chartered Accountants.

Reputational risk can also influence the financial health of a company in other ways. A company in the oil and gas or mining industries with a poor environmental practices reputation might suffer a serious, costly delay in obtaining a drilling permit. Or retailers could suffer lost revenues if customers perceive them to have a poor reputation on climate change issues, adds Ms. Desjardins.

Therefore, it is important for the CFO and management to put this issue “front of mind” within their organization, so everybody feels accountable. And this approach works, Ms. Desjardins says. “We have found that the buy-in from employees is incredible. They’re pleased when their employer shows an interest in environmental issues such as climate change.”

From their vantage point as financial leaders, there is much else CFOs can do to promote healthy environmental practices across their organizations while simultaneously reducing expenses.

Wendy Potomski CFA, vice-president of the PricewaterhouseCoopers LLP (PwC) climate change and sustainability practice in Toronto, says a CFO can promote an

environmentally friendly office environment by focusing on reduction and conservation activities—primarily around the themes of energy, paper and waste.

“For example, by adjusting the ambient temperature by only one degree Celsius higher in the summer, or lower in the winter, you can significantly save on your heating and cooling costs and reduce your environmental impact, all without reducing your employees’ comfort at work,” says Ms. Potomski, who reports that PwC has done that, along with implementing more efficient use of lighting through sensors.

“We also have developed a three-year environmental action plan that’s focused on raising awareness, minimizing energy consumption and greenhouse gas emissions, and reducing paper usage,” notes Ms. Potomski. “Most of our real cost reductions are from a climate change perspective. We’ve calculated our carbon inventories from our facilities and our business travel, and identified ways to reduce. We’ve started to use more video conferencing. We provide options to our employees to rent hybrid vehicles when they do business travel,” she adds.

Switching to recycled paper can also reduce a company’s environmental impact and save money, as can office policies that require copiers and printers to use double-sided printing in order to reduce paper outflow. Another strategy involves reviewing internal purchasing policies and working with suppliers to reduce packaging, thereby reducing the amount of waste generated. “This will save money on waste disposal services, and reduce environmental impacts,” Ms. Potomski advises.

Energy efficiency and cost savings also need to be sought in areas such as operational production, fleet transportation, and leasehold improvements. And making greater use of teleconferencing as opposed to travel can not only save costs, but also reduce a firm’s carbon footprint, suggests Ms. Desjardins.

The CFO needs to encapsulate various cost-saving practices into their corporate budget process. They can, for instance, incorporate environmentally friendly practices such as assigning internal costs for greenhouse gas emissions into their capital budgeting, Ms. Desjardins says.

“In today’s economic times, budgets within most organizations have been cut. Requests for resources are being more heavily scrutinized, so energy efficiency initiatives are a good way not only to reduce the environmental impacts of a company’s operations, but also to save money,” Ms. Potomski says.

“One of the challenges right now is that the payback periods for some energy efficiency initiatives are longer than the typical requirements within current budgeting processes,” she concedes. “But if the CFO evaluates the environmental benefits and thinks about the ongoing long-term sustainable savings, these initiatives will become as viable, if not more viable, than some of the current projects competing for capital in budgeting exercises,” Ms. Potomski adds.

There are several major efforts under way to incorporate environmentally friendly and sustainable development initiatives into financial reporting, affecting CFOs of public companies all over



Wendy Potomski, Vice-President, PricewaterhouseCoopers



Julie Desjardins, Consultant

North America—and perhaps even some in private companies whose investors demand greater transparency in this field.

In 2008, the CICA released a guide aimed at assisting Management Discussion and Analysis preparers make decisions on the nature of disclosures regarding the business and financial impacts of climate change related issues. “This guide focuses on and outlines the key areas around which companies should be disclosing climate change issues,” Mr. Potomski notes. “The guide identifies key risks investors are interested in, such as physical risks, regulatory risks, reputational risks, and litigation risks, and encourages companies to assess these risks and identify mitigation strategies.”

In January 2010, the Ontario Securities Commission issued a staff notice on corporate governance and environmental disclosure “promoting a shift to more meaningful language around their sustainability and environmental activities, and the impacts on their operations,” Ms. Potomski says.

In February, 2010, the United States Securities and Exchange Commission also issued interpretive guidance to publicly listed companies on U.S. exchanges about climate change disclosure requirements.

A key part of the whole disclosure exercise involves the definition of materiality, and this is where the CFO’s skills are particularly important, Ms. Desjardins stresses. A CFO needs to be able to assess whether an item is material enough to influence a reasonable investor with respect to buying or selling shares in the company.”

Another key area of the CFO’s portfolio involves corporate internal control systems for financial reporting, which must be expanded to provide important disclosure information regarding climate change impacts. This need will become even more acute if and when cap-and-trade programs are eventually implemented, and necessitate new asset and liability as well as revenue and expense accounts for financial statements.

Those who adapt existing internal control systems to provide prompt access to that information—or who invest in improving their systems to that purpose—will gain a “huge competitive advantage,” Ms. Desjardins points out.

“The relationship between sustainability issues and the bottom line is becoming more apparent. Climate change has opened up peoples’ eyes to this, partly because now all of a sudden the process of putting a price on carbon, or a price on water, or a price on waste is actually hitting financial statements.”

Litigation up, along with stakes

Among the myriad of issues permanently on the radar of chief financial officers are those surrounding corporate legal liability and the impact of litigation on the bottom line.

“The frequency of litigation and the stakes are increasing across Canada, especially with respect to class action lawsuits, most prominently in the securities field in connection with both primary and secondary market issues,” says William Peppal, a partner and head of the commercial litigation practice group at Lerner LLP, Barristers & Solicitors in Toronto.

In this environment of increasing litigation and higher stakes—both in terms of the financial bottom line and market reputation—the CFO’s job should be proactive rather than reactive in assessing such risks and preparing for them, Mr. Peppal stresses.

One way that CFOs can remain proactive is to “always be on top of insurance and indemnity coverage in directors’ and officers’ and other insurance fields, and to make sure the various coverages are commensurate with the risks the operations present,” he says.

Adrienne Woodyard, a Toronto-based partner in the Lerner tax practice, cites a number of potential tax litigation issues that CFOs need to address as part of an ongoing proactive strategy.

“I have seen many examples of clients who are involved in a Canada Revenue Agency (CRA) audit, and the audits become protracted because issues arise that are not dealt with quickly, thoroughly and assertively. If there is a point of dispute or disagreement between the CRA auditor and the company as to how it has reported certain transactions or expenses, the company should try to nip it in the bud before these issues become part of a tax reassessment,” Ms. Woodyard advises.

Having senior financial personnel and tax counsel involved at an early stage can also potentially save the firm a lot of money, especially when the CRA’s initial reassessment proposals are enormous in scope and expense. At this stage, the CRA “is looking to the corporation to address its questions and concerns; where there is disagreement, the onus is always on the taxpayer to challenge and disprove whatever the auditor has decided,” explains Ms. Woodyard.

Providing auditors with answers early on in the process can

therefore help remove uncertainty as well as avoid a very expensive litigation process later on. “In tax litigation, prevention is really nine-tenths of the job,” Ms. Woodyard emphasizes.

Another issue that CFOs need to be aware of is that while client discussions with accountants are confidential, they don’t enjoy the same legal protection as confidential solicitor-client communications. Therefore if a tax-related issue arises that could ultimately end up in court, CFOs should strongly consider a strategy whereby



William Peppal, Partner, Lerner LLP



Adrienne Woodyard, Partner, Lerner LLP

accountants are retained through a law firm, because solicitor-client privilege attaches to those communications, and this offers an extra layer of protection, Ms. Woodyard advises.

CFOs also need to be cognizant of the legal requirement to retain all documentation, including e-mails and other electronic data germane to a dispute or regulatory investigation. They must therefore help co-ordinate company-wide efforts to ensure that all relevant documentation located on servers, Blackberries, USB drives or even home computers remains accessible if called upon.

“When litigation hits it will be necessary for the organization to capture and preserve all relevant data and convert it into some kind of a usable database. The consequences of losing or discarding documents that are relevant after you’ve had notice of a potential dispute can be hurtful. The court can draw adverse inferences or worse,” warns Mr. Peppal.