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## ***The Role of the CFO Today and Beyond***



**Prepared by: Issues and Policy Advisory Committee (IPAC)**

**For: Financial Executives International Canada**

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## **Acknowledgements**

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## Introduction

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The FEI Canada Corporate Governance Task Force of IPAC believes that FEI Canada members are currently undergoing a change in their roles, responsibilities and accountabilities due to the new Corporate Governance laws and regulations that have been introduced by North American legislators and regulators.

The CFO has been specifically identified as one of two executive officers who now must certify their company's compliance with corporate governance and financial reporting rules and regulations. The Task Force believes that FEI Canada members would benefit from knowing how CFOs are adapting to this changing environment in the short term and how they view their role evolving over the coming three years.

In August 2005, FEI Canada, in cooperation with its National Strategic Partner, Robert Half Management Resources, launched a survey to help answer these questions. Surveys were distributed to 1700 qualified FEI Canada members. The following highlights the results of our research.

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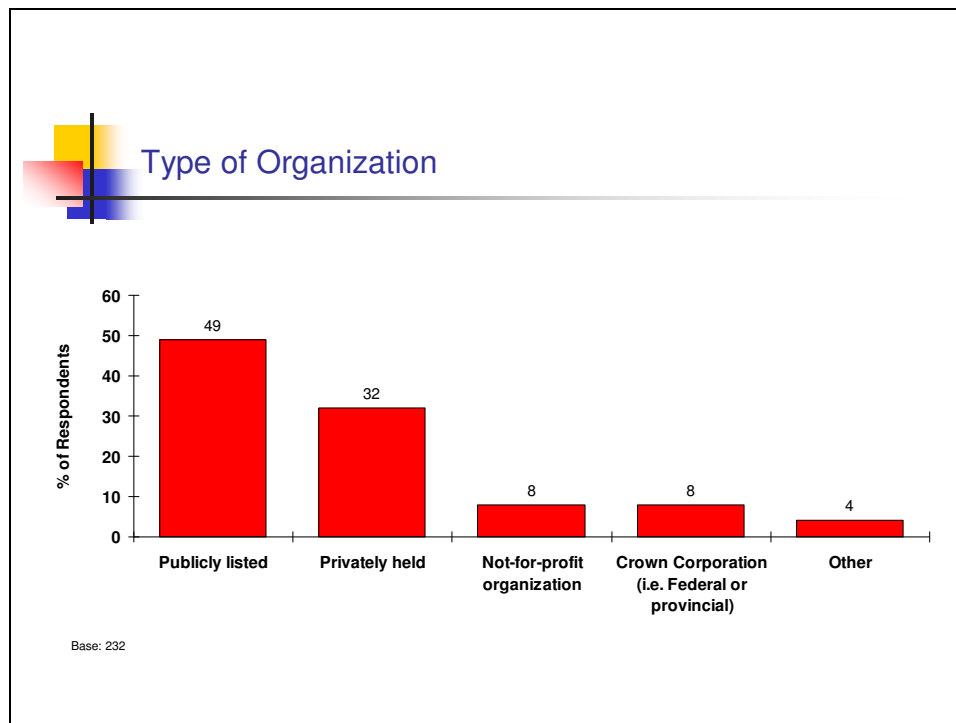
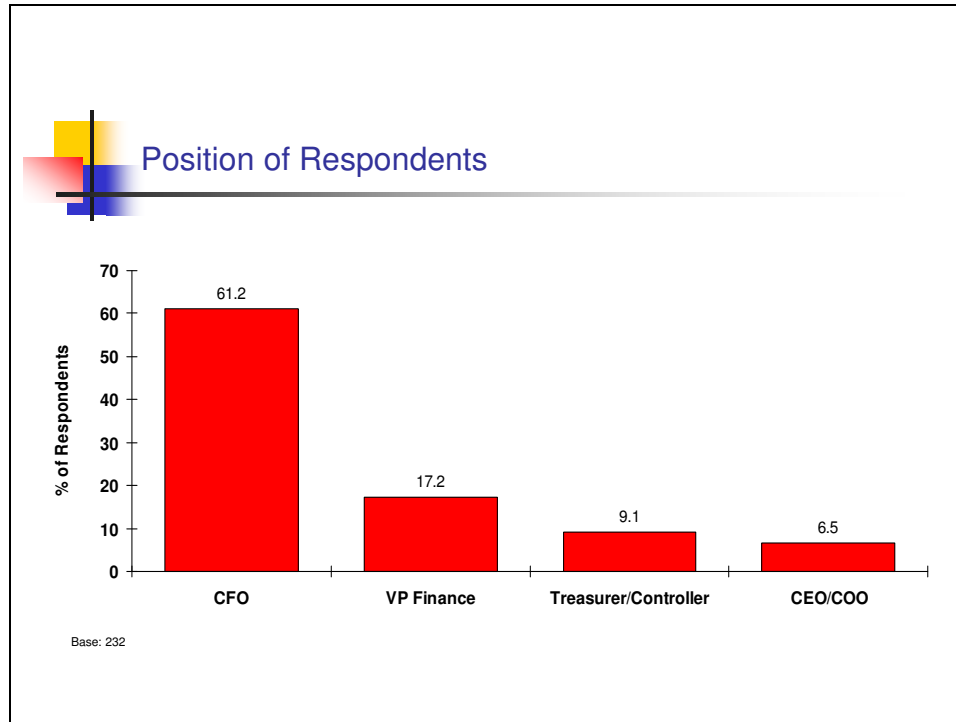
## Sample Data

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### **Highlights**

***The majority of our respondents held the senior finance position in a Canadian listed company.***

A total of 232 FEI Canada members completed this questionnaire. 61.2% held the position of CFO, 17.2% were VPs Finance, 9.1% were Treasurers and Controllers, and 6.5% were COOs and CEOs. The responses were distributed across industries, with the greatest number coming from the manufacturing sector (17.7%). This followed with 8.6% in the energy sector and 7.8% in financial services. The majority of respondents (44%) have been in their current jobs between one and five years, while 22.4% have held their current position between five and nine years.



Of those responding, 49% came from publicly listed companies, compared to 32% from private companies and 8% from crown corporations. The remainder were from not-for-profit organizations, municipal governments, academic institutions, co-operatives or consulting firms.

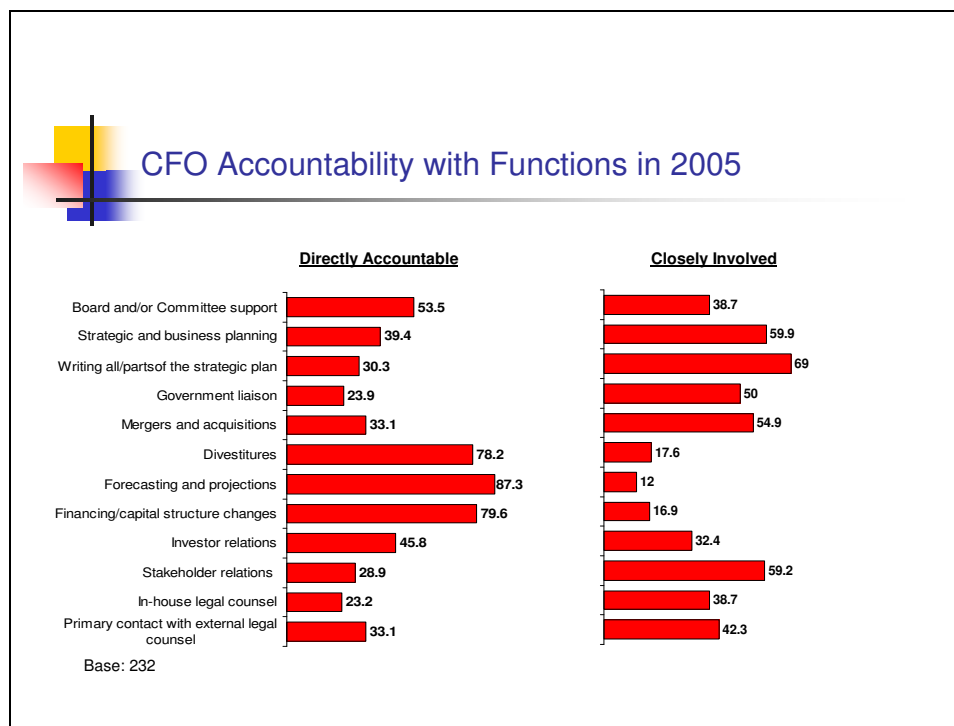
Seventy three, or 31.5% of respondents, were from companies of less than \$50 million in annual revenues in 2004. This compares with 24 responses from companies with revenues between \$50-99 million, 55 from companies in the \$100-499 million revenue range, 25 in the \$500-999 million revenue range and 38 in the \$1-5 billion revenue range. Seventeen companies had annual revenues greater than \$5 billion. 79.3% of all responses were from senior finance executives whose companies were listed in Canada and 19.4% were listed in the United States.

#### ***Highlights - The CFO and the Organization***

***The majority of our respondents had the primary responsibility for compliance in their companies and served in traditional CFO roles with respect to the Board. Most thought that the Board understood their roles in the organization and understood the business they were in. However, less than half thought that they had adequate resources behind them to ensure that the finance function could adequately manage in the current environment. The relationships between the Board and the senior executive were still quite close in the companies we surveyed. While there were clear distinctions between the functions of the board and the functions of the executive/senior management, only half of our respondents felt that their organization was governed by an independent board of directors.***

68.5% of the CFOs in our survey say that they have the primary responsibility for ensuring the company’s compliance with corporate governance laws and regulators. 73.9% of respondents attended all board meetings. 44% of CFOs say that their finance team has “sufficient strength” to tackle their current and upcoming challenges to their organizations. 60.8% say that their fellow senior executives understood their role as the CFO or senior finance executive in the organization. 65.6% felt that their Boards understood the company’s business, its industry and its markets.

When asked if they felt that there is a clear distinction between the functions of the board and the functions of the executive/senior management, 75% agreed that there was a clear distinction and 11.5% disagreed. This compares to 88.2% of respondents in companies with revenues over \$5 billion who agreed. Only 63.6% of respondents from companies in the \$50-99 million revenue range felt a clear distinction in these roles. At the same time, only 57.8% of all respondents felt that their organization was governed by an independent board of directors.





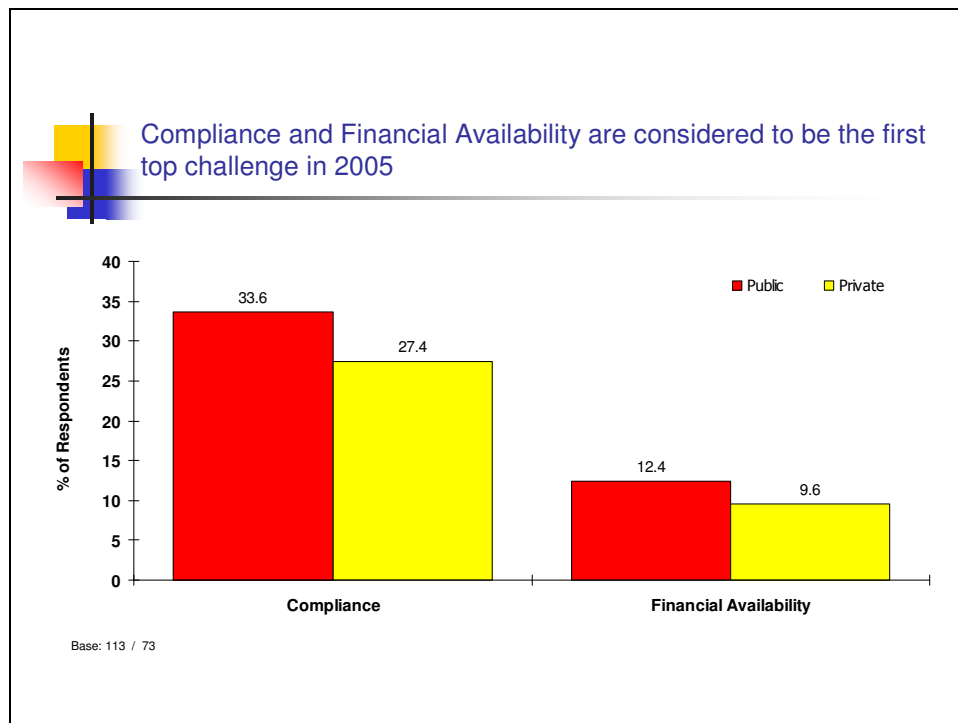
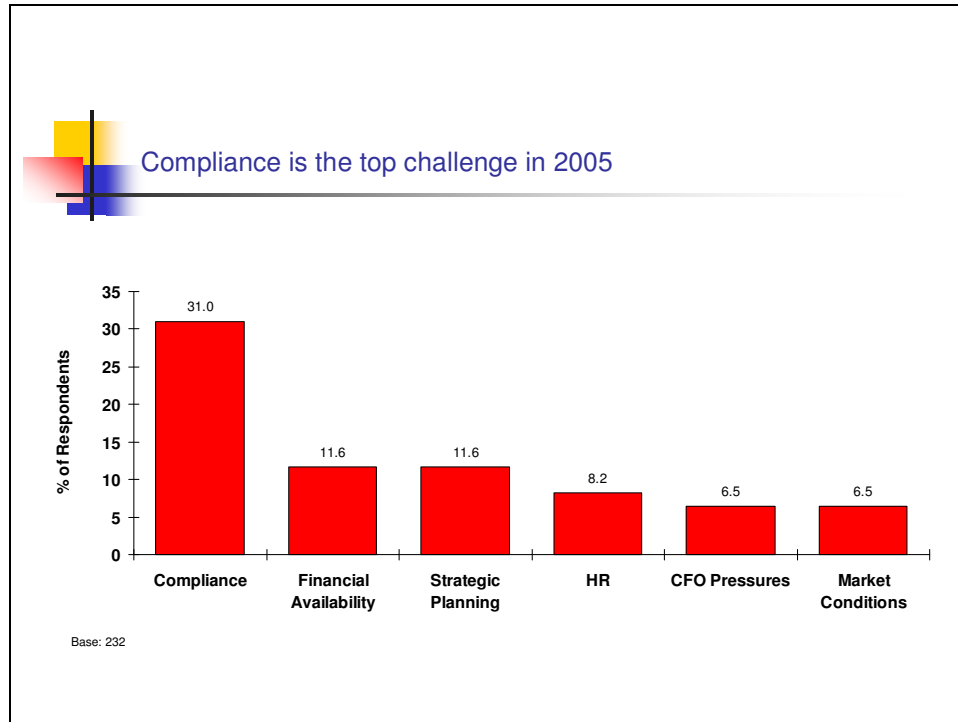
## Top Challenges Facing CFOs in Companies Today

### Highlights

***Compliance is the number one challenge facing senior finance executives across organizations of all sizes and corporate structures.***

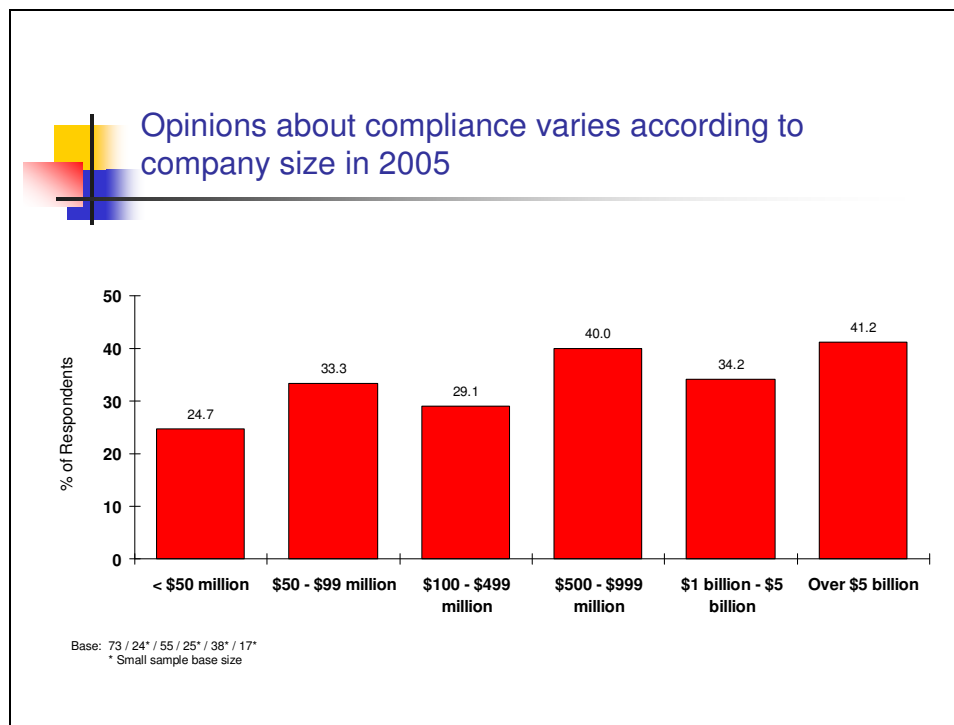
The top challenge facing senior financial executives today is compliance, with 31% of respondents indicating that this was their primary concern. This follows with 11.6% who said availability of financing was their top challenge and 11.6% who responded with strategic planning.

Compliance was the biggest concern for both private and public companies. 27.4% of all private companies reported that compliance was the top challenge they faced today. This compares with 33.6% of public company respondents.



**Highlights**  
*Relatively more large companies than smaller companies viewed compliance as their top challenge.*

41.2% of companies with revenues greater than \$5 billion say that compliance is their number one challenge today. Similarly, 40% of companies with annual revenues between \$500-999 million say that compliance is their number one challenge, compared with 34.2% in companies in the \$1-5 billion revenue range, 33.3% in the \$50-99 million revenue range and 29.1% of companies with revenues between \$100-499 million.



**Highlights**  
*Issues surrounding human resources were reported as the second most important challenge facing senior financial executives today.*

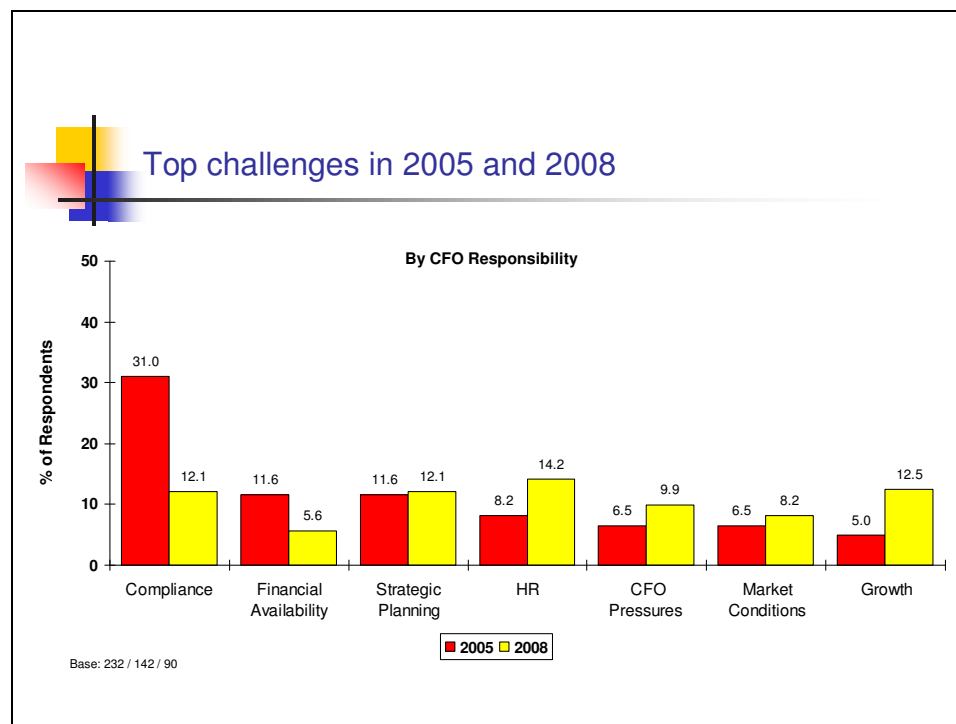
The second most pressing challenge facing senior finance executives today concerns issues related to human resource management. 20.3% noted that either finding current finance staff to handle additional workloads due to new compliance rules, managing turnover, succession planning or issues related to managing or motivating people was their second biggest challenge.

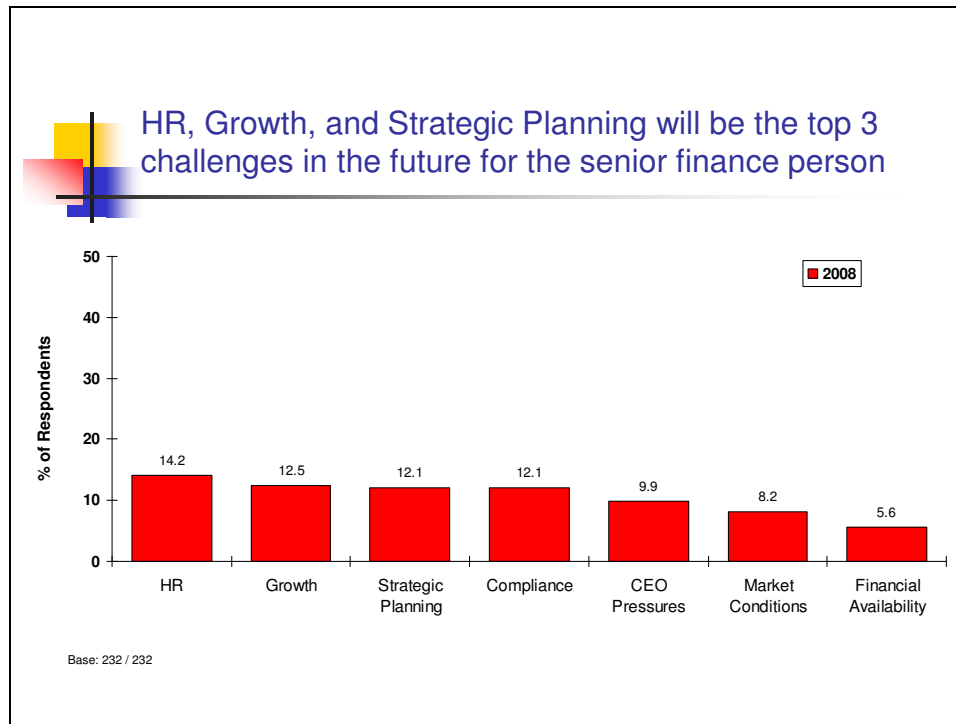
## Top Challenges in 2008

### Highlights

*The top challenge for CFOs in three years time changes dramatically. The most frequently reported challenge in 2008 will be managing human resources. Again, this includes finding and training qualified staff, dealing with turnover and succession planning and motivating people.*

When asked about what the two biggest challenges will be in three years time, the picture changes dramatically. Compliance is no longer the top concern for senior financial executives, falling from 31.0% to 12.1%. The most significant increase was in the area of growth, rising from 5.0% in 2005 to 12.5% in 2008, followed by HR issues, increasing from 8.2% in 2005 to 14.2% in 2008. The ability to obtain financing dropped from the second most frequently reported challenge in 2005 to the seventh in 2008.



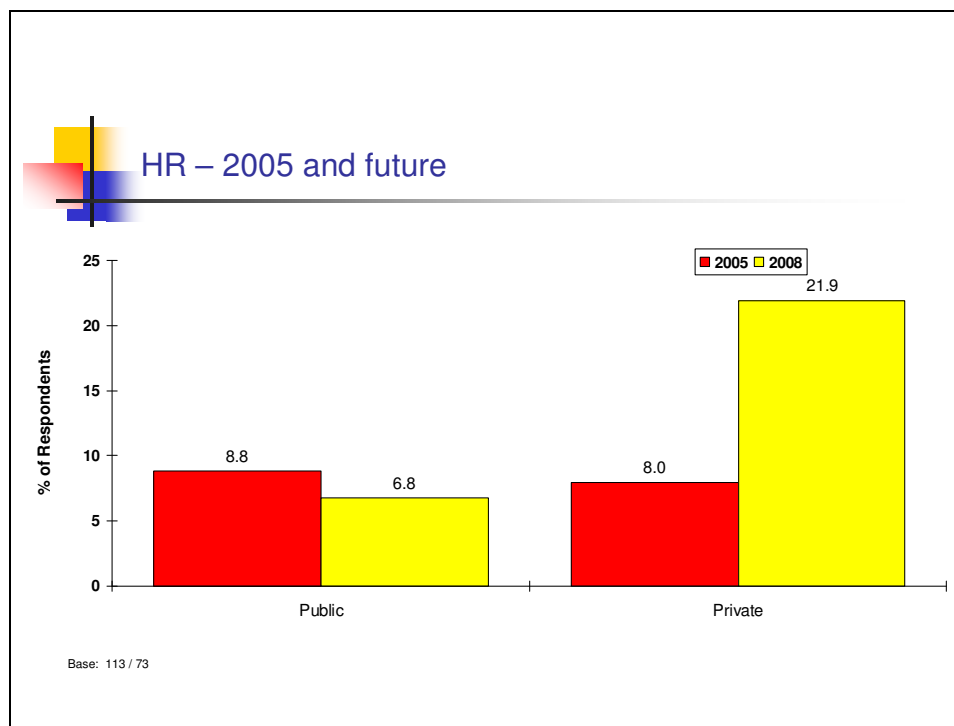


**Highlights**

***Relatively more private companies than public companies will be concerned about HR challenges in three years time.***

In 2008, we found that a much larger proportion of senior financial executives (21.9%) in private companies than public companies viewed their top challenge as being related to attracting qualified and talented people, retaining qualified people, managing people and planning for succession.

Growth and strategic planning issues, market conditions and personal pressures related to being a top financial executive also grew in importance in 2008, with relatively more respondents in all companies reporting these factors as a top priority in three years time.

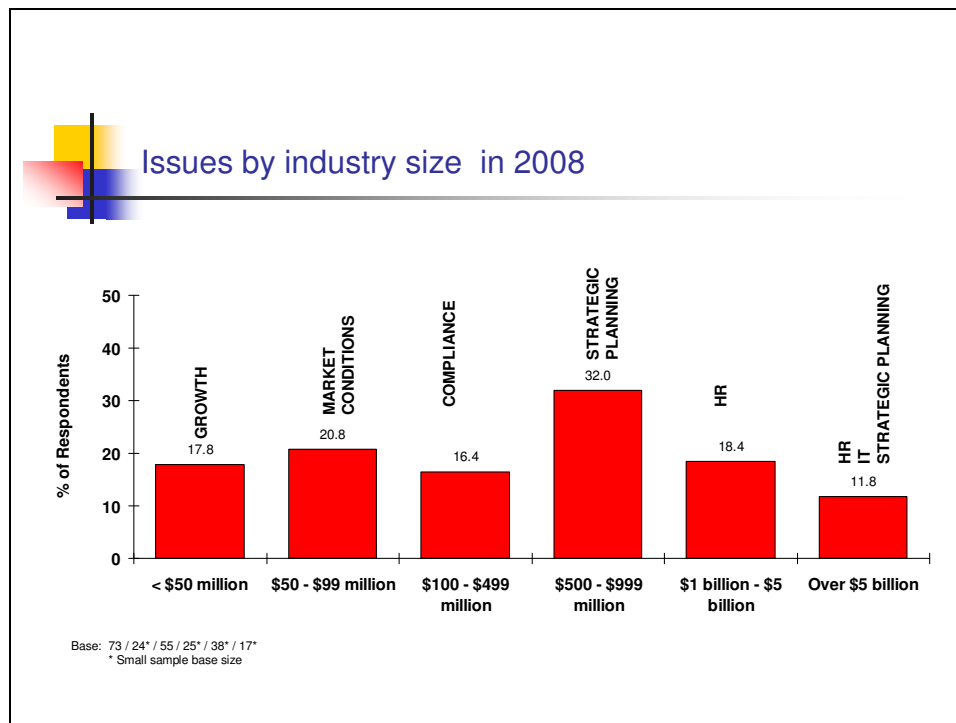
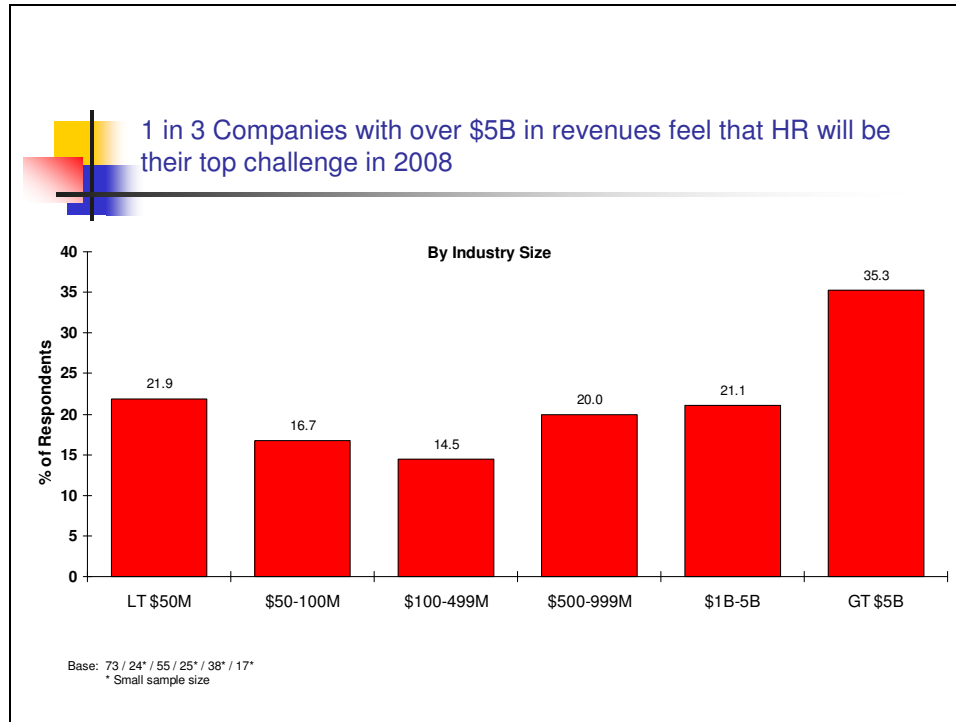


**Highlights**  
**Size matters more in 2008.**

Comparisons over time also show us where senior executives in companies of differing sizes will be putting their focus. We see that in 2005 the number one challenge for companies of all sizes in our study is compliance. However, in 2008 this holds true only for companies in the \$100-499 million revenue range.

Compliance has been replaced in other companies by a different challenge. For companies with less than \$50 million in revenues, growth was cited as the top challenge by the largest number of respondents (17.8%). In companies with revenue of \$50-99 million, uncertain and changing market conditions were expected to be the top challenge by the most individuals (20.8%).

In companies in the \$500-999 million revenue range, the greatest number of respondents reported that strategic planning would be their greatest challenge (32%). In the \$1-5 billion revenue range, HR was the top challenge (18.4%) and for the largest companies in our sample with revenues over \$5 billion, HR, IT and strategic planning were each cited as being the top challenge by the greatest proportion of respondents (11.8%).



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## What issues are most important to CFOs and their companies today and in 2008?

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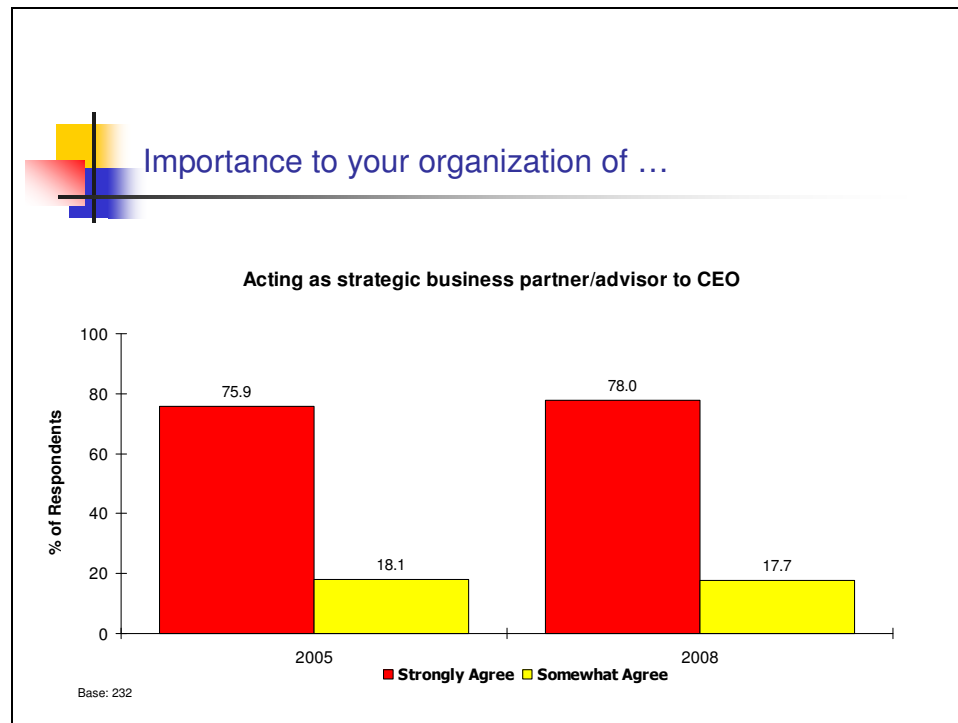
So what is the current corporate environment that CFOs and other senior financial executives operate in? We again posed several closed ended questions to our members that would allow them to express whether or not they agreed with certain conditions as they see them today and in the future. Most of these questions relate to how CFOs viewed their role in the organization and the issues they saw as having critical importance to their organization as a whole.

### **Highlights**

*Most CFOs strongly agreed that their role as a strategic partner was important to their organization today. This is followed by creating the right organizational culture, measuring performance and improving planning, forecasting and budgeting. Ensuring compliance came in fifth, followed by managing and responding to the board. Upgrading internal controls ranked seventh followed by ensuring the effective use of information technology, improving the quality of investor information, investigating and using outsourcing as a means to cost savings. The fewest number of respondents strongly agreed that investigating off-shoring was important to their organization today.*

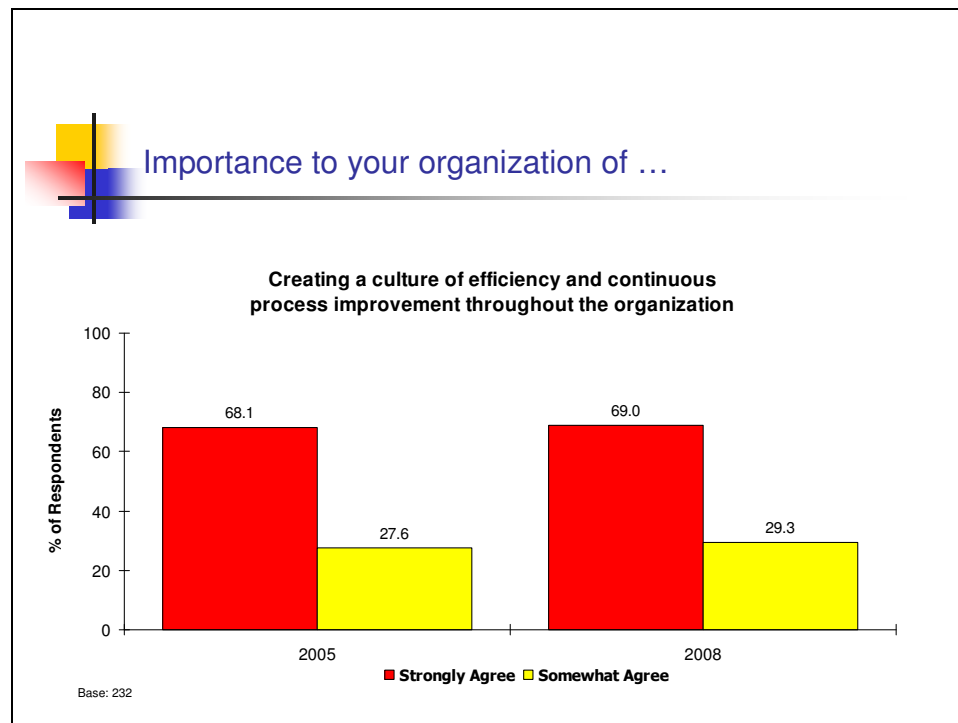
## 1. CFO as Business Advisor

The vast majority of financial executives responding to our survey strongly agreed with the importance of the CFO acting as a strategic business partner and advisor to the CEO (75.9%). This compares with 78% who strongly agreed that this will be important in three years time. 18.1% somewhat agreed that this holds true today, compared to 17.7% who somewhat agreed that this would be true in three years time.



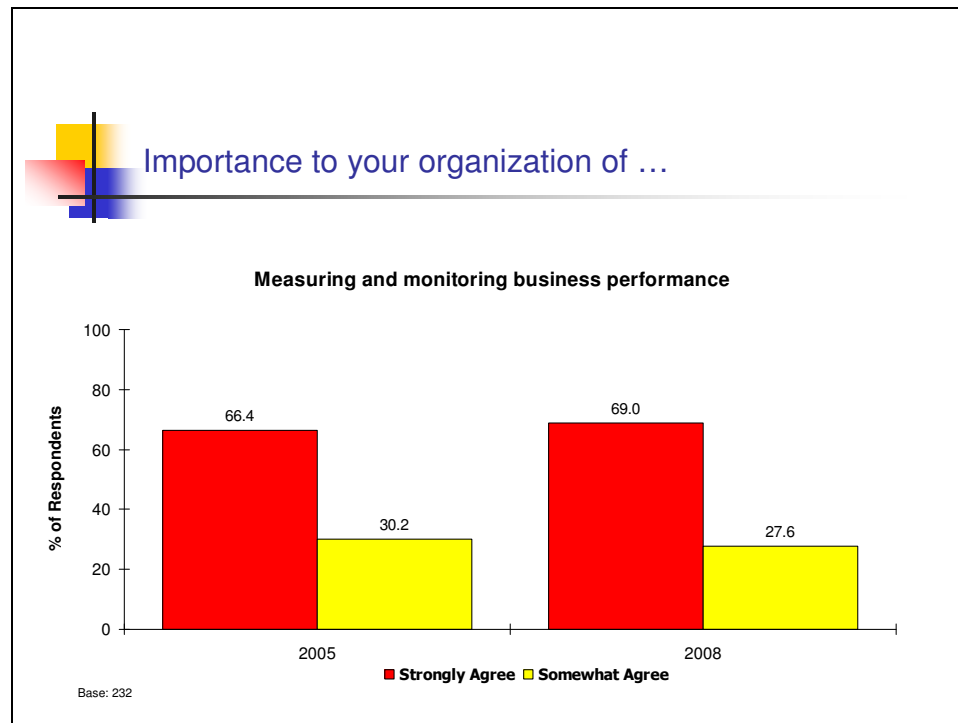
## 2. Creating an efficient business culture

68.1% of respondents strongly agreed that it is important to create a culture of efficiency and continuous improvement throughout their organizations at this time. This compares with 27.6% who somewhat agreed with this position. 69% strongly agreed that this would be important in three years time, compared with 29.3% who somewhat agreed.



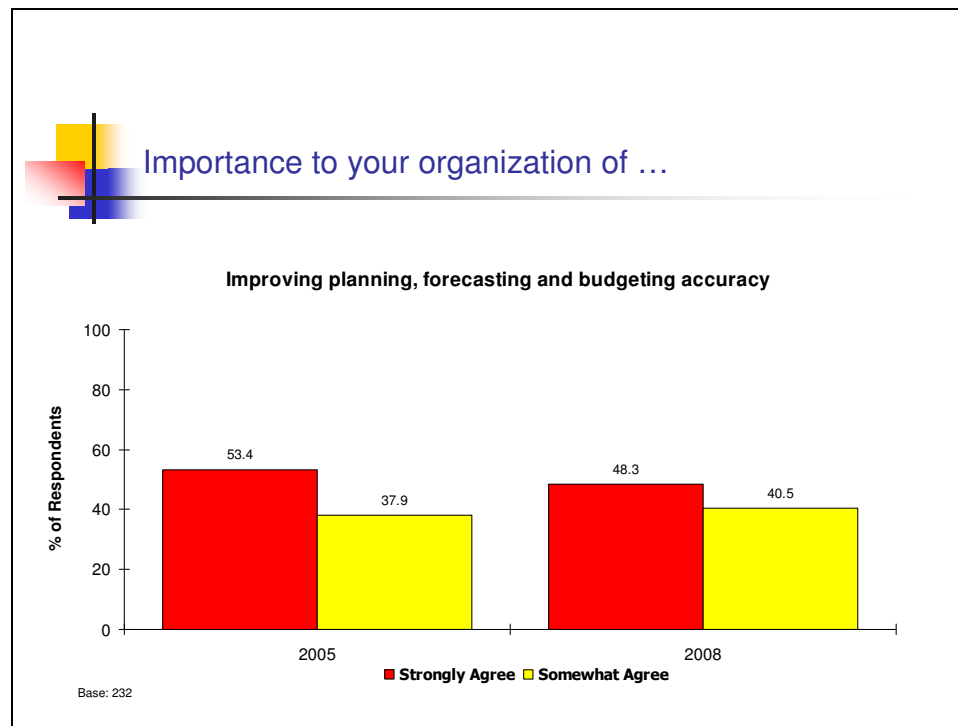
### 3. Measuring and monitoring business performance

66.4% strongly agreed that measuring and monitoring business performance was important at this time. This compares with 30.2% who somewhat agreed. The proportion of respondents who strongly agreed that this would be important in three years time increased to 69%, while the number who somewhat agreed fell to 27.6%.



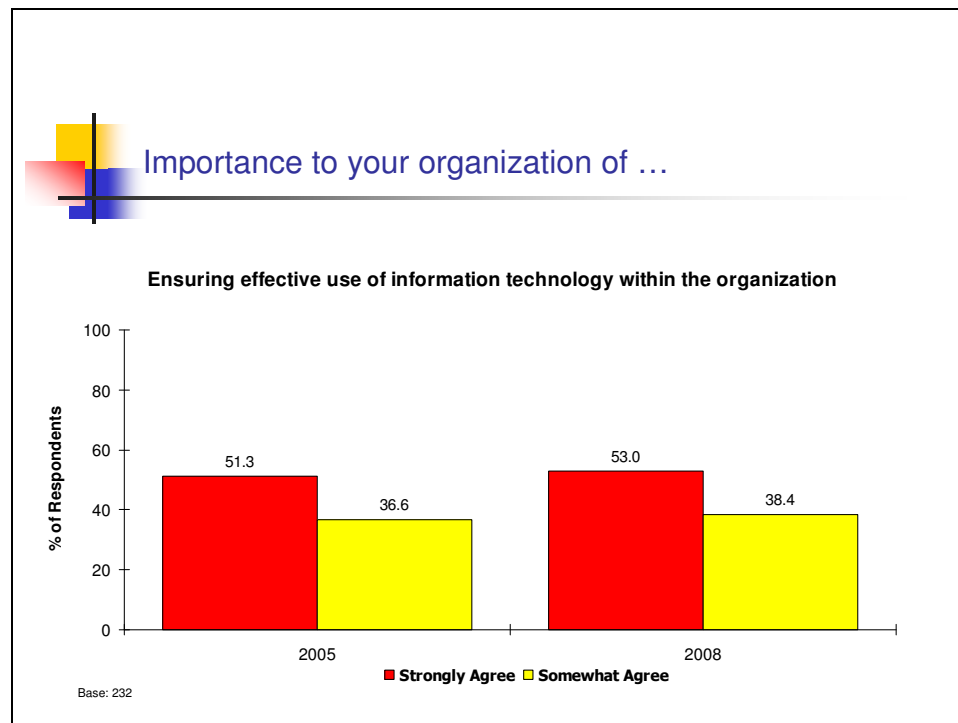
#### 4. Improving planning, forecasting and budgeting accuracy

53.4% strongly agreed that improving planning forecasting and budgeting accuracy was important at the present time, while 37.9% somewhat agreed. This compares with 43.3% who strongly agreed that this will be important three years from now, while 40.5% somewhat agreed.



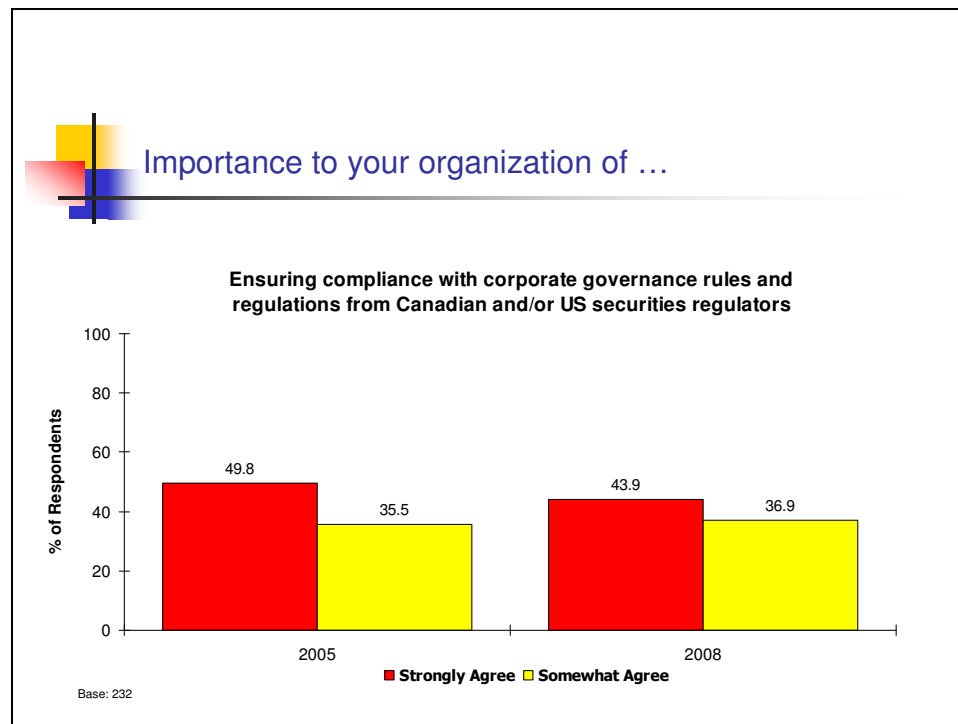
## 5. Effective use of IT

51.3% of respondents strongly agreed that ensuring the effective use of information technology was important within their organizations at the present time, compared with 36.6% that somewhat agreed with this view. 53% strongly agreed that this would be important in three years time, compared with 38.4% that somewhat agreed.



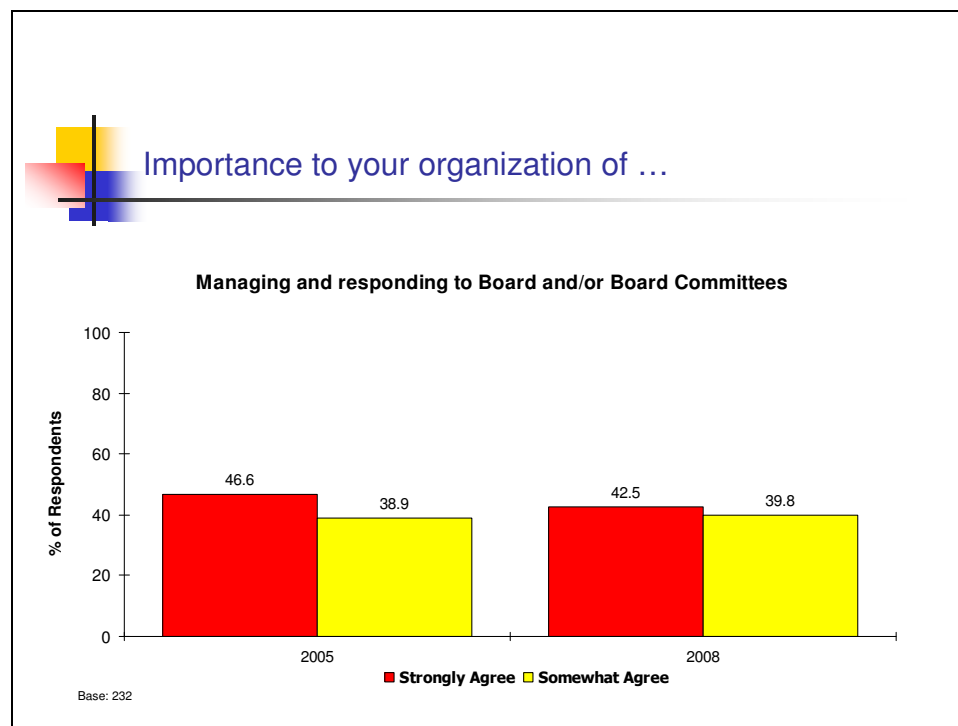
## 6. Ensuring Compliance

49.8% of respondents strongly agreed that ensuring compliance with corporate governance rules and regulations from securities regulators was important to their organization today. This compares with 35.5% that somewhat agreed and 1% that strongly disagreed. 43.9% of respondents still strongly agreed that ensuring compliance with corporate governance rules and securities regulations will be important in three years time.



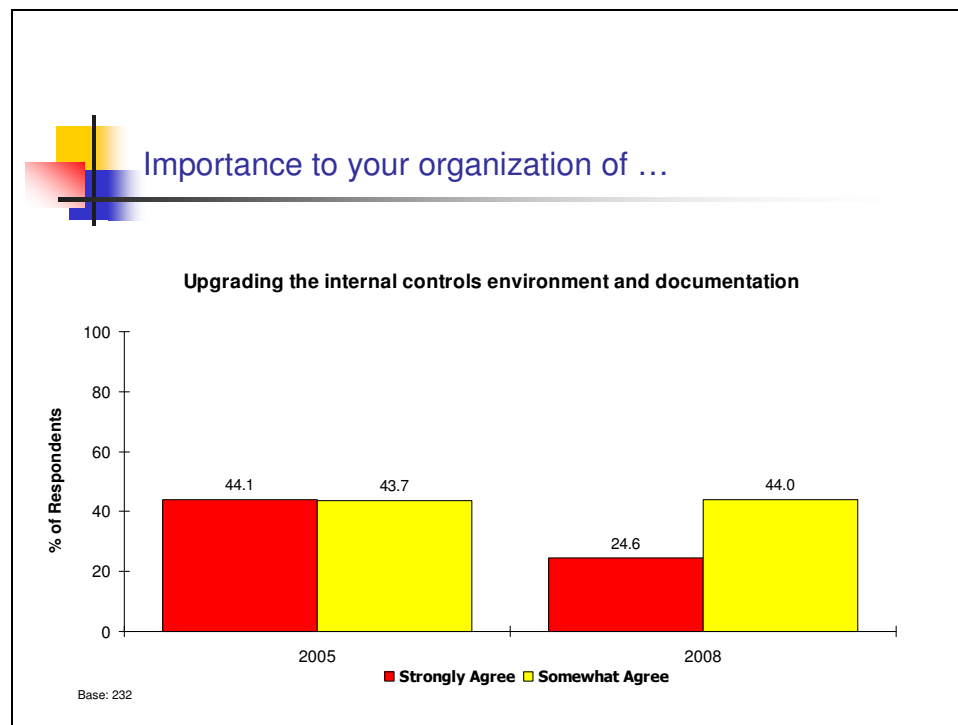
## 7. Responding to the Board

46.6% of respondents strongly agreed that managing and reporting to the Board and Board committees was important at this time. This compares with 38.9% that somewhat agreed and 1.4% that strongly disagreed. For 2008, the results remain very much the same, indicating that the importance of managing and responding to the Board will not likely change over time.



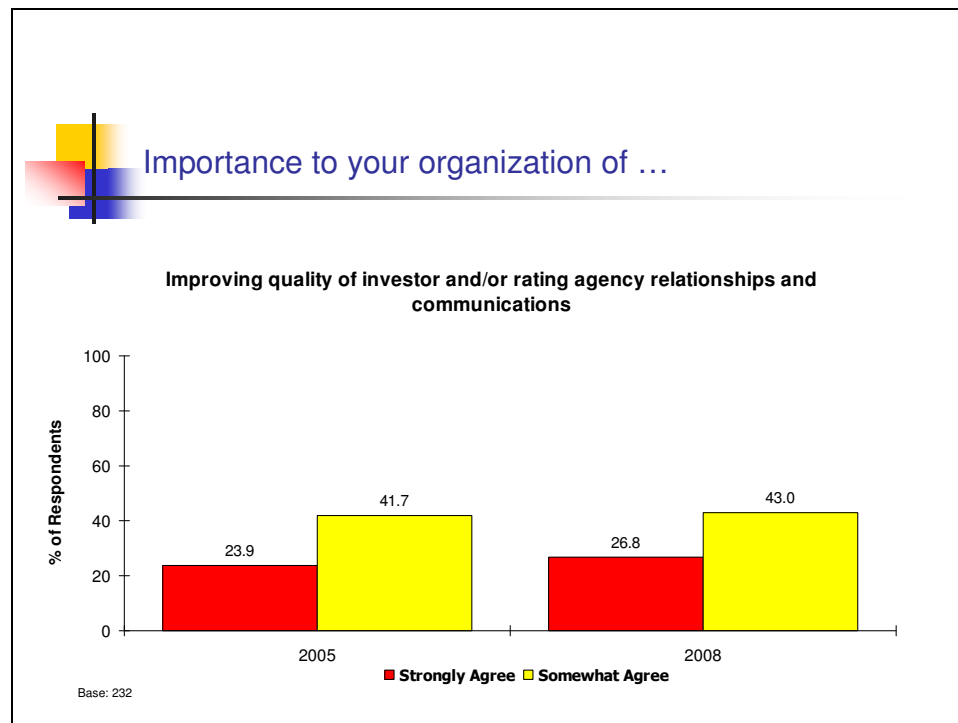
## 8. Upgrading the Internal Controls Environment

44.1% of all respondents strongly agreed that upgrading the internal controls and documentation was important today. This compares with 43.7% that somewhat agreed and only 1.3% that strongly disagreed. Only 24.6% of respondents strongly agreed that upgrading the internal controls and documentation environment would be important in 2008, which reflects the 2007 compliance dates imposed by Canadian securities regulators and the assumption that, by 2008, most companies will have met the internal controls documentation requirements.



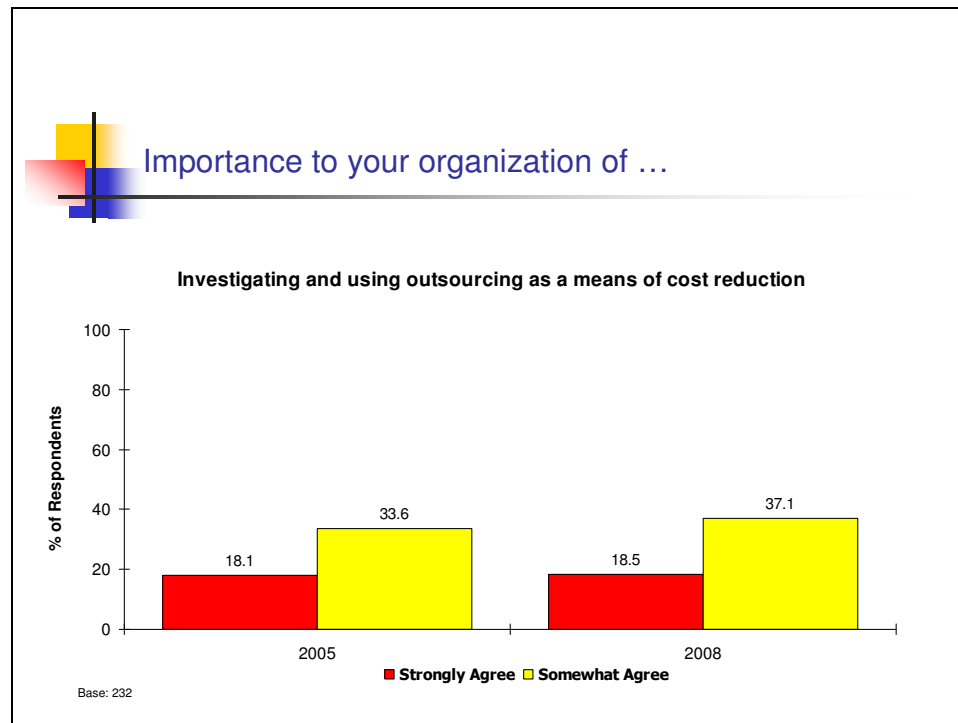
## 9. Improving Quality of Investor Communications

Improving the quality of investor communications and the relationship with the rating agency was seen as important today by 23.9% of respondents, and somewhat important by 41.7% of respondents. Again this view only changes marginally in three years time.



## 10. Using Outsourcing to save costs

18.1% of respondents strongly agreed that investing and using outsourcing as a means of cost reduction is important at the present time. This compares with 33.6% that somewhat agreed, 14.7% that somewhat disagreed and 6.9% that strongly disagreed. This compares with 18.5%, 37.1%, 10.8% and 9.1% respectively in three years time.



## 11. Investigating off-shoring

Investigating and using off-shoring as a means of cost reduction today was seen as important by 12.7% of respondents. 21.2% somewhat agreed that this was important, versus 13.8% that somewhat disagreed and 24.3% that strongly disagreed. Relatively more (16.1%) senior finance officers strongly agreed that this would be important in three years. Only 18.2% strongly disagreed that it will be an important issue in three years time.

