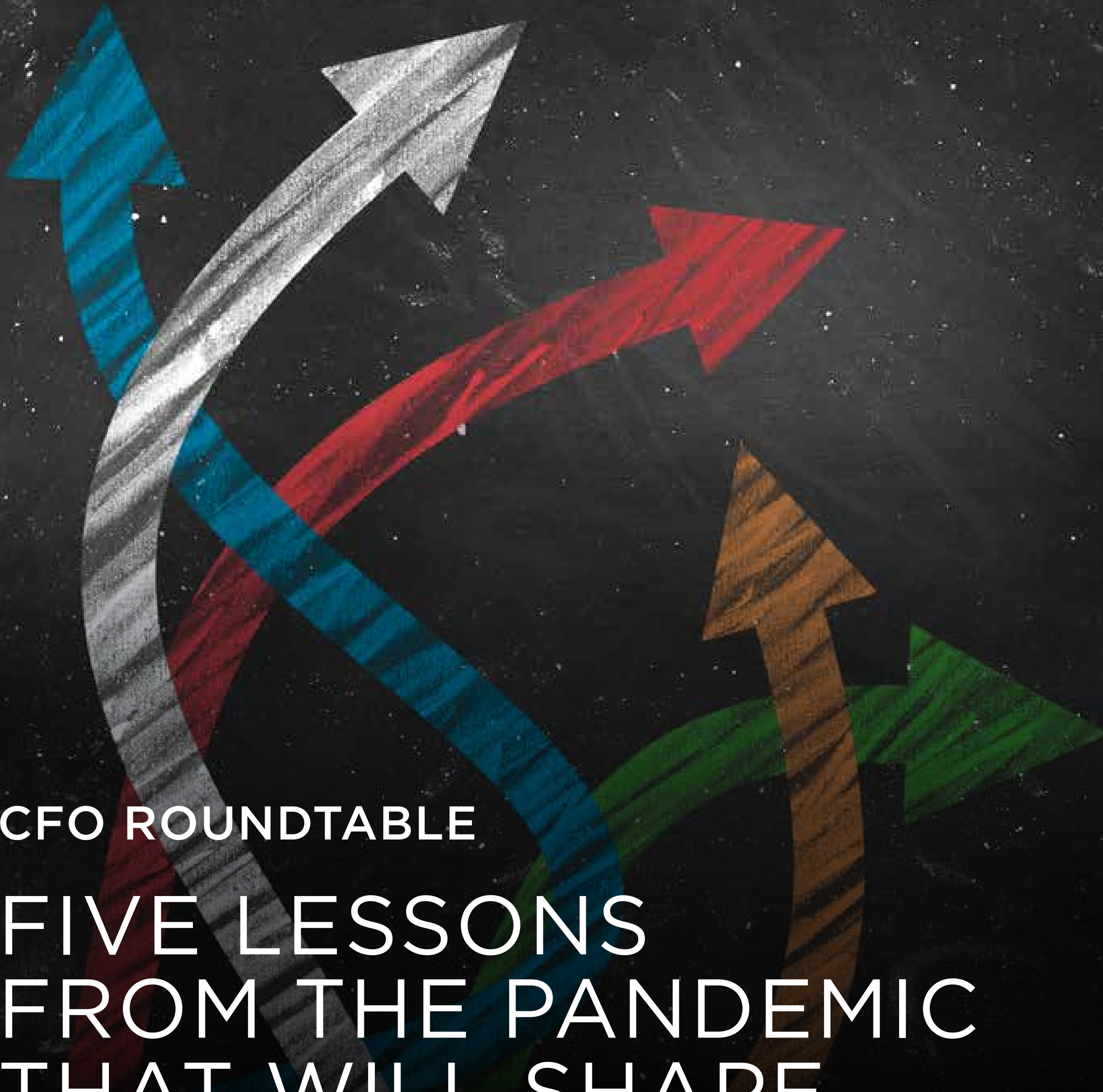


CFO ROUNDTABLE

FIVE LESSONS FROM THE PANDEMIC THAT WILL SHAPE ONTARIO'S ECONOMY

INTRODUCTION

If it were possible to be a fly on the wall in a room of CFOs, what could we learn from their conversation? We would likely hear how they are making critical business decisions amid uncertainty and how they are planning for the months and years ahead. Their experiences navigating the pandemic could be valuable for all of us. So, we asked some of Ontario's leading CFOs if we could listen in to their candid discussion about the effects of Covid-19 and responses to it.

In late July 2020, Carol Wilding, CEO of CPA Ontario gathered some of the province's most senior business leaders from a cross section of industries for a virtual roundtable discussion. She asked them to share their experiences off the record, but with the intention that their strategic insights about how to survive and thrive throughout the pandemic would be distilled and shared with CPA Ontario members.

The pandemic and policy responses to it requiring restrictions on movement and business activity have had profound effects on the economy. This has disrupted organizations' strategic priorities. In the rapidly changing environment, finance leaders are experiencing greater demand for their insights and good judgment to support business decision-making. The pandemic has tested global corporate resilience and forced CPAs to consider whether established priorities and practices stand up amid talk of a "new normal".

The CFOs were asked what they have taken away from their experiences in recent months and what has proven essential in their arsenal of skills and resources for dealing with the challenges of the crisis and the post-Covid world that will follow.

THE IMPACT

- $343 billion federal budget deficit predicted for 2021[1]
- 7.8% GDP drop forecast by Bank of Canada[2]

> Whether it's the number of jobs lost, Covid cases or, tragically, the number of deaths, we've been hearing a lot of negative new records. But what I'm starting to hear is that people are getting their footing under them. They're finding opportunities and ways to move forward.
>
> *— Carol Wilding, CEO, CPA Ontario*

Key takeaways for finance leaders

- The defining feature of the 'next normal' will be prolonged uncertainty which poses significant challenges for business planning
- If they had the chance to redo their response to the Covid-19 crisis, most CFOs said their top priority would be to **communicate even more**
- To navigate these unchartered economic waters CFOs are **both investing for future growth and keeping costs down**
- **Investors are hungry for more information** about the outlook for companies, particularly about what is happening in real time
- Businesses enjoying a boost from pandemic conditions are **hesitant to celebrate success** at such a difficult time
- The social component in **ESG considerations has gained prominence.** This isn't just around the effects of Covid-19: diversity and equity are also major concerns

The 5 big issues for CFOs amid the crisis

1) The effect on businesses
2) Balancing short- and long-term priorities
3) ESG considerations have changed
4) What do investors want to know?
5) Lessons have to be learnt whilst running the gauntlet

1. THE EFFECT ON BUSINESS

Effects of the pandemic have rippled throughout the economy, but some sectors such as hospitality, travel and retail have been hit especially hard. Others have seen opportunities or shifts that are continuing to play out with some businesses experiencing a boost in demand, for example biotech, finance and digital technology.

Initially, many assumed the pandemic would be a short, sharp disruption. As it progressed globally and the impacts of business closures and social distancing requirements continued, it has become clear that we are only at the beginning of a sustained period of uncertainty. A World Economic Forum survey of global risk analysts forecasts the next 18-months will likely see a prolonged global recession, a surge in bankruptcies among businesses of all sizes, industry consolidations and some sectors will struggle to recover.[3] The prospect of ongoing economic uncertainty and stop-start business conditions will make business planning deeply challenging.

A telecoms industry CFO explained that their organization had to rapidly respond to changing consumer behaviour patterns. The company saw home data traffic surge as people moved to working at home, while wireless data stagnated or dipped. As lockdown policies eased, and consumers moved outdoors once again, mobile data usage ramped up. To meet these swings in demand the company promptly pivoted their services and technology rollouts. The CFO's challenge was to adapt to the new paradigm while continuing to invest in future plans that gave special consideration to mobile technologies.

The potential for ongoing spikes in Covid-19 infections, especially in the colder months, may trigger further rounds of restrictions. Companies could find themselves swinging back in response to significant shifts in behaviour and demand. Leaders will need to constantly iterate as we progress and regress through the stages of the pandemic.

> I hate to benefit from a situation like Covid, but it's definitely driven awareness in our market and the type of product we provide.
>
> — Learning tech CFO

The CFO of a digital training company reported that though they are "vulnerable to big swings in our customer base", they had found themselves well positioned for the crisis. Since their platform reinforces training for front-line employees, the rapidly changing work environment presents an opportunity. This sense of opportunity, where it exists, is something business leaders are sometimes hesitant to speak about: there is discomfort profiting when many others are suffering.

Others are focused on ways to support customers whose business has been disrupted by pandemic-response policies. A payment-processing CFO saw a huge drop in transaction volumes from their clients in retail, restaurants and entertainment. To support their customers who were shut down and without revenue they waived certain fees and offered support tools and resources to facilitate a recovery.

Meanwhile, the CFO of an organization that provides services to high-growth start-ups expected to see its clients facing challenges that would hit the real-estate part of its business. But while start-ups have shown a need for additional support in securing assistance during the crisis, they have also been unexpectedly resilient, and their real-estate challenge was smaller than expected.

> Our team has developed tools to help companies pivot. How do you reach out for government funding? How do you actually think about customers in a different way?
>
> — Start-up ecosystem CFO

A real-estate industry CFO expects demand for office space in tight configurations to decrease in downtown areas but then increase in the suburbs and outlying regions. "Office leases tend to be long-term at 5-10 years (and human nature seems much shorter term) so I'm not certain that this experience will carry a big impact to downsize."

Post-recession winners aren't the usual suspects … companies that master the delicate balance between cutting costs to survive today and investing to grow tomorrow do well after a recession. … These companies reduce costs selectively by focusing more on operational efficiency than their rivals do, even as they invest relatively comprehensively in the future by spending on marketing, R&D and new assets.

—Ranjay Gulati, Nitin Nohria and Franz Wohlgezogen, "Roaring Out of Recession" , Harvard Business Review[4]

2. BALANCING SHORT-AND LONG-TERM PRIORITIES

Classic analysis published by the Harvard Business Review finds that companies that emerge from a downturn in a leading position, find a balance between cost-cutting with investment in future growth.

As veteran European board director Barbara Kux explains "identifying and leaning toward sources of growth cannot wait until the "next normal" arrives".[5]

Our CEO quizzed some of the CFOs on how they are striking this balance in the wake of Covid-19. How are they playing the long and short game? And are they focused on cutting costs or investing for growth?

Coming from a manufacturing business with heavy exposure to two of the most affected industries, healthcare and aerospace, another CFO echoed the theme of shifting focus. This company is cutting costs in segments where customers are hard hit, but in other areas, such as healthcare equipment and technology enabling remote work, demand is up and resources, including capital, have to be shifted to meet it. A strong balance sheet and liquidity is helping, and attractive valuations have opened options in M&A too—an opportunity for acceleration.

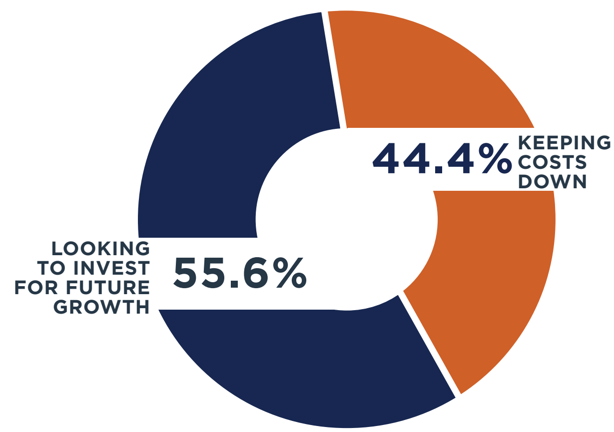
At an investment management and banking company, the CFO reported that in the early days of the pandemic, they focused on internal metrics such as costs and liquidity. Supporting its small business clients was another early concern, that has grown to take centre stage as the company looks to the second half of 2020 and then 2021. A law firm CFO reported focusing on digitalization and remote work as opportunities to reduce costs. While on the growth side, business development will pose new challenges in a world without conferences and in-person meetings.

> The pandemic accelerated projects that we would have been working on for years. All of a sudden, we were paperless on issuing bills almost immediately, we had no choice.
>
> *—Law firm CFO*

In telecoms, investment in growth is following the acceleration of digital trends—towards greater use of online transactions, on the web and in apps. New practices such as encouraging self-setup for home-based products and services are likely to persist beyond the pandemic because they deliver a better customer experience. Long-range investment in infrastructure for new technologies, such as 5G, continues regardless of the pandemic.

What are CFOs more focused on?

A survey of our CFOs found just over half were more focused on investing for future growth than in keeping costs down. One leads an organization focused on infrastructure investment, which has a mandate to stimulate the economy post-Covid. The crisis has encouraged them to enlarge some of their initiatives, and to start others. Their long-term mandate means they're thinking about which investments will make a positive impact on the economy after the pandemic and into the decades to come.



The CFO of a government organization in the financial sector described competitors in the banking sector setting their differences aside to work with government to ensure the swift rollout of digital services so Canadians could access emergency benefits.

> It was such an amazing example of fierce competitors absolutely coming together in a crisis and making things better for the country.
>
> *—Public Sector CFO*

THE FUTURE OF WORK HAS ACCELERATED

Talk to any business leader and you'll hear how the need to enable social distancing has accelerated digital transformation in their organizations. Some sprinted faster than others and for many it was a bumpy road as they found their footing.

Finance functions have shifted rapidly to remote work. Even those organizations that have been slow to embrace online collaboration have had to embrace digital disruption and develop data governance strategies to match.

A June study from the Angus Reid Institute found that a third of Canadians working remotely don't expect to return to the office as often as they did before the pandemic.[6] Tech companies including Twitter and Shopify have said more employees will be working remotely for good.

Working from home has meant families, pets and pyjamas have appeared in virtual meetings. In the Journal of Accountancy, Joey Havens predicts that this informality between colleagues will be here to stay because "the pandemic has flattened our organizational hierarchy, and team members and clients have more access to leadership than ever before."[7]

This shift toward a virtualized business model has provoked the thinking of some CFOs as to which parts of their organizations lend themselves to remote work and whether it could, or should, become a permanent shift. Some business units may be more effective in a virtual environment while others function better in a physical workplace.

Governments will need to boost education and training programs to prepare workers for the "next normal".[8] These will have to be tailored to what the labour market needs. There will also be opportunities for organizations to upskill their people and foster learning to transition to new work arrangements and business models. The pandemic has accelerated the need for professionals to level up their digital competencies.

Almost instantly, our whole world has become digital. There's no going back, and the speed of change will continue.

Companies now, large and small, have to express their value proposition around ESG measures.

—Start-up services CFO

3. ESG CONSIDERATIONS HAVE CHANGED

The pandemic has shifted ESG considerations to highlight the importance of social considerations in business, and Carol noted this is part of an ongoing story. Governance once had the lion's share of attention, but in the last five to ten years the environmental side of ESG has gotten more play with a focus on climate risks. "The pandemic has shone the spotlight on the S", she said. "Now social considerations, both within business such as the health and safety of their people, and externally on the role business plays in social issues like equity, justice and human rights. The importance of social impacts and risks have come to the fore."

CFOs' ESG concerns today are not exclusively focused on the pandemic. In telecoms, one CFO described initiatives such as letting customers defer payments and cancelling roaming charges. But this was also among multiple companies where diversity and anti-racism have also become prominent concerns recently. A commercial real-estate firm's undertaking not to make any layoffs during the crisis also spoke of a sense of duty towards employees.

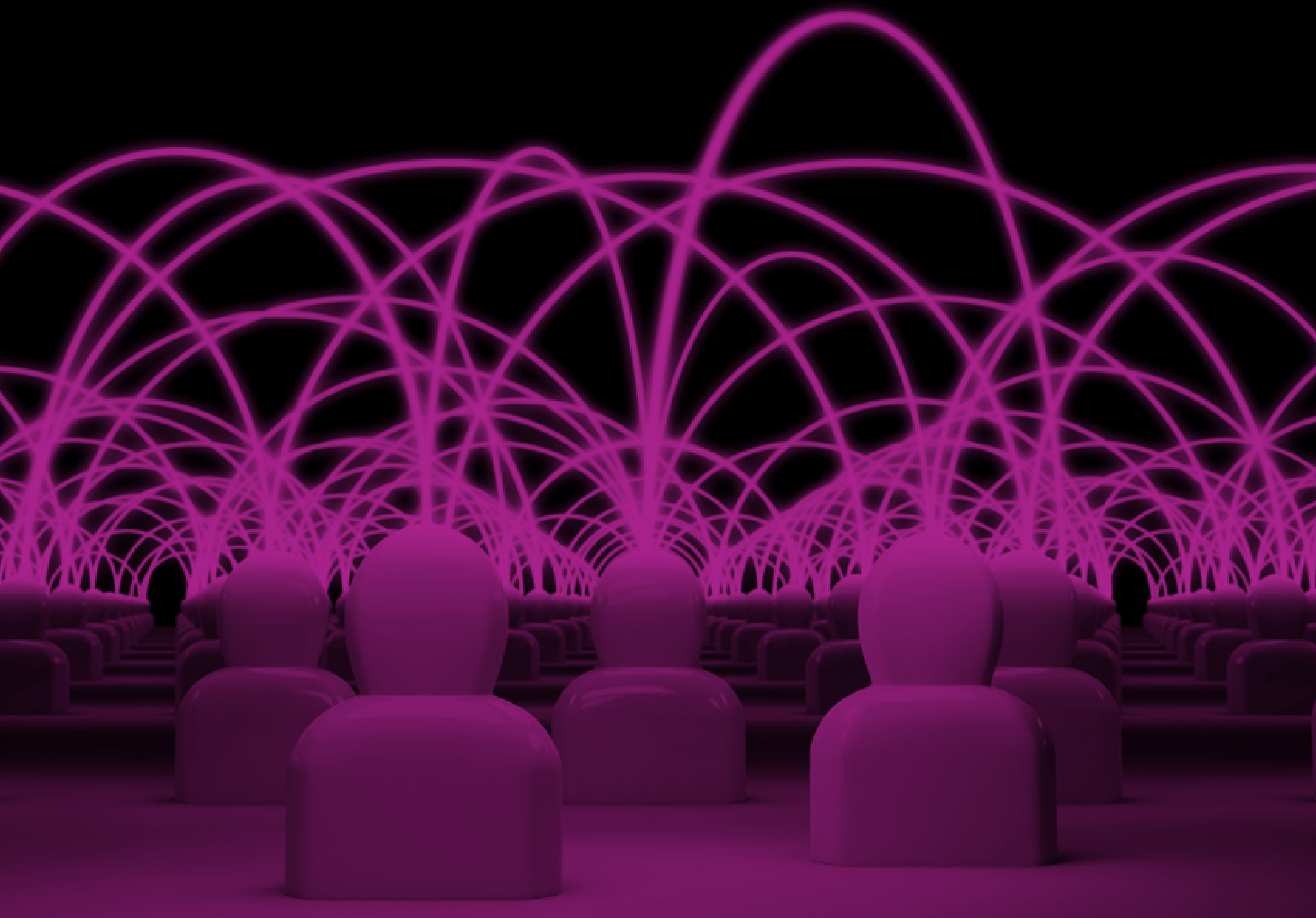
Other participants highlighted the growing social awareness of investors and entrepreneurs. "Investors are now becoming very attuned to those components beyond just the straight return," said one finance-industry CFO. In the Canadian start-up space, a recent survey showed that more than 80% of companies considered themselves to have a social purpose.

While the social part of ESG may now be taking a front seat, governance concerns, in relation to disclosure, still need to be an important focus for CFOs. This now goes beyond financial disclosure to include reporting on ESG performance, which is becoming more important to firms' customers and investors.

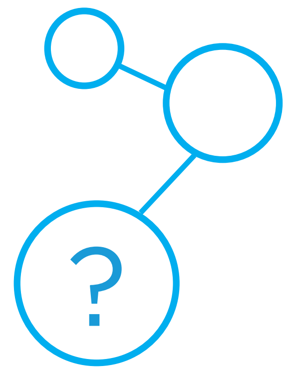
A payments industry CFO pointed out how different standards in ESG reporting pull companies in different directions, and asked how her peers in other organizations could "add our voice to creating a unified standard." This is one area where environmental concerns have highest prominence, as risks and targets.

We hear a lot of investors saying, there's just literally no information right now … Providing that information is going to be most critical. … The ability to understand what's the direction from here, good or bad, is really lacking right now.

—Finance industry CFO



4. WHAT DO INVESTORS WANT TO KNOW?



As CPAs prepare financial statements and corporate reports in coming quarters amid ongoing uncertainty, investors are also thinking about the effects of the pandemic on balance sheets in the long term.

Executives may be busy fighting fires in liquidity, cash management, valuation and other areas, but boards will need to also ask them to prepare for a strategy discussion on the "next normal", according to McKinsey.

Investors are now scrutinizing managers' plans for economic recovery and for pivoting to new opportunities. Audits are referencing the effects of Covid-19 in warnings about whether a business is likely to remain a going concern.[9]

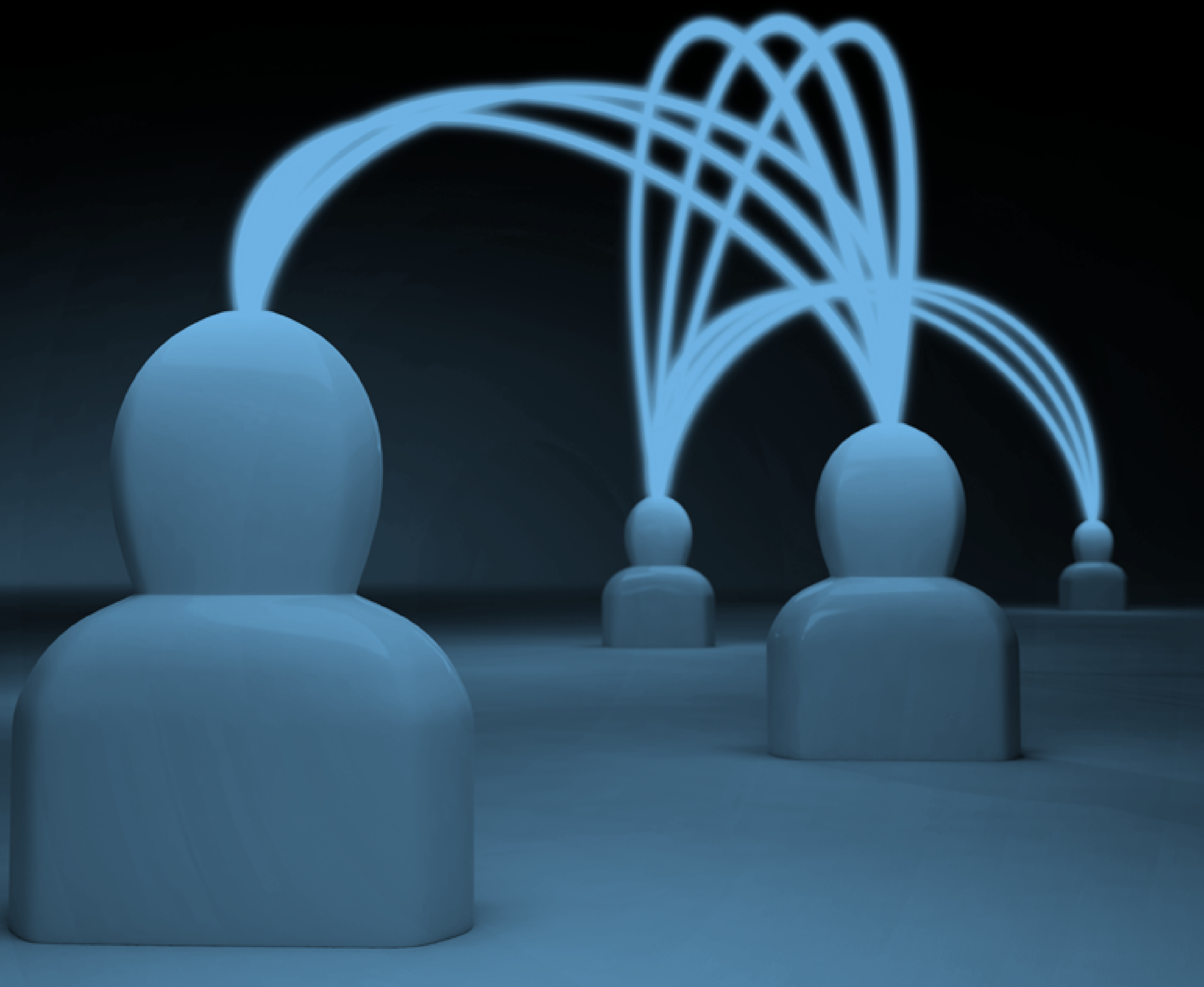
In a bull market, investors focus on income statements. But in a bear market, they want to see balance sheets. CFOs on the panel confirmed that there had been increased investor scrutiny of balance sheets during the crisis. One noted that this was a broad sweep, with investors and analysts simply screening companies with a certain level of capitalisation and then digging deeper.

However, one CFO explained, there is now huge uncertainty about valuations, which are being based on guidance for 2021. Companies have written off much of 2020 and suspended guidance, sometimes for the full year. People inside and outside of organizations are attempting, and sometimes struggling, to get the best possible understanding of where businesses' fortunes are headed.

Gaining that understanding is a particular challenge because it is hard for CFOs to discern how much of what is happening in their business is unique to them, an issue with their industry or the economy at large, or even more specific to Covid itself.

A real-estate industry CFO said his business had enhanced internal reporting on rent collections, organized by region and asset class, to stay on top of issues.
At the same time, cashflow forecasts a full two years ahead were now based on assumptions about the impact of the Covid-19 response. The firm is engaging in scenario planning and developing mitigation strategies for the worst cases.

With the benefit of hindsight, what would CFOs have done differently in response to the pandemic? Many said they would have communicated earlier and more with stakeholders.



5. LESSONS HAVE TO BE LEARNT WHILE RUNNING THE GAUNTLET

Arguably one of the most important questions about the crisis is what we might have done differently in the early days and weeks if we knew what we know now.

Carol Wilding asked CFOs to reflect on what they've learned and the guidance they'd give other CPAs or CFOs with the benefit of hindsight.

Responses overwhelmingly focused on a single topic: communication. CFOs wished they had communicated earlier, more and better, with a wide range of stakeholders.

If they could go back and redo their Covid-19 response, CFOs would communicate even more and sooner with:

- Boards
- Their teams
- Employees in general
- Clients, customers and members

They believe better communication would benefit mental health and self-care efforts as well as stakeholder relations and board understandings of financial risks. Earlier parts of the discussion had also referenced how businesses in a range of industries need to communicate with and support start-ups, customers and clients, members, tenants and merchants in dealing with the crisis.

The CPAs' central role in gathering and reporting information about operations and finances, makes them an increasingly critical part of their organization's communications efforts. Chima Mbagwu, director of the CPA Ontario Centre for Capital Markets and Behavioural Decision Making at Wilfrid Laurier University, sees CFOs becoming the "communicator in chief" for businesses, foreshadowing the roundtable's consensus on what was most important in the Covid-19 response.

To date, most accounting research has focused on the CEO's role communicating with stakeholders and infomediaries. However, the CFO is increasingly becoming a strategic partner in this communication role. CFOs are the prominent voice in investor relations and board communications. Here in Canada, with many mid-scale firms, we see this role extended, with CFOs more involved in communicating with stakeholders both within and outside their organizations.

—Chima Mbagwu, Professor of Accounting, Wilfrid Laurier University

This is the latest stage in an ongoing evolution of the CFO role that has seen CFOs take on increasing responsibility for areas beyond finance. In its 2016 CFO survey, McKinsey found that CFOs had an average of five non-finance functions reporting to them. More than half oversaw risk, regulatory compliance and M&A, while 38% were also responsible for IT, with some even managing cybersecurity and digitization.[10] And by 2018, CFOs had added another non-finance function to their portfolio of responsibilities, averaging six, of which half were digital activities.[11]

In closing, Carol shared an analogy that if the Covid-19 crisis were a baseball game, the world would just be in the first inning. While she hopes we may be further along than that, she foresees a further need for CPA Ontario to stay closely connected to CFOs and other CPAs in the months to come. As the pandemic response accelerates trends in digitalization, remote work, online education and other fields, so it will speed change in the roles and responsibilities assumed by CFOs and the accounting profession as a whole.

END NOTES

1 Jesse Snyder, "Canada's Fiscal Snapshot Predicts $343 Billion Deficit as Liberals Offer Little Intention to Curb Spending", National Post, 8 July 2020, https://nationalpost.com/news/politics/liberals-fiscal-snapshot-predicts-343-billion-deficit-as-bill-morneau-offers-little-intention-to-curb-spending

2 Jordan Press, "Bank of Canada Keeps Key Rate at 0.25%, sees 7.8% GDP Drop This Year", Global News, 15 July 2020, https://globalnews.ca/news/7178420/bank-of-canada-tiff-macklem-rate-decision/

3 World Economic Forum Insight Report, "COVID-19 Risks Outlook: A preliminary mapping and its implications", May 2020, http://www3.weforum.org/docs/WEF_COVID_19_Risks_Outlook_Special_Edition_Pages.pdf

4 Ranjay Gulati, Nitin Nohria and Franz Wohlgezogen, "Roaring Out of Recession", Harvard Business Review, March 2010, https://hbr.org/2010/03/roaring-out-of-recession

5 in McKinsey & Company, "How the CFO Enables the Board's Success—During COVID-19 and Beyond", May 2020, https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/Strategy%20and%20Corporate%20Finance/Our%20Insights/How%20the%20CFO%20enables%20the%20boards%20success%20during%20COVID%2019%20and%20beyond/How-the-CFO-enables-the-boards-success-during-COVID-19-and-beyond.pdf

6 "So Long, Office Space? Two-Thirds of Canadians Who Work from Home Expect it to Continue after Pandemic", Angus Reid Institute, 11 June 2020, http://angusreid.org/coronavirus-work-from-home/

7 Joey Havens, "Why Accountants Should Embrace 'More with Less' ", Journal of Accountancy, 6 June 2020, https://www.journalofaccountancy.com/news/2020/jun/accounting-trends-coronavirus-recovery-embrace-more-with-less.html

8 Martin Hirt, Sven Smit, Chris Bradley, Robert Uhlaner, Mihir Mysore, Yuval Atsmon and Nicholas Northcote, "Getting Ahead of the Next Stage of the Coronavirus Crisis", https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/getting-ahead-of-the-next-stage-of-the-coronavirus-crisis#

9 Mark Maurer, "Going-Concern Opinions May Be Poised for a Comeback", Wall Street Journal, 6 May 2020, https://www.wsj.com/articles/going-concern-opinions-may-be-poised-for-a-comeback-11588799231

10 "Are Today's CFOs Ready for Tomorrow's Demands on Finance", McKinsey & Company, 9 December 2016, https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/are-todays-cfos-ready-for-tomorrows-demands-on-finance

11 "The new CFO mandate: Prioritize, transform, repeat", McKinsey & Company, 3 December 2018, https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-new-cfo-mandate-prioritize-transform-repeat

ABOUT THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

We protect the public. We advance our profession. We guide our CPAs. We ensure that our more than 94,000 members and 22,000 students meet the highest standards of integrity and expertise. We help them stay ahead of global market trends and abreast of regulatory change. CPAs represent a globally recognized, premium designation. Our Chartered Professional Accountants are valued by organizations in all industries for their financial expertise, strategic thinking, management skills and leadership.

For information on the profession visit: **cpaontario.ca**.

CPA ONTARIO

@CPA_Ontario

facebook.com/CPAOntario

linkedin.com/company/cpa-ontario

cpaontario.ca