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The 23rd Quarterly C-Suite Survey: Priorities for the Federal Government, Climate Change Policy & the Role of CFO's

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- ❑ This is the 23rd edition of the C-Suite Quarterly survey, conducted on behalf of KPMG published and broadcast every three months by the *Globe and Mail's Report on Business* and *BNN*. Previous quarters' surveys are available at GandalfGroup.ca .
 - Telephone interviews were conducted with 154 C-Suite executives from ROB 1000 companies, between May 24 and June 9, 2011. Margin of +/- 7.42% 19 times out of 20.
- ❑ This quarter's survey focused on :
 - The economy
 - Expectations for the Conservative Majority Government
 - Climate change policy priorities
 - The impact of new financial reporting standards and requirements



- ❑ C-Level executives expect the new federal majority government in Ottawa to take advantage of its new mandate and take control of federal finances.
- ❑ Also important: addressing the cost of health care, reducing red tape businesses face and addressing skilled labour needs in the Canadian economy.
- ❑ The absence of a climate change policy framework means uncertainty for businesses, but there is at best soft support for addressing this with more support for regulation than for ‘cap and trade’ or taxes.
- ❑ For fast growing companies skilled labour and access to capital remain top concerns.
- ❑ Financial reporting requirements have put a significant cost on companies, with most executives saying regulators went too far. Related note: executives agreed CFOs are playing a more strategic role in their companies.
- ❑ There’s concern about the US economy once more, especially among manufacturers. Executives in all regions are prioritizing stronger ties with Asia ahead of the US.

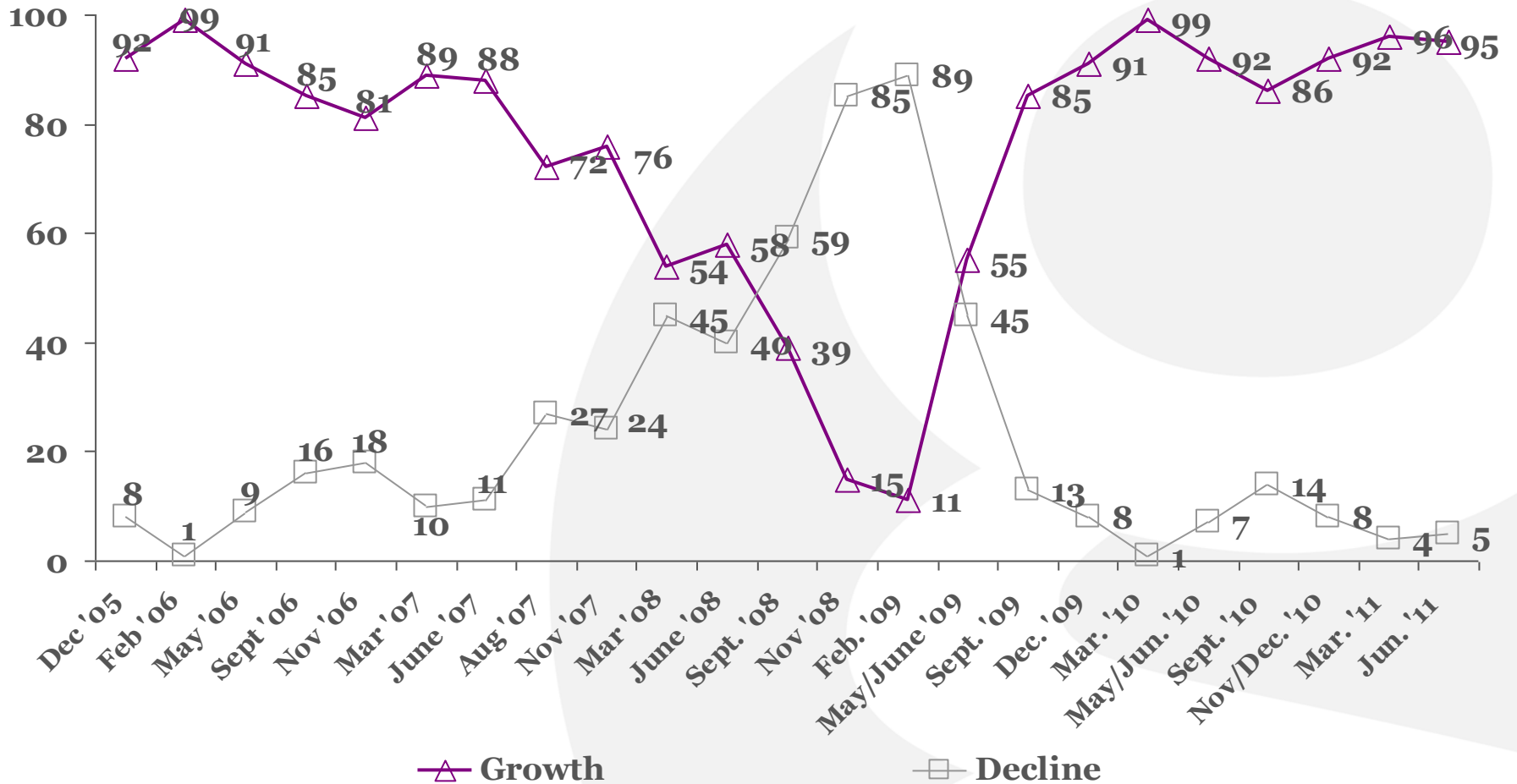


- ❑ Canadian executives are virtually unanimous that the Canadian economy faces another year of sluggish growth
 - Very few are anticipating a slide back to recession
- ❑ One of the things disturbing many Canadian executives is uncertainty about the US economy. There has been a sharp increase in the percentage of the C-Suite who think the US is facing a double dip recession.



The CDN Economy Over The Next Year

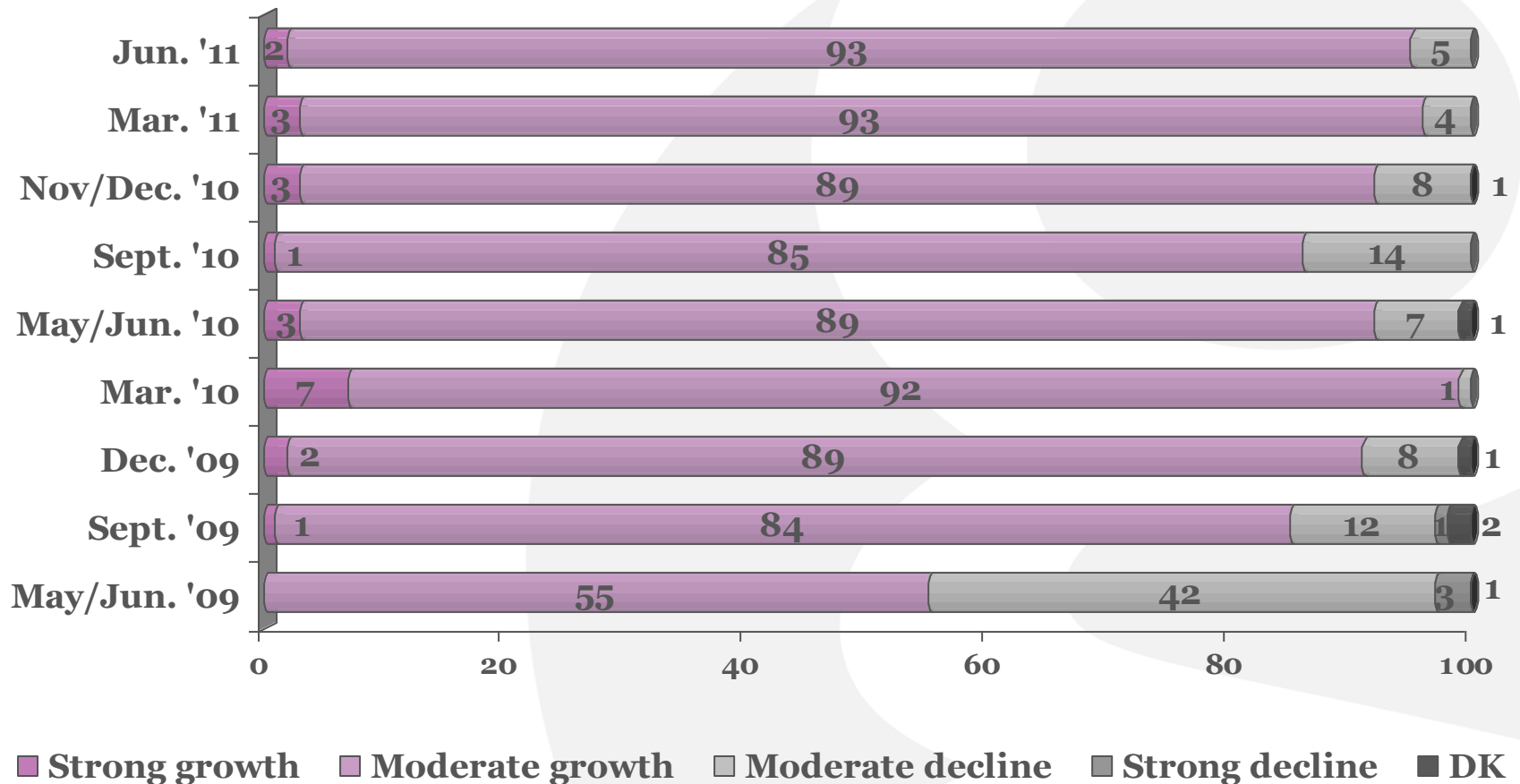
“First, what are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”





The CDN Economy Over The Next Year

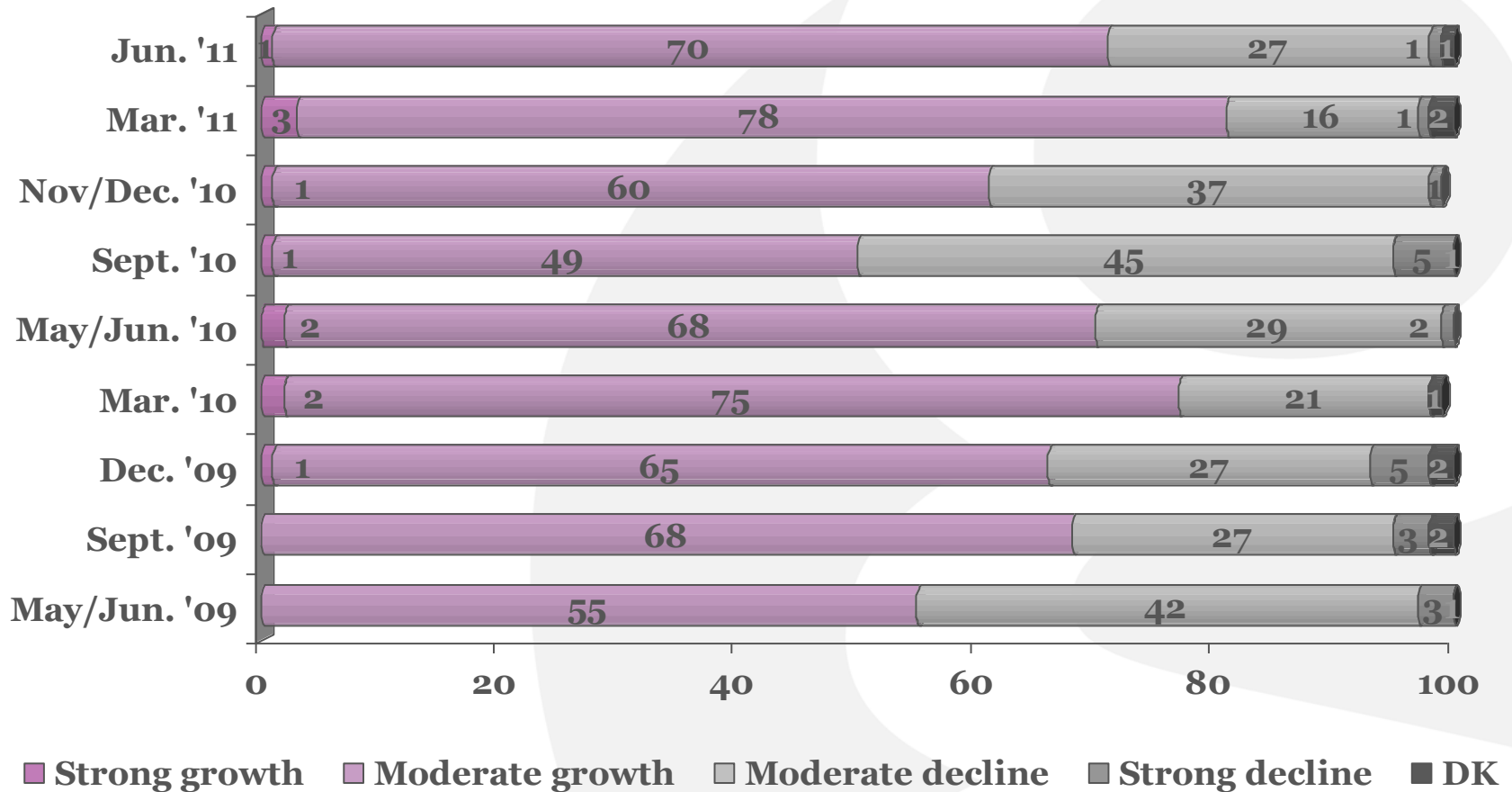
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The US Economy Over The Next Year

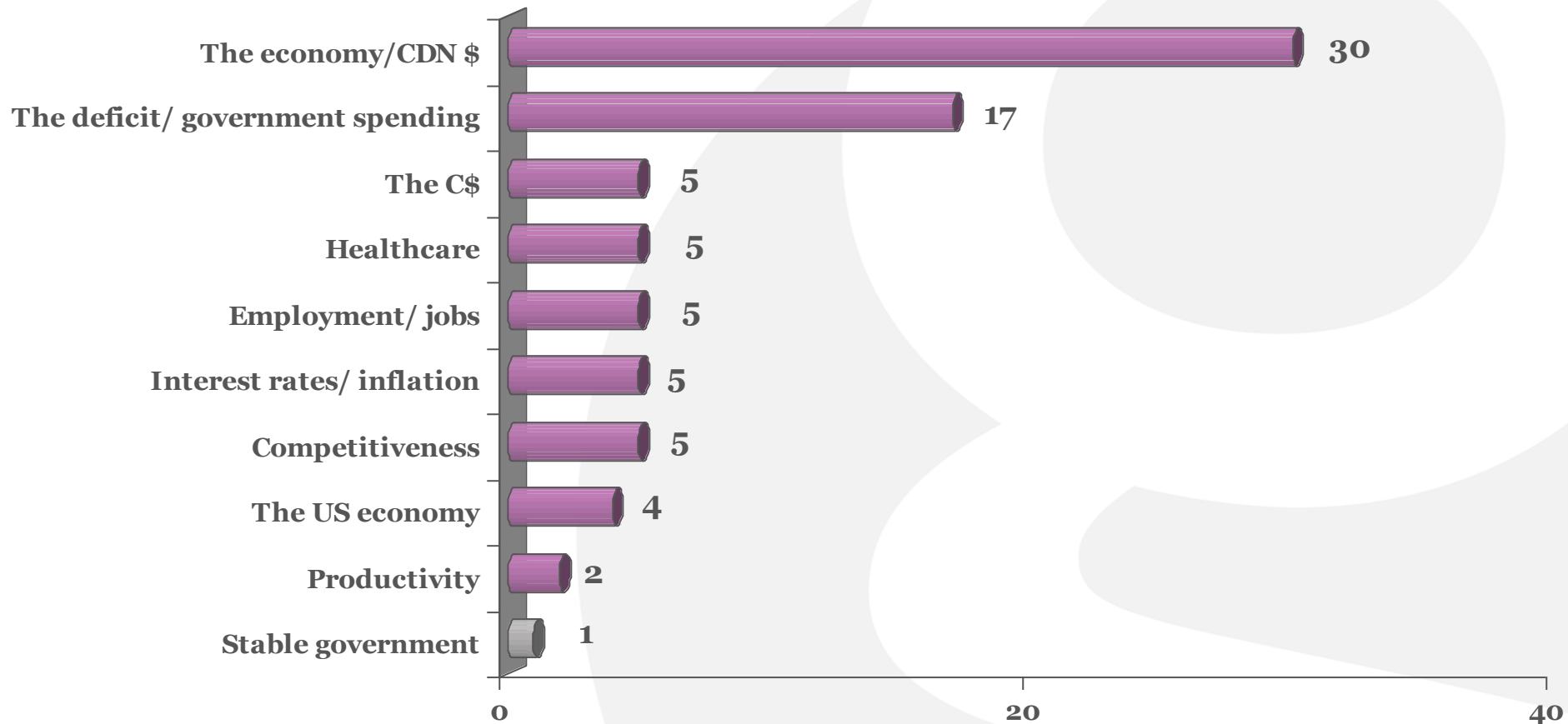
“What are your expectations for the U.S. economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline, strong decline?”





Most Important Issue Facing Canada

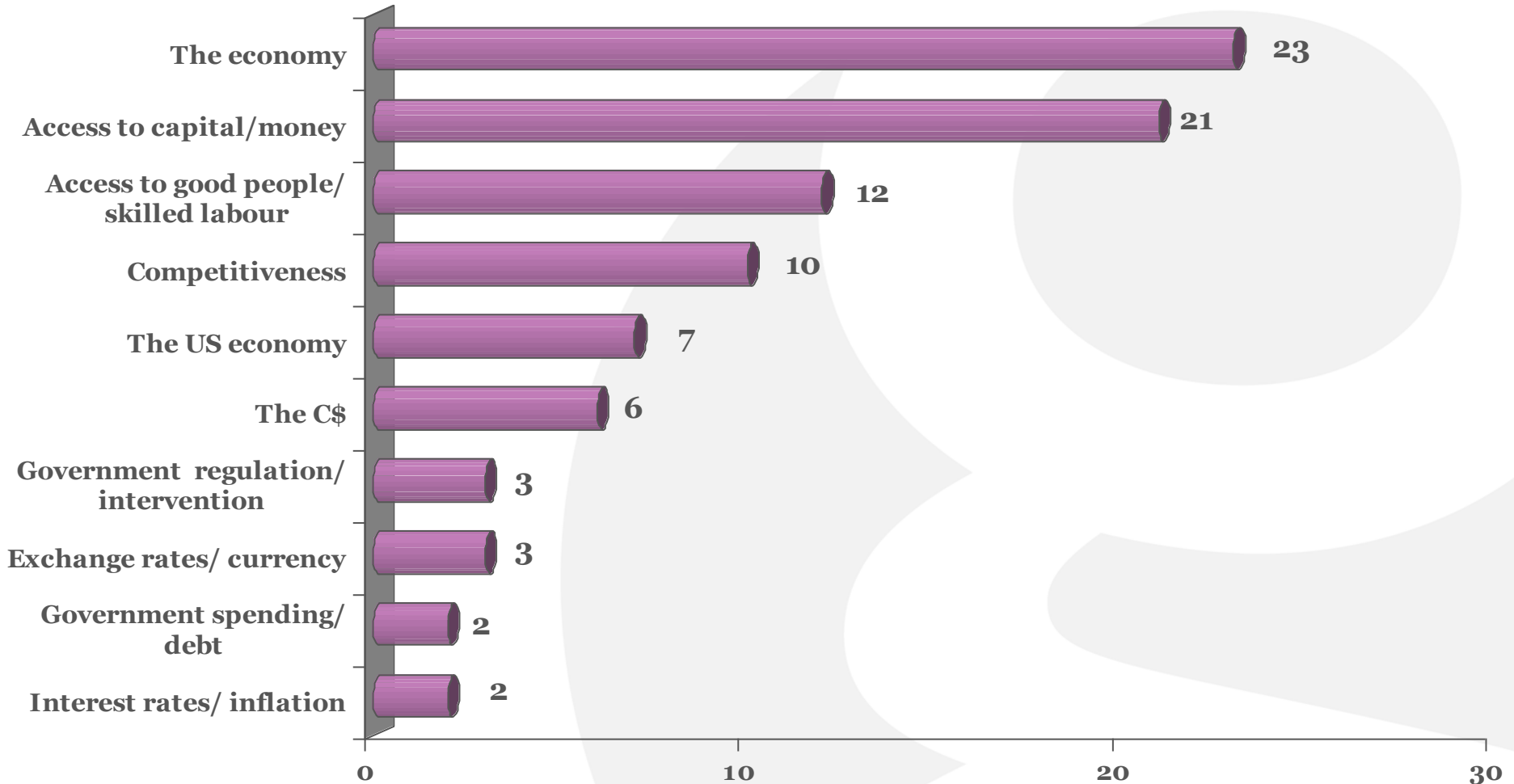
“What would you say is the most important issue facing Canada today?” (n=154)





Most Important Issue Facing Canadian Businesses

“What would you say is the most important issue facing Canadian businesses today?” (n=154)



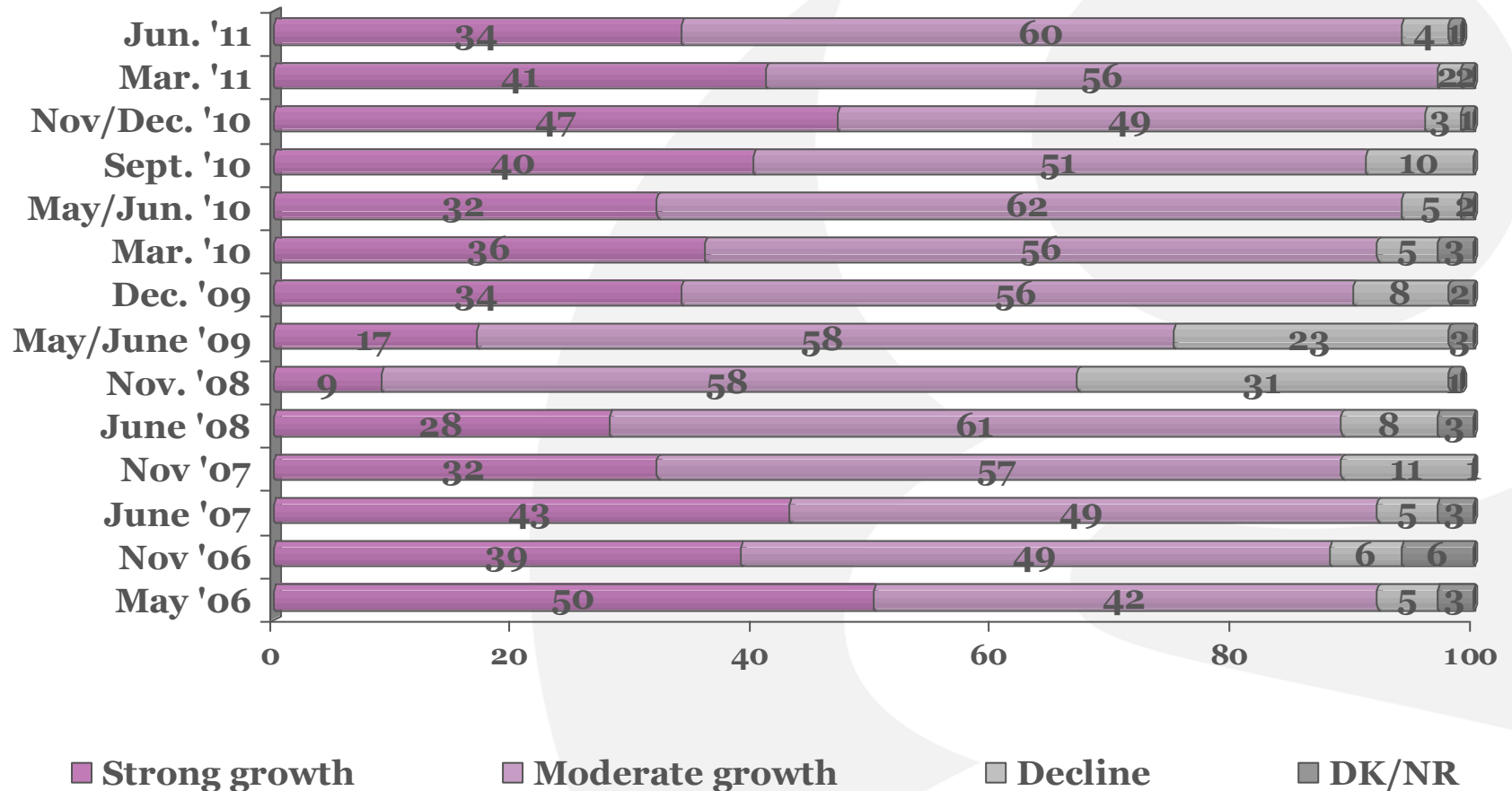


- ❑ There is a marked decline in optimism among executives about the prospects for their own companies over the next year. This is the third consecutive quarter of declining optimism, and levels are now at the same point they were as the economy first began to struggle out of recession.
- ❑ The resources sector is still the most optimistic and strongly so – half expect strong growth for their companies. That means that Western Canadian offices (in BC and the Prairies) continue to be more optimistic about their companies than those in Ontario and the East.
- ❑ The resource sector is experiencing a severe labour shortage, which other sectors are not. Executives in that sector and in Western Canada are more likely to be concerned about employee retention, as well as finding both the right people for key positions and skilled labour. Executives in the rest of Canada who face a labour shortage are less concerned about retention, and focused on finding the right individuals and to a lesser extent skilled labour.
- ❑ A somewhat greater than labour or HR issues for the resources sector is financing and access to capital. The manufacturing sector meanwhile is very focused on the US and Canadian economies and the valuation of the C\$.



Expectations: Company

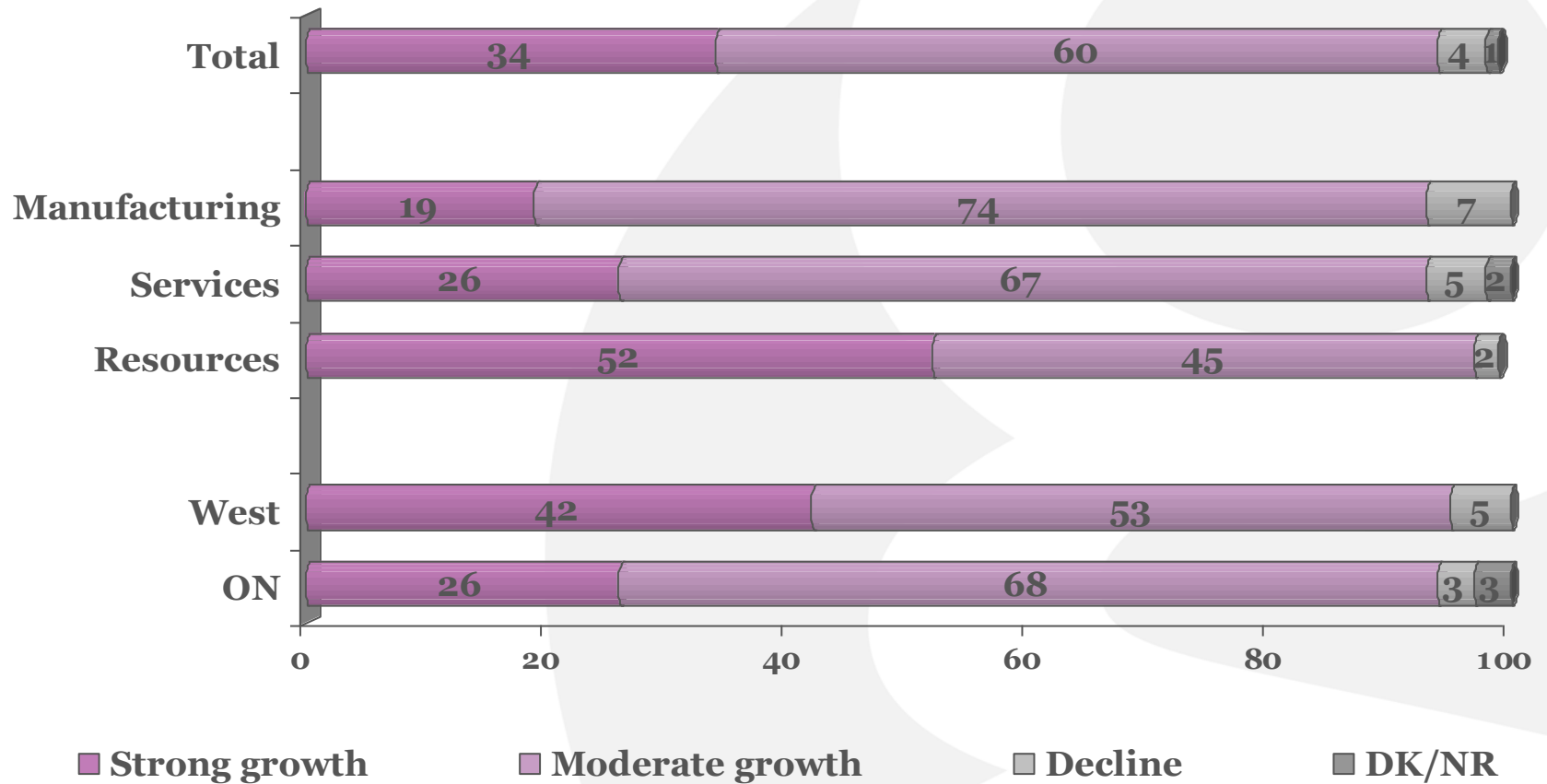
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Expectations: Company

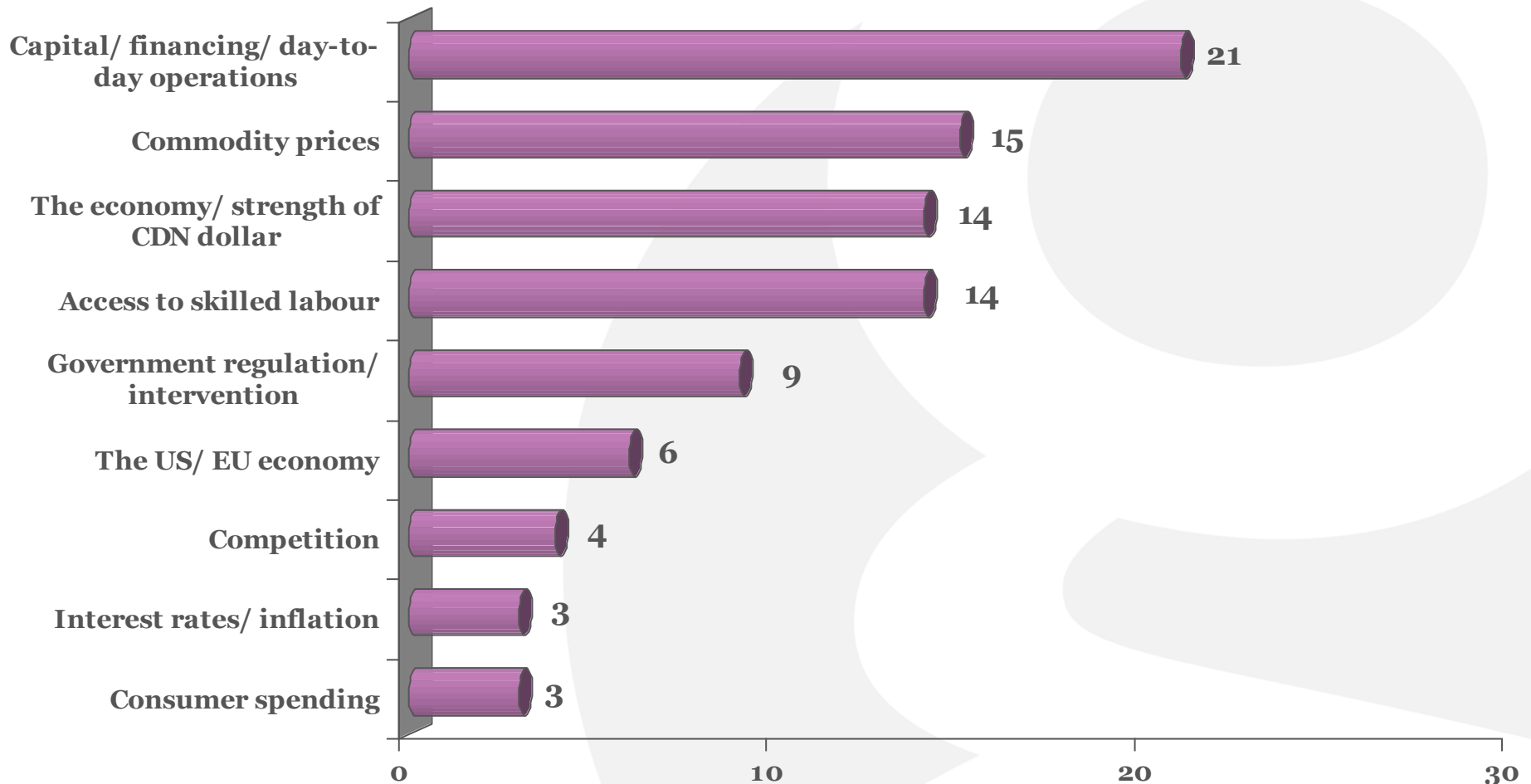
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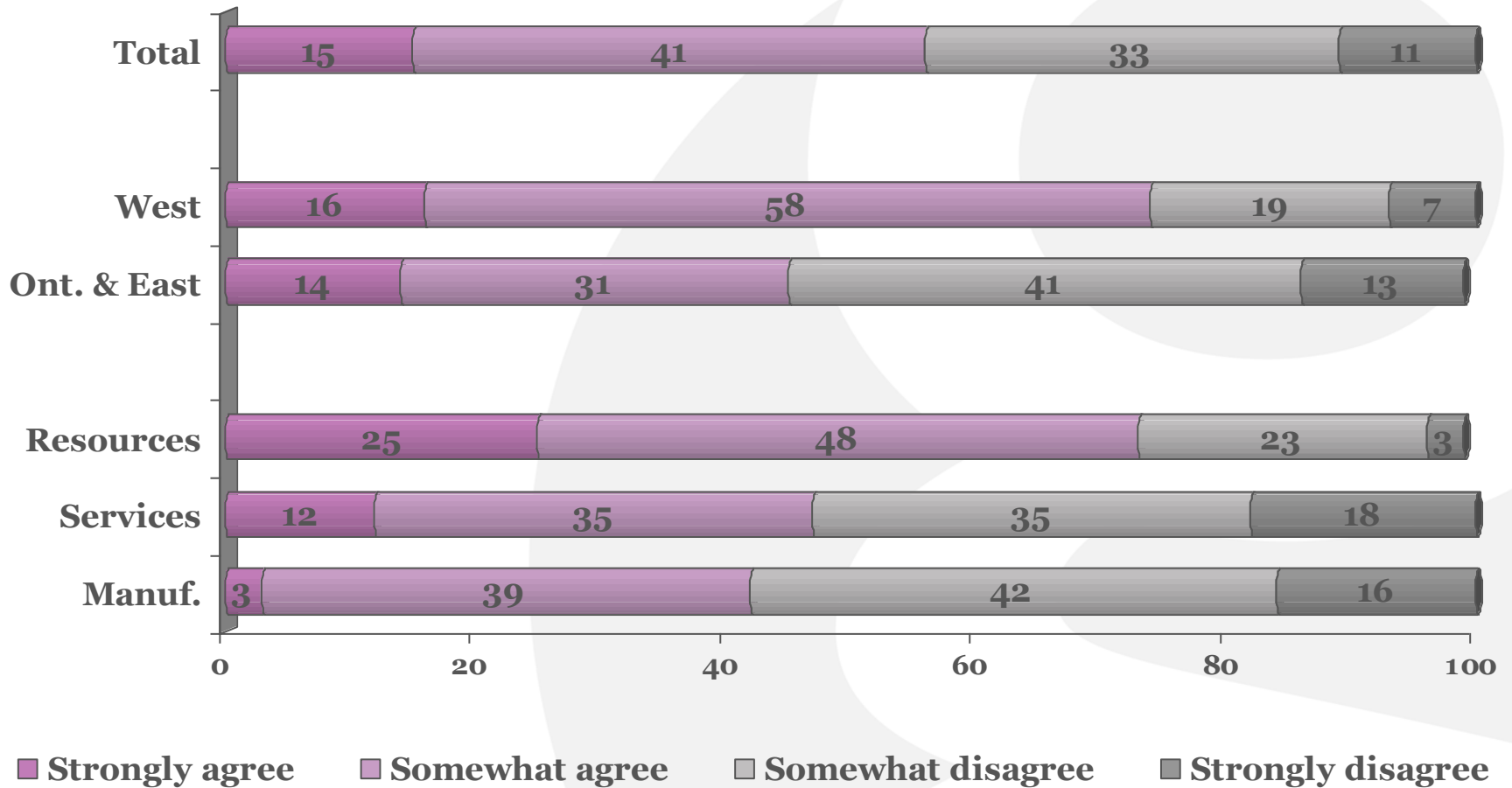
Biggest Challenge Facing Company

“What is the biggest challenge facing your company right now?” (n=154)





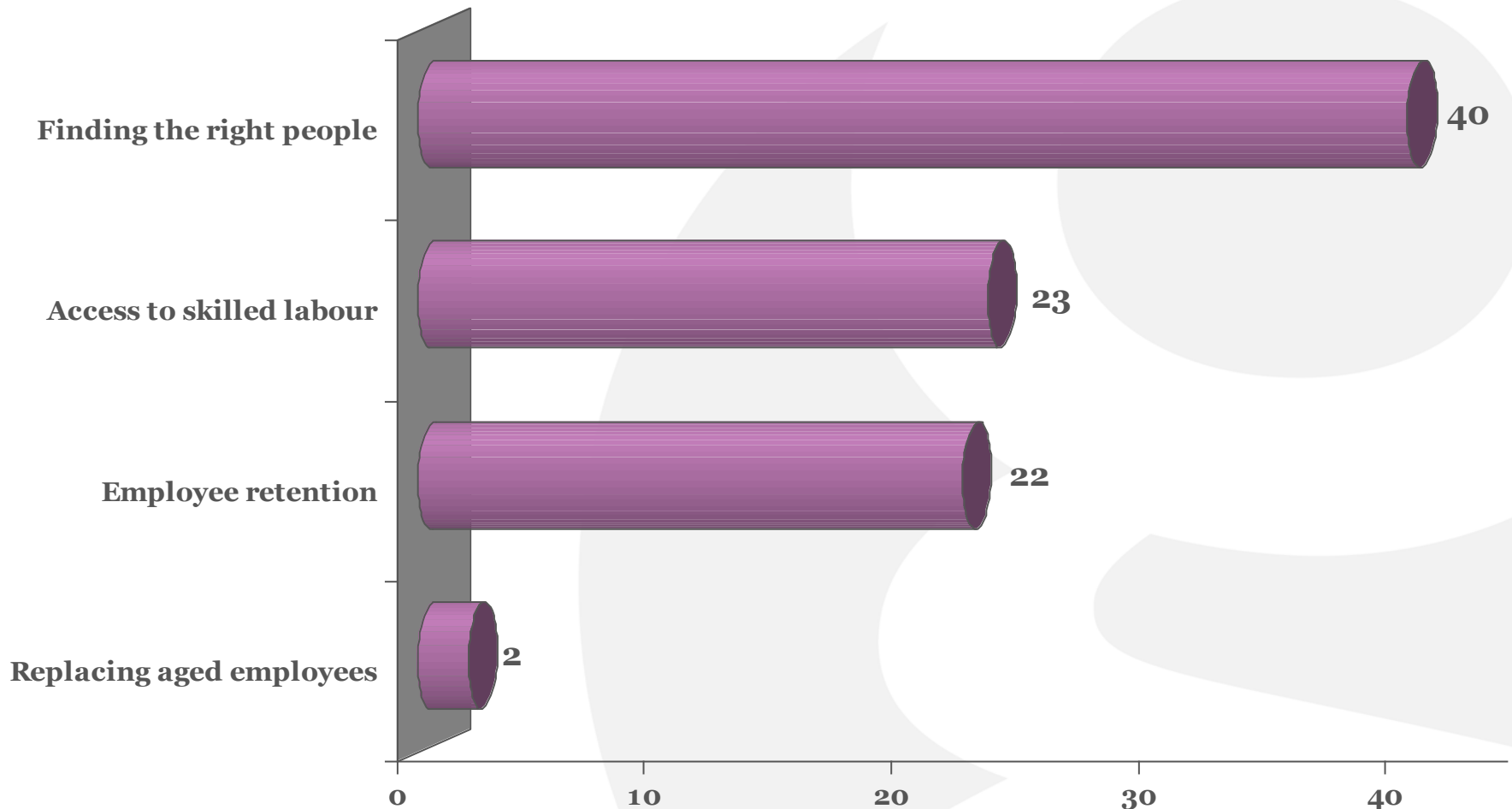
“Some companies say they’re experiencing a labour shortage. Thinking of your company would you ...agree or disagree that your company is facing a labour shortage?”





Biggest Challenge Facing Company

“What is the biggest challenge you face when it comes to human resources?” (n=87)





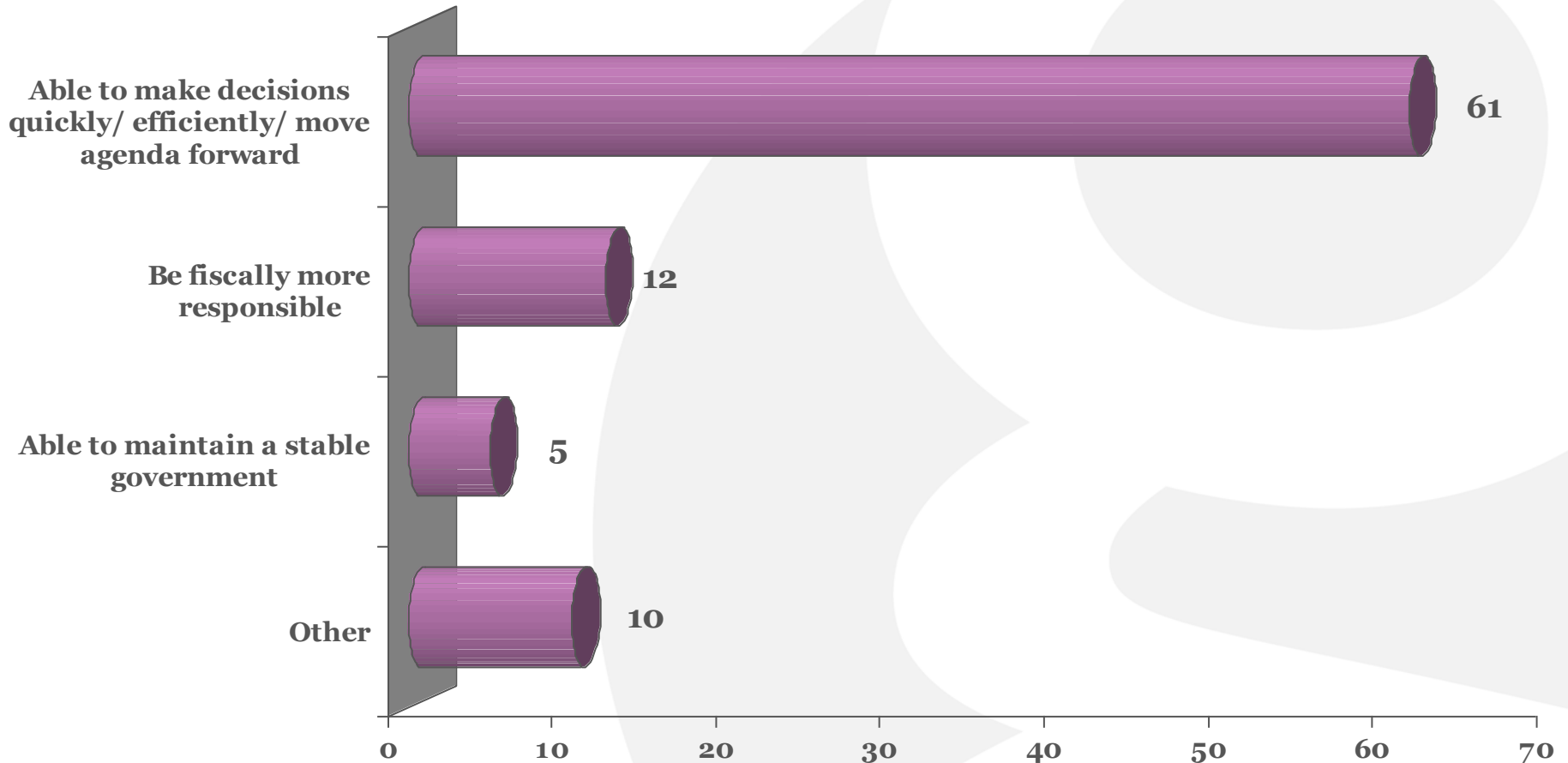
Majority Mandate and Policy Priorities

- ❑ Now that the Conservative government holds a majority in the House of Commons, executives expect that the government will be able to execute its mandate and in a faster, less watered-down fashion.
- ❑ The top initiatives they want to see the government move ahead with are passing the budget and measures to reduce the deficit.
- ❑ Minister Flaherty has solidified his position among executives as a trusted and liked Finance Minister. Confidence in his ability to manage the economy is at its highest point since he became Minister and represents a very strong consensus on his ability in the business community.
- ❑ Evidence of the business community's focus on the importance of deficit reduction is that executives were more likely to place a high priority on getting the public costs of health care under control than they were on reducing corporate taxes.



Agenda Implications of New Majority

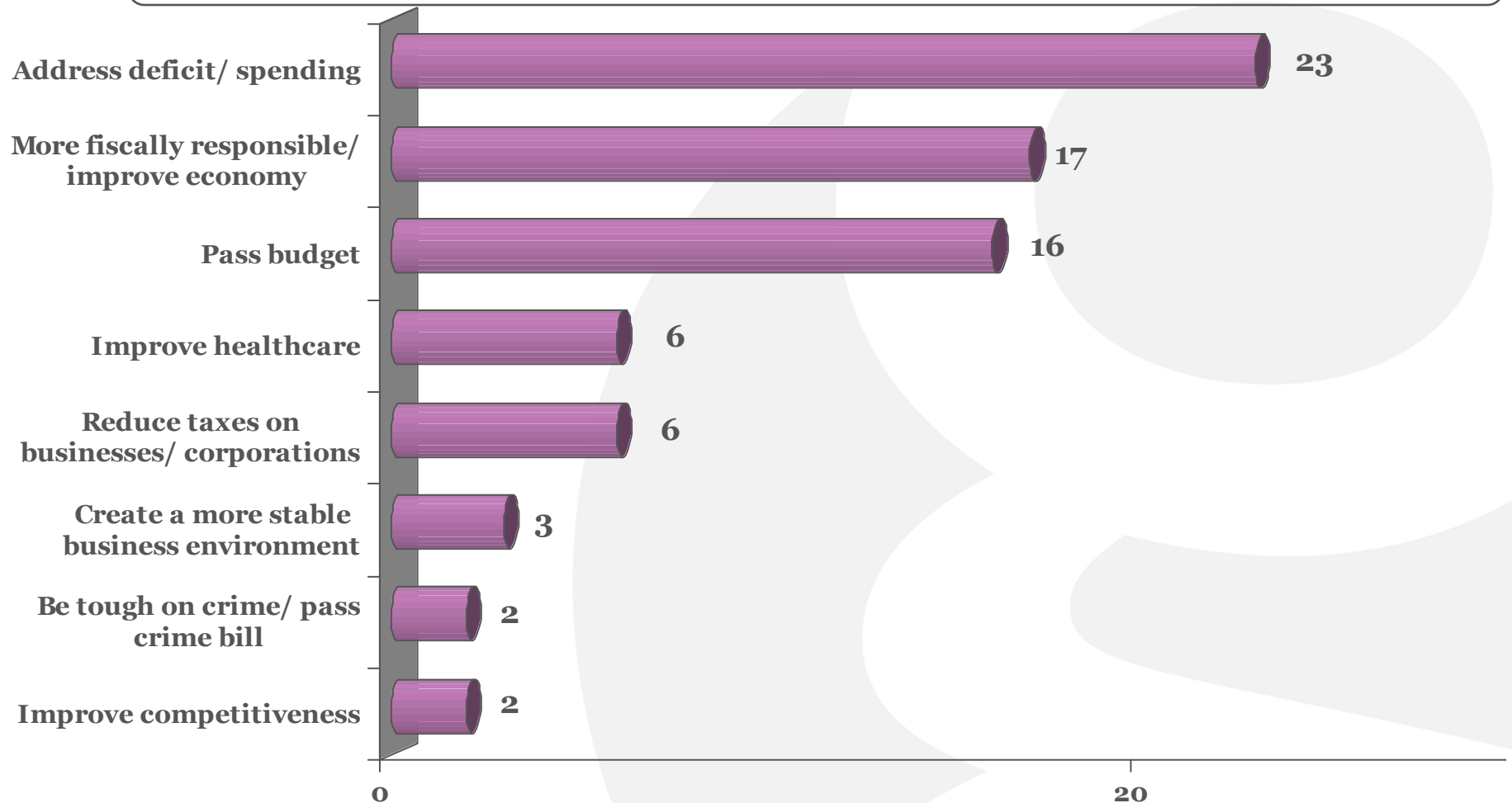
“The Conservative government of Prime Minister Harper was re-elected but now will hold a majority in Parliament as opposed to a minority. What do you believe will be different in terms of what the Conservative government can accomplish now compared to before?” (n=154)





First Order of Business - New Majority

“What issue do you want the Harper Conservative government to act on first with its majority in Parliament?” (n=154)





Confidence in Minister Flaherty

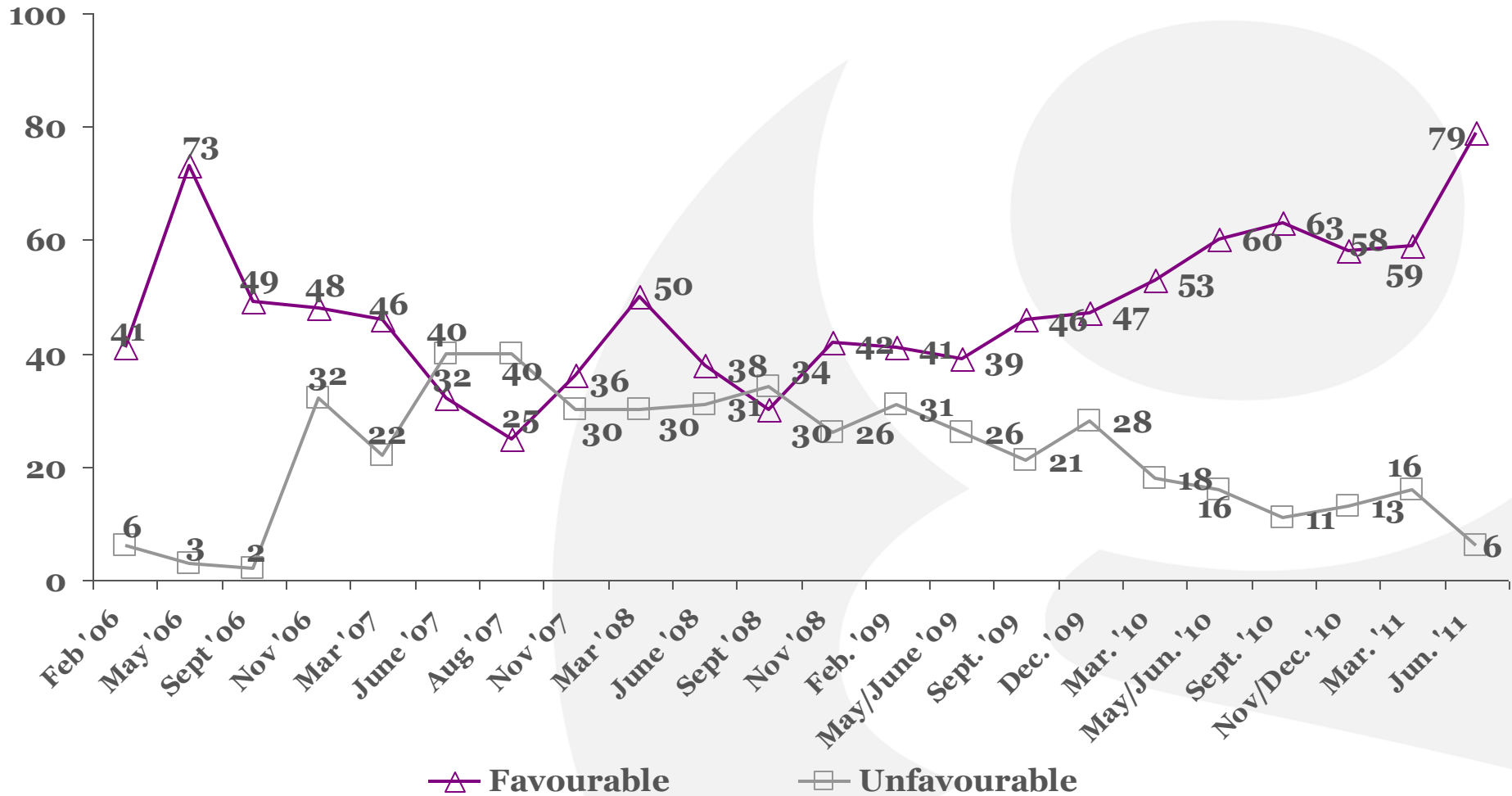
“How much confidence do you have in Finance Minister Flaherty’s management of the economy?”





Impressions of Minister Flaherty

“How favourable or unfavourable is your impression of Jim Flaherty in his role as Minister of Finance?”





Majority Mandate and Policy Priorities

- ❑ We asked executives to rate the priority they would give to a range of policy initiatives: the top initiative by far is reducing the federal budget deficit, followed by addressing the increased cost of public health care and reducing regulations/red tape faced by business.
- ❑ Other high priorities for a majority of executives are addressing labour shortages and strengthening economic and security ties with Asian economies. Strengthening relations with the US is of high importance to most large companies (1000+ employees), notably those in the service sector. Among other companies less than half identified this as a high priority. When it comes to Asia, however, executives in all regions recognize the opportunity, particularly resource executives. Manufacturers much less so, who tend to see this as a medium priority.



Majority Mandate and Policy Priorities

- ❑ Further reductions in corporate taxes and incentives in Research and Development are welcomed but not considered the highest priorities.
- ❑ Corporate taxes are a somewhat higher concern among executives in Ontario and Eastern Canada than in the West, and in particular among the larger and medium sized employers (with 200+ employees), half of whom said corporate tax cuts should be a high priority.
- ❑ R&D incentives are of greater interest to manufacturers, who would list this among their top concerns for government to act upon, after the budget and health care, but along with reducing red tape and regulations.
- ❑ Lower down in priority are setting policy in three areas: foreign ownership restrictions, climate change regulations or intellectual property regulation. IP rules tend to be of interest to small and medium sized employers – few executives with the largest companies by employees cited this as a high priority.



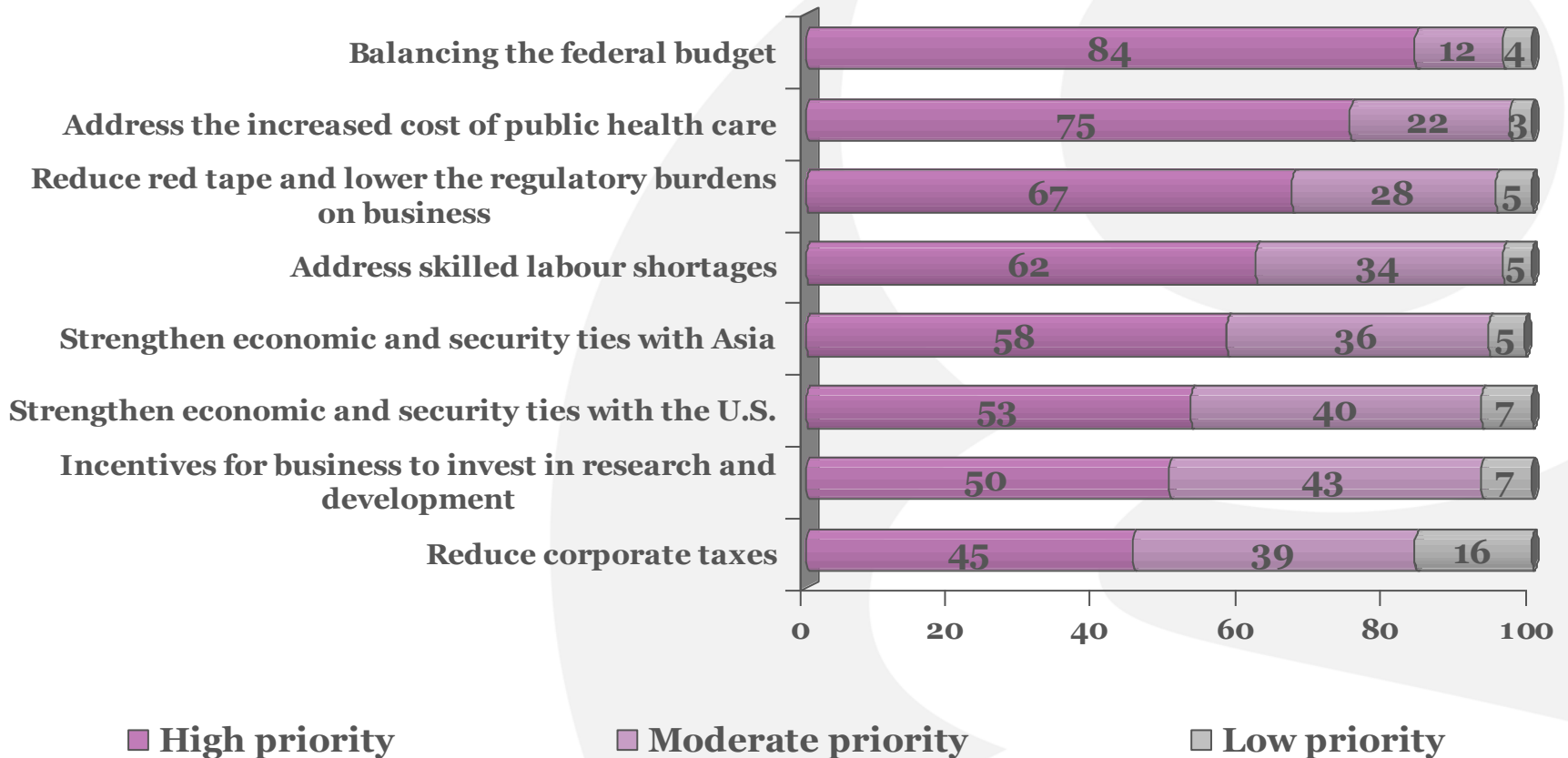
Surprising Business Priorities

- ❑ Executives are more likely to think their workplace needs to address elder care than child care.
- ❑ Strengthening ties with Asia is seen as at least, if not more, important than strengthening ties with the US.
- ❑ Reducing corporate taxes is a relatively low priority.
- ❑ Allowing more foreign ownership of the telecom sector is clearly something executives are uncomfortable with.



Priority Policy Initiatives

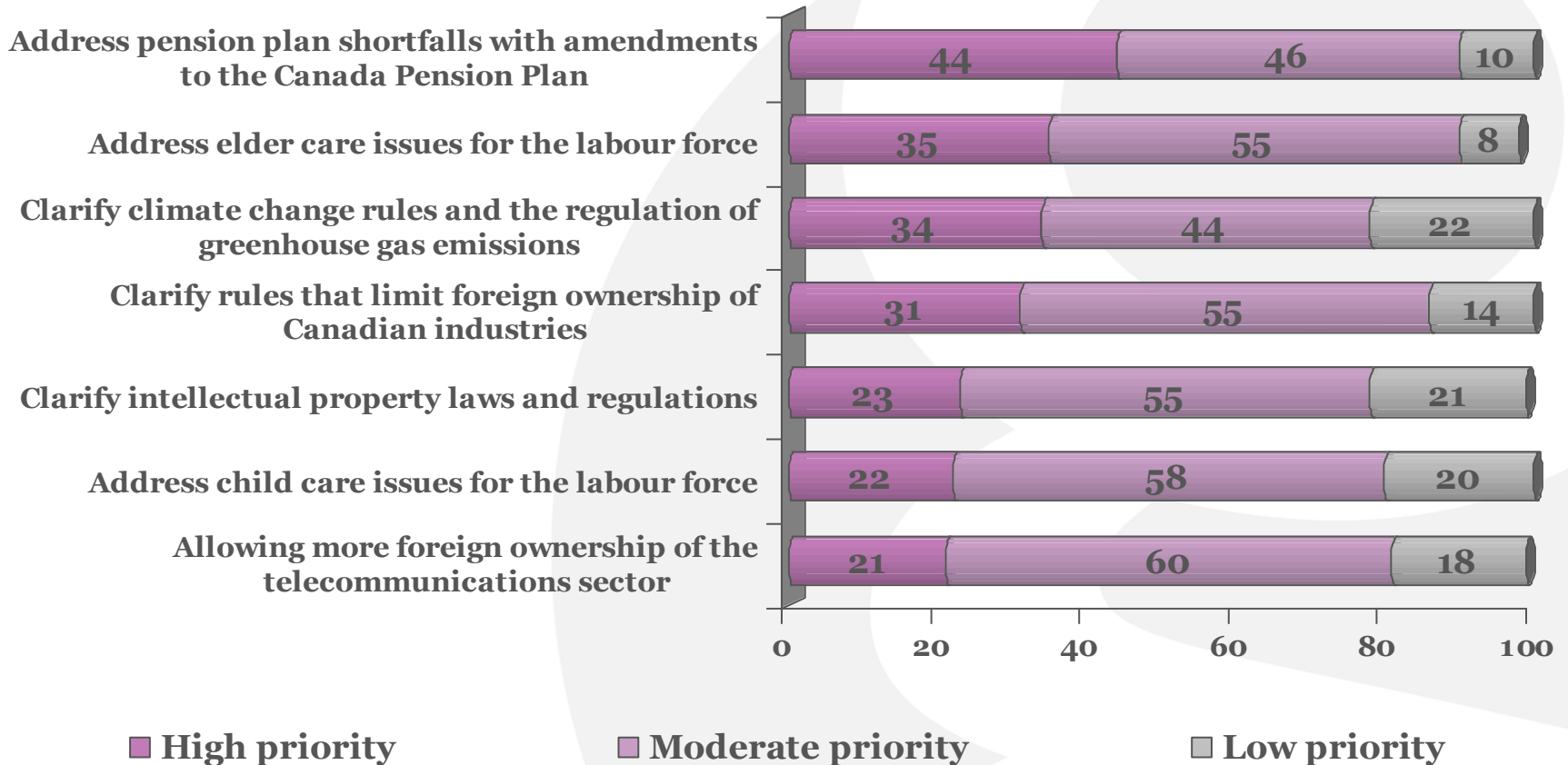
“I’m going to read a number of policy initiatives and I’d like you to tell me how high or low a priority each should be on a scale of one to nine, with one being the lowest priority and nine being the highest priority ?” **[Top half]**





Priority Policy Initiatives

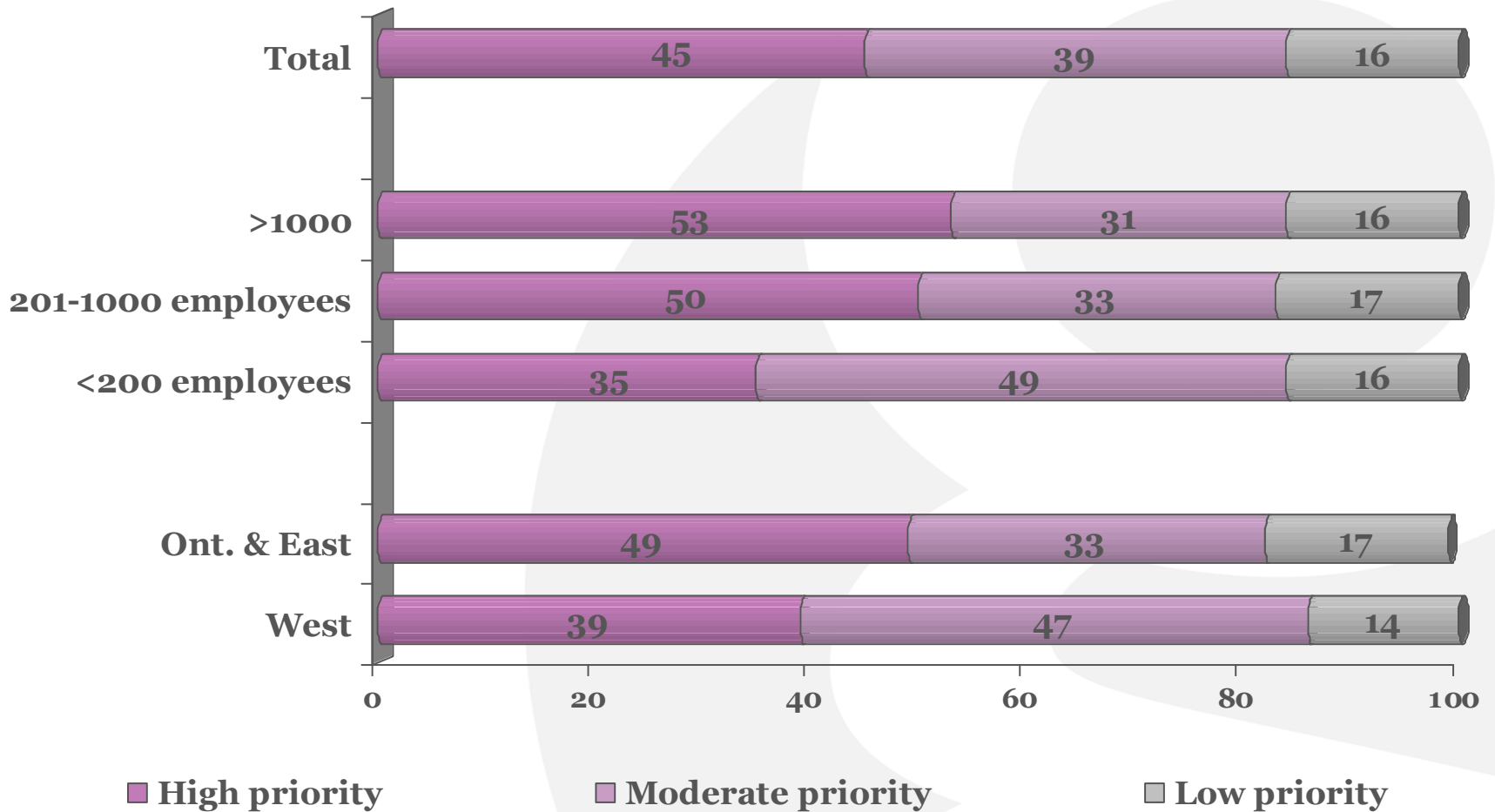
“I’m going to read a number of policy initiatives and I’d like you to tell me how high or low a priority each should be on a scale of one to nine, with one being the lowest priority and nine being the highest priority ?” [Continued]





Priority of Corporate Tax Cuts

“Reduce Corporate Taxes” [1-9 scale]





- ❑ Business leaders express very tepid support for action against climate change.
 - Only one in ten are strongly supportive of either a carbon tax or a cap and trade system. Of the two, cap and trade is more broadly acceptable. Most supported are federal regulations to limit emissions.
- ❑ Most agree that a clear policy would be useful to provide some certainty around investment decisions. But there is even stronger agreement that Canada cannot move more aggressively than the United States.
 - Western and resources executives are less likely to want to clarify rules on GHG emissions – only a quarter of those in the West said this was a high priority compared with 42% in the rest of Canada.
 - Those who want to clarify rules because the absence of regulations is bad for business tend to favour measures that limit emissions. However even half of opponents of cap and trade or a carbon tax agreed the absence of certainty is bad for business.

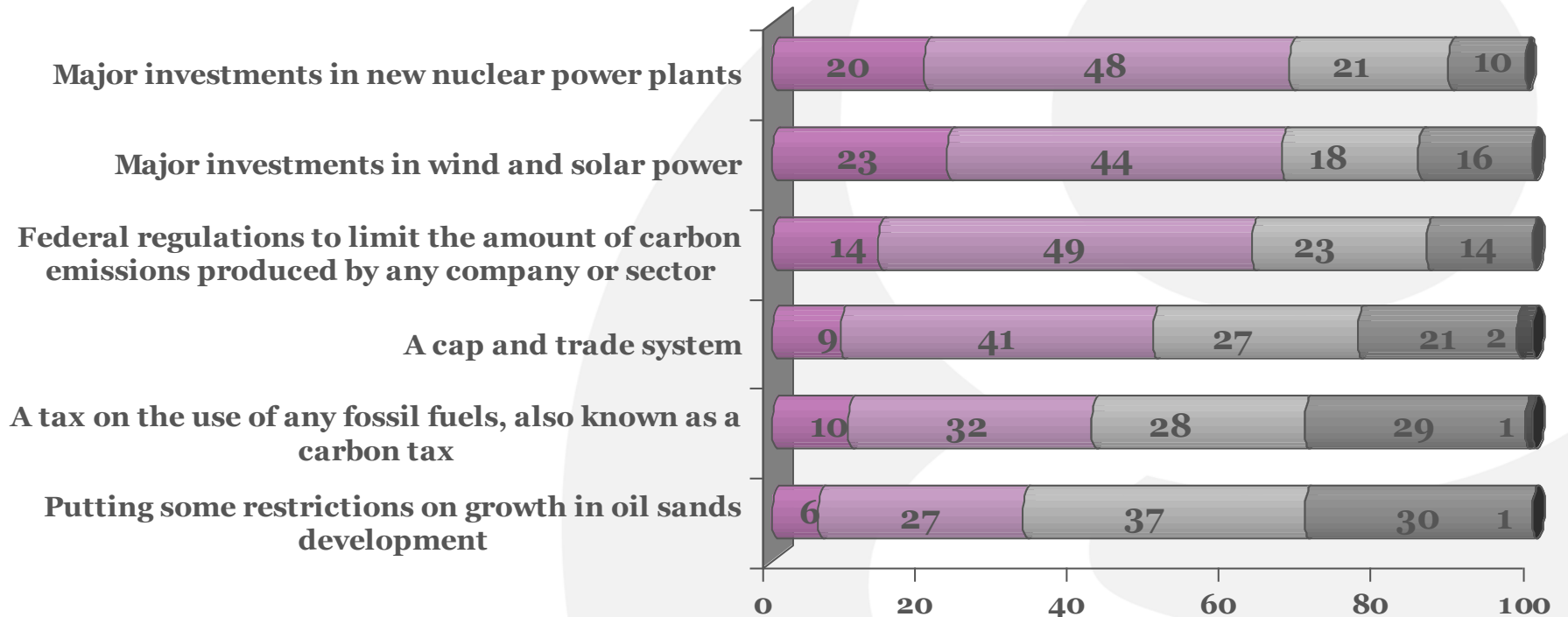


- ❑ Support for all policy options to combat climate change has diminished significantly among Canadian executives since the 2007 C-Suite Survey on Climate Change. That 2007 survey found 78% supported federal regulations on emissions – today 62% support such regulations – a 16 point drop. In 2007 a majority supported a carbon tax, now less than half do. Support has diminished among executives in all sectors since then, not just resources executives.
- ❑ There is as much support for investment in renewable energy sources as there is for investment in the nuclear industry. Support for investments in nuclear power are down 17 points since 2008.
- ❑ In 2007 47% supported putting some restrictions on the oil sands - today only one in three would.



Measures to Reduce Greenhouse Gas Emissions

“Would you strongly support, somewhat support, somewhat oppose or strongly oppose the federal government undertaking each of the following measures in response to climate change and to the benefit of the environment?”

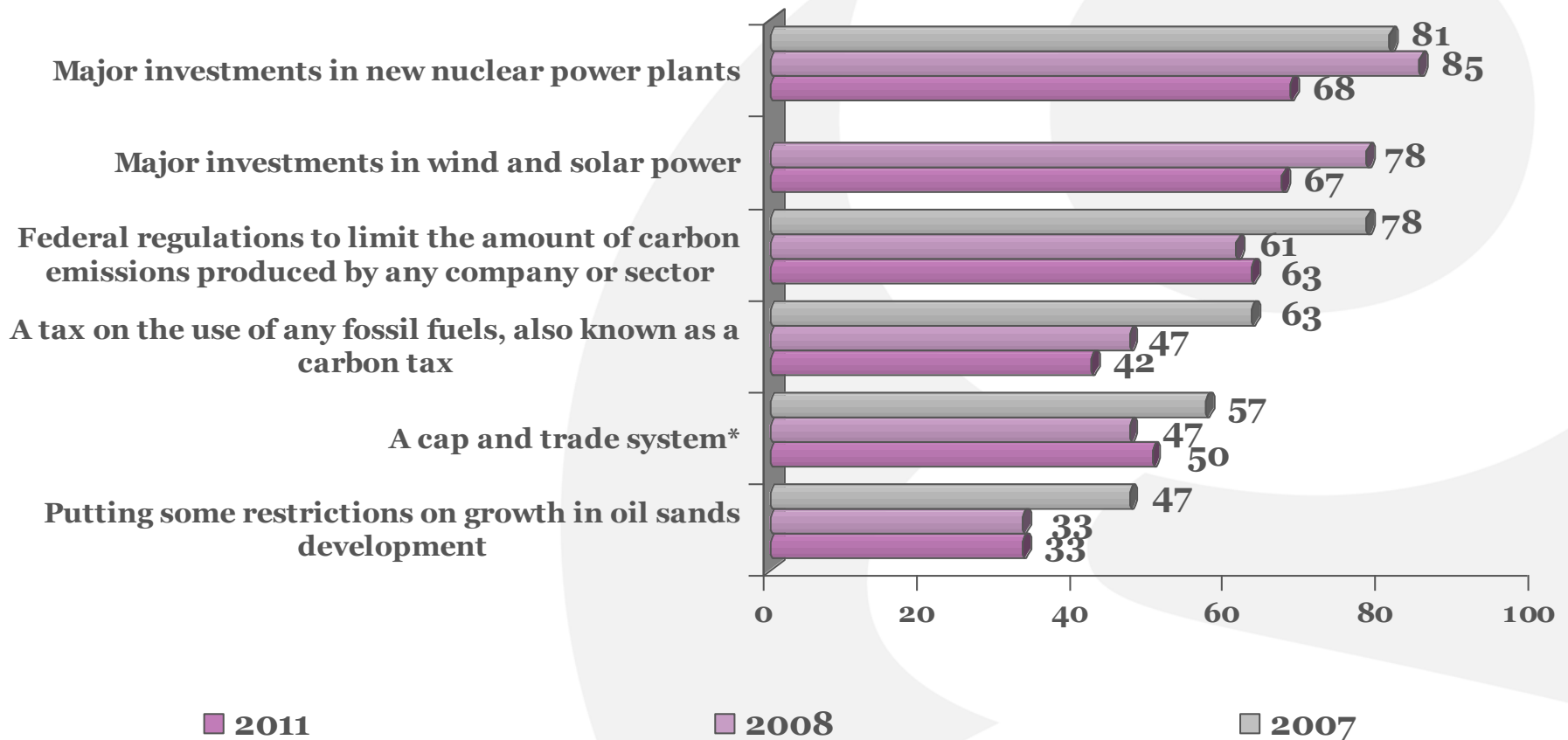


■ Strongly support ■ Somewhat support ■ Somewhat oppose ■ Strongly oppose ■ DK/ref



Measures to Reduce Greenhouse Gas Emissions - Tracking

“Would you strongly support, somewhat support, somewhat oppose or strongly oppose the federal government undertaking each of the following measures in response to climate change and to the benefit of the environment?” (those that “support”)

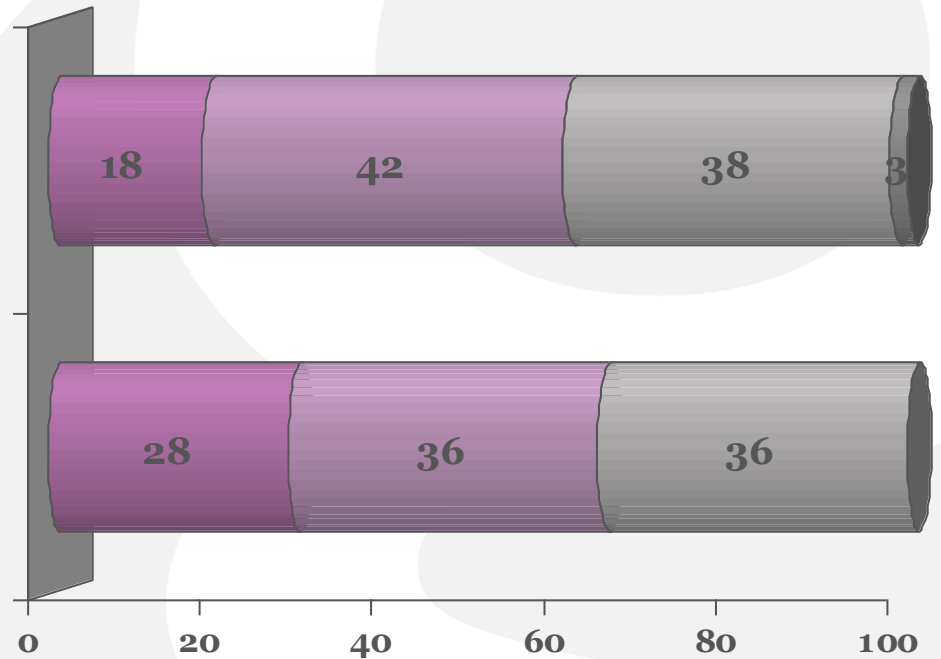




“Do you strongly agree, somewhat agree, somewhat disagree or strongly disagree with the following statements about climate change?”

Canada should move ahead with a final framework of regulations on climate change and emissions because the uncertainty is bad for business

Canada cannot move ahead with a final framework of regulations on emissions until there is clarity around US climate change policy



■ Strongly agree

■ Somewhat agree

■ Disagree

■ DK/ ref



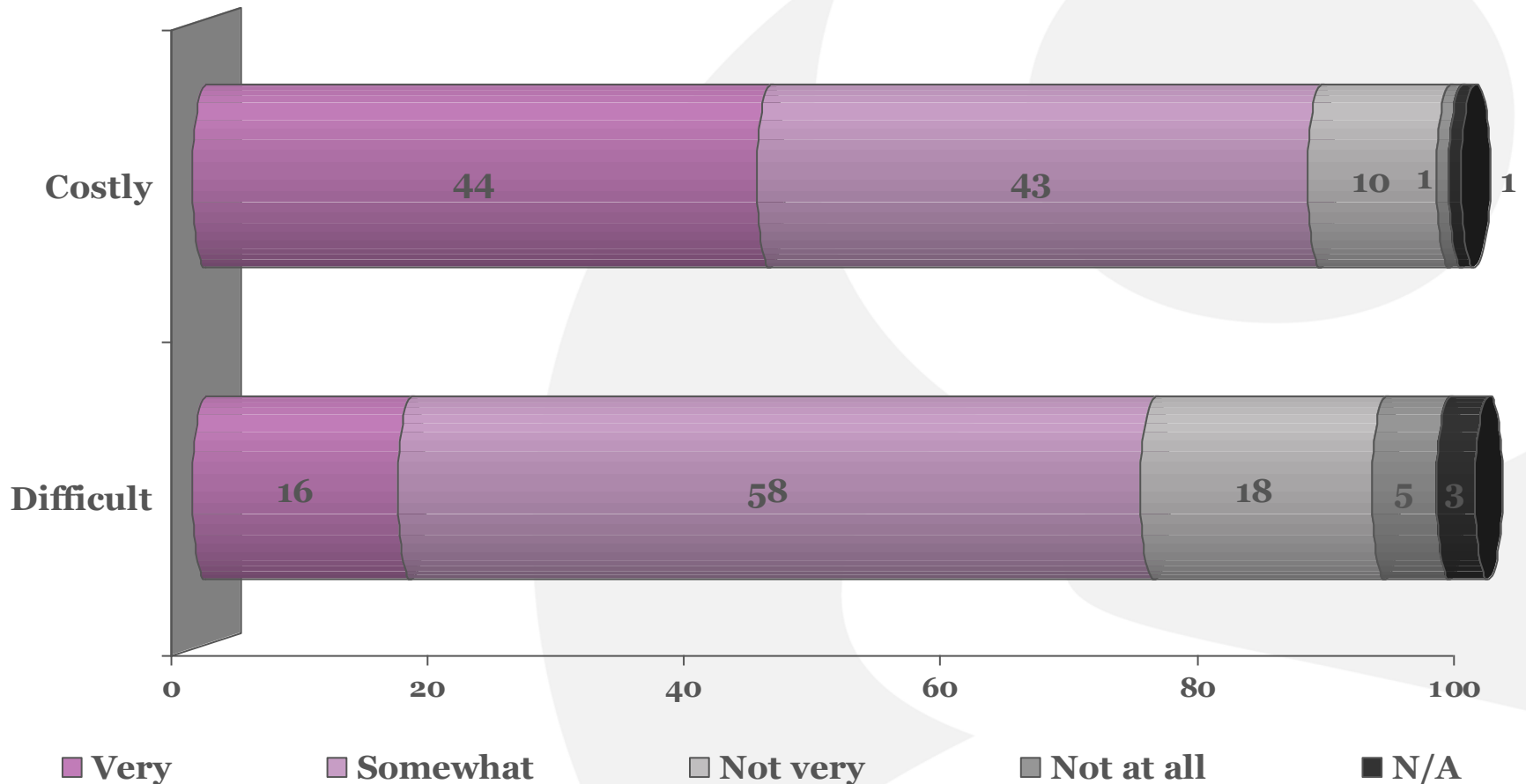
New Financial Reporting Requirements

- ❑ 10 years on, most executives think Sarbanes Oxley went too far.
- ❑ Almost half say it or the Canadian equivalent or IFRS have been very expensive for their companies to implement.
 - The burden is greater on smaller companies
- ❑ Most say it has distracted them from initiatives that would increase competitiveness.
- ❑ The vast majority of executives surveyed agreed that the role of CFO is more important to company strategy than 5 years ago, more so among larger companies.



Cost of New Financial Reporting Rules

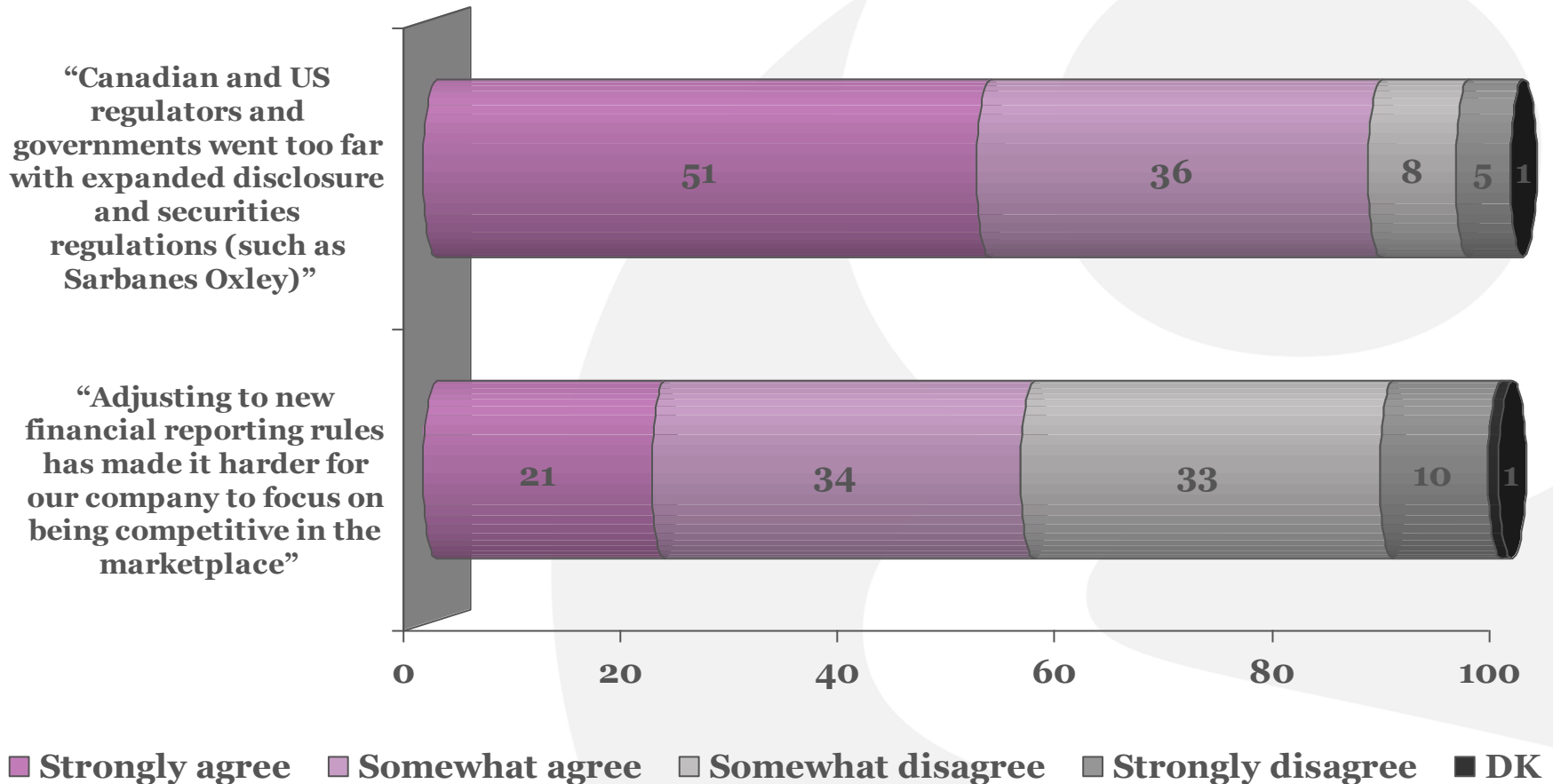
“Now we’d like to ask you about financial reporting. The Sarbanes Oxley Act in the US and the Canadian equivalent national instrument 52-09 and IFRS have all placed additional reporting requirements on companies. How difficult has it been for your company to adjust to the new rules and standards on financial reporting? And how costly has it been...”





New Regulations, Reporting and Competitiveness

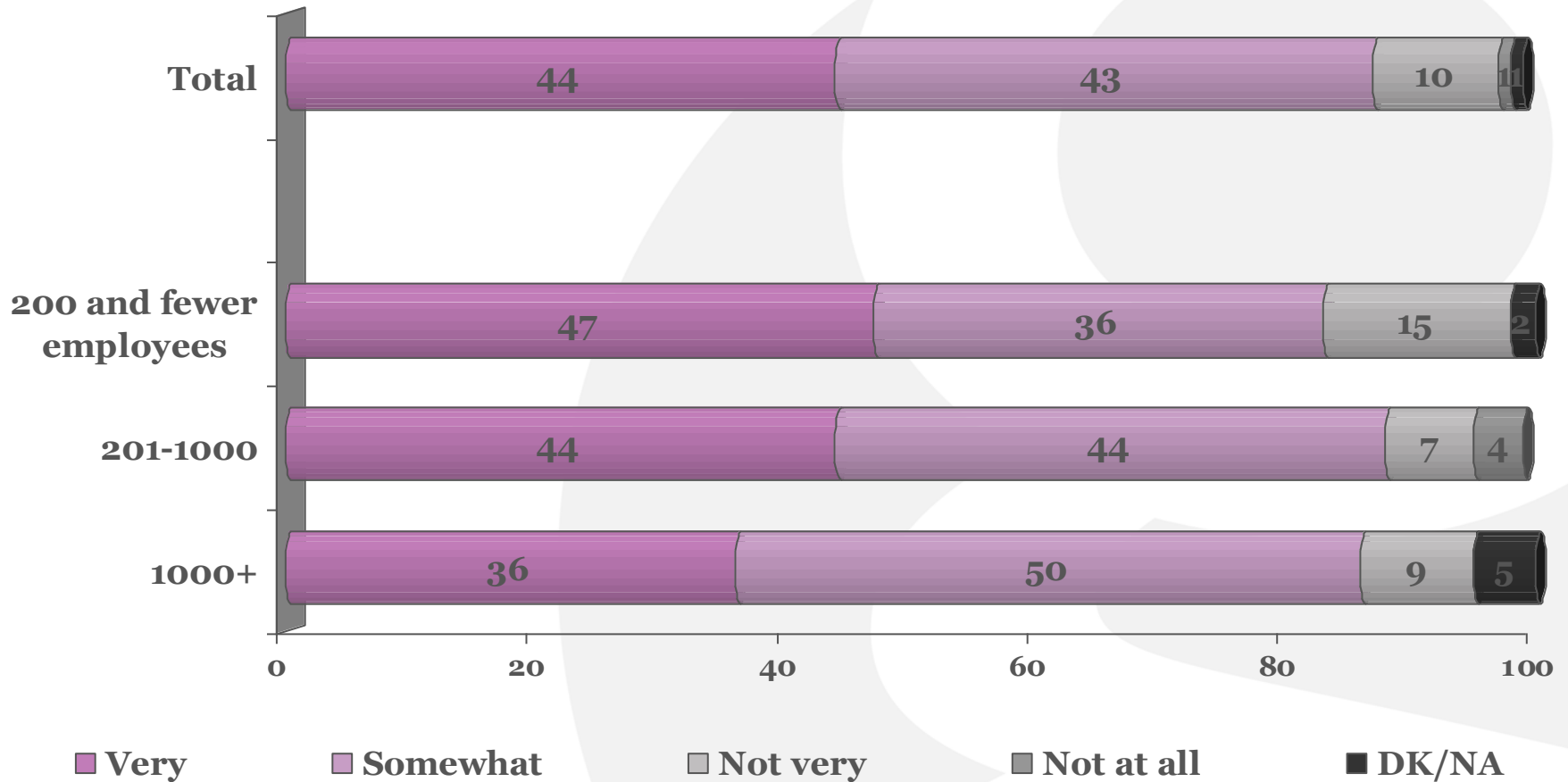
“Canadian and US regulators and gov. went too far with expanded disclosure and securities regulations (such as Sarbanes Oxley)” / “Adjusting to new financial reporting rules has made it harder for our company to focus on being competitive in the market place” (Agree/Disagree)





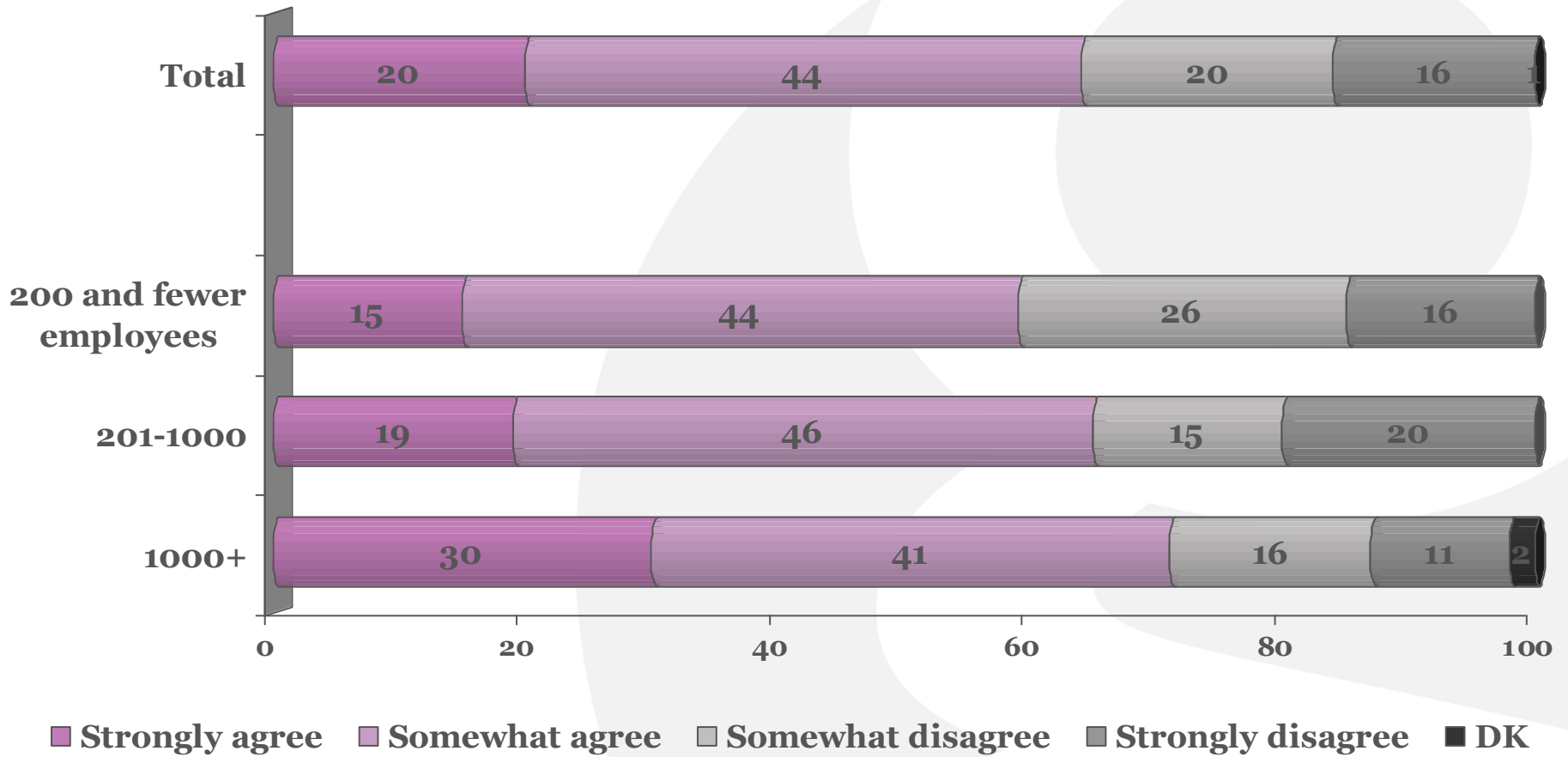
Cost of New Financial Reporting Rules – By Co. Size

“How costly has it been for your company to adjust to the new rules and standards on financial reporting?”





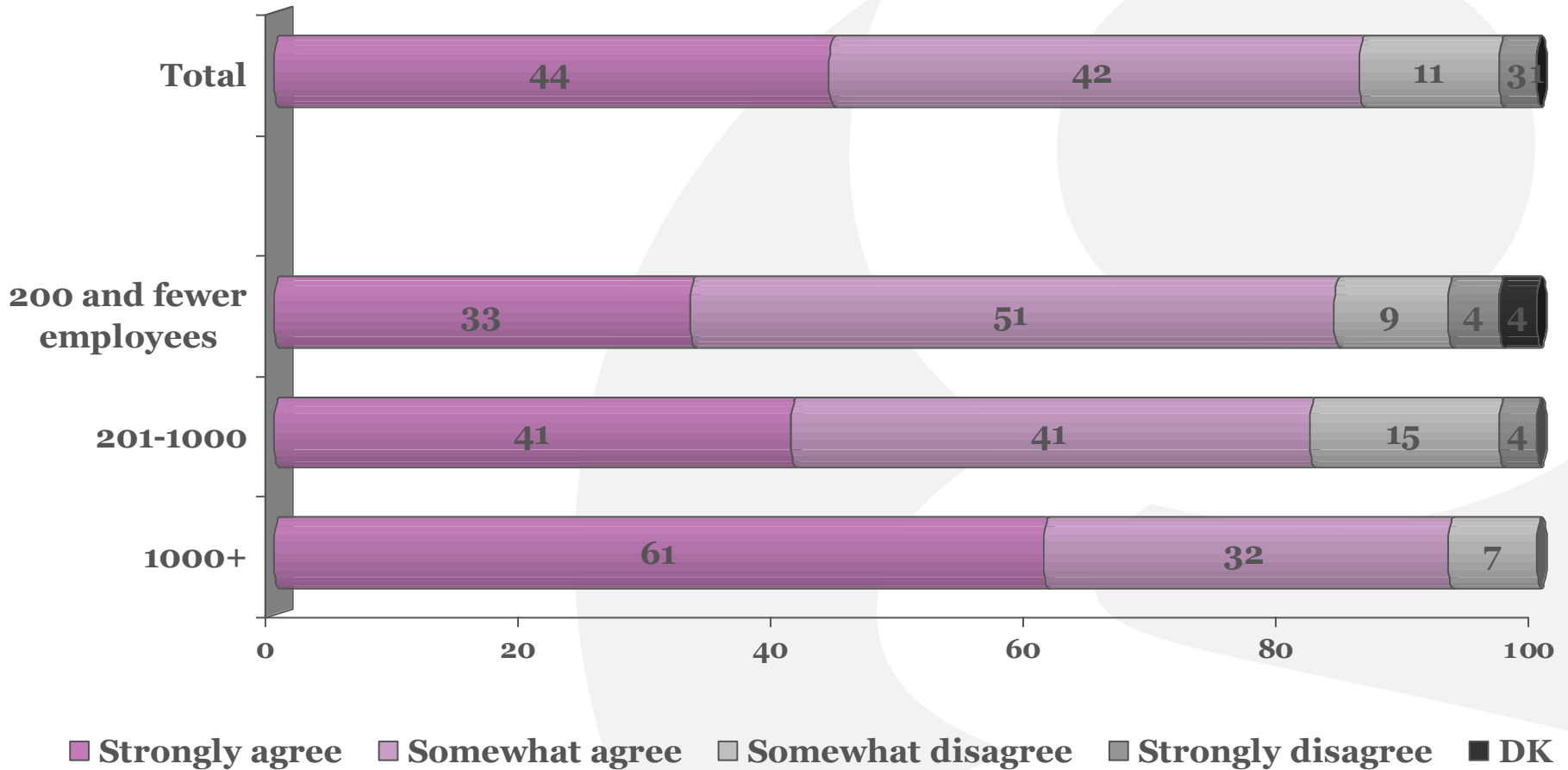
“Our company needs to improve its information systems for financial processes” (Agree/Disagree)





Importance of CFO

“The finance position and role of CFO at our company is more important to company strategy today compared to five years ago” (Agree/Disagree)





- ❑ The C-Suite senses the economy softening. Growth forecasts for the Canadian economy remain dampened, and forecasts for their own companies and for the US economy are being downgraded.
- ❑ Likely related, few see climate change as a priority issue at the moment, and there is strong resistance to measures in that area.
- ❑ Minister Flaherty's reputation is at stratospheric levels, but the business community expects him to use the majority mandate to get serious about the deficit.
- ❑ Another area where policy action would be welcome is with regard to reducing the regulatory burden on business, and a good start would be revisiting Sarbanes Oxley rules.