

# THE CHANGING WORLD OF BUSINESS

## *Survey Of Top Financial Executives Paints Picture Of A Volatile Canadian Market Place*

*Many Companies Have Undergone Change In The Past 2 Years, And Many Are Planning For More Change In The Coming 2 Years*

*But Many Companies Don't Plan On Facing These Changes Alone As They Look For Assistance From An External Advisor*



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## THE CHANGING WORLD OF BUSINESS

### *Survey Of Top Financial Executives Paints Picture Of A Volatile Canadian Market Place*

***Many Companies Have Undergone Change In The Past 2 Years, And Many Are Planning For More Change In The Coming 2 Years  
But Many Companies Don't Plan On Facing These Changes Alone As They Look For Assistance From An External Advisor***

**Toronto, ON** – According to a new Ipsos-Reid/KPMG survey of Canada's top financial executives, companies in Canada today are facing an unpredictable business environment where reacting to and anticipating change is a necessity.

The unpredictability of the Canadian business environment is very evident when companies are asked how many "unplanned" major business projects they have undertaken over the last two years – with an "unplanned" major business project defined as a project undertaken in reaction "to an unexpected business situation". An impressive majority of three in four companies surveyed (76%) state they undertook at least one "unplanned" major business project over the last two years.

And while many companies have had to undertake these "unplanned" major business projects in response to the ever-changing Canadian business environment, an even larger percentage of Canadian companies (87%) have undertaken a "planned" major business project over the last two years -- in this case a "planned" major business project was defined as a "proactive change undertaken as part of your company's business strategy".

Specifically, when companies are asked to look back over the last two years and identify what specific things have driven their need to change and adapt, things like "responding to regulatory change" (70%), "conducting process reengineering – either in front or back office



operations" (59%), "undertaking a major performance improvement initiative" (59%), "expanding into new markets or introducing new products or services" (58%), or having "undertaken a major IT systems initiative" (57%) are mentioned by majorities of companies.

Switching from the past to the future, when companies are asked to look ahead and identify some possible situations that they expect their company will encounter in the coming two years, good majorities of companies point to "responding to regulatory change" (67%), "expanding into new markets or introducing new products or services" (64%), "conducting process reengineering - either in front office or back office operations" (57%), and "undertaking a major performance improvement initiative" (57%) as being things that are on the top of their company's two year challenge horizon.

When it comes to how successfully Canadian companies have reacted to these changes over the past two years - with "successful" being defined to the companies as an experience that had had a "positive and measurable impact" on their business - the degrees of good success vary significantly. Of the very few who had "issued an IPO or secondary offering of public securities in the past two years" - all (100%) said it was "very successful"; 63% of those that had "undertaken an acquisition" said that the outcome of this was "very successful"; 53% of those companies that had "financially restructured for raising debt or institutional/private equity capital" said this was "very successful"; and 50% of those that had "undertaken a merger" said that this was "very successful".

But many companies don't plan on tackling these changes on their own. In fact, a substantial portion of companies state that they will likely contract out the services of an external advisor to assist them in the management of situations like "a major IT systems initiative" (73%), "an acquisition" (57%), "preparing for fraud, terrorism, or an environmental cataclysm such as an act of god" (56%), "conducting an infrastructure upgrade" (54%), and "responding to regulatory change" (53%).



*These are the findings of the Ipsos-Reid/KPMG Advisory Services survey study. The survey was conducted during the month of September, 2004. The survey involved interviews of 202 Chief Financial Officers, Chairmans Of The Board, Vice Presidents of Finance, and Controllers, from Canada's top corporations.*

### ***Three In Four Companies Surveyed (76%) Have Had To Undertake An Unplanned Business Project In The Past Two Years...***

As part of the survey companies were asked to think back over the last 2 years and provide an approximate number as to how many unplanned major business projects their company had undertaken. An "unplanned" major business project was described as a project undertaken in reaction "to an unexpected business situation".

A very strong majority of three in four companies (76%) state that they undertook at least one "unplanned" major business project over the last 2 years.

When the responses are broken down into ranges we see that:

- 16% of companies surveyed have had to undertake 1 unplanned business project in the past 2 years;
- 27% have had to undertake 2 unplanned business projects in the past 2 years;
- 13% have had to undertake 3 unplanned business projects in the past 2 years;
- 3% have had to undertake 4 unplanned business projects in the past 2 years;
- 4% have had to undertake 5 unplanned business projects in the past 2 years; and
- 13% have had to undertake more than 5 unplanned business projects in the past 2 years.



One in four businesses (23%) stated that they have not undertaken any unplanned business projects over the last 2 years.

***And Further, Nine In Ten (87%) Undertook A Planned Major Business Project Over The Last 2 Years...***

But while many companies (76%) have had to react to an unexpected business situation over the last 2 years and undertake at least one unplanned business project, even more companies (87%) stated that they have undertaken at least one planned major business projects over the last 2 year. In this case, a “planned” major business project was defined as a “proactive change undertaken as part of your company’s business strategy”.

Among businesses surveyed:

- 12% have undertaken 1 major business project over the last 2 years;
- 15% have undertaken 2 major business projects;
- 16% have undertaken 3 major business projects;
- 8% have undertaken 4 major business projects;
- 7% have undertaken 5 major business projects; and
- 29% have undertaken more than 5 major business projects.

But one in ten businesses (11%) have not undertaken any “planned” major business projects within the last 2 years. Only a very small percentage (1%) of companies surveyed stated that they did not know how many “planned” major business projects they had undertaken within the last 2 years.



## ***What Issues Are Driving Change? Many Companies Point To Regulatory Change (70%), Process Reengineering (59%), Or Performance Improvement (59%)...***

After each of the companies were read a list of possible situations that companies like theirs might face in today's changing market, they were asked whether or not their company has experienced each of these situations in the past two years.

From this question we can see that in the past two years the majority of the companies in Canada have:

- "Responded to regulatory change" (70%);
- "Conducted process reengineering – either in front or back office operations" (59%);
- "Undertaken a major performance improvement initiative" (59%);
- "Expanded into new markets or introduced new products or services" (58%); or
- "Undertaken a major IT systems initiative" (57%).

When the entire list of possible situations are ranked according to the percentage of companies that have over the last two years have undergone such an experience we get the following list-order:

Rank	Situation	Yes	No
1	Responded to regulatory change	70%	30%
2	Conducted process reengineering – either in front office or back office operations	59%	40%
2	Undertaken a major performance improvement initiative	59%	40%
3	Expanded into new markets or introduced new products or services	58%	42%
4	Undertaken a major IT systems initiative	57%	43%
5	Been impacted by or prepared for fraud, terrorism, or an environmental cataclysm such as an act of god	46%	54%
6	Undertaken an infrastructure upgrade	46%	54%
6	Undertaken an acquisition	37%	63%
7	Relocated business operations	28%	72%
8	Financially restructured for business reorganization	24%	76%
9	Experienced post-merger integration	23%	77%
10	Financially restructured for raising debt or institutional/private equity capital	22%	78%
11	Gotten involved with Public-Private Partnerships	19%	81%
12	Outsourced outside of North America	17%	83%
13	Undertaken a merger	15%	85%
14	Experienced divestiture	13%	87%
15	Experienced a takeover	9%	91%
16	Issued an IPO or Secondary offering of public securities	4%	96%

***Looking Ahead Company's Point To "Responding To Regulatory Change" (67%), "Expanding Into New Markets/New Products" (64%), And "Process Reengineering"(57%) As Being On Their Two Year Challenge Horizon***

Switching from the past to the future, the companies were read the same list of possible situations from before and were asked whether or not they expect their company will face these possible situations in the next two years.

Looking ahead to the next two years we can see that majorities of companies expect to:

- "Respond to regulatory change" (67%);
- "Expand into new markets or introduce new products or services" (64%);
- "Conduct process reengineering – either in front or back office operations" (57%); and



- “Undertake a major performance improvement initiative” (57%).

When the entire list of possible situations are ranked according to the percentage of companies that expect to undergo such an experience over the next two years we get the following list-order:

Rank	Situation	Yes	No
1	Respond to regulatory change	67%	32%
2	Expand into new markets or introduce new products or services	64%	35%
3	Conduct process reengineering – either in front or back office operations	57%	42%
4	Undertake a major performance improvement initiative	57%	42%
5	Undertake a major IT systems initiative	48%	52%
6	Undertake an acquisition	43%	57%
7	Be impacted by or prepare for Fraud, Terrorism, or an Environmental cataclysm such as an act of god	41%	58%
8	Undertake an infrastructure upgrade	39%	60%
8	Experience post-merger integration	21%	78%
8	Financially restructure for business reorganization	21%	79%
9	Get involved in Public-Private partnerships	21%	79%
9	Financially restructure for raising debt or institutional/private equity capital	18%	82%
10	Relocate business operations	18%	82%
11	Outsource outside of North America	16%	83%
12	Undertake a merger	11%	89%
13	Experience a divestiture	10%	90%
14	Issue an IPO or Secondary offering of public securities	5%	95%
15	Experience a takeover	4%	96%





## ***When It Comes To “Transaction” Activities...***

Looking specifically at “transaction” related activities – defined as “undertaking a merger”, “experiencing post-merger integration”, “undertaking an acquisition”, “experiencing a divestiture”, “experiencing a takeover”, or “issuing an IPO or secondary offering of public securities”, we can see that among the companies surveyed:

- 50% have undertaken a transaction related activity in the past two years; and
- 51% are expecting to undertake a transaction related activity in the next two years.

## ***But How Well Are Canadian Companies Coping With These Changes?***

Among companies that stated that they had experienced these possible situations in the past 2 years, many were asked whether the outcome of this experience for their company was “successful” or “unsuccessful”. In this survey, “successful” was defined to the companies as an experience that had had a “positive and measurable impact” on their business. From this question we see that among companies asked about their experiences the overwhelming majority had a successful outcome.

Among the companies asked about their experiences:

- Of the handful of companies that had “issued an IPO or secondary offering of public securities in the past two years” - all of them (100%) said that this was “very successful”;
- Of those companies that had “undertaken an acquisition” in the past two years - six in ten said that the outcome of this was “very successful” (63%), while 37% said that this was either “somewhat successful” (35%) or “somewhat unsuccessful” (2%);



- Of those companies that had “financially restructured for raising debt or institutional/private equity capital” in the past two years - 53% said this was “very successful”, while 43% said it was somewhat successful and 3% “don’t know”;
- Of those companies that had “undertaken a merger” in the past two years - 50% said this was “very successful”, while 50% said it was “somewhat successful”;
- Of those companies that had “conducted process reengineering – either in front or back office operations” – 25% said this was “very successful”, while 73% said it was either “somewhat successful” (72%) or “somewhat unsuccessful” (1%) – with 1% who “don’t know”;
- Of those companies that had “undertaken a major performance improvement initiative” – 23% said this was “very successful”, while 71% said it was either “somewhat successful” (68%) or “somewhat unsuccessful” (2%) – with 7% who “don’t know”; and
- Of those few companies that had “outsourced outside of North America” – 29% said this was “very successful”, while 71% said it was either “somewhat successful” (57%) or “somewhat unsuccessful” (14%).
- Of those companies that had “been impacted by or prepared for fraud, terrorism, or an environmental cataclysm such as an act of god” – 20% said this was “very successful”, while 77% said it was either “somewhat successful” (65%), “somewhat unsuccessful” (10%), or “very unsuccessful” (3%) – with 3% who “don’t know”;



## ***But, Many Companies Don't Plan On Facing These Changes Alone As They Look For Assistance From An External Advisor...***

Those companies that said “yes” they do expect to become involved in these possible situations in the coming 2 years were asked a follow-up question as to whether or not they think they will likely contract out the services of an external advisor to assist in the management of these situations.

A very strong majority of three in four companies (73%) who expect to undertake “a major IT systems initiative” in the next two years say that they will contract out for an external advisor to assist in the management of this situation, while 27% of these companies say they would not.

More than half of the companies that expect:

- To undertake “an acquisition” (57%) in the next two years will likely contract out the services of an external advisor to assist them in the management of this situation (43% likely will not); while
- 56% would likely contract an external advisor to assist in “preparing for fraud, terrorism, or an environmental cataclysm such as an act of god” (44% likely will not);
- 54% would likely contract an external advisor to assist in “conducting an infrastructure upgrade” (46% likely will not); and
- 53% would likely contract an external advisor to assist in “responding to regulatory change” (46% likely will not).

While substantial minorities of companies think they will likely contract an external advisor to assist them in:

- “Process reengineering in the front or back office” (47% vs. 53% who likely will not);



- “A major performance improvement initiative” (44% vs. 55% who likely will not); and
- “Expanding into new markets or introducing new products or services” (29% vs. 71% who likely will not).

### ***For What Reasons Would They Seek The Help Of External Consultant? Half Of Companies (52%) Say For “Specialist Knowledge Or Skills” ...***

When asked what are the primary reasons their company would consider using an external advisor to assist management, slightly over half (52%) of companies say “specialist knowledge or skills”. Only 6% of companies say they would not use an external advisor.

Among remaining companies:

- 19% say they would use an external advisor because they think “internal management lacks required expertise”;
- 16% say they would want to “maintain core business focus or minimize business interruptions”;
- 16% think it would be a “more efficient management of change”;
- 12% appreciate the “depth of past experience and industry knowledge”;
- 6% would like “the objectivity/no vested interest/fresh pair of eyes”;
- 3% would like the “accountability”;
- 1% would like the “worldwide reach”; and
- 1% point to “improved company performance in general”.



One in ten companies point to some “other” reason, and 2% “don’t know” why they their company would consider using an external advisor to assist management. <sup>1</sup>

### ***Six In Ten Companies (59%) Feel Expense Is The Major Barrier To Using An External Advisor...***

Respondents were asked to identify what are the major barriers that may dissuade their company from using an external advisor.

The number one barrier given by six in ten respondents (59%) is that it is “too expensive”. Other barriers given by respondents are that advisors don’t “understand my business/company” (18%), there is “uncertainty over calibre of appointee” (15%), “budget constraints” (11%), “value for money” (11%), “internal management has required expertise” (11%), “confidentiality” (7%), “unavailable” (5%), “inefficiency/takes up management time” (3%), “conflict of interest” (3%), “not in line with company policy” (2%), “unaware of the externally sourced options open to me” (1%), “previous experience with the advisor” (1%), and “poor timing/lack of time”(1%).

A small portion of respondents (6%) provided some “other” barrier, 1% said there is not any barrier, and 3% don’t know what barriers would dissuade them from using an external advisor. <sup>2</sup>

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<sup>1</sup> Because this is a multiple response question, total percentages may exceed 100.

<sup>2</sup> Because this is a multiple response question, total percentages may exceed 100.



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