

It's a matter of integrity

8

Mike Healy

CFO, Apotex



PERSONAL PERSPECTIVE

What did you do before your current position?

I have held various CFO roles in the pharmaceutical and medical device industries.

Best thing about your role?

Variety. I love the variety and scope of the CFO role.

Worst thing about your role?

Variety! Involvement in a variety of urgent and important projects makes it difficult to manage month-end and other cyclical activities.

If you could have the last five years over again, what would you do differently?

I would listen more, think more and exercise more.

What are you reading at the moment?

I am reading *The Elephant's Tale*, a book detailing an epic motorcycle ride by an Australian couple.

What is the best piece of business advice you have ever received?

Pick your battles.

Hobbies and interests?

In my younger years, I loved to play basketball. Now, I coach and watch my sons enjoy the game.

It's a matter of integrity



ORGANISATION PROFILE

What is the company's core business?

Apotex is a leader in the manufacture and distribution of generic pharmaceutical and OTC products.

Key market segments?

As above.

Ownership structure?

Apotex is a privately held business.

Total revenue?

Our 2012–2013 turnover in Australia was \$140 million. Global sales figures are not released.

Size of workforce?

We employ 120 people in Australia. Global figures are not released.

Biggest single current business challenge?

The mounting pressure on PBS spending through mandated price disclosure.

If you could change just one thing about the business, what would you change?

The number of hours in the day! More would be good.

It's a matter of integrity



INTERVIEW

What is the most important quality or attribute you look for in an accountant?

Generally speaking, I look first for integrity. Now, when I hire internal accountants, I want people that give me the right answer the first time. And when I mean right, it's accurate but it's also the right thing to do. I've worked for many firms in the Sarbanes-Oxley environment and learned first-hand how important it is to do things in the right way, and Apotex does things in the right way. So I want accountants that are going to do things in the right way, that don't lead me down a grey path but can give me a black or white answer.

Most CFOs don't say that is the most important quality. Is that because of you or because of the values of your business?

I think it's influenced heavily by the values of the business and, given my work experience is approaching 30 years as we speak, I've always sought out companies that work in a certain way. So, yes, it's our company values, but it's also my own. I'm working here because there's a good match of my values and their values. Equally, I look for people that provide service to me to do it in the right way, to be honest, to bill what they said they would bill and so on.

Let's say for example you put a job out to tender and three or four firms come to bid. How do you tell from a first meeting if they have that level of integrity, honesty and professionalism that you are looking for?

Integrity is hard to read from across the table, which is your point, but I know a used-car salesman when I see one. Being pretty good at selling things myself, not physically selling but you sell ideas, I think you can tell from the way they handle themselves. I also ask a few probing questions and find out how deeply their knowledge goes. Usually I'm hiring someone to do something that I don't know enough about. I want to hire someone who knows a lot more than me because I need to pay for expertise.

That's why I'm going to them in the first place.

They're a subject matter expert and if I already knew the answer, I wouldn't need to hire them or their firm. I think you can pretty quickly tell through probing questions whether they're full of it or have the right knowledge.

How important is technical expertise in an accountant?

To me, it's a given. If you can't tell a debit from a credit, then you're not going to be a good accountant. If you can't tell tax from book accounting, I can see pretty quickly you don't know what you're talking about. To me, technical expertise is an absolute given. That's what I'm paying for and if they don't have it, I can find it somewhere else. I take it as a given because of the type of firms I engage with.

If it's a Big Four player, I don't need to ask for the CV of the lead partner. It's an assumption that if they're a partner, they've jumped the hurdles that they need to be a partner. I'd say somebody who works for a Big Four would have that technical expertise. They know what they're doing. They're reviewed by peers, managers and partners who have grown up from a technical perspective, and I think it's a great learning ground and I trust it.

I feel that it's a safe assumption if they come from a Top 10 firm. And they would also be familiar with what I mean when I say, "I need it right and I need to do it in the right way"; they understand because they understand the context of CLERP 9 or Sarbanes-Oxley, and the implications of not doing things in the right way.

Does paying a higher price mean you receive a higher quality service?

I think the answer is you want to believe you're getting a higher quality service. But much as I find that the best auto mechanics aren't necessarily at the Mercedes dealership, sometimes you find Joe around the corner who has been doing it for 30 years and he's really good. You may find that the best service is somewhat hard to find, but perhaps a lot cheaper. So I guess it's a perception but not always a reality that a higher price equals a better service. So, sometimes perception can be the enemy of fact. Because you're paying a tax consultant a thousand dollars an hour, it doesn't mean to say the advice is the absolute best advice for you at that time. And I know it isn't because that person doesn't have exposure to every single project that's been done around the country on any topic, so they don't know everything. But hopefully they know enough to be very good at what you're paying for.

When looking at engaging a new accountant, how important is their firm's brand to you?

As a private company, I'm more worried about quality than reputation. Of course, to get your foot in the door, you'd have to have a pretty good reputation and we would check references. I need to know that their brand isn't soiled in any way. So, brand is important, but I would say I'm much more concerned about their knowledge and their ability to deliver quality service than the brand, per se.

Now, having said that, I can appreciate that most large public companies would more than likely have a Big Four firm and that's because the perception among the investors who read their financial statements, or the banks or whoever, would be if it's a Big Four firm then the statements must be in good shape. That's what the market wants to see. But as a private company, I want to see good value for service and other things that we'll probably talk about later in the interview.

BRAND ISN'T EVERYTHING

Many people, myself included, associate well-known brands with high-quality and premium service. All other things being equal, one would expect that a top-of-the-line Mercedes is a better quality car than a Kia for example. When you're paying over \$300,000 for a car, you expect everything to be better about it – its finish, performance, associated service – everything. When it comes to using a professional service, I dare say most clients expect the same. If you're paying top dollar for a particular service, then the expectation is the same as that of the Mercedes buyer – everything is better. However, brand isn't everything.

Not that long ago, there was a firm who had the reputation of being full of smart and highly capable people offering services to clients across every industry globally. The firm provided thought-leadership and was responsible for the drafting of many accounting standards the profession takes for granted today (eg recognition of stock options as an expense of business and employment). The firm spent millions annually training their staff in both technical and business knowledge. Many of the world's largest and most successful companies used this firm as their auditor and adviser. This global accounting firm had a brand that projected quality, leadership, innovation and creditability, and was in business for around 100 years. The firm's motto for many, many years was "think straight, talk straight". The name of the accounting firm? Arthur Andersen. Brand isn't everything!

The problem sometimes with brand is that it's not as if you go and stand in front of an office tower with a big brand on top of the building and say, "Good morning, Mr Brand. I want to buy services from you." Well, you don't buy services from a brand; you buy a service or a provision of a service from an individual. The brand is simply a show of a level of risk management, corporate governance, methodology and so on.

Would you place more store in the individual because of the quality of service or their knowledge, rather than their brand?

I think the easy answer is yes. It's probably not as easy as that because there's a lot more to it, but again, if a person who seems really knowledgeable, really switched on, has the right integrity service attitude that I want and so on, if they can demonstrate that they have the resources to fill in any knowledge gaps that they personally may have, then I might go with them in a hurry. But I know a lot of firms that have a lot of resources that still can't deliver. And I'm not suggesting accounting firms, but in any market space there're lots of companies that look really good on paper because they have a big office front, but you get behind that and it's just an office front.

Tell me about a time when you received the best service from an accounting firm. What made it the best?

In my first role here in Australia (I'm from the US) with another pharmaceutical firm, which is the company that brought me here, we had made a commitment to the government to do R&D and they would give us some tax credits and so on. And it got to the end of the time period, and I looked at the R&D spend and I said, "Wow, we didn't really qualify anywhere near our commitment". So, I then went to the Big Four firm we were using, who were our auditors and tax advisers, and I said, "You know, I need to go about qualifying as much R&D spending as I can. How do I find more?" The strategist at the accounting firm said, "Well, have you looked at marketing trials that you've done that support the extended use of product X, Y or Z into a different therapeutic class?" They really expanded our thinking about what research and development was, because we had thought of that more as marketing. We ultimately threw a much wider net and captured a significant amount of spend that qualified and was substantiated under audit by the government.

So, I guess that's the broad background, but I was incredibly pleased because the savings more than paid for my time with the company. It was that sort of benefit. It was massive. So I was very pleased with the creative thinking, the knowledge of the

tax regime or the credit regime, and their ability to articulate that and to deliver on what they said they could do. A great example and you don't hear many like that, but it was awesome.

Some CFOs, not a lot, have said, "I can't think of a best time". So what made it the best for you?

I felt that they really understood the issue, that they listened to me, that they supported me. They knew that our spend on a very strict basis would not meet the expectations. It would not deliver what we said we would do. It would actually take us backwards rather than just advancing a smaller credit. So they knew the issues. They listened. They were concerned. And they didn't rest until they found exactly what we wanted and needed. So my hat's off to them. They did a fantastic job on that project.

Tell me about a time when you received terrible service from an accounting firm. What could they have done differently?

I recall a time when I sent a tax group off on a path to find me an answer and to come up with a legal structure that would help minimise our tax position. Unfortunately, I sent them down the path before I ever really got an engagement letter and by the time I got the letter I said, "I'm not so sure this is what I'm looking at. I think maybe we've headed down the wrong path." At which point I'd already accumulated about \$30,000 in fees. Of course I argued over it and so on. I suppose at the end of the day, it all comes down to communication and checking for learning and understanding, so that you know exactly what I want and you're more than likely to deliver if you know exactly what I want. So, shame on me, I didn't deliver (apparently) a clear set of expectations and deliverables, and shame on them for embarking so quickly without really checking for understanding.

"I felt that they really understood the issue, that they listened to me, that they supported me."

Who should the majority of the blame be assigned to?

I think in their defence, they thought they understood, but at the end of the day they didn't. So, given that I'm the guy with the chequebook and the one who gives them their marching papers or guidance, I think the onus falls back on me as the buyer. What I really want to say is shame on the salesman who sold me the suit, but at the end of the day if it doesn't fit me, I'm the one that has to say something about it. In this case, I really

wanted to blame them but we struck a deal that was mutually acceptable, although I still felt like I paid for something I shouldn't have. So it left a bitter taste, but at the same time I learned my lesson. Now when I hire somebody, I make darned sure they know exactly what I need.

What should they have done differently?

I think clarify and check back on a more regular basis. To accumulate \$30,000 in fees, that's a fair amount of money from senior people. I think you need to check to make sure we're all heading down the right path. And I wouldn't mind them phoning me from time to time. That's what I'm paying them for. I mean, to say, "I'm the expert. I know exactly what you want. Let me get back to you when I'm finished." That's just not enough – I wouldn't bake a cake that way. I wouldn't paint my house that way. There're a lot of things I wouldn't do that way and I won't do accounting that way either.

If you were to hire a new accountant/accounting firm, what are the things you would look for?

Notwithstanding all that I've said earlier about brand and so on, the number one thing is that they know what they're doing. So, I need to go to the marketplace and talk to colleagues of mine and find out from a references perspective that the firms that I'm looking at in my space are valued business partners.

So I'm going to check their references for quality, comfort, fit, and I'm also going to try and make sure – because I told you earlier the most important quality is integrity – that they're not going to take me into a room, lower the shades and say, "What do you want to be?" I want them to say, "This is what it needs to be. This is why. You have two degrees of freedom, not 20." And I want to assess quickly that they're going to lead me down the right path. Because at the end of the day, I don't look good in stripes and as a director of the company, I don't want to find myself in jail one morning because I did the wrong thing, knowingly.

So I suppose it's about reputation, references, integrity and I guess value. I recognise that if you pick a Top 10 firm, they're all going to be roughly the same cost, give or take. But I highly value somebody who says to me, "I'll spend 10 minutes on that and tell you if I have the answer" or "I think I can get it", as opposed to somebody who spends three hours and gives me something that's useless. If it's five hundred bucks an hour for a partner to chase down an answer that's wrong or adds no value to me because they didn't understand the question well enough, that's bad. So I want to find out through

probing questions, particularly with referees, at the end of the day am I going to get good value for my money?

They need to know what they're doing. They need to have a good reputation and provide the right sort of value. It's not as if I'm going to slap them around because of the fee and so on. You pay for what you get, but I also need to get something that is worthwhile getting.

And I suppose another thing would be the resources. So if I go to Joe's accounting firm, I need to know that they have the resources for when they don't know the answer. And I don't think it's fair to assume that they necessarily have the right networks. But similarly, you can hear all you want about XYZ Big Four firm or whoever having all the resources, but they may not know the answer either. So, in fairness, neither model might work. But the point is that I need to know that they have the resources to deliver on what I need. And I think that's fair.

"I need to know that they have the resources to deliver on what I need."

What is your current experience with your accountant? What do you value most about them?

I'd say that the current experience, as I said earlier, has been exceptionally good. They have a fair amount of experience in the healthcare space, and in particular pharmaceuticals. So they understand many of the accounting issues that we face. They understand the business model. They have a fairly good understanding of what's happening in the government reimbursement space. And they're very pragmatic.

So, again, being a private company, we probably have more degrees of freedom in making changes to policies, procedures and so on, maybe more so than a public company would do, and we're able to discuss with them things that we think might add value to our business through a different accounting treatment or whatever the case may be. We actually engage proactively with them to make sure that we don't get to the end of the year and find out there's an audit issue. We actually talk with them before we even do it. And when I do a business deal with a third party, I talk to them to make sure I structure it right. So they know what we're doing because I trust their opinions and I trust the advice that I'm going to get, both from a tax and an accounting perspective. And I like them as individuals, as well, and that helps because there's nothing worse than being across the table from somebody that you really don't want to work with, and we've all been there, right?!

So my experience has been excellent and for those reasons. At the end of the day, they also do things in the right way and they tell me what I can and can't do, but they're

pragmatic in their approach. Plus, it must be really good for them to have a client like us that is proactive, that is prepared to be transparent, to be as frank as we can be. Because the more information that they have, by definition, the advice that we get back should be of a higher quality as it's based upon information that makes sense.

I learned a long time ago, personally and professionally, if you tell a white lie, you've got to tell a lot of other white lies in order to cover the original one. And in an accounting perspective, a little white lie has to be covered by a lot of other little white lies quite often. It's better to be transparent and honest and do it right, than it is to cover your trail for years to come.

I entirely agree and as someone said to me, "It's easier to tell the truth because if you lie, you need an awfully good memory".

That's exactly right. You do. You have to remember the story. And that's one of the great things about the relationship we have with our auditors and the accountants. We just are open and honest, but it's also the culture that we have at Apotex where you just do the right thing the right way and you don't have to lie or cover stories. It's very direct and honest.

DO YOU WANT A BETTER CLIENT?

Unfortunately for the accounting profession, most clients aren't like Apotex. Many accountants complain to me that most of their clients don't tell them everything, are late with the necessary information to complete the work, take way too long to pay their bills and want everything done yesterday. I was in a meeting recently with a senior manager in a small and successful accounting firm who was complaining about a particular client, using the above concerns and many more. After listening to this accountant for a few minutes I asked, "Have you told the client what you think?" The reply quickly came, "Oh no ... I couldn't do that. He is a valuable client we have had for years. I wouldn't want to upset him in any way!"

Therein lies the problem. If you want better clients and to have a more mutually effective relationship, you have only one option. Share with them (with suitable respect and deference) the issues you have and advise them how to better work with you, so the overall outcome is better for both. Having a full and frank discussion may just surprise you. Most clients will more than likely say something like, "I'm sorry ... I had no idea." Despite you having "told" them several times!

Do you prefer time-based billing, a fixed price for service or a retainer arrangement?

I guess my general preference is for fixed price. I like to know that what I've asked for has been thought out and they've scoped it, and the estimate I get is really what they think they need in order to pay for their own internal costs. Then I can make a decision as to whether it's good value. Recently, I've allowed a contractor to work on an hourly rate in my home. It's amazing how many hours they come up with. So I suppose the best way for me to control whether or not I'm getting good value is knowing that it's a fixed price, so that's my preference.

What can accountants do to improve their service to you?

Listen. They need to listen and understand as best they can in the short time that we have. They need to understand my business, the way I want to do business and my desired outcomes to get the greatest potential understanding of the backdrop that they can. So that when they package a service to me, they know if it's going to hit the mark on all fronts. It's going to meet the technical requirements. It's going to meet my business requirements, my brand requirements, my integrity requirements – it's going to meet everything. And I suppose I want them to ask good questions and then shut up and listen.

“The best way for me to control whether or not I'm getting good value is knowing that it's a fixed price.”

As someone said to me, if you want a better answer, ask a better question and listen. They need to listen and make sure that when they deliver a service, it's exactly what I want.

What's the smallest change your accountant could make that would have the biggest impact on you?

I suppose I would like to see them be more proactive – just as I am proactive in bringing issues to them – I want them to be proactive and bring opportunities to me such as acquisitions or a new client base. So, let's just say that they have a new audit client who is going to do an IPO and they know that what they're going to the market with is a bunch of new therapies that might fit really nicely into my portfolio. I'd like to know about them.

I'm struggling for examples, but we got invited to a seminar that ended up not applying to us. Our accounting firm invited us to a tax seminar on research and development. I sat there for two hours and listened, and at the end I said, "This doesn't apply to me, does it?" And they replied, "No, actually, it doesn't". So I said, "Okay. At least I know something new." But they were proactive and reached out to me to say I think there's something that might apply, although the more I peeled back the onion, it didn't apply. So they are proactive but I'd like them to be even more proactive, particularly on the commercial side.

So bring me customers that maybe officially or unofficially I could be approaching. Bring me business opportunities and product lines that I might add to my portfolio. Bring me business alliances that I might not have today for either goods or services that might make some sense for my business.

"What I'd like to see in a trusted business partner is for them to know my business and therefore reach out more."

So they're not doing that because they feel that it's not their place?

I'm not sure, to be honest. Maybe it's in the accounting code of principles or something. But no, I'm not seeing much of that. Our business is quite independent. Maybe they don't feel it's their place to broker ideas and so on, for fear that they might go wrong, but we wouldn't hold that against them. I would do my own due diligence and all that, and I might actually hire a third party other than them to do that due diligence because there might be some conflict of interest in that they introduced us.

Do they do you a disservice by assuming that you wouldn't be interested?

I think so. On one hand, I would like them to come to me more often and let me be the judge. But – like placement firms that call me every Friday with their list of six candidates who they think I might need in my business – they assume I have a need, yet they don't know my business and they don't keep in touch. They're trying to sell me something I don't need. It's because they don't know my business and don't invest in me, in the relationship. So what I'd like to see in a trusted business partner is for them to know my business and therefore reach out more.

And it might just be a quick phone call to say, "Would you be interested in X?" And I'd say, "Wow, that might be really interesting. Come on in, tell me more." But don't assume I don't have any interest in X until you ask me.

HELPING YOUR CLIENTS WITH BUSINESS

Let me say from the outset, I am not aware of any professional standard preventing accountants from introducing their clients to other businesses who may be potential clients of their client for no fee. So assuming this is correct, I am amazed that the great majority of accounting firms don't help their clients by introducing them to people, situations and/or organisations that may be potential customers/clients of their client.

I often hear accountants from senior partners to those more junior say something like, "Oh no, we couldn't do that ... What if something goes wrong?" The likelihood of something going pear-shaped is low. All you have done is introduce a friend to another friend over a coffee. The rest is up to them.

Let me ask you this: "How do you feel when one of your service providers introduces you to a potential client?" Well is your client any different? Your action of connecting people as a way of helping them will be seen simply as that – help.



VIEW FROM THE OTHER SIDE

What has been the most important lesson you have learned in serving clients?

While I am an avid reader and proponent of continuing education and professional development, I think the most important lesson is really a basic truth. When dealing with a client, the key is to engage with openness and honesty. No matter what the situation is, your client will be expecting an honest and considered answer.

Unfortunately, we are sometimes pressured due to time constraints (not necessarily imposed by ourselves) to answer questions with little or no notice. How many times have you responded to a seemingly innocuous question, only to have it cause a more serious problem later on?

The acceleration of technology in communication has compounded this effect, on the basis that if a client only takes two to three minutes to compose an email, your response should only take as long and be almost instantaneous.

So let's be honest, here is the challenge: Be honest with yourself first, "Do I have the capacity, inclination or knowledge to undertake the assignment presented by the client?" Second, be honest with the client in setting their expectations – where the issue is serious and their timeframe is not realistic, tell them. If the issue is not your area of expertise, tell them you will need to consult the appropriate expert. Where the expectations continue to be unrealistic, be honest enough to tell the client that maybe they should be advised by someone more able to meet their needs.

If you are going to give the client "bad news" at the end of your assignment, tell them. Don't put it off by attending to other "more important" work. Preferably deliver the answer in person. Do not succumb to the act of omission; be upfront and sleep comfortably at night.

Finally, we have a print hanging in our offices that was taken from an old version of Snakes and Ladders my mother had. It is based on business, showing a number of morality choices and their results (both good and bad). Funnily enough, the ladder from "honesty" leads to "success" and gets you one step away from winning the game – a good way to finish, I think!

Bruce Howle

*Managing Principal
Key Solutions Group (NSW)*