Business bankruptcies down, financial problems still common

By DONALEE MOULTON

The latest bankruptcy statistics reveal an encouraging trend—but they do not reveal the whole trend, according to one Canadian expert in the field.

"The statistics show a steady decline in business bankruptcies," Allan Nackan, a partner with A. Farber and Partners Inc., told *The Bottom Line*.

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"When a company gets into trouble (today), there are a number of options available," he added. "Bankruptcy is just one option. Receivership and bankruptcy are at the end of the line. Restructuring often comes before then."

According to the Toronto-based company, which provides insolvency and restructuring services, there were 624 companies claiming bankruptcy in January of this year. That declined to 589 the following month, a drop of about six per cent.

In February 2005, the number of business bankruptcies was 736 for a year-over-year decrease of more than 15 per cent.

"All in all, the Canadian economy is in good shape and this situation is reflected in the decrease in new insolvency filings," the most recent bulletin from the Office of the Superintendent of Bankruptcy Canada stated.

The agency noted that the total number of new filings has decreased by 1.2 per cent in the first quarter of this year compared with the same quarter last year.

During this period, business insolvencies fell by nearly 10 per cent.

The fall is occurring across the country, although not consistently. To no one's surprise, Alberta led the pack with a significant 26.6 per cent reduction in new bankruptcy filings.

Also experiencing drops were British Columbia (-8.4 per cent), the Atlantic region (-4.2 per cent) and Ontario (-0.2 per cent).

Two areas experienced growth: Manitoba and Saskatchewan, which saw bankruptcy filings climb less than one per cent and Quebec, which saw them climb nearly eleven per cent.

Business insolvencies were also down—and in a bigger way. Five out of six regions across the country saw them drop the first quarter of this year.

All in all, the Canadian economy is in good shape.

In Alberta, that drop was more than 43 per cent. Only Quebec experienced an increase. Business insolvencies in that province rose nearly four per cent.

This year for the first time a securities firm declared bankruptcy in Ontario.

"This was a situation where there was a mismanagement of funds, not a deliberate fraud," said Nackan.

The Marlow group of companies, which operated as securities dealers, investment dealers, and investment advisors, had failed to make a number of filings with the Ontario Securities Commission. In March 2005, a group of investors moved to safeguard their remaining assets.

A comprehensive investigation of the firm's financial affairs was conducted and an appropriate plan for distribution of securities prepared.

"With many of these things," Nackan noted, "it is often a spiral... It happens more often than we'd like."

Is it likely to happen more often in the future? While hard to predict, it is not safe to conclude that the downward trend in business bankruptcies will continue. The numbers, noted Nackan, do not tell the whole story.

"Firms aren't getting into financial trouble less often; they are just turning to new options. There are some real challenges facing the economy," he added.

"There will be a shake up and some fallout. If businesses don't adapt to the changing times, they can get caught by surprise. Accountants are there as their trusted advisors."

Communication linked to better financial performance

The BOTTOM LINE

North American companies with good internal communications have a 19.4 per cent higher market premium and deliver 57 per cent higher shareholder return than companies with less effective communications.

According to the 2005/2006 Communication ROI Study conducted by Watson Wyatt Worldwide (WWW), a global human capital and financial management consulting firm, there is also a strong correlation between a company's communications and its employee hiring and retention levels.

The study of 335 Canadian and U.S. companies identified nine communication areas that affect market premium.

Managerial communication support that drives supervisors' and managers' behaviour—which includes formal communication training and tools and rewards for effective communicators—was identified as the element with the highest impact on a company's market premium, contributing 3.8 per cent to the overall 19.4 per cent higher market premium.

This communication element was also the main differentiator between Canadian and U.S. respondents. For example, the gap between top performers and poor performers on formally training managers on communications tools is much wider in Canada than in the U.S.

The study found that firms within the financial and wholesale/retail trade sectors rank among the most effective communicators (45% and 40% respectively), while companies from the basic materials (18.2%), general services (21.4%) and healthcare (23.8%) sectors tend to rank among the least effective.

Investing in internal communications also provides other organizational benefits, such as improved employee hiring and retention. According the to the study, companies that communicate effectively are 4.5 times more likely to report a high level of employee engagement and are 20 per cent more likely to report lower turnover rates than firms that communicate less effectively.

The most highly effective companies:

- treated managers as a key audience, regularly providing communication counsel to senior management;
- had a communication program in place and a documented internal communication strategy;
- openly communicated with employees, sharing business plans and goals as well as providing information about matters that affect them.

"The findings clearly demonstrate that internal communication is a significant business function that directly affects financial performance," said Kathryn Yates, global director of communication consulting at WWW.