CFOs’ perspectives on disruption
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>1</td>
</tr>
<tr>
<td>Executive summary</td>
<td>3</td>
</tr>
<tr>
<td>Economic sentiment</td>
<td>5</td>
</tr>
<tr>
<td>CFOs' perspectives on disruption</td>
<td>9</td>
</tr>
<tr>
<td>Conclusion</td>
<td>21</td>
</tr>
<tr>
<td>About this survey</td>
<td>23</td>
</tr>
<tr>
<td>Meet the team</td>
<td>25</td>
</tr>
<tr>
<td>Contact details</td>
<td>26</td>
</tr>
</tbody>
</table>
Foreword

I am pleased to present the latest edition of the Deloitte China CFO Survey, part of our China CFO Program, which we conduct every six months as a temperature check on our community and a reflection of opinion relating to pressing business topics and challenges.

The global economy is undergoing what many are calling the Fourth Industrial Revolution. With technology developing at an incredible pace, the paradigms of politics, economics and commerce are also changing. Politically, tensions between nationalism and globalism are manifesting themselves differently across countries and continents. Economically, we are seeing the effects of trade wars, multilateral investment projects, and fundamental shifts in capital flows, while in trade, barriers are being eliminated by the proliferation of e-commerce, e-payment and smart logistics. What does all of this mean for finance and the financial function of corporations?

Emerging technologies – for example, in cloud computing, artificial intelligence (AI), analytics, blockchain, digital assets, and the Internet of Things (IoT) – are disrupting global economic conditions and the ways in which businesses compete for market share. China is an important microcosm for seeing these factors at play. National policy initiatives such as the Greater Bay Area development will further the country’s technology and innovation drive. The timing of this report is therefore propitious, for keeping a pulse on how financial decision-makers are discerning to move their organizations forward.

We would like to express our gratitude to all the participating CFOs. Your engagement as a community gives momentum to our mission to understand the financial situation “on-the-ground” and deliver insights that are relevant and actionable.

Like our CFO community, Deloitte, as a global professional organization is also embracing disruption and striving to deliver data-driven insights to help our clients grow. At the time of releasing of this report, we are hosting Deloitte’s Innovation Forum series in major Chinese cities as well as the Asia Pacific CFO Vision series in different geographies to discuss how disruptive technologies enable transformation under corporate finance challenges.

As always, we will keep you informed about other upcoming activities and events within our China CFO Program. If you have any feedback about this survey, or our Program, please do not hesitate to contact us.

William Chou
National Managing Partner
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Executive summary

Economy

Economic sentiment has improved from six months ago.

Although 47% remain less optimistic, that number is down from 82% in the previous survey.

Although only 12% are more optimistic, that is up from 2% from the time of our last survey.

Pressure on the renminbi is expected to ease. This shift could be due to progress in the rhetoric about ending the China-US trade war.

42% of respondents felt it would depreciate against the US dollar, down from 74% six months back.

More respondents felt the renminbi would appreciate in value against all surveyed currencies (US dollar, Japanese yen, Australian dollar and euro), indicating an increase in confidence in the renminbi and thus China as an economic force.

Compared to six months ago, the three most high-impact risk areas remained the same, albeit in a different order. Number of respondents who are worried about increasing trade protectionism has dropped eight percentage points.

Further economic turmoil was first with 30%.

Increasing trade protectionism was second with 21%.

Detrimental government policy was third with 17%.
Disruption
Attitudes towards disruption were on the whole positive. 29% were “eager enthusiasts” 52% were “welcome adopters”

37% of the respondents were actively pursuing disruptive strategies 51% were reacting to disruptive changes in the market

The most potentially disruptive technology
Data analytics 38% Artificial intelligence 25% Internet of Things 15%

Drivers, catalysts, and business aspects viewed as being the most affected by disruption
Client demands and macro pressures are quoted by 59% and 58% of the respondents respectively as the leading drivers of disruption
Existing competitors are the main catalysts of disruption, by a margin of 28%
Price and underlying technology are the business aspects viewed as being the most affected by disruption by 43% and 35% of the respondents respectively

Decision makers
91% and 65% of our respondents said top management and the board are the decision makers around preparation for and managing disruption, while more than half of them believed finance, sales & marketing and research & development also actively participate in decision-making.

Impacts
On a scale of 1-10, an overwhelming majority of our respondents (89%) chose a risk level of five or above when asked what level of risk disruption posed to their companies.

73% of respondents felt that 50% or more of their financial activities will be fundamentally altered within five years.
Economic sentiment
Six months of experience summed up

Our survey regularly assesses the sentiment of our community about global economic conditions. In the latest exercise, it revealed that 47% of respondents were less optimistic than six months prior. While still significant, it was down from 82% since the time of our last survey. This change in sentiment could be due to shifting views on the duration and severity of the China-US trade war, which was, and remains a top-of-mind agenda item among CFOs. Although only 12% of respondents were more optimistic, that number is up from 2% six months ago.

While annual global economic growth is estimated to fall slightly in 2019, compared to 2018 and global trade is likewise projected to weaken due to political risks and a pullback in globalization, it is important for regional leaders to note the budding optimism about the region's economic resilience. It will be interesting to see how the sentiment alters in the next six months, for example given China's recent implementation of stimulus measures to hedge against further slowdowns in the country's economic growth.

Moreover, there is the prospect of tech sector disruption, which is bustling in Asia and globally. We should see more global enterprises moving their IT systems to the cloud in 2019 and a significant uptick in AI implementations. Depending on how these developments influence global business, sentiment may continue its current optimistic trend by the time of our next survey.

Figure 1: Has your perspective towards the economic sentiment changed over the last 6 months?

![Figure 1: Has your perspective towards the economic sentiment changed over the last 6 months?](image)
Renminbi performance
Regarding the performance of the renminbi in relation to the US dollar, 42% expected it to devalue, down from 74% six months ago. This shift is significant because it hints at positive perceptions toward easing US-China trade tension at the time when we conducted the survey.

This was in fact a consistent finding from the latest survey. More respondents felt the renminbi would appreciate in value against all surveyed currencies (US dollar, Japanese yen, Australian dollar and euro), as compared to the results six months ago, indicating that the prevailing pessimism over the renminbi’s performance has begun to fade and an increase in confidence has set in.

Figure 2: Performance of the renminbi against major currencies in the year ahead

Where are the risks?
We then asked our CFOs what high-impact risk area concerned them the most. Similar to our previous survey, albeit in a different order, the top three problem areas were further economic turmoil and recession, increasing trade protectionism, and detrimental government policy and regulation, respectively. These areas made up 68% of all responses.

From the last to the current survey, trade protectionism fell from the first to the second spot and eight percentage points. This may, again, reflect shifting perceptions of the US-China trade war during our survey period.

That said, further economic turmoil and the risk of recession increased three percentage points from the last survey. This may be due to the uncertainties at home and further afield, when the Chinese government set a lower growth target range of 6-6.5% for 2019 and Brexit was yet to come to any conclusion.

Figure 3: What potentially high-impact risk do you worry the most?
CFOs’ perspectives on disruption
Emerging technologies are disrupting global economy and the ways in which businesses compete for market share. In this survey, we asked our respondents about their companies’ attitudes towards disruption. It was very encouraging to see that 81% of CFOs are either “eager enthusiasts” or “welcome adopters” of disruption, indicating that they embrace change and feel an eager excitement towards the opportunities it brings, or they understand the reality of change and accept it as a fact for businesses to work with. These positive views resonate with the pace of technological development in China and the initiatives businesses across industries are undertaking to transform digitally the way they operate.

Figure 4: Corporate attitudes towards disruption

“Eager enthusiasts” – embracing the possibilities and excited about the new opportunities

“Welcome adopter” – knew that change was coming and accepted it as progress of the industry

“Fearful defenders” – disruption is going to fundamentally damage our business unless we can defend against it or counter it, generally worried about the future

“Change deniers” – there is no real change going on, the establishment and working of the industry can’t be altered significantly

“Same Same” – change is a normal phenomenon and there is little disruption that can affect the fundamentals of how things happen
CFOs’ perspectives on disruption

**Technological disruption**

Regarding the technology driving disruption, data analytics was viewed as the most potentially disruptive by 38% of our respondents. Big data is the “fuel” for the development of other technologies, for example AI and the IoT, and we can expect to see data analytics evolve as the fundamental of digital economy.

AI came second in disruptive potential. Like data analytics, it has far-reaching applications and the potential benefits of its wider adoption have only begun to emerge. To drive business adoption, the underlying technologies of AI, such as natural language processing, voice and image recognition, big data and machine learning need to be developed hand-in-hand with viable business models.

Interestingly, blockchain technology was only selected by 6% of our respondents. While it may not have the same kind of dramatic disruption as AI or IoT, there are a few important areas to keep a check on. One is blockchain-as-a-service (BaaS). We are already seeing the proliferation of blockchain startups in Asia; pair this with the trend of corporations increasingly integrating with third-party service providers through sophisticated API (Application Programming Interface) networks, and we could see blockchain become mainstream sooner rather than later.

![Figure 5: Which technology has the largest disruption potential?](image-url)
Approach to disruption

We also wanted to know how our community is managing disruptive technology. The results were that 51% are reacting, 37% are actively looking to disrupt, and 12% are doing neither.

The tendency to react is natural, given that innovation is often sparked by specific companies in specific regions and distributed outward. It is also prudent for CFOs not to commit resources before understanding thoroughly the risks and opportunities associated with new technologies.

However, being an early adopter can result in competitive advantages. Likely, the decision of being reactive and proactive often has more to do with corporate circumstances and priorities, than with willingness (or lack thereof).

Figure 6: Corporate approaches to disruption

Disruption can be driven by a variety of sources. We asked our respondents whether they viewed it as coming from client demands, innovation, macro pressures, emerging business models, or new market opportunities.

Client demands and macro pressures ranked the highest, at 59% and 58%, respectively. Accommodating digital preferences in terms of service delivery times, engagement channels, and customer experience expectations is and will likely continue to be a pressing demand for companies looking to allocate their resources effectively. Macro pressures are likewise influencing disruption, but more in the competitive environment. Various forms of technology - for example, AI - can increase corporate agility and help companies compete more strategically.
CFOs’ perspectives on disruption

When asked about the catalysts of disruption, 50% of our respondents indicated existing competitors. This implies that the competitive landscape is dynamic and requires continuous innovation to stay differentiated. Competition from cross-industry players may have been the reason for 22% of our respondents to say that entrants from other industries are catalysts of disruption, which is evidence of changing business models and expanding market segments a given company is able to serve.

Startups as a source of disruption received only 15% of the votes. On the one hand this is surprising, since well-known regional startups like Grab, GoGo Van, Flipkart, and Bambu are consistently hailed and awarded for their disruptive presence. However, according to Global Center for Digital Business Transformation, incumbent firms can have just as much, and in some industries much more, disruptive potential.

Figure 7: Factors that are driving disruption in your business
Business effects of disruption

While disruption comes in different forms, it also affects the areas of a business differently. To the question of which business aspects will be most affected by disruption, 43% stated price, followed by underlying technology (35%), channel (33%), and client base (30%). It would be interesting to ask our CFOs, as a follow-up question, how they would see the impact of disruption on price. In practice, we expect that disruption will result in a near-term increase in price due to initial investment, for example, in technologies. However, in the long run, embracing disruption may help companies enhance their competitiveness in price and service, as channels and client base are broadened.
CFOs’ perspectives on disruption

Figure 9: What business aspect will be most affected by disruption?

On a scale of 1-10, our community was asked what level of risk disruption posed to their companies. An overwhelming majority of our respondents (89%) chose a risk level of five or above, which is telling of the current perception of the technology-driven disruption. On a positive note, a high level of risk-awareness will help companies take a more prudent approach towards disruption.
Who is responsible for preparing for and managing disruption?

When asked which departments are involved in dealing with disruption, 91% said top management, followed by the board (65%), finance (57%) and sales and marketing (57%).

Important to note is that disruption is largely being seen as a challenge for leadership, although functional departments such as finance will also be involved for obvious reasons such as capex and cost planning. On the other hand, sales and marketing will probably be able to contribute “user perspectives” in the process.
CFOs' perspectives on disruption

Impact of disruption on finance departments

In each survey, we ask our community about their three top challenges in the finance department. This survey yielded in providing metrics, information and tools needed for sound business decisions, influencing business strategy, and forecasting and reporting business results, as the top three respectively. The recurring top two challenges are similar in that they concern managing against uncertainty.
Figure 12: What are your finance department’s top three challenges?

- Providing metrics, information and tools needed for sound business decisions (8.58)
- Influencing business strategy (5.30)
- Forecasting and reporting business results (4.50)
- Processes efficiency (4.19)
- Ensuring compliance with financial reporting and control requirements (3.38)
- Ensuring funding, liquidity and acceptable costs of capital (3.23)
- Aligning budgets and capital expenditure decisions with priorities strategies (2.58)
- Supporting a major infrastructure or business initiative (2.26)
- Addressing changes in accounting standards and/or tax laws (1.80)
- Managing cost of finance department (1.70)
- Ensuring initiatives achieve desired business outcomes (1.57)
- Currency movement (1.44)
- Securing and retaining finance talent (1.16)
- Supporting a major transaction (e.g. merger, acquisition, divestiture) (0.30)
- Others (0)

Finance departments are not only facing challenges, but also transformations. We asked our community how many of their current processes and activities might be fundamentally altered by disruption over the next five years. Nearly three quarters of our respondents (73%) believed that 50% or more could be so affected.

This means that financial departments could look quite different in the near future, which will affect both their own internal operations and how they relate to and support other functional units.
CFOs' perspectives on disruption

Figure 13: The percentage of processes and activities disruption will fundamentally affect

Forecasting, analytics and process efficiency received the most votes when we asked our community what processes and activities will be impacted more heavily by disruptive forces in the coming years. Development of data insights and robotic automation will no doubt increase the efficiency of the finance function going forward.

Figure 14: Finance responsibilities to be most affected by disruption over the next five years
With disruption comes HR considerations. Will disruptive technology displace or replace staff? This is a relevant question for finance departments, let alone all areas of business operations. To the question of whether our community foresees their department staff counts growing, reducing, or staying the same, 26% said their teams will grow, 39% said they will reduce, and 35% said they will stay the same.

That a large percentage of our respondents said their departments will reduce is noteworthy, indicating that disruption not only affects processes, but also people.

**Figure 15: Staff fluctuation due to disruption over the coming year**
Conclusion

Disruption is and will remain a reality for financial leaders in China and globally. The question is how to manage and work with it effectively. This involves making one’s organization future-ready, to hedge against unwanted surprises and carve out differentiated positions in the market. It will be interesting to watch how the technologies viewed as the most disruptive - data analytics, AI and IoT – evolve in the coming years, and how they are adopted within finance departments and across the board. Although disruption can sometimes be cast in negative terms, there is no shortage of opportunity present in the process. With 37% of our community actively looking to use technology to disrupt their industries, it will be exciting to observe their tactics and outcomes.

Will 2019 be a year of widespread disruption? And if so, will you be ready for it? We hope the insights from our respondents assist you in making preparations and taking action.
About this survey

China CFO Survey was conducted by the Deloitte China CFO Program. It is a regular initiative that helps us understand the sentiment within our CFO community, as well as gather insights on a wide range of issues affecting senior finance personnel. In the 2019 Q1 edition, carried out from 18 March to 15 April 2019, we received 86 responses.

Figure 16: What is your current title in your organization?
Figure 17: Which sector does your company fall into?

- **State owned enterprise (SOE)**: 12% of total respondents
- **Private owned enterprise (POE)**: 29% of total respondents
- **Foreign invested / Multinational company (MNC)**: 59% of total respondents

Figure 18: What is your company’s total revenue in the last financial year?

- **Less than RMB 500m**: 24%
- **RMB 500m to less than RMB 1bn**: 7%
- **RMB 1bn to less than RMB 5bn**: 12%
- **RMB 5bn to less than RMB 10bn**: 21%
- **More than RMB 10bn**: 36%
CFOs’ perspectives on disruption

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Acknowledgement
We would like to thank all participating CFOs for their support in completing the Survey.

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China CFO Program brings together a multidisciplinary team of Deloitte leaders and experienced professionals to help CFOs stay ahead in the face of growing challenges and demands. The Program harnesses our organization’s broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO’s career – helping CFOs manage the complexities of their roles, tackle their company’s most compelling challenges, and adapt to strategic shifts in the market.

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CQ-008EN-19
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