CFO Insights | Japan

2019 Q1

The CFO Program

Contents

Japan Economic Outlook - Storms at home and abroad P3.

Accounting News P 5.

Tax News P 9.

Mobility “Information and insights on-the-go” P 12.

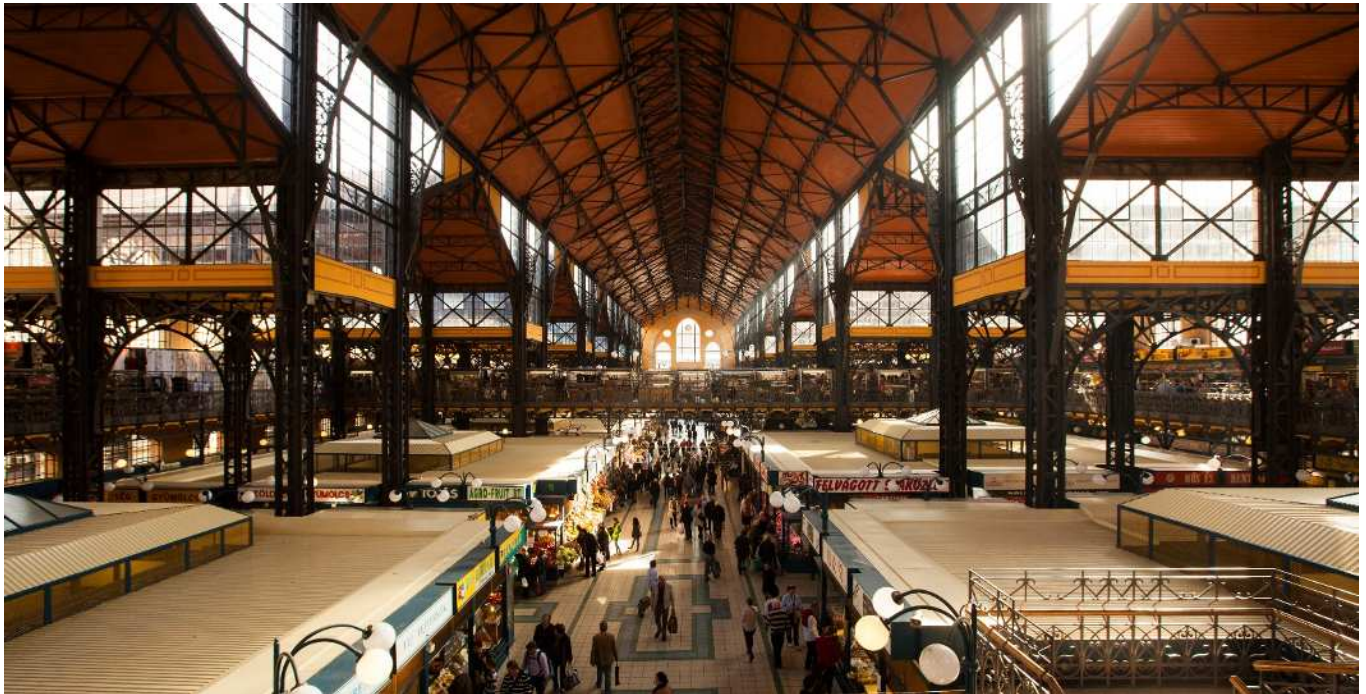
Sysco CFO Joel Grade: Strategy, Innovation, and the Finance Mindset P 15.

Succession Planning: The Difference Between Good CFOs and Great CFOs P 18.

The Rise of the Socially Responsible Business P 21.

What It Takes to Lead in Industry 4.0 P 26.

Japan Economic Outlook - Storms at home and abroad



Highlights from the Q3 2018 Japan CFO Survey:

- Feelings of uncertainty rose sharply in Q3 – up to 67% from 44% in Q2
- Major developments in the global and local economic environment have slightly dampened optimism (Q3: 19% vs. Q2: 12%) and raised pessimism (Q3: 25% vs. Q2: 22%)
- Costs eating into earnings remain a consistent issue for Japanese CFOs

Global and local environment dampens CFO outlook

Japanese CFOs' outlook for economic conditions was slightly dampened in 2018 Q3 – 12% reported being "more" or "somewhat" optimistic (Q2: 19%) while 25% felt "somewhat pessimistic (Q2: 22%).

Major uncertainties in the global environment that came to a head in Q3. The worsening trade war between the US and China (USD 200 billion worth of goods saw an added 10% tariff), subsequent concern of a Chinese economic slowdown, the rising possibility of a "no-deal" Brexit, and drastic currency devaluation in emerging economies have likely put Japanese CFOs on edge.

At home damage done by heavy rains in July, typhoon 21 and the major earthquake in Hokkaido in September caused serious economic disruption.

Going forward, events like the US mid-term elections, the tenor of the Brexit negotiations, US trade policy etc. will loom large.

Earnings remain high but costs remain even higher

69% of Japanese CFOs reported that they expected earnings to rise "largely" or "somewhat," a number that has been relatively flat for a number of quarters. Costs of labour shortages, wage pressures, and raw materials continue to eat into profits – 56% expect operating profits to rise "largely" or "somewhat." This is slightly higher than the Q2 52%, but again the trend is relatively flat. With a more volatile external environment (despite high stock prices in advanced economies and a healthy US economy) we expect that Japanese CFOs will be closely watching how events develop outside Japan.

Taxes, Trade wars, and Brexit

Japanese CFOs reporting "very high" or "high" levels of uncertainty in the business environment rose in Q3 to 67% - a sharp increase from Q2's 44%.

The order of top global concerns of Japanese CEOs remained unchanged in Q3: the global trade war (87%), Chinese economic slowdown (81%), and the Trump administration's foreign policy (45%), but as mentioned above these issues came roaring back to life from their relatively calm state in Q2. In a way Q3 could be said to be a time of peak uncertainty as many of these issues will see partial resolution by the end of the year.

Toping domestic concerns is the implementation of the consumption tax hike in October 2019 (66%). While there is a decent chance that the impact from the tax hike will be limited, the corporate world is still cautious about the downside impact of the tax hike which, in the case of the raise in 2014, was far larger than had been expected.

In Q3 we can clearly see that Japanese CFOs are waiting for the data in order to properly judge the impact of domestic and international risks.

Accounting News

IFRSs

Post Implementation Review IFRS 13

The IASB completed in December 2018 its Post-Implementation Review ('PIR') of IFRS 13 **Fair Value Measurement**.

The conclusions were that the information required by IFRS 13 is useful to users of financial statements. Although some areas of IFRS 13 present implementation challenges, evidence suggests that practice is developing to resolve these challenges. Thus, the IASB concluded that the standard works as intended. For additional information, see our related and IAS Plus project page on the PIR of IFRS 13 as well as the IASB press release and the PIR report on the IASB web page. No other new standards, amendments or interpretations were issued by the IASB during this Quarter.

U.S. GAAP

The FASB has issued several Accounting Standards Updates, including:

Accounting Standards Update No. ("ASU") 2018-20 - Leases (Topic 842): Narrow-Scope Improvements for Lessors

The ASU addresses the following issues facing lessors when applying the leases standard:

- Sales taxes and other similar taxes collected from lessees

  The amendments in this update permit lessors, as an accounting policy election, to not evaluate whether certain sales taxes and other similar

taxes are lessor costs or lessee costs. Instead, those lessors will account for those costs as if they are lessee costs.

- Certain lessor costs paid directly by lessees

  The amendments in this update related to certain lessor costs require lessors to exclude from variable payments, and therefore revenue, lessor costs paid by lessees directly to third parties.

- Recognition of variable payments for contracts with lease and nonlease components

  The amendments in this update relates to recognizing variable payments for contracts with lease and nonlease components require lessors to allocate (rather than recognize as currently required) certain variable payments to the lease and nonlease components when the changes in facts and circumstances on which the variable payment is based occur.

The effective date and transition requirements for the amendments in this update for entities that have not adopted Topic 842 before the issuance of this update are the same as the effective date and transition requirements in update 2016-02 **Leases (Topic 842)**.

For entities that have adopted **Topic 842** before the issuance of this update, the transition and effective date of the amendments in this update are as follows:

- An entity should apply the amendments at the original effective date of Topic 842 for the entity. Alternatively, the entity has the option to apply the amendments in either the first reporting period ending after the issuance of this update or in the first reporting period beginning after the issuance of this update.
- An entity may apply the amendments either retrospectively or prospectively.

All entities, including early adopters, must apply the amendments in this update to all new and existing leases. For more information, see this as included on the FASB's website.

Japanese GAAP and other local developments

The Financial Service Agency (FSA) of Japan issues amendments to the "Cabinet Office Order on Disclosure of Corporate Affairs."

In January 2019, the FSA issued the amendments of the "Cabinet Office Order on Disclosure of Corporate Affairs", based on the proposal presented in the Report issued by the "Working Group on Corporate Disclosures" of the Financial System Council in June 2018. Before finalization, the FSA proposed the draft for these amendments and were open to public comments from November 2, 2018 until December 3, 2018. The FSA's aim is to enhance financial information and narrative information contained in the annual securities report. The amended Cabinet Office Order is to be applied in stages, starting from the reporting period ending on or after 31 March 2019.

The Financial Service Agency (FSA) of Japan issues the report compiled by the "Advisory

Council on Enhancement of Auditing Information Provision"

In January 2019, the FSA issued the report compiled by the "Advisory Council on Enhancement of Auditing Information Provision", aiming to enhance information on independent auditors' opinion. The report was released after their three meetings, which were held from November through December 2018.

The Accounting Standards Board of Japan (ASBJ) updates its 'Work Plan for Accounting Standards under Development'.

In January 2019, the Accounting Standards Board of Japan (ASBJ) released its updated work plan for accounting standards that are under development. One of the major accounting standards and interpretations under development is Accounting Standards for Fair Value Measurement, the Exposure Draft of which was issued on the same date and described below in more detail.

The ASBJ issues the Exposure Draft of Accounting Standards for Fair Value Measurement, etc.

In January 2019, the Accounting Standards Board of Japan (ASBJ) released for public comment the Exposure Draft of Accounting Standard for Fair Value Measurement (Exposure Draft of Statement No. 63) and its related guidance (Exposure Draft of Guidance No. 63), along with several related proposals for amendments of accounting standards for inventories, financial instruments, etc. The ASBJ's intention is said to develop detailed guidance for fair value measurement, such as IFRS13 by IASB or ASC820 by FASB. The comment deadline is April 5, 2019.

The ASBJ issues Revised Accounting Standards for Business Combinations and its Implementation Guidance.

In January 2019, the Accounting Standards Board of Japan (ASBJ) issued the revised accounting standards for business combinations (ASBJ Statement No. 21 [revised 2019]) and its related implementation guidance (ASBJ Guidance No. 10 [revised 2019]) in order to amend accounting for partial repayment of consideration in relation to contingent considerations. The revised accounting standards and implementation guidance will be effective for the business combinations made in or after the reporting period starting on April 1, 2019.

The ASBJ issues amendments to 'Japan's Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications'

In December 2018, the ASBJ issued amendments to JMIS in order to reflect the endorsement process on IFRS16 and amendments issued by the IASB between 1 July 2017 and 31 December 2017, except for IFRS17 Insurance Contracts. For more information, the press release and related documents on the ASBJ website.

The Financial Service Agency (FAS) issues the draft "Principles for the Disclosure of Narrative Information".

In December 2018, the FSA proposed the draft "Principles for the Disclosure of Narrative Information" based on the proposal presented in the Report by the

"Working Group on Corporate Disclosure" of the Financial System Council, which was published on June 28, 2018. The draft Principles mainly aim to enhance the disclosure of narrative (non-financial) corporate information particularly in terms of business policies, business strategies, management's discussion and analysis of financial condition, results of operations and cash flows, and risk factors, by not limiting disclosure to the corporate financial information subject to statutory disclosure pursuant to the applicable rules. The comment period was closed on February 1, 2019.

The Financial Accounting Standards Foundation (FASF) appoints the New Chair of the ASBJ.

In December 2019, the FASF announced that the Board of Directors of the FASF approved the appointment of Mr. Atsushi Kogasaka as the next Chair of the Accounting Standards Board of Japan (ASBJ). Mr. Kogasaka was a Partner with Deloitte Touche Tohmatsu in Japan from 2000 to 2009, when he joined the ASBJ as Technical Director. In 2013, he became Vice Chair of the ASBJ. Mr. Kogasaka's term as ASBJ Chair will begin on 1 April 2019. For more information, see the press release on the ASBJ website.

The ASBJ met representatives of the Australian Accounting Standards Board (AASB) in Tokyo.

In December 2018, representatives of the Australian Accounting Standards Board (AASB) and the ASBJ met on December 4, 2018 in Tokyo. At this meeting, the standard-setters provided updates on their respective financial reporting frameworks and discussed specific technical topics in which the Boards have interest, including disclosure initiative, management commentary, intangible assets, goodwill and impairment, business combinations under common control, discount rates and cryptocurrencies. For more information, see the press release on the ASBJ website.

For more information, please visit: IASPlus.com (IFRS) or USGAAPPlus.com (U.S. GAAP) or speak to our Deloitte experts Takafumi OSEKO, Partner (takafumi.oseko@tohmatsu.co.jp) or ALEJANDRO Saenz, Senior Manager (alejandro.saenzmartinezgeijo@tohmatsu.co.jp).

Tax News

A perspective for tax and legal professionals

While not as comprehensive as in recent years, the 2019 tax reform proposals do provide updates in key areas that may impact foreign multinationals doing business in Japan. As expected, a significant overhaul of the earnings stripping regime has been proposed reflecting some of the recommendations included in Action 4 of the OECD initiative on Base Erosion & Profit Shifting (BEPS). Japan also continues to promote domestic growth through research and development (R&D), and the proposed reforms offer a more generous tax credit for those companies willing to spend more on R&D. Further, in the area of transfer pricing certain clarifications and adjustments are set to be introduced in an effort to address the treatment of intangible assets in an increasingly digital economy. Taken as whole, the reform proposals mainly build on established positions, but as usual taxpayers need to be aware of how the changes could potentially affect their operations in Japan.

The proposed changes to Japan's earnings stripping regime include a clarification of the definition of net interest expense (i.e. the amount potentially subject to limitation on deductibility) to include interest paid to third parties. The changes also include a reduction in the allowed interest expense ratio (used to compute the amount of deductible net interest) from 50% of adjusted income to just 20%. While the proposed rules cast a wider net, there will now be a group

exemption whereby the rules would not apply if the ratio of a Japanese group's net interest to its group adjusted income is 20% or less, which may offer relief for certain highly leveraged companies in a domestic group structure. Similarly, and in a departure from the OECD's recommendations, interest which is subject to Japanese taxation in the hands of the recipient remains out of scope (i.e. not subject to limitation on deductibility), which is good news for companies borrowing from local banks. These concessions may offer some relief in the midst of tightened restrictions, however foreign multinationals will need to consider the overall impact of the reforms on their current financing arrangements.

At the same time the Japanese government is trying to prevent the erosion of its tax base, it is also looking to invigorate the local economy by offering increased tax incentives for companies engaging in on-shore R&D. While the proposed changes to the R&D tax credit regime do not increase the maximum amount of credit available, the adjustments to the calculation may offer an increased benefit for companies with growing R&D functions in Japan, as larger increases in expenditures are set to create more benefit. Conversely, the new regime may prove to be less beneficial where increases in expenditure are more modest. Further, an extended credit limitation of 40% of corporate tax liability will be available for certain venture companies, as opposed to the standard 25% limitation for normal companies, and this could provide some welcome relief for inbound start-ups looking to build their business in Japan.

Turning towards transfer pricing, the proposed changes represent a collection of amendments necessary to implement the OECD's approach to hard-to-value intangibles (HTVIs) and to enable the tax authorities to make after-the-fact adjustments to consideration paid for such assets. The proposed definition for HTVIs in the tax reform differs slightly from the OECD approach, and practically speaking, the new Japanese rules may have even broader application than the OECD recommendations. On top of this, the tax authority will now be armed with additional tools to effectively apply the HTVI rules. The extension of the statute of limitations from six to seven years for transfer pricing purposes, as well as the formalization of the interquartile range concept into the domestic law, will essentially expand the scope and potential for adjustments by the tax authority. In this respect, companies can prepare, by reviewing their existing transfer pricing policies, to ensure that they will not be adversely impacted by these revisions.

Other notable reform proposals include tweaks to the tax treatment of certain corporate reorganizations and clarification on the tax treatment of cryptocurrencies held by companies. Firstly, for companies undergoing a merger, corporate division, or share-for-share exchange, the issuance of shares in the ultimate parent company (i.e. an indirect owner) will no longer disqualify these transactions from being treated as tax deferred. However, the proposals indicate that the final legislation may exclude certain foreign ultimate parent companies from this rule, so

any potential benefit for inbound group structures remains to be seen. The reforms also clarify that cryptocurrencies held by corporations, and which are on an actively traded market, will be marked-to-market at fiscal year-end, signaling that the tax authority is actively responding to the expanding use of virtual currencies as an asset.

The 2019 tax reform proposals, while comparatively modest overall, are further evidence of Japan's role as a first mover on BEPS in Asia Pacific. Although a number of the aforementioned changes were expected, taxpayers should be aware of some subtle areas of difference between the reforms and the corresponding OECD recommendations. As described above, the proposed earnings stripping rules continue to allow an exception for on-shore financing, despite bringing third-party interest within the scope of the rules, which could prove beneficial for taxpayers with local financing arrangements in place. On the other hand, the clarification of the treatment of HTVIs for Japanese transfer pricing purposes may make it easier for the tax authority to pursue adjustments, in addition to the extended statute of limitations. While the proposals may change before being enacted into law, certain reforms are set to come into effect from 1 April 2019 (or later) and companies should use this remaining time to review their existing positions and to assess any potential adverse impacts or opportunities available.

For more information, please speak to our Deloitte experts Sam Reeves' (sam.reeves@tohmatsu.co.jp) or Lars Dahlen (lars.dahlen@tohmatsu.co.jp)

Mobility

Information and insights on-the-go

More than 60% of organizations are still in the process of making existing IT assets mobile-enabled; 30% are using mobility to re-define existing business models and drive incremental revenue streams.

What is Mobility?

The surge in worldwide spending on mobile devices along with the superior performance by smartphones which includes mobile wallets, E-commerce, biometrics, GPS, and cameras have caused a shift in the way we operate in our personal lives. Workplaces are also seeing millennials increasing in share as a part of the workforce. This has resulted in more employees expecting the same seamless experience provided the smartphone at the work. Moreover, it has led to a transformation of business models and rise in expectations across the value chain.

Enterprise Mobility Management is the set of people, processes and technology focused mobile devices, wireless networks and other mobile computing devices to allow mobility of workers, corporate data and information.

Several organizations who have embarked upon their Digitalization journey view enterprise mobility as a critical aspect in their operations and expect it to be one of the top IT investments. Implementation of Bring Your Own Device (BYOD) policies would lead to higher

employee satisfaction through increased productivity, higher engagement after work hours, and collaboration. This can also reduce costs and maintenance efforts for the IT function.

The implementation of mobile policies increases the infrastructure requirements multi-fold to manage new devices, services and connectivity models. Traditional approaches are inadequate to support mobility as the number of apps explodes, and the development and distribution of those apps requires new skills, new processes, and new platforms. Each new mobile device introduced in the enterprise has consequences on the cost and performance of the IT environment. Cybersecurity is one of the major concerns as the decentralized access of corporate data is an element as crucial as the decentralization of work. Businesses might also have to consider aligning their mobility strategy in order to collaborate with external parties like suppliers, distributors and even customers who might have their own BYOD policies in place. This is a long and difficult journey and requires cross functional collaboration.

The top three areas in which companies are investing in to achieve their mobility are in building and deploying new applications for customers and employees, infrastructure upgrades more aligned to mobile-cloud principles, and re-engineering business processes to best take advantage of mobile platforms and work styles.

Mobilization of the Business Process

Mobilizing the business process means taking existing business processes and optimizing them to be used on mobile devices. This could involve every line of business within an organization. Companies would need to carefully analyse each business process to determine the most suitable ones to be mobilized, and therefore maximize the ROI. Also, mobilizing the business process can be a complex technical challenge for some organizations. It will require procuring additional software solutions or reengineering existing solutions, or sometimes both. The additional cost of which can become a barrier from gaining stakeholder buy-in.

Organizations should take a proactive approach in trying to take on these policies to drive maximum value out of enterprise mobility, rather than a reactive approach in trying to avoid employee dissatisfaction from lack of agility.

Mobilization across the Value Chain

Mobilizing across the value chain involves collaboration between the organization and its value chain partners. Mobilizing the channel can streamline the entire value chain operation, allow quicker time to market, and resolve issues before they become problems.

Employees showing highest demand for BYOD policies are those who serve external clients, those who like to use the latest technology in their personal life, and those who connect to the Internet while traveling.

For customer facing functions such as Sales, Marketing and Services, mobility can help employees connect better with customers and help in faster issue

resolution. In terms of sales, it helps the employees to track and maintain leads and get real time competitive information and for customers, it could help in purchase by enabling connectivity through multiple channels.

Mobility in the CFO's office:

Enterprise mobility is gaining acceptance in the finance functions as many finance leaders realize that the demands of the millennial workforce cannot be met without smart mobile solutions. Some of the areas where Mobility is becoming mainstream in finance are:

i) Use of Mobile apps for managing the full cycle of travel management– booking trips to submitting expense claims and getting notified on reimbursements. Many providers are now offering mobility as an USP for their Travel solutions.

ii) Workflow approvals for Accounts payable processes, including exception approvals, are slowly gaining acceptance and are believed to be on the cusp of an explosion through mobile leverage.

iii) The same can be applied for approvals for changes in master data; e.g., Vendor master changes often require multiple parallel approval layers.

iv) With mobile wallet payments becoming main stream in India, it is only a matter of time when corporate payment solutions for B2B payments can also get on to mobile app based payments.

v) The biggest use of mobility in Finance today is in the use of dashboards and reporting, where most BI solutions are coming with an embedded mobile enablement option. Many corporate leaders are now demanding mobility in reporting to be an essential ingredient of an enterprise information management strategy.

About the Author:

Pankaj Arjunwadkar, is a Leader of CFO Program International and a Director with the Finance transformation International Clients Team in Deloitte Tohmatsu Consulting. He has lead several large Digital Finance engagements and authored a number of whitepapers on the subject. For more information, please speak to Pankaj at paarjunwadkar@tohmatsu.co.jp

Sysco CFO Joel Grade: Strategy, Innovation, and the Finance Mindset

Joel Grade discusses how to execute strategic priorities, lead digital business transformation efforts, and engage with Wall Street in the social media era as CFO. He also offers career advice to aspiring CFOs.

For today's top CFOs, owning the balance sheet is not enough. Rather, they are expected to operationalize the strategic plan like a business leader and to drive digital innovation and transformation. What does it take to execute strategic priorities and lead digital business transformation efforts as CFO? For Sysco CFO Joel Grade, the answer starts with establishing a finance mindset of owning the P&L, driving cross-functional collaboration, and continually looking for opportunities to enhance customers' experience in doing business with Sysco.

Grade also discusses how finance works with other functions to execute Sysco's strategic priorities, and his leadership role in digital innovation and transformation within finance and across the company, with Marc Hanna, a principal with Deloitte Consulting LLP.

Hanna: What are Sysco's top strategic priorities, and what is finance's role?

Grade: Sysco's long-term goal is to deliver shareholder value by making ourselves our customers' most valued and trusted business partner. Our current three-year plan, which carries us through the end of our fiscal 2020, builds on the priorities we laid out for our recently completed FY 2015-2018 plan. That included growing our independent restaurant customers, increasing gross profit growth, reducing administrative costs,

gaining supply chain efficiencies, and improving our return on invested capital.

The finance team has been deeply involved in achieving those objectives, both on the P&L side and on the balance sheet side. For example, in our FY 2015-2018 three-year plan, we set an aggressive target to improve working capital. Finance coordinated cross-functional work with project teams from operations, field leadership, and merchandising. We set up specific programs for operating units that had challenges with inventory management and worked closely with our merchandising organization to enhance terms with our suppliers.

As a result of these efforts, we took five days off our working capital, versus the four that we had targeted. While finance took the lead, it was a collaborative effort with the business.

Hanna: How did you drive collaboration between finance and the business, as well as other functions?

Grade: Both my operational and finance experience at Sysco helped me to understand not just why we should work together to drive results, but also how to work together effectively. For me, the critical step was changing finance's mindset from being consultants to the business — on the outside if you will — to a mindset of taking ownership of the P&L. I make it clear to my team that we're not just reporters; we are active participants in achieving P&L with the business.

One of my initiatives since becoming CFO has been to encourage those in finance who sit in the business and are assigned to functions, such as supply chain, to align their goals and metrics with the function. And they should take ownership for their function's results. So someone in finance assigned to support the supply chain organization should align their objectives with whatever that function is responsible for driving in the business, including the same performance metrics as supply chain personnel, such as specific targets for productivity, or cost per case.

Hanna: How are you using digital technologies in your finance organization to support the business?

Grade: Sysco, like other companies across industries, operates in a digital, technologically driven world, and we are working on many fronts to digitally transform our business and our operations. From a finance perspective, I ask, 'How can we use digital technologies to become more efficient so that we can make ourselves easier for customers to do business with and so that our business focuses on serving customers?'

In our current FY 2018-2020 three-year plan, reducing administrative costs represents 20 to 25 percent of our target net operating income improvement, and technology is key to helping us achieve those savings. We're exploring ways to drive efficiency with robotic processing automation, different AI techniques, and other tools. For instance, we do the general ledger work for all of our U.S. business in our shared services center. Another area ripe for automation is our pricing and agreements with customers and suppliers, which are highly detailed and often entered manually. We have numerous repetitive journal entries and account reconciliations, all of which present opportunities for automation.

Finance also has a major role in many of the digital initiatives across the company, which are designed to make it easier for our customers to interact with us. For instance, we want our B2B customers to have a similar online experience as they have in a B2C online environment, so that they can place their order, receive credits, see their accounts, and pay their bills, much in the same way they do their online banking, for example. We are developing a seamless online portal for customers, vendors,

and associates, encompassing a range of activities, from pricing to collections to processing credits, and electronic payments.

Hanna: Sysco has established a transformation office to help oversee priorities for innovations. How does finance work with the office?

Grade: Historically, Sysco has been a fragmented, decentralized organization, but with so much innovation occurring, we want to align and prioritize resource allocation and ensure we avoid duplicative efforts. For instance, sales, marketing, merchandizing, and finance are all working on how to use digital to improve the customer experience. To help us be agile and coordinate our innovation efforts across the organization, the company established the transformation office to run organizational strategy and priorities through one central portal. The office is led by a transformation officer, who reports directly to the CEO, and has a relatively small, cross-functional team to support it.

The work that my finance team and I do with the transformation office on capital planning and forecasting is critical to ensuring that everyone is on the same page and working collaboratively across the entire enterprise. The plan spells out the priorities and, from a resource allocation perspective, how we plan to spend capital and investment dollars. Of course, as priorities change and things evolve, resources and funds can be shifted to reflect new developments.

Hanna: How do you approach engaging with Wall Street in this era of activist investors and social media?

Grade: Whether communicating with employees, our board, or the investor community, it's important to have a strategy around what we say, how we say it, and where we say it, and to make sure that we are clear, transparent, and consistent. The way we ensure alignment amongst the team when responding to the same questions is to be rigorously upfront and transparent about what we're saying.

We have worked hard to build credibility with the investor community. Whether we have good news or bad, we're going to talk about it. Wall Street can be a very reactive environment and having that credibility can help manage their reactions when challenges come up. So if we say, 'Look, this is something we're challenged with, and here's what we're doing about it,' people are generally willing to give us a little leeway to deal with the challenge because of that credibility.

Hanna: You recently addressed a group of aspiring CFOs at Deloitte's Next Generation CFO Academy. What career advice did you offer?

Grade: As finance becomes more integrated in the business, aspiring CFOs and finance officers have to be capable of using their technical finance and analytical capabilities to help the people around them understand the business better and to help them be more effective in their roles. They have to be good leaders and good listeners, and they have to interact and collaborate with many cross-functional stakeholders.

To cultivate that broad skillset, I encourage my team members to get a varied range of experiences within finance, and also in business operations. For example, one of our key finance leaders is now running one of our European businesses. The experiences he is getting are vital both to his career and to the organization. I encourage my top performers to get that kind of experience because it benefits their career and it benefits Sysco. I also let them know very clearly, 'We would love you to come back,' because they are getting the experience they will need to lead our finance team of tomorrow.

— By Andrew Marks, Deloitte Services LP, journalist, Deloitte Insights for CFOs

Succession Planning:

The Difference between Good CFOs and Great CFOs

A well-designed CFO succession plan ensures a deep bench of finance talent prepared to step into leadership roles, and frees up CFOs' time to focus on their strategic and catalyst roles.

When CFOs of large North American companies were asked by Deloitte about the legacy they wanted to leave, they said, in overwhelming numbers, that they wanted to have had a strong influence on their company's ability to perform well in the future and to have left things better than they found them.

One of the keys to achieving those goals is a well-thought-out CFO succession plan that ensures there is a bench of highly skilled finance leaders ready and able to take the baton—ready not only from the CFO's vantage point, but also from the perspective of management, the board of directors, and Wall Street.

Although CFOs face significant demands, making time for succession planning can pay dividends. With a deep bench of talent prepared to step into leadership roles, CFOs free up their time to focus on their expanding roles as strategic leaders and drivers of change initiatives. That's particularly important in this era of digitalization, industry convergence, and disruption. A strong succession plan can also help protect the finance organization from unexpected leadership departures and avoid sudden gaps in talent.

Moreover, CEOs and boards expect their CFO to have a roster of "ready-now" and "ready-soon" successors in the pipeline. Executive recruiters tell us that a candidate's ability to build strong teams and develop successors have become top criteria for CEOs and directors in today's CFO searches. That is especially true as CFO tenures continue to shrink and the gap between the demand for experienced finance leaders and the supply of them expands.

What does it take to develop and sustain a strong succession plan? First and foremost, it requires that a CFO makes a commitment to invest his or her time and the organization's money to talent recruitment, assessment, and development. The more a CFO understands their team's capabilities, the better equipped they will be to develop their succession plan and to avoid leadership holes.

A CFO succession plan should include readiness assessments of internal talent at least two levels beneath the CFO, finance-specific leadership development programs, and recruitment of external hires for certain skills, like investor relations (IR) or mergers and acquisitions. CFOs should understand and be able to communicate to the CEO, board, and other key stakeholders potential successors' strengths and what they need to do to get to the next level. They should also be able to identify external talent who could help fill leadership gaps.

The following seven practices can help CFOs build and sustain a succession plan, which in turn, can position them to leave a legacy of leadership and high performance:

1. **Involve the CEO in planning and keep the board informed.**

Make sure the CEO and directors, especially the audit committee, are regularly kept up-to-date on CFO succession planning and talent decisions, and provide them opportunities to see high performers in action. These interactions can assure a CFO's most important stakeholders that finance's future leadership is in good hands and provide high performers important development exposure.

2. **Understand direct reports' ambitions and qualifications for their promotability.**

A CFO's senior finance leaders are a natural source of potential successors. In reality, some will not make the grade. Nevertheless, ensure they understand what is expected of them to carry out your agenda and provide them with robust development opportunities. Also, have them develop their own succession plans. The plans should be realistic and not list all the same people. If some direct reports are not interested in becoming a CFO or do not feel prepared for the role, they can be helpful in identifying other candidates.

3. **Identify, assess, and develop successors early.**

Take succession planning into consideration when recruiting, even at the entry level, and provide developmental programs appropriate to experience level. Focus efforts on identifying and developing high-potentials, starting at the manager level. Assessment and development programs should intensify as finance professionals advance on their career paths.

4. Rotate people into new roles to expand their knowledge and skills.

Rotation programs should provide diverse assignments both within finance and in other functions and the business, given CFOs' expanding strategy development and execution roles. In fact, corporate strategy, industry experience, and IR were named by more than 60% of CFOs participating in Deloitte's Q2 2018 CFO Signals™ survey as the top three qualifications for their successors, besides technical financial experience. Another consideration is the impact of technologies on the finance function and what new skills may be needed.

5. Emphasize "soft" skills in succession readiness assessment and development.

The ability to build and lead teams, and to influence, collaborate, and communicate effectively with stakeholders are key to determining whether finance leaders are capable of making the leap to the CFO role. These skills are seldom part of performance assessment or development until executives advance further in their careers. Start leadership, teamwork, and communication training and performance evaluation at the manager level, if not sooner.

6. Consider external hiring part of the succession plan.

Even the most successful development program is unlikely to fill all finance leadership needs. Stay in touch with executive recruiters on top talent who might be available, and understand what the market and your competitors are seeking in a new CFO. If you cannot identify two successors for a critical role from within the organization, be prepared to search outside and manage the expectations of internal talent, particularly high performers you would like to retain.

7. Re-assess the succession plan throughout the year.

The fast-changing business environment and new expectations for finance could reveal soft spots in a potential successor's skillsets and experience. That means updating both the talent agenda and readiness evaluations of potential successors periodically to ensure that their experience and business acumen align with the evolving needs of the organization.

Few things can assure a CFO's success more than investing in building and retaining great talent. Time and again CFOs tell that us that talent is the critical differentiator between being a good finance leader and a great one. Purposeful and sustained succession planning is the lever that CFOs' have at their fingertips day in and day out to shape their legacy, their company's future success, and their contribution to long-term shareholder value.

— By Sandy Cockrell III, national managing partner of the U.S. CFO Program at Deloitte LLP, and Charles Holley, retired CFO of Walmart, independent senior advisor to Deloitte as CFO-in-Residence, and audit committee chair of Amgen.

The Rise of the Socially Responsible Business

Business leaders increasingly view societal impact programs as helpful to both society and their bottom lines.

During 2018, a growing number of CEOs took public positions to encourage their companies—and those of other business leaders—to define their organizational purpose and work toward making a positive societal impact on topics ranging from diversity and inclusion and education to climate change and voting.

Such a shift suggests that a new, purpose-driven mindset has moved to the forefront of C-suite agendas and become an important element of integrated business strategies. A new global survey of 350 business leaders conducted by Deloitte Global and Forbes Insights[1] seems to confirm this shift, with 93 percent of respondents believing companies are more than mere employers; they are societal stewards. Currently, 59 percent of respondents devote between 1 and 5 percent of their revenues to programs with a purpose, according to the survey, with two-thirds of them reporting increased budgets for such programs over the past two years. Ninety-five percent of respondents are planning to take bigger stands on social issues in the coming year.

" I find it empowering to hear business leaders discussing societal impact and inclusive growth alongside more traditional priorities," says Deloitte Global Chairman David Cruickshank. "This exemplifies a shift in the relationship between purpose and profit. They no longer have to be adversarial priorities—

purpose and profit can coexist within the same business strategies."

Indeed, these societal impact programs aren't exclusively motivated by altruism: Fifty-eight percent of executives surveyed view a program's success based on the "positive impact on the bottom line," roughly equal to "positive impact on beneficiaries' lives" (55 percent). Respondents also indicate talent-related challenges such as computer literacy and technology access are a higher priority than issues that require global scale and have less tangible demonstrated results (such as global warming or poverty).

Regardless of the reasons, the research suggests 2019 will see even more vocal and action-oriented C-suites as the rise of socially responsible business increases as a priority. It also raises the question: Can long-term views on social impact coexist with short-term demands for financial performance?

Change Starts at the Top

According to the survey, 46 percent of executives believe CEOs are the main drivers for societal impact programs in their organizations. However, recognizing the CEO as the main driver of social strategy can be a mixed blessing when it comes to moving from vision and leadership to designing and executing a strategy with measurable results.

According to the survey, 45 percent of executives say businesses are investing more in social impact because they have the financial resources to do so. This creates an interesting dynamic for CEOs leading societal impact programs while simultaneously charged with delivering short-term returns for shareholders. These CEOs will want to find a balance that allows for meaningful societal impact investment and shareholder satisfaction.

While CEOs are evaluating their organizational purposes and considering their social impact, these long-term visions can only materialize if organizations have strong foundations to implement strategies.

The Correlation between Doing Well and Doing Good

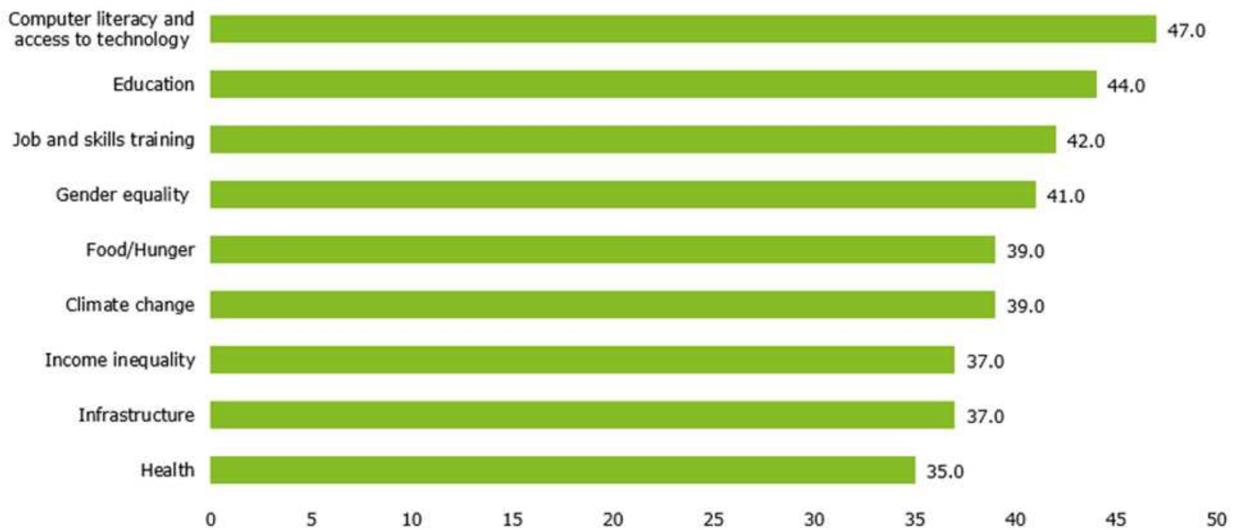
Companies are taking a pragmatic approach to measuring the success of their societal impact programs, ranking factors such as profitability, employee retention, and client acquisition/retention as essentially equal to factors such as the number of beneficiaries helped, locations affected, and dollars donated. This seems to indicate many executives believe doing well and doing good go hand-in-hand.

How do you measure success in terms of your company's societal impact?	
Positive impact to our bottom line	58%
Impact to employee retention	55%
Number of lives/communities positively impacted	55%
Number of geographic locations where we are making an impact	54%
Impact on client acquisition/retention	52%
Amount of money donated	50%

Source: Deloitte Global societal impact survey, 2019

Two findings are worth noting. First, employee retention tied for second regarding how leaders assess social impact programs. This is consistent with previous Deloitte Global research that showed employee engagement ranked first among factors used to value ROI among inclusive-growth initiatives. Second, companies are significantly more likely to target communities in which improvement may ultimately benefit the company. A place where a company has operations is considerably more likely to receive help than a generic location (64 percent vs. 28 percent), even if the need in the latter is greater.

It's not surprising, then, that talent-related programs are the ones getting the most attention. According to the survey, computer literacy and access to technology are the areas companies tend to consider most urgent, followed by education and job and skills training. While these initiatives have a social benefit—more equal access to opportunities, alleviating income and gender inequality—they also can help companies create a workforce ready to face the challenges of Industry 4.0. Indeed, the survey finds nine of 10 organizations have formal programs to directly address job-creation opportunities and mentoring programs for people in underserved communities.



Source: Deloitte Global societal impact survey, 2019

A Collaborative Solution

Despite the focus on talent-related societal impact programs, a report from Deloitte Global and the Global Business Coalition for Education estimates that more than half of the 2 billion youth worldwide will not have the necessary skills or qualifications required to participate in the workforce by 2030. To help ensure the next generation is prepared, businesses may want to establish partnerships both within and across industries.

Though business collaborations have been around for a long time—and have been made easier by technologies to help create entire ecosystems of participants—they are much less common when it comes to societal impact programs. Generally speaking, business leaders prefer collaborating with not-for-profits and nongovernmental organizations rather than other companies.

Companies also don't seem to consistently vet their vendors and other business partners for their societal impact. While two-thirds of survey respondents factor a company's values or social impact programs into their buying or partnership decisions, fewer than a third see social policies as an impetus for deciding to work with one vendor over another.

While companies seem to be growing more steadfast about their dedication to social issues, it is often with an eye toward how those initiatives can benefit the organizations' long- and short-term interests. That's not surprising given the individual in charge of setting social agendas is also the person responsible for providing shareholder value: the CEO.

Some business leaders, however, are more successful at striking a balance between short- and long-term success with societal impact programs than others. Making social programs part of companies' core

strategies can help organizations lay a framework to extend beyond an individual CEO's tenure.

There also seem to be opportunities for businesses to play a bigger role in society as active stakeholders in some of the most pressing global issues. To succeed at such an elevated level, executives may want to think more broadly about how they interact within society at large and begin collaborating with others—both within and outside of their business ecosystems—to achieve maximum impact.

Endnotes

.

1. Findings are based on a survey of 350 global executives conducted by Forbes Insights and Deloitte Global, representing all functions within the C-suite, including CEOs (6 percent), chief human resources officers (10 percent), chief sustainability officers (10 percent), chief operating officers (7 percent), and chief financial officers (7 percent). Survey respondents represented all major industries, with the biggest groups coming from financial services (13 percent) and 10 percent each from life sciences, energy and resources, and telecommunications. Fifty-seven percent of respondents came from organizations with revenue between $500 million and $5 billion; the remaining 43 percent represented companies with revenue greater than $5 billion

What It Takes to Lead in Industry 4.0

Four leadership personas can serve as models for leaders globally as they tackle the challenges associated with the fourth industrial revolution.

New research released this week suggest C-suite executives continue to adjust their approaches to Industry 4.0, the highly connected, technology-rich industrial revolution reshaping global business. In this emerging environment, four leadership personas have emerged as role models for how to achieve success in a rapidly transforming business environment. These developments are discussed in Deloitte Global's second annual 4.0 Readiness Report, "Success personified in the Fourth Industrial Revolution." The findings, the focus of a panel discussion of business leaders at Davos, capture the views of more than 2,000 C-suite executives at organizations with revenue of $1 billion or more across 19 countries.

Last year's inaugural Deloitte report on Industry 4.0 readiness revealed some disconnects between perceptions and reality. While executives understood the changes being brought about by Industry 4.0 and were confident they were ready, their actions suggested they were less prepared and less able than they thought to fully harness and benefit from those changes.The results from the new research are much different. "Of the many insights uncovered in the 2019 report, one seems to stand out," says Punit Renjen, Deloitte Global CEO. "The number of respondents who insisted they are doing 'all they could' to prepare their workforces for Industry 4.0 fell by nearly half in the current survey when compared to the previous year's

findings. That shift suggests that business leaders are becoming more realistic about what it will take to succeed. The new research indicates that executives are particularly focused on societal impact and workforce development as two critical components of their future success." At the same time, roadblocks appear to be limiting the development of effective strategies, and organizations continue to shy away from bold technology investments that will drive innovation and disruption.

What CFOs Think

The following survey findings reflect CFOs' views:

—42 percent say that societal impact is the most important factor for their organization to determine success when evaluating annual performance, higher than the global results of 34 percent.

—45 percent point to customer expectations for undertaking social initiatives, compared to 40 percent of all CXOs, and 25 percent also feel pressured by shareholder expectations, compared to just 18 percent overall.

—72 percent say their organization has developed or changed a product to be more socially conscious in the past year, similar to the global results of 73 percent.

—51 percent say they have generated new revenue streams from developing more socially conscious products, compared to 53 percent globally. CFOs are less likely, however, to think these initiatives are driving profitability more often than not—at 43 percent vs. 48 percent globally.

—54 percent indicate they are most challenged by the difficulty in attracting talent with the necessary skills, compared to 48 percent globally.

—Compared to 57 percent of the global CXOs surveyed, 25 percent of CFOs think the current education system will sufficiently prepare individuals for Industry 4.0, and yet just 23 percent of CFOs say they will extensively train current employees.

Leadership Personas for the Fourth Industrial Revolution

The research reveals four key characteristics of leaders in the age of Industry 4.0—commitment to do good; defined, data-driven decision-making; bold, longer-term vision of technology; and aggressiveness about workforce development. Leaders with these attributes appear to be better prepared to survive and thrive in times of rapid economic changes.

"Our research explores the types of leaders who are taking effective action, where they are making the most progress, and what sets the most successful leaders apart," Renjen adds. These types fall into four leadership personas: "Social Supers," "Data-Driven Decisives," "Disruption Drivers," and "Talent Champions." The personas can serve as models for leaders globally as they tackle the challenges associated with the Fourth Industrial Revolution transformation.

Social Supers. Social Supers consider societal initiatives fundamental to their businesses. They have demonstrated success in "doing well by doing good" by generating new revenue streams through socially or environmentally conscious products or services,

and they believe that these initiatives can contribute to profitability. Indeed, the 53 percent of global executives who noted their societal impact efforts resulted in new revenue streams help prove that purpose and profit can coexist in Industry 4.0. Meanwhile, more than a third (34 percent) rated societal impact as the most important factor when evaluating their organizations' annual performance, ahead of customer satisfaction (18 percent) and financial performance (17 percent).

Data-Driven Decisives. The survey also found that executives are struggling to develop effective strategies in today's rapidly changing markets. A third of global leaders cited lack of leadership vision as the top challenge their organizations face in adapting business strategies to meet the needs of tomorrow.

The leaders in the second group of personas, Data-Driven Decisives are overcoming these challenges through a methodical, data-focused approach and are bolder in their decision-making. They are also more confident compared to other leaders, with 62 percent strongly agreeing that they are prepared to lead their organizations in capitalizing on the opportunities associated with Industry 4.0—almost twice as many as other leaders (32 percent) surveyed. Nearly half of Data-Driven Decisives said their organizations invest in technology to disrupt their markets, against only a third of other leaders.

Disruption Drivers. Despite the economic and societal potential of Industry 4.0, many organizations opt to maintain the status quo with respect to technology investments, leaving them at risk. Twice as many CXOs surveyed said they are more likely to invest in Industry 4.0 technologies to protect their organizations from disruption than those looking to disrupt other industries or the marketplace (67 percent versus 33 percent).

In contrast, leaders in the third category, Disruption Drivers, understand that investment in new innovations is required for growth, and they invest in technologies with a concerted focus on upending their markets. These bold decisions have paid off—their technology investments have achieved or exceeded their intended business outcomes. "Disruption Drivers" also are more likely to say they feel ready to lead in the Industry 4.0 era (45 percent versus 32 percent of all CXOs surveyed) and are more assured that their organizations are prepared to capitalize on the opportunities associated with Industry 4.0.

Talent Champions. Although 55 percent of leaders highlighted a significant mismatch between current skill sets and those needed in the future, 25 percent still prefer hiring new employees over retraining their current workforces. Furthermore, 57 percent believe the education system is inadequately preparing incoming workers and needs to be redesigned.

Leaders in the fourth leadership grouping, Talent Champions, know what skill sets their companies need—and they believe they currently have the correct workforce composition. These executives are aggressively preparing their companies for digital transformation, and embrace their responsibilities to train their employees for the future of work (51 percent versus 41 percent for all other respondents).

Talent Champions also are more likely to invest in technologies to disrupt.

Leading in the Fourth Industrial Revolution

The survey shows that these four leadership personas share a number of characteristics that might offer lessons for those still trying to define their approaches. All are highly attuned to using Industry 4.0 technologies in an ethical manner. For many, this has resulted in societally driven products that have created new revenue streams. They are purposeful and methodical in setting Industry 4.0 strategies. Their companies follow clearly defined processes and use data to make decisions, more so than other companies.

In addition to achieving incremental gains for short-term initiatives, these leaders are more likely than others to invest in Industry 4.0 technologies to disrupt their markets. They also embrace the opportunity to extensively train their existing employees. Further, they are more confident that their organizations already possess the correct workforce composition for the future.

Another commonality is that their organizations are growing faster—more than 5 percent annually—than their counterparts (32 percent versus 20 percent). And they are more confident in their own abilities to lead their companies in the Industry 4.0 world—which is telling, given the uncertainties that many surveyed CXOs indicated.

"These leaders are achieving greater revenue growth than their counterparts, in part, because they have conquered at least one, and sometimes more, of the dimensions required for success," adds Renjen. "For other leaders seeking to prepare for the challenges of this new era, these personas offer insights that can be used to shape their own strategies for success."

About the Survey

This research is based on a survey of 2,042 global executives conducted by Forbes Insights in June-August 2018. Survey respondents represented 19 countries from the Americas, Asia, and Europe, and all major industry sectors. All survey respondents were C-level executives, including CEOs/presidents, COOs, CFOs, CMOs, CIOs, and CTOs. All executives represented organizations with revenue of $1 billion or more, with half (50.1 percent) from organizations with more than $5 billion in revenue. Additionally, Forbes Insights and Deloitte Global conducted one-on-one interviews with global industry leaders and academics.

The CFO Program for International Companies

Deloitte's Chief Financial Officer (CFO) Program brings together a multidisciplinary team of Deloitte leaders and subject matter specialists 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. Deloitte's vision is clear: To be recognized as the pre - eminent advisor to the CFO.

The CFO Program in Japan hosts regular events for executives of international companies to provide insights and networking opportunities.

Contact: Arjunwadkar Pankaj | paarjunwadkar@tohmatsu.co.jp

Website: https://www2.deloitte.com/jp/en/pages/finance/topics/cfo-program.html

Deloitte Tohmatsu Group (Deloitte Japan) is the name of the Japan member firm group of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee, which includes Deloitte Touche Tohmatsu LLC, Deloitte Tohmatsu Consulting LLC, Deloitte Tohmatsu Financial Advisory LLC, Deloitte Tohmatsu Tax Co., DT Legal Japan, and all of their respective subsidiaries and affiliates. Deloitte Tohmatsu Group (Deloitte Japan) is among the nation's leading professional services firms and each entity in Deloitte Tohmatsu Group (Deloitte Japan) provides services in accordance with applicable laws and regulations. The services include audit, tax, legal, consulting, and financial advisory services which are delivered to many clients including multinational enterprises and major Japanese business entities through over 8,700 professionals in nearly 40 cities throughout Japan. For more information, please visit the Deloitte Tohmatsu Group (Deloitte Japan)'s website at www.deloitte.com/jp/en.
Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's more than 225,000 professionals are committed to making an impact that matters.
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.
This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2019. For information, contact Deloitte Touche Tohmatsu LLC, Deloitte Tohmatsu Consulting LLC, Deloitte Tohmatsu Financial Advisory LLC, Deloitte Tohmatsu Tax Co.