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Deloitte CFO Signals Survey Report

Q2 2018

August 1, 2018

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About Deloitte CFO Signals

Deloitte CFO Signals is a survey conducted globally at regular intervals by Deloitte to find out what is on the minds of Chief Financial Officers (CFOs). After every survey, the answers of CFOs are compiled and analyzed by Deloitte's experts and published as "Signals" from CFOs.

The survey consists of a survey on the economic environment, which is used globally every time, and a topical survey, whose content differs by country.

The first survey in Japan was taken in August 2015, and we are now reporting on its 12th edition. Regarding the survey on the economic environment, we analyze chronological changes in CFOs' thinking as well as their latest forecasts at the time of the survey. In addition to the recurring questions, this time we also asked macro-level questions on the Japanese economy and possible risk scenarios affecting the world's major countries. As for Japan-specific topics, we chose to ask CFOs about issues related to accounting processes, initiatives to improve them, and future prospects.

This edition of the survey was conducted in July 2018 and received responses from the CFOs of 25 companies.

Thank you for your cooperation.

Deloitte Tohmatsu CFO Program
August 1, 2018

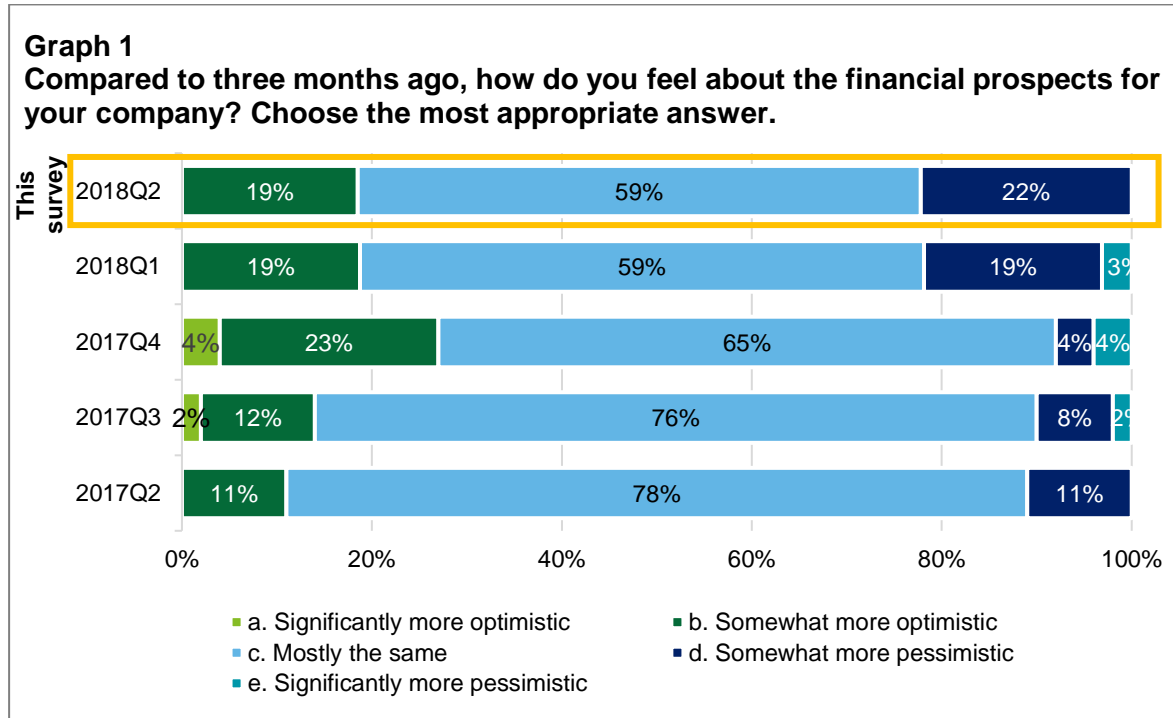
The **CFO** Program



Survey on the economic environment

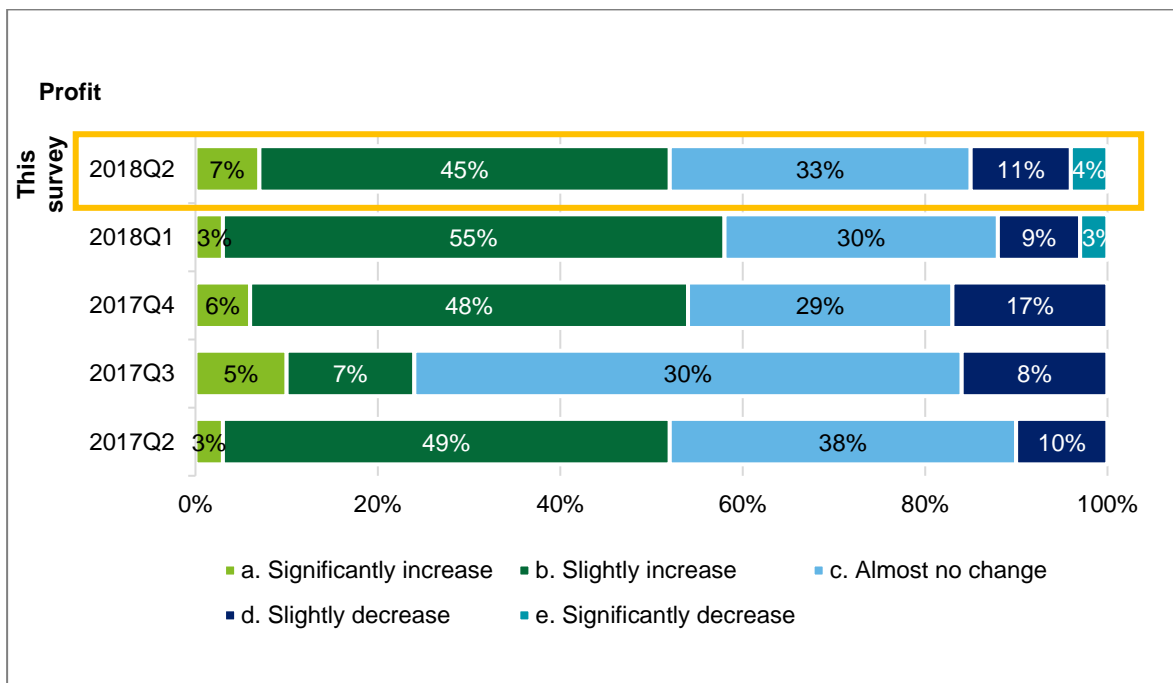
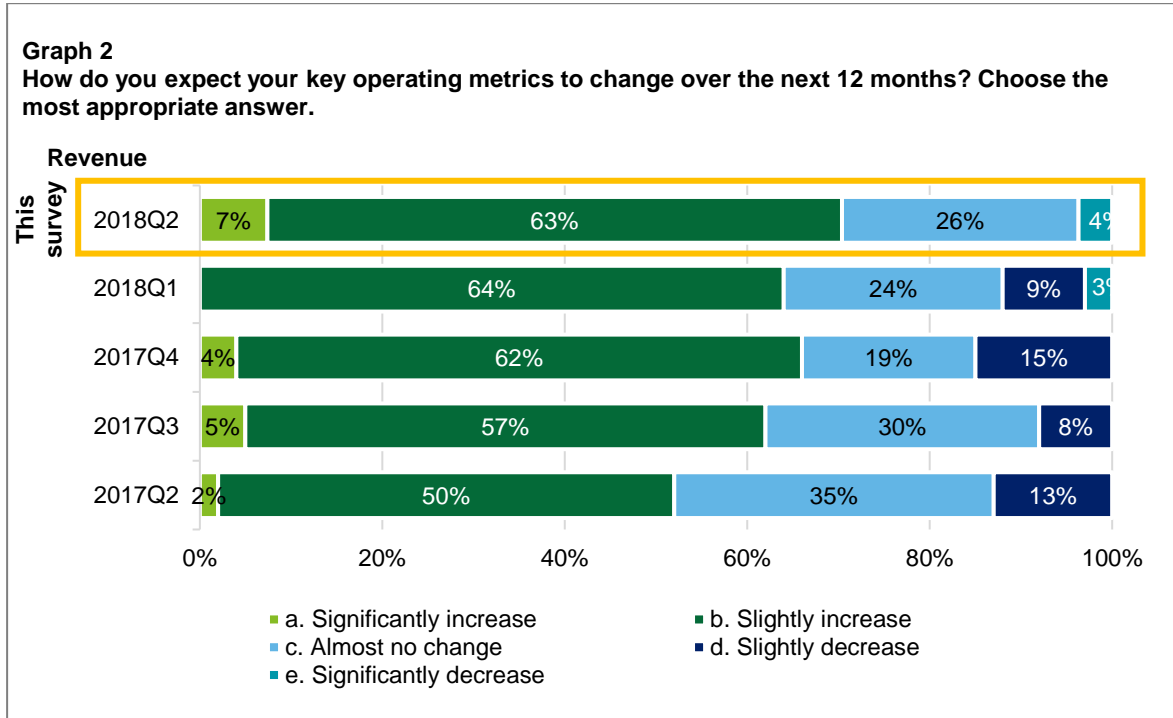
Financial environment prospects

With the direction of the “trade war” unclear, financial prospects remained unchanged



Graph 1 shows how the financial prospects of the respondents’ businesses have changed over the last three months. Compared to the previous quarter, 19% of respondents were “somewhat more optimistic” about their financial prospects, with this number remaining the same from our previous survey (Q1 2018). In addition, for the second consecutive quarter, no respondents chose “significantly more optimistic.” The summit between the United States and North Korea in June was one of the steps taken to reduce political tension internationally, while in Japan the political situation appears to have stabilized, exemplified by a recovery in the Abe cabinet’s support rate, which had declined in the wake of scandals such as the Moritomo Gakuen affair. The global stock market also recovered after a big drop in February, stabilizing into July, while the foreign exchange market saw the yen decline against the dollar—one of the recent tendencies favoring Japanese companies. However, from May onward there has been increasing concern about the protectionist trade policies of the Trump administration (such as the imposition of import restrictions on steel and aluminum, import tariffs on Chinese products, and tariffs on auto imports), while factors such as the Q1 decline in Japan’s real GDP and a continuing drop in inflation from April onward have also contributed to concern about whether Japan will be able to defeat deflation. With the external environment muddled, CFOs appear to be monitoring the situation closely. In fact, the significant drop in optimism in the previous survey can be taken as indication that CFOs are currently content to adopt a “wait and see” approach. Going forward, developments such as whether import tariffs will be imposed on Japanese cars are expected to be a factor in determining CFOs’ business sentiment.

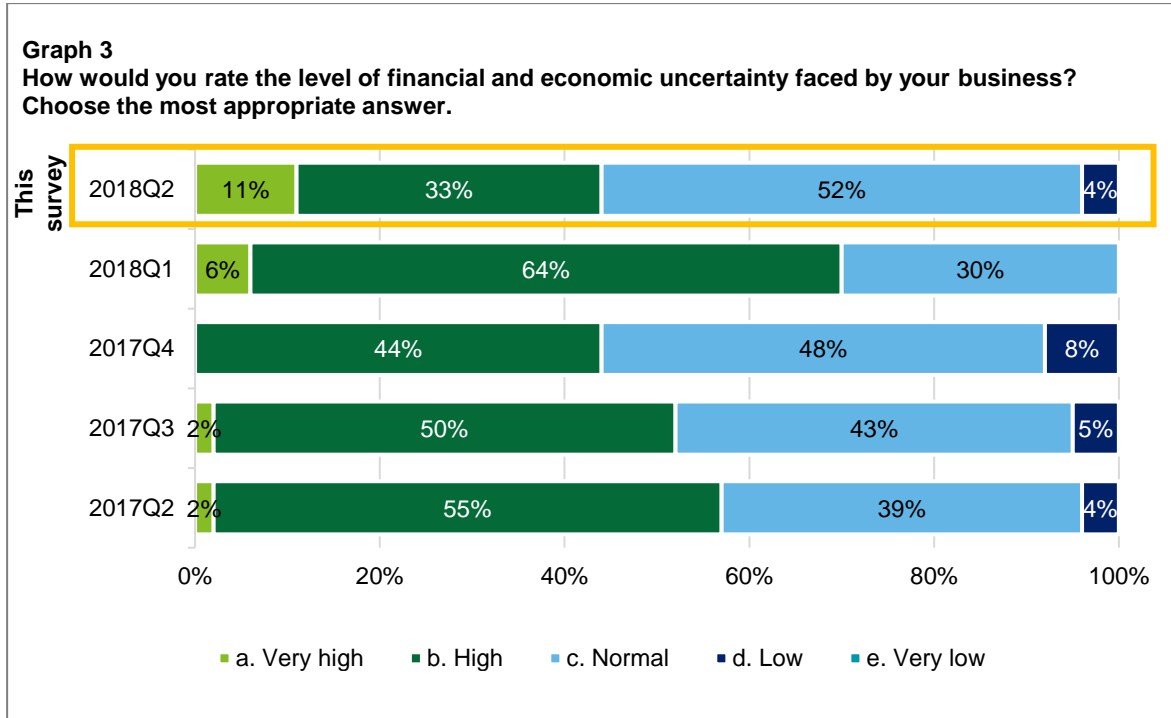
High costs remain a major issue



Graph 2 shows CFOs' outlook for their company's financial performance (revenue and profit) over the coming year. A total of 70% expected revenue to either "significantly increase" or "slightly increase," which is higher than the 64% in the previous survey. While the outlook in revenue terms can be said to have improved in the short term, the general trend has hardly changed over the past few quarters. With the external environment

remaining opaque, it can be said that CFOs' revenue outlook is also affected by a tendency to wait and see how things play out. As for profit, a total of 52% expected profits to "significantly increase" or "slightly increase"—a minor drop from the previous survey's 58% and a percentage lower than that for revenue optimism. These numbers suggest that high costs continue to exert downward pressure on corporate profits, and can be seen to reflect expected increases in business costs, including higher wages due to labor shortages and soaring materials costs. While it can be said that the performance outlook is relatively optimistic, it appears that CFOs continue to see costs as an issue.

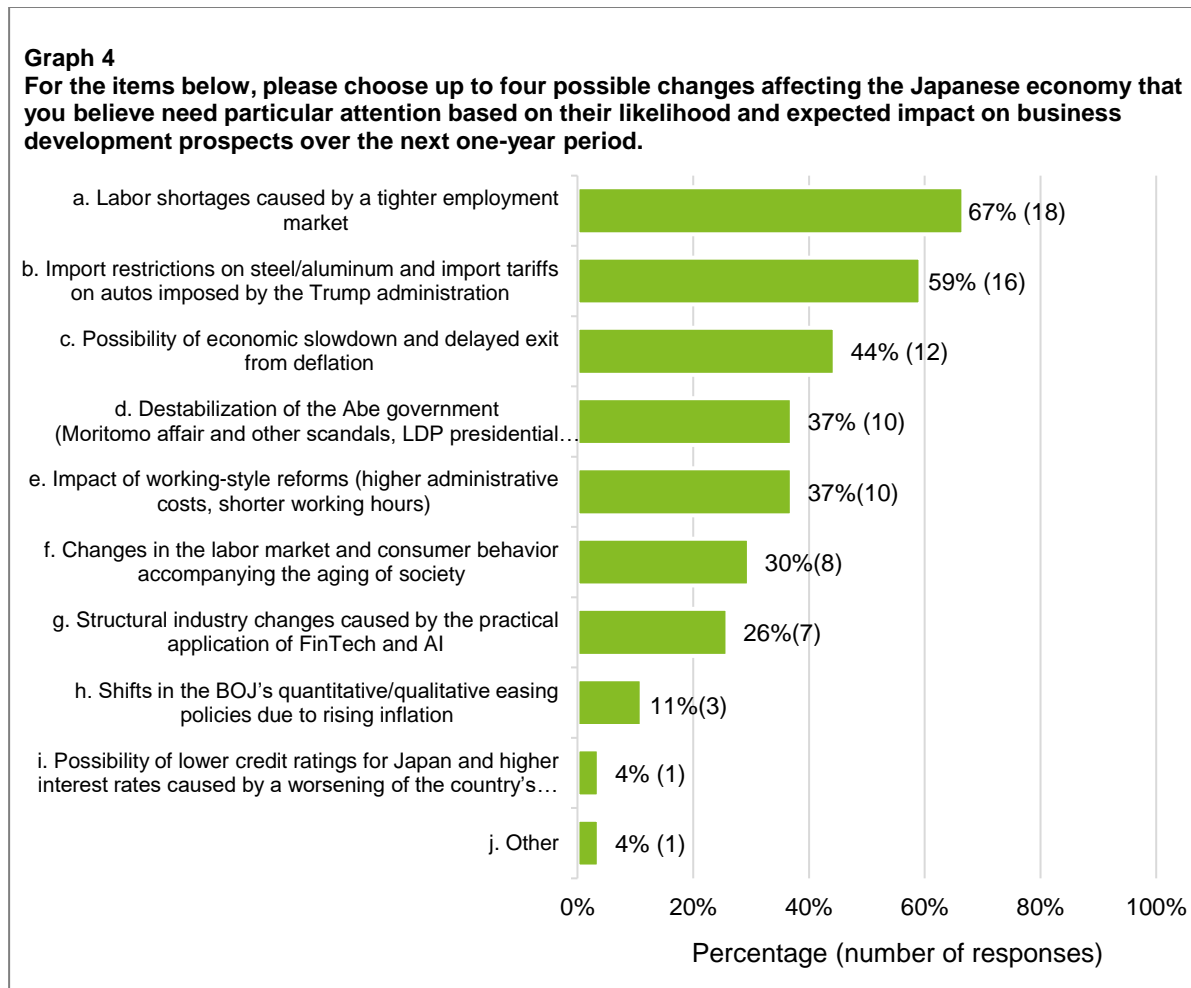
Uncertainty unexpectedly decreased



Graph 3 shows CFOs' perception of financial and economic uncertainty. A total of 44% of respondents said that uncertainty was "very high" or "high"—a significant and unexpected decrease from 70% in the previous survey. Possible reasons for this decrease include the recovery and subsequent stabilization of the stock market after the drop in February, the perceived stabilization of the Trump administration after a flurry of key personnel replacements and signs of recovery in the president's support rate, and the view that stability may be within the Abe government's reach thanks to an upward turn in the cabinet support rate. However, as also suggested by Graph 1, the "trade war" appears to be intensifying to an unexpected degree, with the Trump administration introducing measures such as import restrictions on steel and aluminum, import tariffs on Chinese products, and tariffs on auto imports. Objectively, it is thus hard to say that uncertainty has truly decreased. Depending on what happens next on the fronts of the trade war, it may be necessary to take into account the risk that political and economic uncertainty in the eyes of the CFOs will grow again.

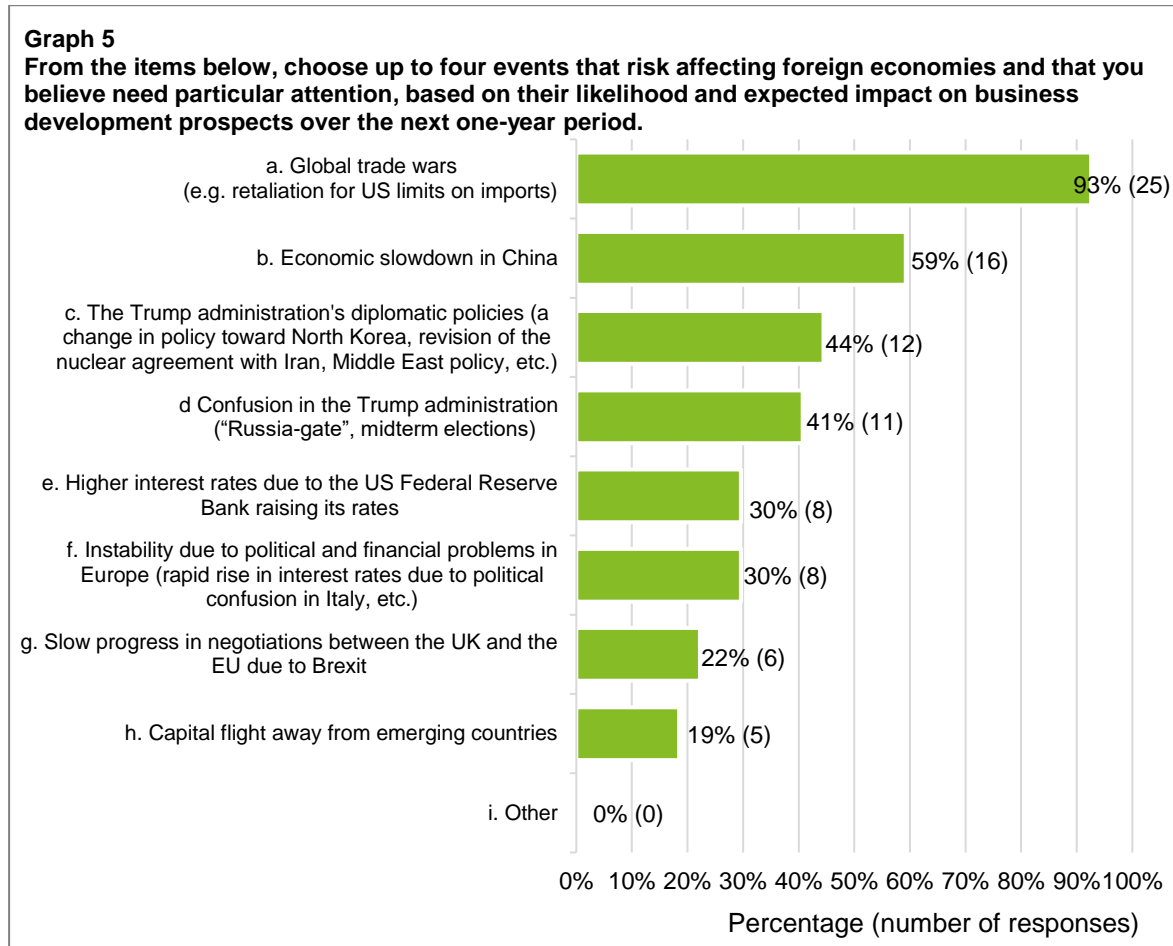
 Key change factors in the Japanese economy

Focus on labor shortages, US import restrictions, and the domestic economic slowdown



Graph 4 shows what trends in the Japanese economy are most closely watched by CFOs when planning business development over the next one-year period. For the third consecutive quarter, “labor shortages caused by a tighter employment market” was the top answer. The tightening of the job market, as seen in the declining unemployment rate, appears to be affecting recruitment at companies. Up from fifth in the Q1 2018 survey to the second most popular response this time was “import restrictions on steel/aluminum imposed by the Trump administration.” With the imposition of import restrictions looking increasingly likely, the CFOs of Japanese companies appear to have taken a keen interest in this issue. Coming in third place, just as in the previous survey, was “possibility of economic slowdown and delayed exit from deflation.” The fact that three distinct risk phenomena—labor shortages, US import restrictions, and the domestic economic slowdown—are catching the attention of CFOs reflects the complexity of Japan’s economic environment today. In addition, the passage of working-style reform legislation in July only highlights the urgency of coming up with concrete measures to reform working styles, which is likely to develop into a major issue for CFOs going forward.

The global trade war and the Chinese economy as risk events



Graph 5 shows what trends in the global economy are most closely watched by CFOs when planning business development over the next one-year period. The most popular response this time was “global trade wars (e.g. retaliation for US limits on imports),” which jumped up from second place in the previous survey. Coming in second was “economic slowdown in China,” up from fourth last time. As seen in the previous graphs, the trade war, in which protectionist policies enacted by the Trump administration invite retaliatory measures from China and other trading partners, is showing signs of intensifying to an unexpected degree. This is while the Chinese economy, which already showed clear signs of slowing down in Q2 with weaker growth in retail sales and capital investment, may see growth dragged down further by the effects of the trade war. Such movement constitutes risk events to which CFOs pay attention, and developments in both the trade war and the Chinese economy are expected to remain in focus going forward. Unchanged from our previous survey, the third most popular answer was “the Trump administration’s diplomatic policies.” We are seeing changes to these policies in directions that are expected to affect Japanese companies, such as the introduction of measures to prohibit the import of Iranian crude oil, with CFOs likely to continue paying close attention to movement in the price of oil.

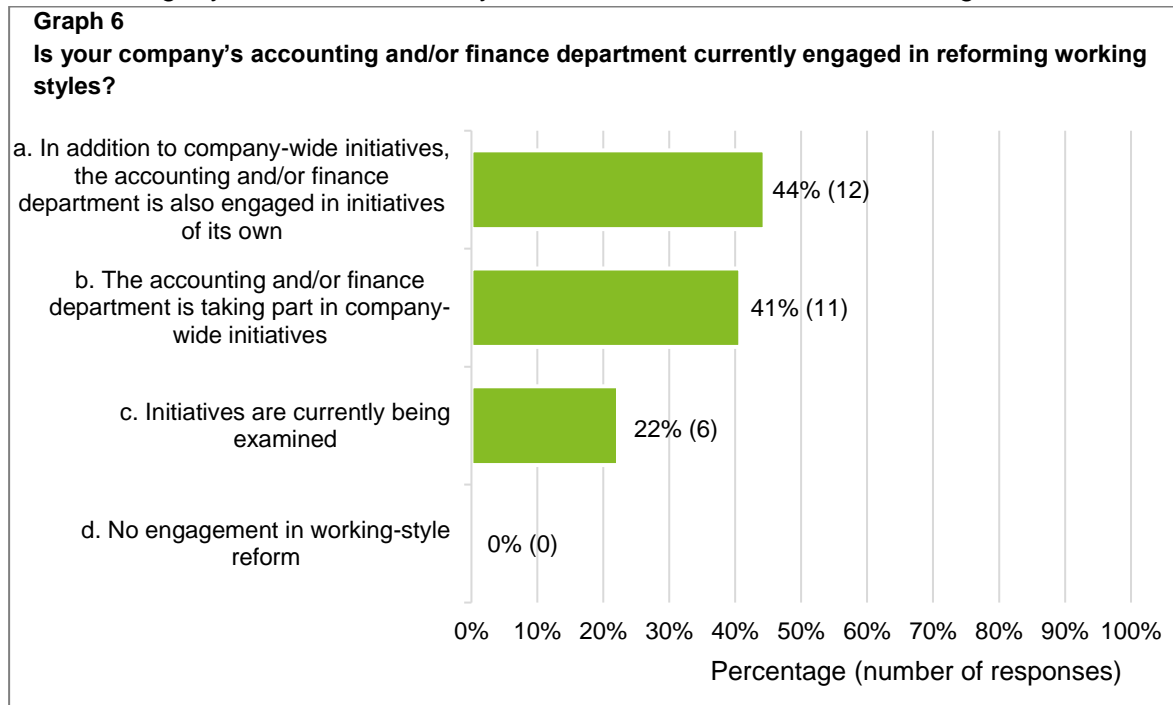
Survey on working-style reform in accounting and finance departments



Working-style reform in accounting and finance departments

“Working-style reform” is a buzzword that has been in use in Japan for quite some time now. It refers to reforms intended to improve productivity in companies and enhance the work-life balance of employees. In this survey, we narrowed the focus to accounting and finance departments and went about analyzing the state of working-style reform in these departments.

That working-style reform is a society-wide initiative became clear once again



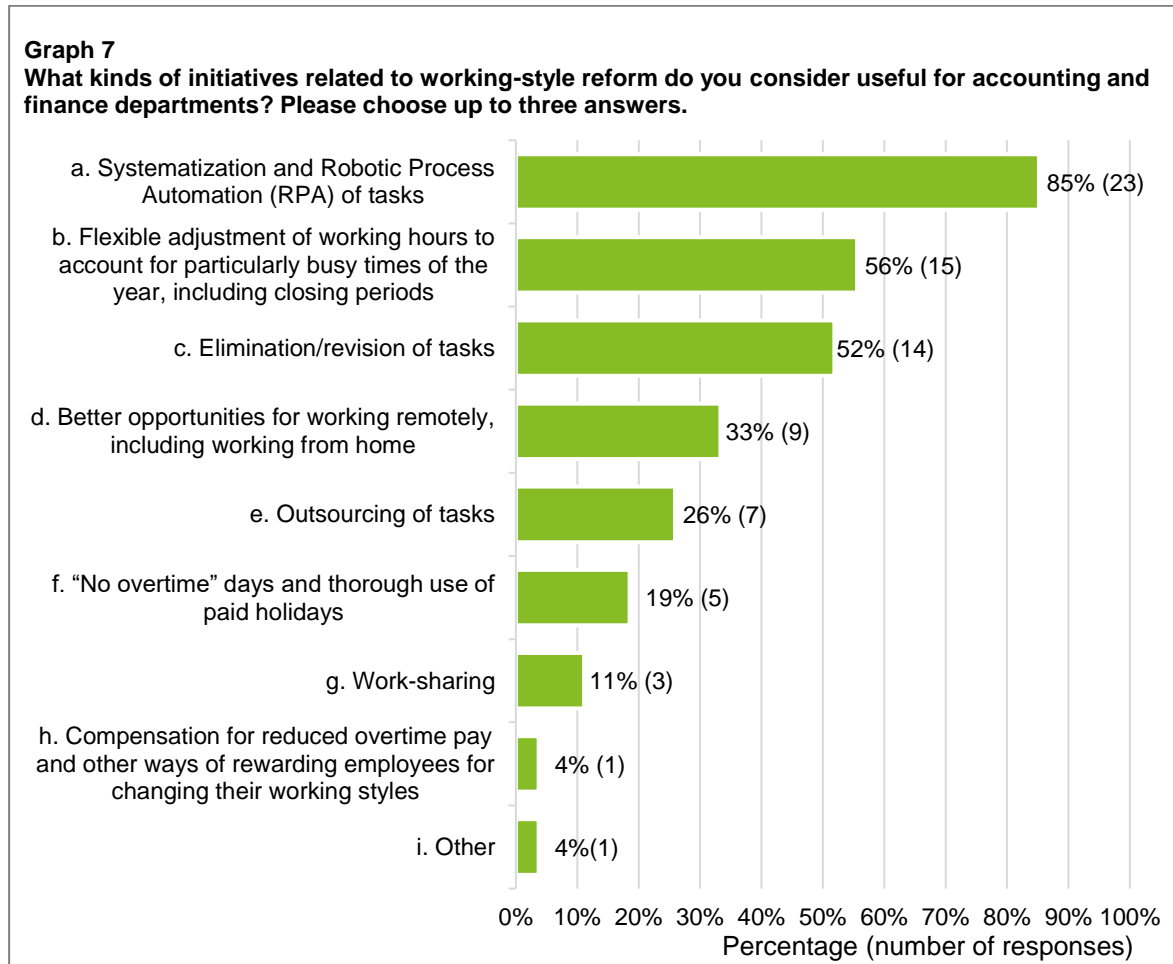
Graph 6 shows that as many as 85% of accounting and finance departments are engaged in working-style reform, with 44% of companies combining company-wide initiatives with initiatives conducted by the accounting and/or finance department on its own, suggesting that accounting and finance departments have a high level of awareness with regard to this issue.

In addition, no respondents indicated that their company is not engaged in working-style reform—a result that drives home the realization that working-style reform has become a society-wide initiative.



Details of initiatives for reforming working styles in accounting and finance departments

Digital transformation is being actively embraced in the context of working-style reform



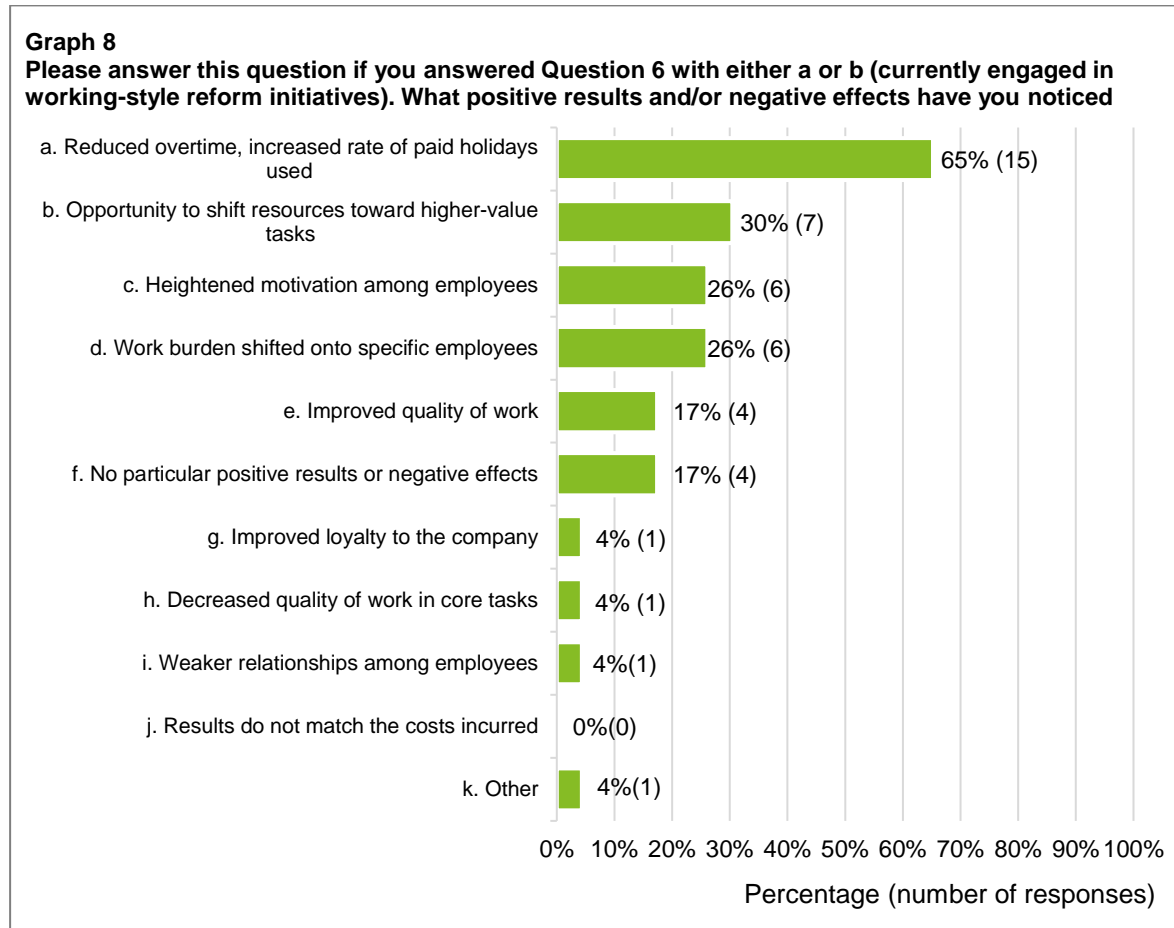
Graph 7 displays the kinds of initiatives taken in order to reform working styles in accounting and finance departments. With multiple answers allowed, 85% of respondents indicated that their companies are engaged in “systematization and Robotic Process Automation (RPA) of tasks,” revealing that companies are actively embracing so-called digital transformation initiatives. In many cases, accounting and finance departments, which are quite susceptible to standardization, may well be playing leading roles in digital transformation, pointing the way forward for companies as a whole.

In addition, probably because it is comparatively easy to predict which periods are busy and which less so in accounting and finance departments, a majority of companies practice “flexible adjustment of working hours to account for particularly busy times of the year, including closing periods.” And with 52% of companies engaging in the “elimination/revision of tasks” as part of working-style reform, we notice that many companies are also taking steady steps to improve their operations.



The impact of working-style reform

The effects are mostly positive

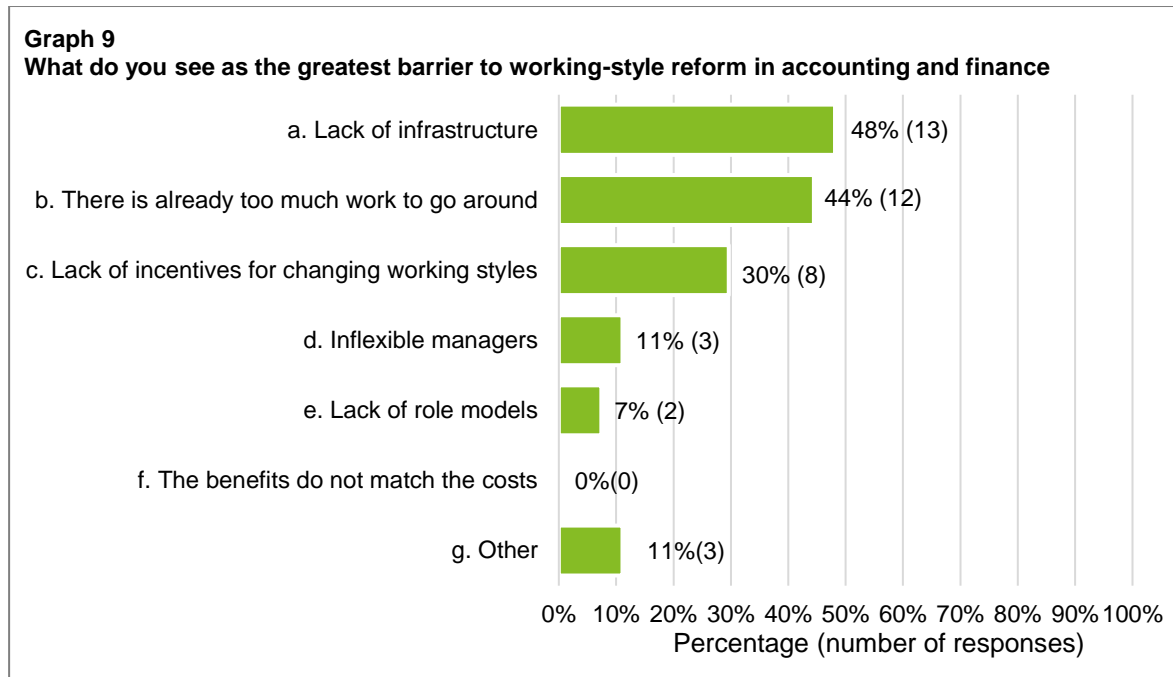


Looking at Graph 8, we see that working-style reforms are having a positive impact. While long working hours in accounting and finance departments have in many cases become company-level issues, working-style reforms are contributing to reduced overtime and increased use of paid holidays. In addition, with accounting and finance departments these days expected to take on roles such as managing financial and taxation risks and carrying out business partnering for the business side, working-style reform is resulting in opportunities to shift resources toward higher-value tasks and is even contributing to heightened motivation among employees.

On the other hand, 26% indicated that there are cases in which the burden of work has been shifted onto specific employees. How to disperse the work of employees whose burden has increased, be it by standardizing operations or improving each employee's skills, is likely to become an issue going forward.

 Barriers to working-style reform

Infrastructure development is a pressing task, but reducing the amount of work and organizational revision are necessary too



Lastly, we asked about the barriers to working-style reform. The results largely go together with the details of initiatives for working-style reform in Graph 7, with infrastructure-related vulnerabilities forming the most obvious barrier. A lot of manual work based on physical materials such as evidential documents is still conducted, while more such work is caused by the lack of infrastructure standardization across groups. Such inefficiencies make operations cumbersome and complex.

Furthermore, as a result of various initiatives over the past dozen or so years, the personnel structures of accounting and finance departments have been slimmed down, meaning that the amount of work per person tends to be large. This sets limits for working-style reform. Considering these results, in addition to improving the work-life balance and motivation of employees in accounting and finance departments, and also taking into account the aforementioned expectations for a more expansive role for such departments, the time may well have come to make more fundamental organizational reforms to address issues.

What is the CFO program?

The CFO Program is a comprehensive initiative by Deloitte Tohmatsu Group, aiming to provide support to the CFOs of companies that underpin the Japanese economy, add to the capabilities of those CFOs' organizations, and thus revitalize the Japanese economy itself. Professionals with different specializations work together as trusted advisors to help CFOs solve the problems they face. We also endeavor to improve the competitiveness of Japanese businesses by providing CFOs with the latest information, including global trends, as well as networking opportunities across different companies and industries.

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