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Deloitte CFO Signals Survey 2016 Q1

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About Deloitte CFO Signals

Deloitte CFO Signals is a CFO opinion survey conducted by Deloitte periodically at the global level in cooperation with the member firms from each country. The responses obtained from the CFO survey are gathered and analysed by Deloitte professional specialists, then the report is distributed as the "CFOs Signals" to the CFOs.

The questionnaires in the survey are comprised of the globally conducted "survey on the economic environment" and "survey on a hot topic" tailored to each region. The first survey was conducted in Japan in August 2015, and this is the third survey. "The survey on the economic environment" investigates the chronological change of views of CFOs, as well as the latest economic prospects at the time of the survey. In addition to this regular survey, an opinion survey regarding risk scenarios in a macro viewpoint for both Japan and other developed nations were conducted too.

Finance talent has been featured as the hot topic in this survey for Japan.

This survey was conducted from March 2016 to April 2016, obtaining the answers from the CFO of 36 companies.

We are sincerely grateful for your cooperation.

Deloitte Tohmatsu CFO Program
2016/5/24

The **CFO** Program

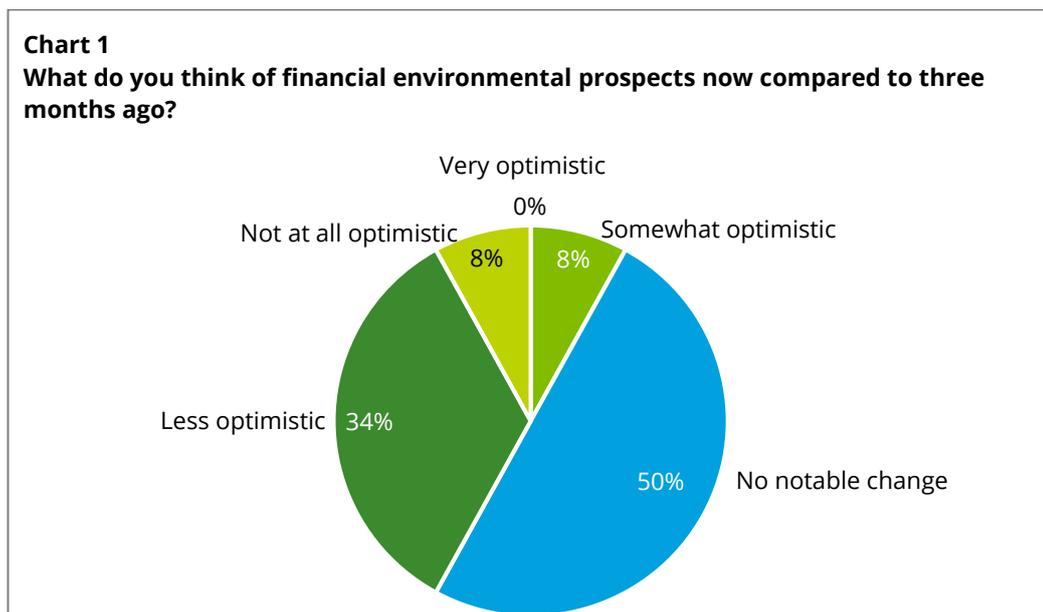


Survey on the Economic Environment

As last time, this survey has been used to uncover expectations of the financial environments and their performance over the coming year. In addition, we also asked about the impact of the Negative Interest Rate Policy by Bank of Japan and the factors of Abenomics's success.

Financial environmental prospect

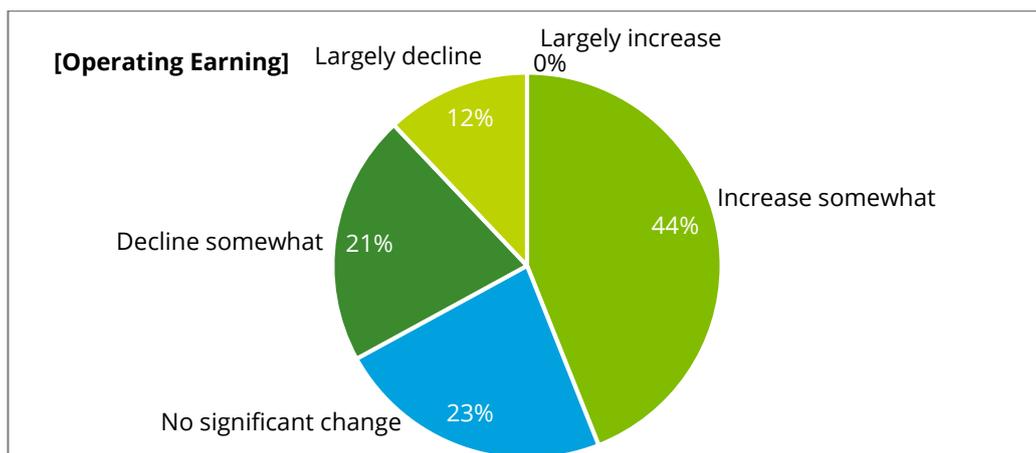
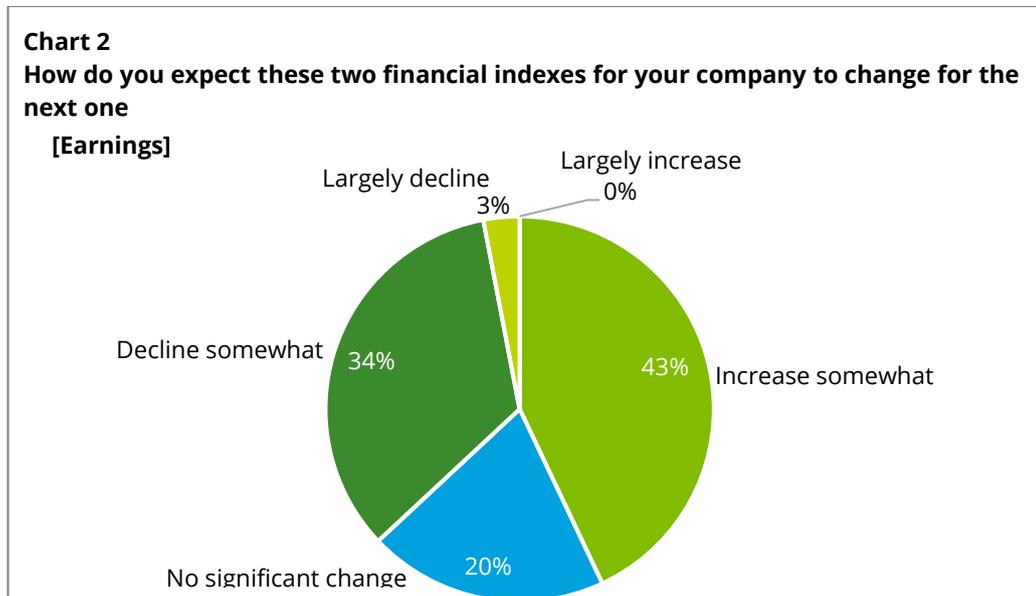
This survey aims to compare the financial environmental prospects in comparison to the last survey conducted in December 2015. Chart 1 shows the views on the financial environmental prospects compared to the situation three months ago.



A larger share CFOs are worried about the financial environmental prospect they will be in. As can be seen from the above survey result, 42% chose "less optimistic" and "not at all optimistic" which is an increase from the 26% that chose the same options in the previous survey. Meanwhile "no notable change" has decreased to 50% from 71%. In this respect, *relatively many CFOs are concerned about the financial environment getting worse at this time.*

The prospects of performance

The results indicate that many CFOs expect their earnings will grow but they also concerned about failing business performance. Chart 2 shows the views on the prospects of performance for the next one year.

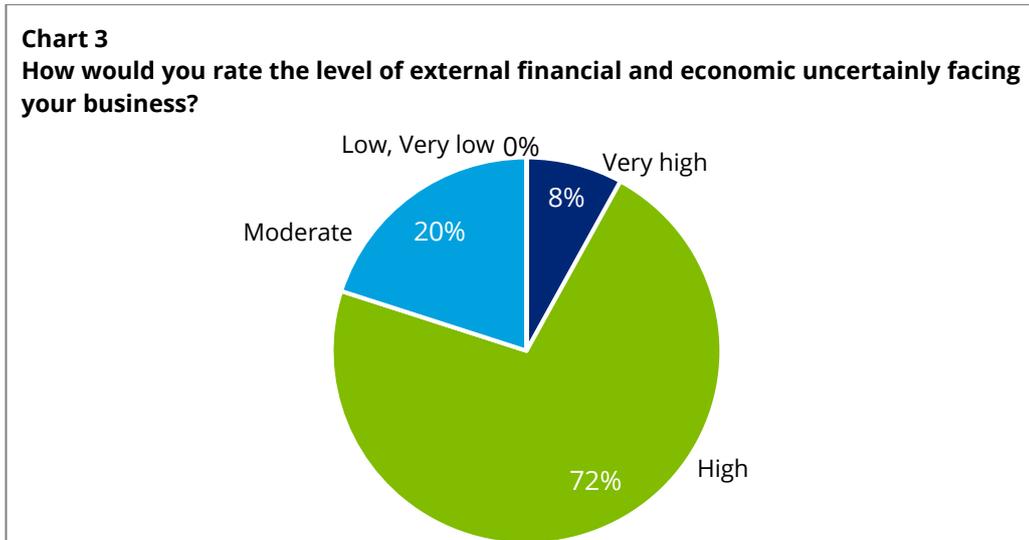


For Earnings, 63% of CFOs expect to earn more, consisting of 43% of CFOs who answered “increase somewhat” and 20% of CFOs who answered “no significant change”.

The same trend can be seen for operating earnings. 67% of CFOs expect to earn more than they do now. These results indicate *more than half of the CFOs think the increase in both their sales and profits will continue for a while.*

On the other hand, compared with the last survey, the cautious stance has spread rapidly. For example, the number of CFOs who chose “decline somewhat” and “largely decline” was only 13% last time, but this time it is 35%. Based on the survey before the last one, *the number of companies who expect decrease both in their sales and profits is continuously increasing.*

Uncertainty among CFOs is rapidly getting higher. Chart 3 shows views on the level of the financial and economic uncertainty.



The chart shows that 80% of CFOs answered either “high” or “very high”, which greatly surpasses the number in the last survey, which was 52%.

 **The impact of the Negative Interest Rate Policy by Bank of Japan**

Chart 4 shows the perceived impact of the Negative Interest Rate Policy by Bank of Japan among CFOs. 57% of CFOs answered “neutral” which indicates they are not so concerned with the policy. It can also be said that a somewhat positive impact is expected as 29% of CFOs think that the policy has positive impact while only 14% CFOs expect the opposite.

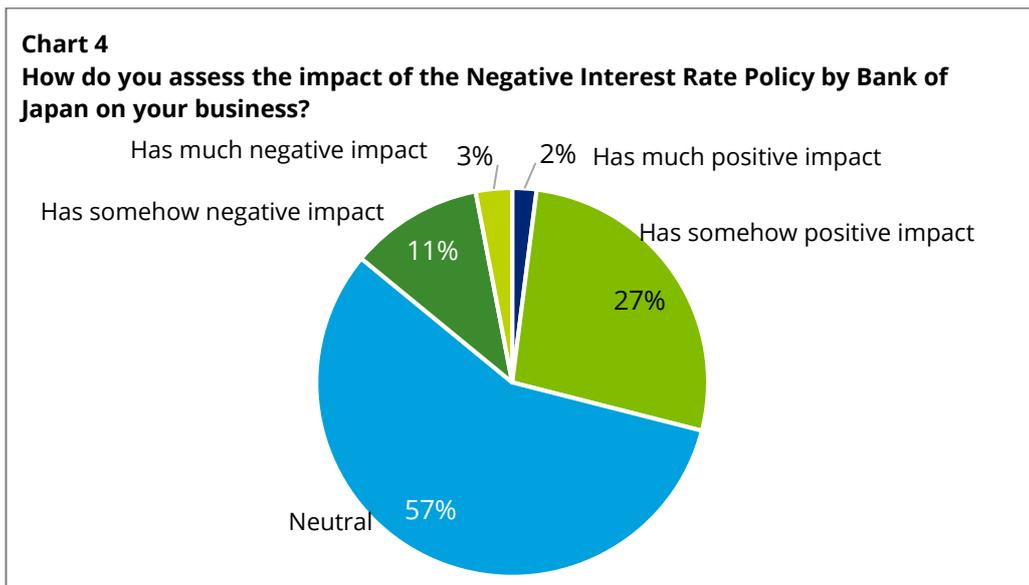
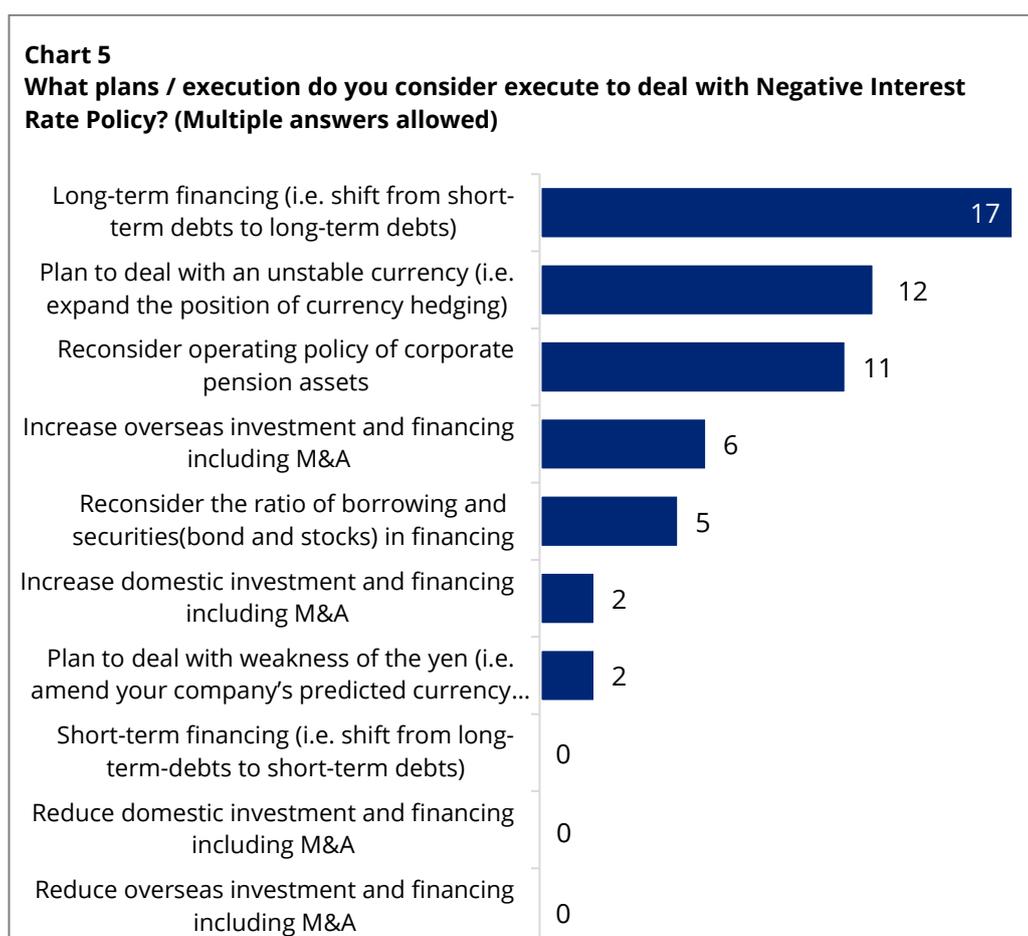


Chart 5 shows which measures the CFOs consider in order to deal with the Negative Interest Rate Policy by Bank of Japan. The most popular answer was “long-term financing”. The effect of a declining yield curve may have made this option look more attractive. The second most popular answer was “Plan to deal with an unstable currency” while few answered to “Plan to deal with weakness of the yen”.

These two results indicate that CFOs may think that *the Negative Interest Rate Policy make the exchange market unstable but do not always make the yen weak*. It can be also said the CFOs are aware of the limits of the policy. *Actually we cannot see that the negative Interest Rate Policy lead Companies to increase investments*, as few CFOs choose the options “increase domestic investment and financing including M&A” and “increase overseas investment and financing including M&A”.



Based on the above results, the Negative Interest Rate Policy by Bank of Japan seems to lead to a decrease of fund procurement costs, but does not activate a greater amount of investments.

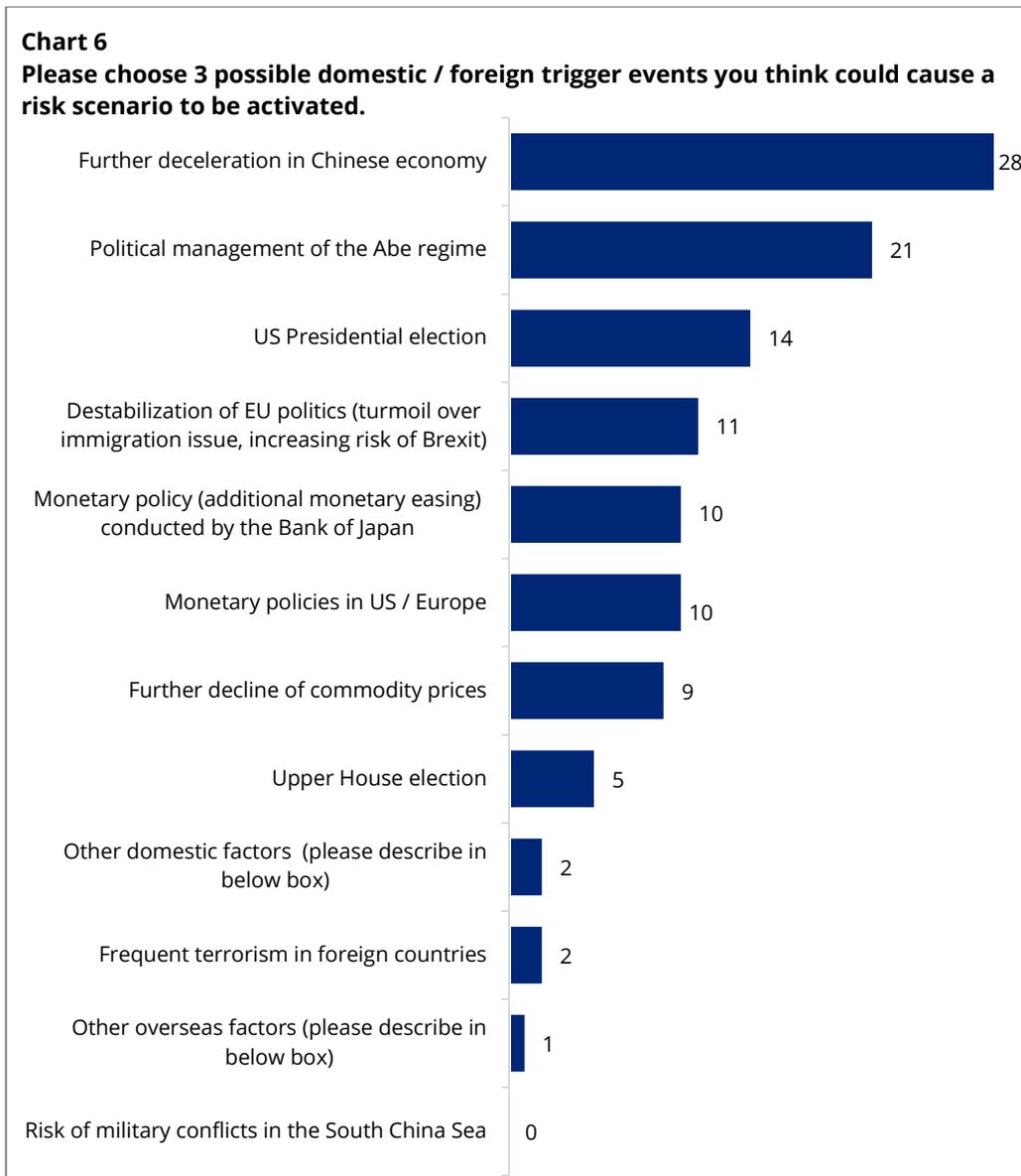


Chart 6 shows what factors are regarded as important for risk scenarios for the Japanese economy. *What concern CFOs the most has remained “further deceleration in Chinese economy” as in the last survey but other replies have changed significantly. Firstly, there is an increasing interest in domestic factors, specifically the number replies of “political management of the Abe regime” has increased dramatically. Also the number of replies for “Monetary policies conducted by the Bank of Japan” and “Upper House election” increased remarkably. These changes may suggest a lowering of confidence in Abenomics or the Abe administration. Secondly, there is increasing and declining interest in various foreign factors. “US Presidential election” gathered many answers, while the numbers of answers of “frequent terrorism in foreign countries” dropped. Meanwhile, “destabilization of EU politics”, “monetary policies in US / Europe” and “further decline of commodity prices” still gathered significant attention.*

Future points of interest

According to the results of this survey, we can see that the CFOs are taking a more cautious position on the business environments and have become interested in domestic political and economic factors which they did not pay as much attention to in the past. The fall of the expectations for Abenomics and difficulty of the management of the Japanese macro economy seems to have affected the responses. In other words, Japanese companies are now required to keep an eye not only on foreign factors including the future of the Chinese economy, but increasingly also on domestic factors.

Survey on finance talents

The environment surrounding Japanese companies is changing significantly these days, and there is increasing requirement for finance function became to become highly developed and diversified. It has been difficult to secure or develop finance talents who can deal with the requests from management. This survey aims to explore what the most important things are when the companies develop finance talents.

The key points from the survey are as follow.

- About half of the CFOs think “financial strategy” should be strengthened in the future.
- In regard to the required skills as finance talent, “strategic thinking” as a required skill gather 75% of answers and 50% of the CFOs answered “deep understanding about company business”. This suggests that they need the finance talent who can operate within the field of strategy.
- However, about 70% of the CFOs think “Career options as finance talent in your company is not attractive enough”. It seems that they need to become better at showing the importance of the finance function as well as its medium- to long-term career possibilities.
- In terms of CFO talents, most of the CFOs are feeling positive about the possibility to “rotate to other functions” such as the corporate planning department. In other words, they are aware that a CFO needs multilateral views to understand their business by experiencing other functions.

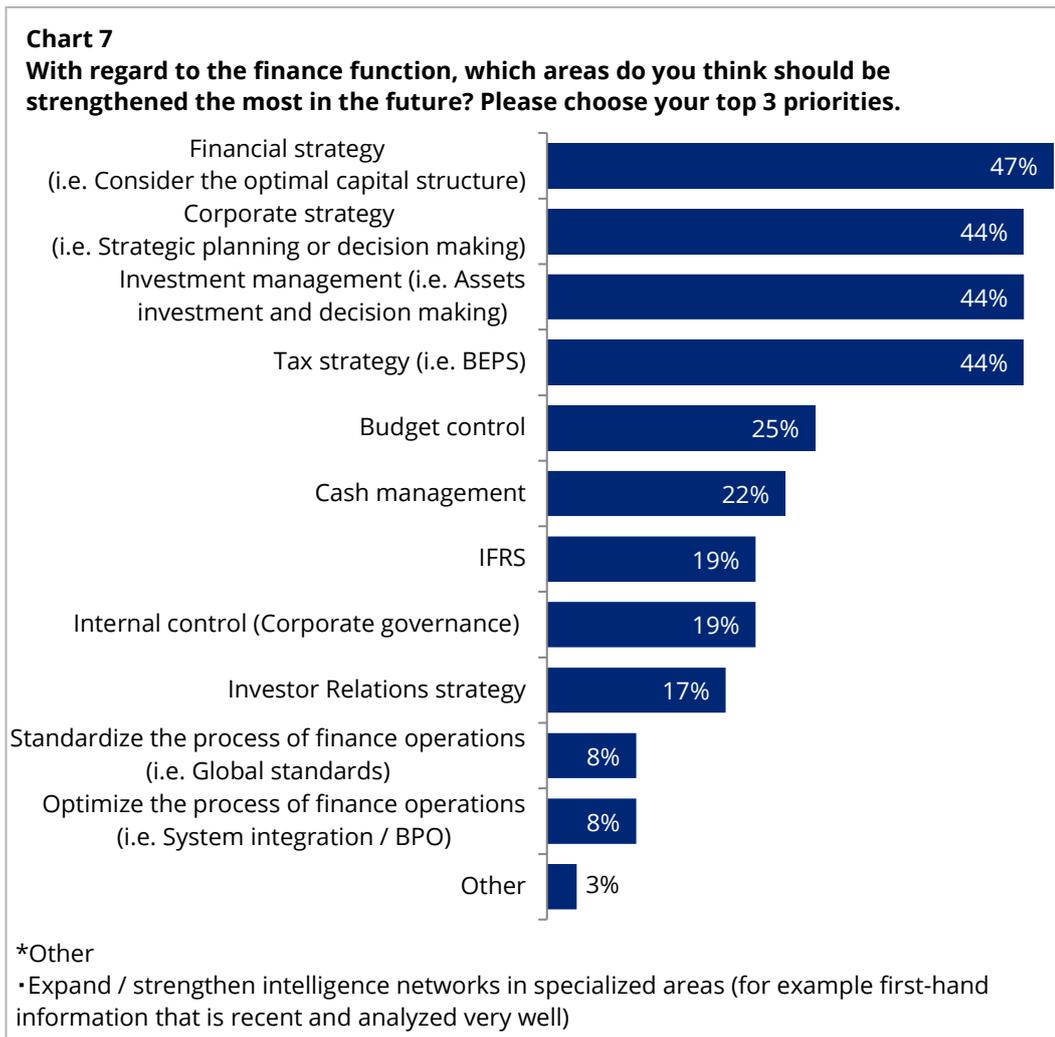
At this moment, companies do not seem to have any big problems in operations or internal control at the finance function that they should work on, as their finance talents are encouraged to learn the base of finance skills and are well rotated both inside and outside of the function. Meanwhile, finance talents who think and act strategically are eagerly needed to strengthen companies finance function in the future. In the times of change, it is important that the company draw talents by show attractive career paths in finance.

While around 70% of CFOs still believe that it is a challenge to increase the attractiveness of finance careers, only 33% of these companies have been able to implement measures to address this issue. We think it is necessary that they clearly draw up the vision of the future and clarify their talent requirements while focusing on attracting talents both internally and externally.



The area which finance functions should be strengthened

Chart 7 shows the areas that CFOs think they should strengthen in the future.

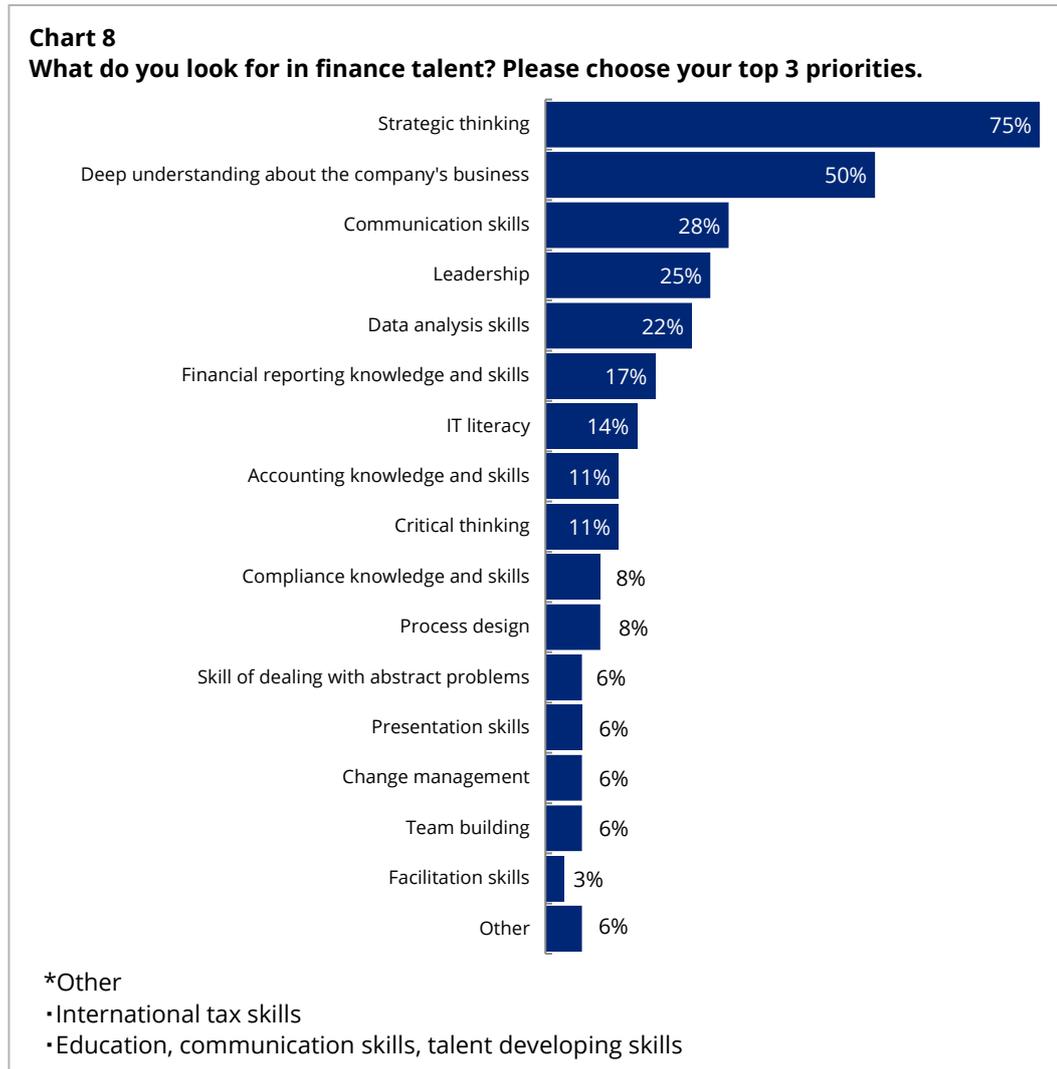


Participation in the strategic areas that affect the foundation of corporate management, such as “financial strategy” (47%), “corporate strategy” (44%), “investment management” (44%) and “tax strategy” (44%) gathered many responses. Considering that response rate for “standardize / optimize the process of finance operations” both being as low as 8%, it seems that *schemes on process excellence is now sliding out of favour due to a shift in focus to more strategic areas.*

There was an open response as “expand / strengthen intelligence networks in specialized areas”, showing effort in developing a strategic function in specialized areas such as tax or finance strategy.

Required skills for finance talents in the future

Chart 8 shows the skills that CFOs think will be required for finance talents in the future.



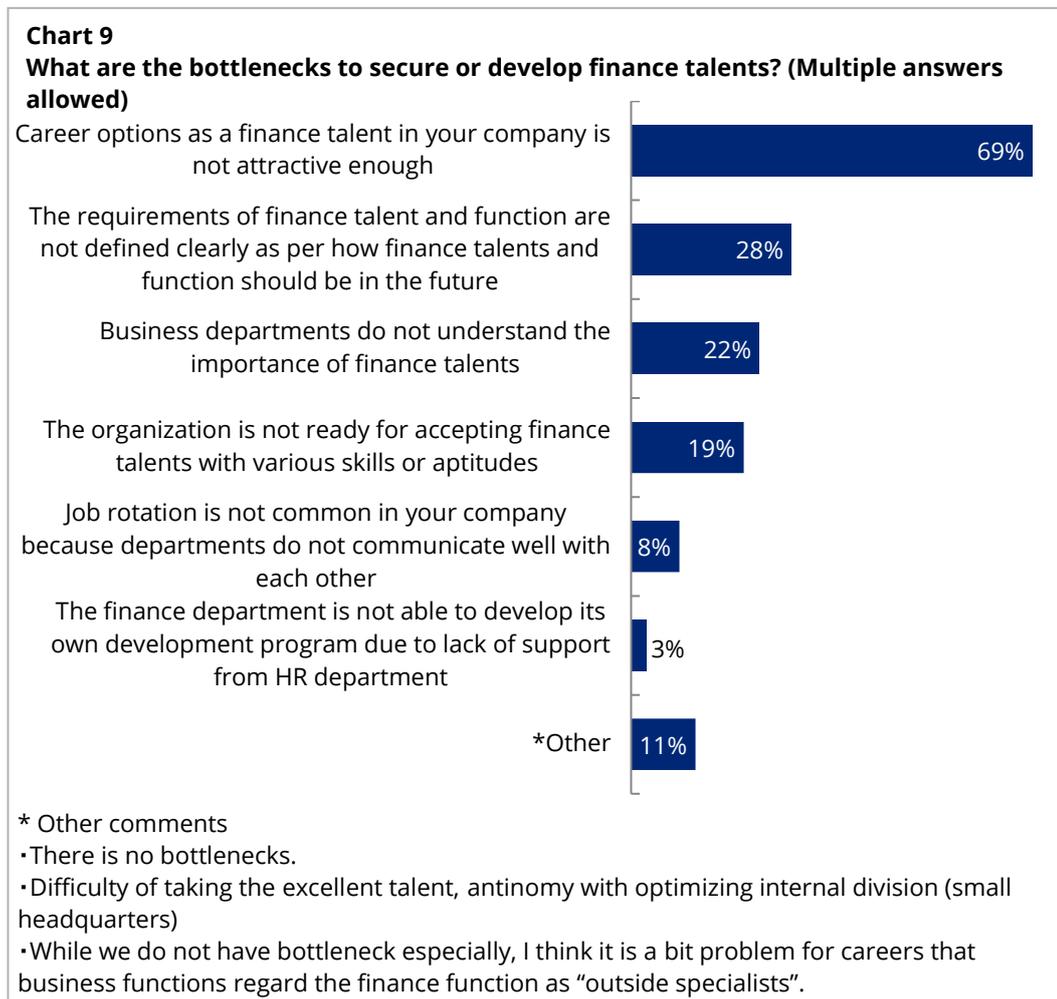
The most popular answer is “strategic thinking” (75%) and second is “deep understanding about the company’s business” (50%) which reflect the trend of strengthening “participate in corporate strategy” as seen in the last question. *Finance talents who can deal with corporate strategy and contribute to strengthening the finance function is in high demand.*

Talents who have “communication skills” (28%) and “leadership” (25%) is also needed. In other words, *the CFOs expect the talents be able to communicate with business functions and external people and lead a whole team to raise the value of the finance function.*



The bottlenecks when you think about assuring / developing finance talents

Chart 9 shows the results regarding bottlenecks for securing or developing finance talents.

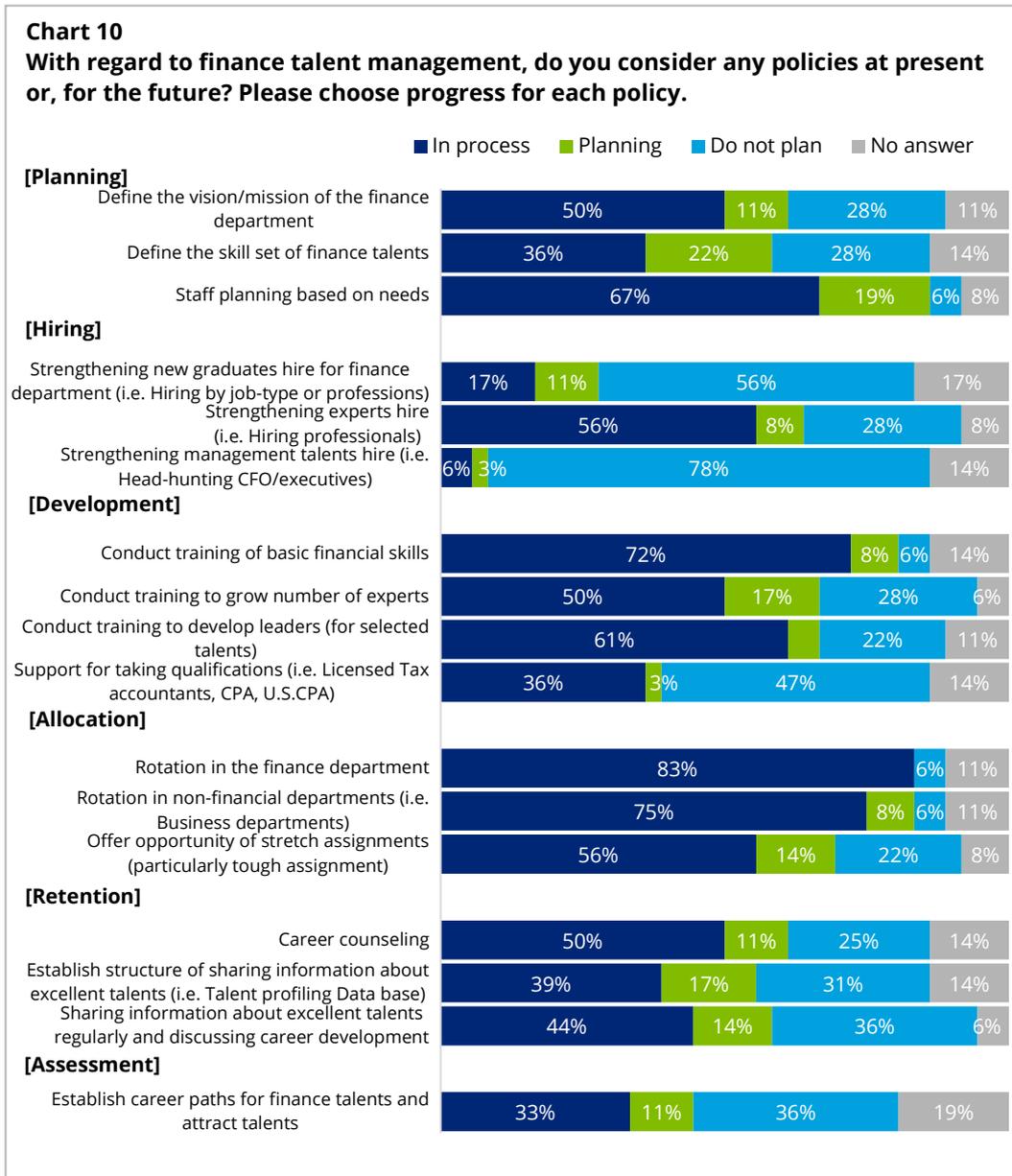


The most popular answer for the bottlenecks of securing or developing finance talent is "career options as a finance talent in your company is not attractive enough" (69%). Second is "the requirements of finance talents and function are not defined clearly as per how finance talents and function should be in the future" (28%). This result means that *the problem is not being able to draw up the middle-to long term future vision and career prospects of finance talents*.

Meanwhile many CFOs think that "business departments do not understand the importance of finance talents" (22%). Other answers also points out that "the problem for careers is that business functions recognize finance function as outside specialists". All in all, *the bottlenecks of developing finance talents are related to misunderstandings and lack of awareness about the finance function within the organization*.

 The company policies that is “in process”, “planning” or “do not plan”

Chart 10 shows company policies for finance talents.



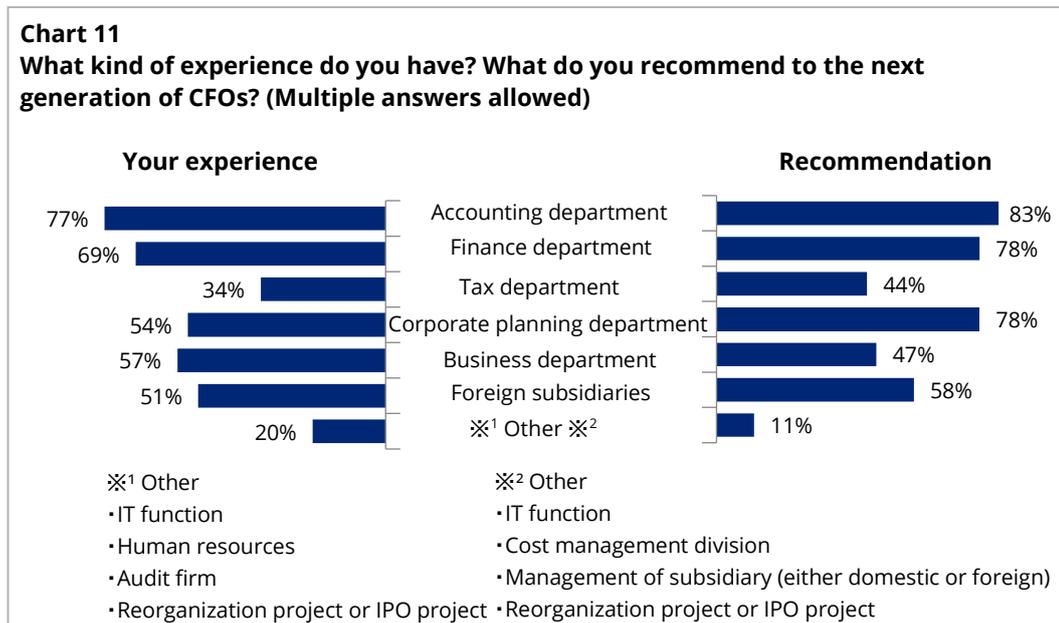
In terms of “hiring” and “development”, many companies already have executed some policies. As for the future plans, *They plan to focus on “planning” and “assessment”* such as “define the skill set of finance talents” (22%), “staff planning based on needs” and “Establish structure of sharing information about excellent talents” (17%).

As for “hiring” and “development”, hiring and developing the finance talents with expertise seems to have been strengthened. At this moment, 56% of companies are carrying out “strengthening experts hire”. Regarding “conduct training to grow number of experts”, 50% answered “in process” and 17% answered “planning”.

Concerning “allocation”, more than 70% of the companies have already conducted rotation internally in the finance function or externally. Only 56% of respondent’s companies offer “tough assignments” but 14% of them are planning to do so. We can see that *companies are trying to develop their talents’ careers to match their existing abilities and their career directions.*

 **The career of CFOs and the experiences they recommend to future CFOs**

Chart 11 shows the career of CFOs and the experiences they recommend to future CFOs.



There is not so much difference between the CFOs' experiences and their recommendations. But as for "corporate planning department", 78% of the CFOs recommended it despite 54% of them having actually experienced working there. From this result it seems that, *the future CFOs are expected to experience a function which gives insight into the whole business* in addition to conventional finance function experiences.

We also think that firm-specific experiences are recommended sometimes to overlook their business as some answered "IT function" and "cost management division".

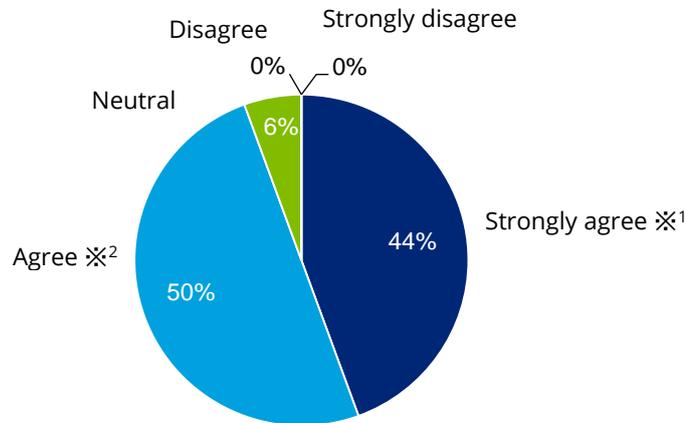


How the CFOs feel about sending good talent out of the finance function

Chart 12 shows how CFOs feel about sending talent out of the finance function.

Chart 12

With regard to developing talent, are you positive about sending talent out of the finance function and what is the reason?



※¹ The reason of “strongly agreed”

- It enables to see our business from different viewpoints
- There is risk of narrowing their views, judgemental standards and skills if they only stay inside of the finance function.
- Talents with high expertise are valued but a CFO should also have a good understanding of business management in order to make decisions about the company.
- It is important to understand what is needed from the finance function and how the other functions assess finance function.
- I think the leader of finance function should be a multi specialist.

※² The reason of “agreed”

- I think he / she should have wide experiences if he / she aims to be management.

94% of the CFOs agrees it is good to send promising talents out of finance function. Especially for management candidates, CFOs think it is important for them to understand their business and be able to make decisions taking multiple points of view into account. This is shown in the ratio of the answer “strongly agreed” (44%).

What is the CFO Program?

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.

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