CFO Insights | Japan

2014 Q3

The CFO Program | Japan

Contents

Japan Economic Outlook	**P 3**
Accounting News	**P 5**
Tax News	**P 8**
M&A News	**P10**
The myth of 'The First 90 Days'	**P12**
Time, Talent, and Relationships	**P13**

Japan Economic Outlook

After tax increase, now time to deregulate

There are increasing signs that the Japanese economy is rebounding from the impact of the sales tax rise that came into effect on April 1, 2014. Contrary to earlier expectations, total commercial sales saw a modest increase of 2 percent in the following two months. Consumer confidence improved 6.2 percent from April to May 2014 due to an improved employment outlook and higher willingness to buy durable goods. The Markit purchasing managers' index (PMI) for the Japanese manufacturing sector improved from 49.9 in May to 51.1 in June 2014. The index moved above 50 for the first time in three months, indicating an expansion in the sector. The PMI had fallen below 50 around the time the sales tax was increased in April. The Japanese industrial production index also increased 0.5 percent from April to May, after falling 2.8 percent in the prior month. Economic activity was hit after strong growth prior to the tax increase; both production of and demand for industrial goods fell in April post the national sales tax increase. However, the May data indicate that the industrial sector has stabilized and is now starting to rebound. The Bank of Japan's Tankan survey indicates that business conditions of large enterprises were stronger than expected in 2014 Q2 and are expected to remain robust in the next quarter as well. The survey indicates that business confidence will likely bounce back in 2014 Q3 after a fall in the previous quarter. The previous survey that was conducted three months ago had indicated that businesses intended to boost spending by only 0.1 percent in the current fiscal year relative to the previous year. However, the present survey indicates the intended business capital spending to be 7.4 percent in the current fiscal year. Thus business sentiment has improved in the past few months.

Strong labor market may boost consumption

There has been some positive news in Japan's labor market. The unemployment rate fell to 3.5 percent in May, the lowest since 1997. It has remained fairly low over the last few years and has been trending down since 2013. A sustained low-unemployment situation implies that the economy is probably at or near full employment. This will likely result in labor supply shortages, which, in turn, may drive wage growth. One of the goals of Abenomics has been to raise prices in the economy, which has experienced a deflationary spiral for more than a decade. There has been some success in increasing the price levels in the economy through expansionary monetary and fiscal policies – the first two arrows of Abenomics. Latest data releases indicate that the consumer price index increased 3.7 percent year over year in May. This was the highest rate of consumer price inflation since 1991. However, so far the rise in prices has failed to motivate businesses to increase wages. Prime Minister Shinzo Abe too has failed to persuade companies to raise wages despite rising corporate profits due to a weaker yen, increasing prices, and recent policy initiatives. Shortages in the labor market may compel businesses to raise wages. This will likely strengthen the labor market and help consumers weather the impact of the tax increase. So far consumer spending has remained weak; it fell by 4 percent and 7 percent year over year in April and May respectively, post the tax increase. A boost in wages will likely stimulate consumer spending and increase domestic demand in the economy. A rise in domestic demand may reduce the dependence of the economy on exports, which so far has been the biggest contributor to economic growth.

There has been some success in increasing the price levels in the economy through expansionary monetary and fiscal policies – the first two arrows of Abenomics.

The third arrow of Abenomics: More reforms to come

The latest data bode well for a quick economic recovery from the tax-induced downturn. They also imply that the first big move of reforms has been relatively successful so far, and the economy may be fundamentally strong enough to pull itself together in the coming quarters. Last month, Abe unveiled his long-awaited summary of deregulation proposals, which he intends to elaborate upon later. The focus of the deregulation strategy is to bolster private investment by bringing in corporate tax reforms, creating special economic zones, boosting foreign direct investment, improving corporate governance, and speeding the process to sign free-trade agreements (such as the Trans-Pacific Partnership), among others. The proposal also offers labor market reforms, which include encouraging women to join the labor force, increasing employment of young and old workers, and boosting immigration. These deregulation strategies have the potential to benefit the economy. However, according to many analysts, these reforms are not enough to sustain economic growth. Businesses are still hoarding cash and are not motivated to invest. Wages are stagnant, and aggressive monetary policies are not enough to push long-term growth. That said, the prime minister has at least shown the determination to implement reforms. It might be prudent for him to take small steps to ensure that the economy can adjust to structural changes before undertaking radical reforms. Adjustments along the reforms process will likely help the economy withstand shocks and uncertainties better.

Hoarding cash

One of the big areas of frustration for policymakers in developed countries has been the tendency of companies to hoard cash rather than boost investment. This has been true in the United States and Western Europe. Evidently, it is also true in Japan, according to a new report from the Bank of Japan. The BOJ reports that the amount of cash held by non-financial companies in Japan continues to grow at a strong pace, while the amount of borrowing from banks increased at a very slow pace. On the other hand, overseas investment by Japanese companies is increasing rapidly. This suggests that Japanese businesses remain skeptical about the longer-term growth prospects of the Japanese economy. It may also indicate pessimism that Japan will permanently shift away from a deflationary economy. Deflation hurts the return on investment. Many analysts are hoping that Prime Minister Abe soon announces more specific aspects of the “third arrow” of Abenomics: deregulation. The general beliefs are that deregulation is needed to boost the long-term growth potential of the economy, and the aggressive monetary policy in place, while helpful, is not sufficient.

Accounting News

IFRS and U.S. GAAP

IFRS 15 and ASU 2014-09 - Revenue from contracts with customers

The new standards are the result of the convergence project between the IASB and the FASB, replacing both of the existing revenue accounting guidance under IFRSs and U.S. GAAP. Under the converged new standard, revenue depicts the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This change to a single comprehensive revenue accounting model may be viewed as the most significant change in accounting standards in years. The standards apply to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts, which are covered by other standards. The new standards provide a single, principles-based five-step model to be applied to all contracts with customers within the scope:

They also introduce new guidance on:

- whether revenue should be recognized at a point in time or over time, based on new criteria.
- variable consideration to be included in revenue. Such is possible, if, and to the extent that, it is highly probable that a significant revenue reversal will not occur in the future, with specific guidance to sales and usage-based royalties from licenses of intellectual property.
- various issues such as identifying distinct performance obligations, accounting for contract modifications, financing elements, and principal versus agent analysis.
- arrangements such as sales with rights of return, warranties, customer options for additional goods or services, licensing, and bill-and hold arrangements.
- costs of fulfilling and obtaining a contract, specifying the circumstances in which such costs should be capitalized (costs that do not meet the criteria must be expensed when incurred).
- significantly expanded disclosure about revenue recognition in the financial statements.

This new revenue recognition model requires judgments in many parts of application and presents clear challenges to many companies across industries, although the magnitude of the impact could differ significantly. The new standards may have implications in many areas, including accounting policy & processes, supporting IT systems and controls, tax, financial planning and budgeting, KPIs, investor /shareholders communication, product pricing and bundling, sales commissions, contract management, and legal matters.

Recognizing such challenges and the importance of the standards, and in order to support implementation of new standards, the two boards have formed a Joint Transition Resource Group that held its inaugural meeting in July 2014.

IFRS 15 is effective for periods beginning on or after 1 January 2017, while ASU 2014-09 for annual periods beginning after 15 December 2016. Early application is permitted only by IFRS 15 adopters.

Financial instruments

In July 2014, the IASB issued IFRS 9 Financial Instruments, which replaces most parts of IAS 39 Financial Instruments: Recognition and Measurement. This final version of IFRS 9 covers most financial instruments accounting areas, including requirements for recognition, classification and measurement, including impairment, derecognition and general hedge accounting.

This version of IFRS 9 issued is effective for periods beginning on or after 1 January 2018 with early adoption permitted. Previous versions of IFRS 9 (e.g. IFRS 9 (2013)) may still be adopted before the mandatory effective date provided the relevant date of initial application is before 1 February 2015.

IFRS 9 does not replace the requirements for portfolio hedge accounting for interest rate risk (often referred to as the 'macro hedge accounting' requirements) since the subject is separated from IFRS 9 and is currently at the discussion paper phase of the due process. In April 2014, the IASB published a Discussion Paper "Accounting for Dynamic Risk management: a Portfolio Revaluation Approach to Macro Hedging", seeking constituents' feedback by 17 October 2014. Consequently, IFRS 9 adopters may continue to apply such parts of requirements in IAS 39.

The FASB has tentatively decided to take a course different from the IASB in classification and measurement and impairment model. Accordingly, the upcoming FASB's final accounting model for financial instruments could be very different from the IFRS 9 (2014), while there may be some level of convergence being achieved.

Lease

During several joint meetings in 2014, the FASB and IASB continued redeliberating the proposed revisions to lease accounting.

For lessee accounting, the IASB tentatively agreed to a single model approach (where all leases are accounted for in a way similar to finance lease under IAS 17 in terms of expensing pattern) while the FASB supported a dual-model approach (straight-line expense pattern for non-capital leases, while expensing pattern is similar to current capital lease under ASC 840 and finance lease under IAS 17). Both models require on-balance treatment of all leases.

For lessor accounting, while IASB and FASB diverge on certain aspects (e.g., the recognition criteria of Day 1 gain), they substantially agreed to retain the existing accounting models.

Additionally, the Boards further deliberated multiple topics related to their models over the last few months, such as practical expedients, lease term, contract combination/modification, the definition of a lease, separating lease and non-lease components, initial direct cost, subleases, balance sheet presentation by lessees, cash flow presentation, sale and leaseback transactions, and disclosure by lessors.

Insurance contracts

In 2014, The FASB tentatively decided to abandon its convergence efforts with the IASB and focus on targeted improvements to existing GAAP. The IASB continues to develop its own insurance contract accounting model based on previous exposure documents.

Other IFRS or U.S. GAAP developments

In June 2014, the IASB published **Agriculture: Bearer Plants (amendments to IAS 16 and IAS 41)**. The amendments bring bearer plants, which are used solely to grow produce over more than one period and have a remote likelihood of being sold except for incidental scrap sales, into the scope of IAS 16 so that they are accounted for in the same way as property, plant and equipment.

The FASB also issued multiple ASUs, such as those below:

ASU 2014-12 requires that an entity not record compensation expense related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target will be met.

ASU 2014-11 amends the guidance on accounting for certain repurchase agreements ("repos"). The ASU requires entities to account for repurchase-to-maturity transactions as secured borrowings (rather than as sales with forward repurchase agreements), eliminates accounting guidance on linked repurchase financing transactions, and expands disclosure requirements.

ASU 2014-10 eliminates the concept of a Development -Stage Entity from U.S. GAAP.

ASU 2014-08 amends the definition of a discontinued operation and requires entities to provide additional disclosures about disposal transactions that do not meet the discontinued-operations criteria.

Other items in the IASB's work plan include the conceptual framework (Target ED in 2015 Q1), rate-regulated activities (target ED in 2014 Q3), the disclosure initiative consisting of multiple projects, narrow-scope amendments and various research program projects. The FASB is also advancing on framework projects including disclosure framework, narrow projects on recognition and measurement, presentation and disclosure projects and some research projects, some of which aim to simplify complex U.S. GAAP requirements.

Japanese GAAP

Revised Accounting Standard for Quarterly Financial Reporting and its Implementation Guidance

On 16 May 2014, the Accounting Standards Board of Japan (ASBJ) issued the following revised accounting standard and its implementation guidance: ASBJ Statement No. 12 Accounting Standard for Quarterly Financial Reporting (Revised in 2014). ASBJ Guidance No. 14 Guidance on Accounting Standard for Quarterly Financial Reporting (Revised in 2014).

The revisions were made to follow up on the amendments to ASBJ Statement No. 21 Accounting Standard for Business Combinations regarding the provisional accounting requirements when an entity cannot complete its business combination accounting as of the reporting date.

The primary change included in the revised Accounting Standard for Quarterly Financial Reporting and its Implementation Guidance is the addition of a requirement for an entity to adjust past quarterly reports retrospectively once such provisional accounting becomes final.

The revision is applicable, in principle, for business combinations consummated after the beginning of reporting periods starting on or after 1 April 2015. Earlier application is also permitted.

Exposure Draft on "Japan's Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications"

On 31 July 2014, the ASBJ issued the Exposure Draft on "Japan's Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications", which is open to public comment until 31 October 2014. As a part of the effort to increase the use of IFRSs in Japan, JMIS is intended as the fourth set of accounting standards to be used by Japanese public companies on a voluntary basis and is developed based on IFRSs with two notable modifications 1) mandatory recycling of OCI and 2) periodic amortization of goodwill within a period less than 20 years.

Other Financial Reporting Developments in Japan:

The Japanese government finalized a plank to boost growth in Japan and took steps to facilitate further voluntary use of IFRS in Japan.

The government issued a revised policy package in late June, describing policies to be implemented to further boost the national economy. Among others, the document presents policy related to national financial and capital markets, and refers to IFRSs. Based on confirmation of the G20's call for a single set of global accounting standards, the document explains some further policy measures to increase voluntary use of IFRSs by Japanese public companies.

The ASBJ, the European Financial Reporting Advisory Group (EFRAG) and the Italian standard setter Organismo Italiano di Contabilita (OIC) jointly published a Discussion Paper "Should Goodwill still not be amortized? – Accounting and disclosure for Goodwill".

The Discussion Paper is intended to contribute to the global discussion on how goodwill should be accounted for and disclosed. In particular, it argues that reintroduction of amortization of goodwill would be appropriate under IFRS. As a result of the analysis, the paper concluded that reintroduction of amortization of goodwill would be appropriate because it reasonably reflects the consumption of the economic resources acquired in the business combination over time, and can be applied in a way that achieves an adequate level of verifiability and reliability. The ASBJ, EFRAG and OIC invite comments on the paper by 20 September 2014.

The ASBJ issued its short paper series No. 1 "Is OCI Unnecessary?" as the first series of short discussion papers that the ASBJ plans to publish in order to contribute to the global discussions regarding financial reporting standards.

The ASBJ paper explores the possibility of abolishing or minimizing the use of other comprehensive income (OCI) in financial statements

For more information, please visit: IASPlus.com (IFRS) or USGAAPPlus.com (U.S. GAAP) or speak to our Deloitte experts Shinya IWASAKI, Partner (shinya.iwasaki@tohmatsu.co.jp), or Laurent FOUGEROLLE, Senior Manager (laurent.fougerolle@tohmatsu.co.jp).

Tax News

Cross Border Taxation – Base erosion and profit shifting ("BEPS")

BEPS "refers to tax planning strategies that exploit gaps and mismatches in tax rules to make profits 'disappear' for tax purposes or to shift profits to locations where there is little or no real activity but the taxes are low resulting in little or no overall corporate tax being paid". The Organization for Economic Cooperation and Development ("OECD") as mandated by the G20 (including non-OECD members) produced an Action Plan which aims to work on counteracting and discouraging BEPS. The Action Plan was published in July 2013. The Action Plan identifies 15 Actions, aimed at restoring the efficacy of the international tax model, eliminating gaps between domestic tax systems and promoting transparency and consistency. Though the BEPS project is focused on international corporate taxation and transfer pricing, the effects will be felt in many areas of a company's business – tax (including indirect taxes), business models, operations, supply chain, financing, ERP systems, pricing, etc. In some cases the Actions have now been broken down into phases, and the table below shows the current timeline.

September 2014

- Digital economy
- Hybrid mismatches
- Harmful tax practices – phase 1
- Treaty abuse
- Intangibles – phase 1
- Transfer pricing documentation
- Multilateral instrument – phase 1

September 2015

- CFC rules
- Permanent establishment
- Interest deductions – phase 1
- Harmful tax practices – phase 2
- Intangibles – phase 2
- Risks and capital
- Other high-risk transactions
- Disclosure of aggressive tax planning
- Dispute resolution
- Data collection and analysis measuring BEPS

December 2015

- Interest deductions – phase 2
- Harmful tax practices – phase 3
- Multilateral instrument – phase 2

The Transfer Pricing Actions are potentially of significant relevance to a large number of groups. We therefore consider these further below.

Transfer Pricing Actions

The OECD has made considerable progress on the OECD/G20 BEPS project toward the goal of approval by the G20 in September 2014 of the two transfer pricing action deliverables.

Documentation

Marlies de Ruiter, head of the Tax Treaty, Transfer Pricing, and Financial Transactions Division of the OECD's Center for Tax Policy and Administration, recently announced that Working Party No. 6 ("WP6") has reached consensus on a new approach to transfer pricing documentation, which will include three levels of documentation:

- a country-by-country ("CbC") template that will provide high-level financial and activity information for group members that will be used for risk assessment;
- a master file that will provide a big-picture view of the business's global operations; and
- a local file that will provide a detailed transfer pricing analysis.

WP6 announced previously that the information to be contained in the CbC template would be reduced from 14 items to eight items in six categories. Unfortunately, the definition of items that will be required has not yet been released by WP6. For example, WP6 stated that the template will require revenue earned on an aggregate country basis by all enterprises in the country, but has not stated whether the revenue will need to be broken down between third-party revenue and related-party revenue, as had been indicated in some releases. Similarly, WP6 has stated that companies will need to provide aggregated accrued taxes on a country basis. However, it has not clarified whether accrued taxes are taxes accrued for financial statement purposes or just accrued but unpaid current taxes. These definitions will have a major impact on the burden on business to collect the data.

De Ruiter stressed the increased transparency that will result from the three-part disclosure. This increased transparency will provide local tax examiners, sometimes for the first time, sufficient information to understand the profits and profit drivers of the entire group. The increased transparency will enable local examiners to determine whether income is being earned where value is being created. The CbC template would provide the profit earned by the entity performing the service, the master file would provide information on how the service fee related to the overall business of the enterprise, and the local file would explain how the fee related to a service that provided a benefit to the local company.

De Ruiter stated that WP6 recognizes that a structured and careful implementation of the new documentation tools will be key to their success for both governments and businesses. She stated the implementation should result in:

- consistency in governments' adoption of the requirements for all three documentation elements;
- timeliness of relevant information made available to governments;
- confidentiality of commercially sensitive information;
- a balancing of costs for both taxpayers and tax administrations; and
- security that information is used only as intended.

This work will, in part, address whether the CbC template -- and possibly the master file -- will be filed in the home country or locally. In addition, business has expressed concern that the CbC template will result in increased controversy. WP6 will also look at methods to reduce the risk of double taxation. WP6 recognizes that it needs more time to analyze the implementation strategy and assessment mechanism, and expects to circulate a draft addressing these issues in January 2015.

Clearly, the three-tier documentation process will increase global transparency. For some companies, the increased transparency may expose additional transfer pricing issues or inconsistencies in their transfer pricing practices that they may want to address before their first filing. In many situations, the increased transparency will put an additional premium on adoption and implementation of globally consistent transfer pricing policies.

U.S. Treasury officials have suggested that they have enough regulatory authority to adopt the rules through changes in U.S. regulations. In other countries it will depend on the source of their local documentation requirements. The OECD has not suggested a date by which most countries would be expected to adopt the new requirements. Our best guess is that the new requirements will become effective either for 2016 or 2017. Notwithstanding the delayed effective date, local examiners are not waiting for the official release and adoption of the new requirements. Local examiners in some countries are already requesting some of the global information to be contained in the CbC template during audits. For example, although the Japanese government or the National Tax Agency have publicly commented on the implementation of CbC; however as a practical matter, it is anticipated that the Government will announce changes to the domestic transfer pricing regulations in the 2016 Tax Reform which will impact the types of information required to be submitted by companies for fiscal years beginning on or after April 1, 2016 at the earliest.

The new requirements will require most companies to provide additional information in their documentation. The new CbC template will require companies to collect financial information that has never been collected in that form. In addition, the master file contains specific requirements for information that most companies have not previously collected. It is intended that both the CbC template and the master file be prepared by the parent company. For companies that do not have a centralized documentation process, these new requirements will likely require changes to their approach to transfer pricing documentation.

Intangibles

The full parameters of the OECD’s work on intangibles are unlikely to be known until 2015. However, low-functioning entities that primarily rely on the provision of capital and the assumption of contractual risk to earn intangibles returns may not find support for their position in the final OECD guidance. Tax authorities throughout the world have already gotten the OECD’s message and are increasingly challenging the returns earned by low-functioning entities. Some current international structures may face heightened scrutiny based upon the final OECD guidance. Therefore, it may be worthwhile to review the functions and risks of group entities currently earning intangible returns in light of the OECD direction to be prepared in the event of an examination by tax authorities.

Next steps

Following discussion and adoption of WP6’s deliverables/text by the 44 members and associates of the OECD’s Committee on Fiscal Affairs, is expected to be approved at the G20 meeting of finance ministers on 20 and 21 September 2014. Pascal Saint-Amans, Director of OECD’s Center for Tax Policy and Administration, indicated that this version of the documents will be released to the public in September, shortly before the G20 meeting.

M&A News

Japan Market Trend –2014 H1

Deal Value:

On a quarterly basis, disclosed deal values decreased 11% from 2,655 billion yen in 2014 Q1 to 2,353 billion yen in 2014 Q2. It was the third largest second quarter, in terms of disclosed deal value, since 2009 Q2.

On a half-yearly basis, outbound and inbound deal values increased during 2014 H1 relative to 2013 H1. The value of outbound, in particular, was more than double the comparable period in 2013, representing the second largest half-year by deal value since 2006.

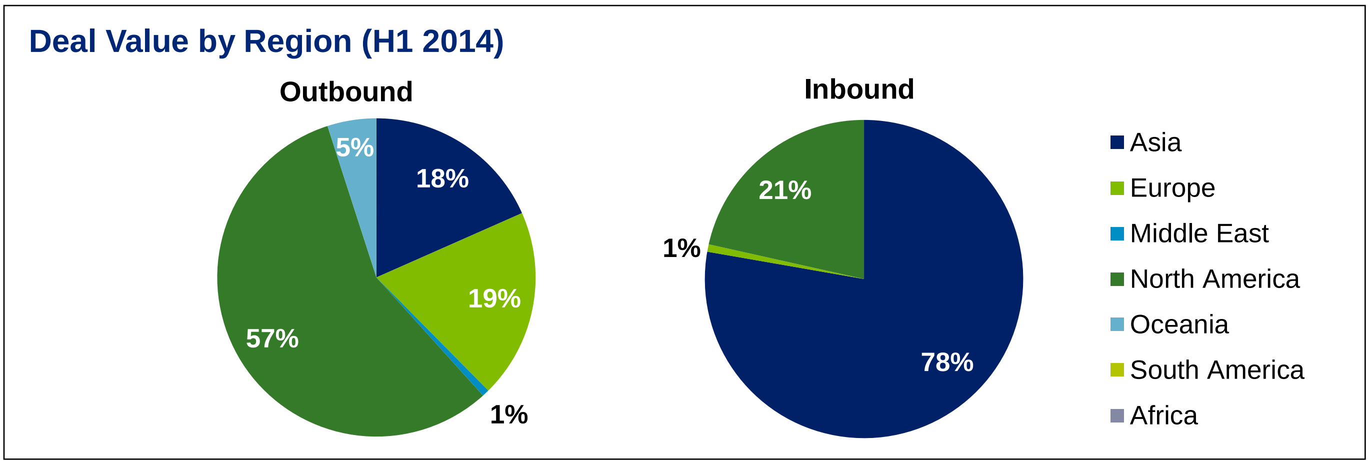
Top 3 deals occurred in 2014 Q2 are as follows: Dai-ichi Life Insurance's (Japan, Financial Services) acquisition of Protective Life Corp (USA, Financial Services) in JPY 585,276m, Sun Pharmaceutical Industries' (India, Life Science and Healthcare) acquisition of Ranbaxy Laboratories (Subsidiary of Dai-ichi Sankyo, Japan, Life Science and Healthcare) in JPY 332,480m; Mizkan Holdings' (consumer business) acquisition of Conopco (subsidiary of Unilever, UK, Consumer Business) in JPY 215,000.

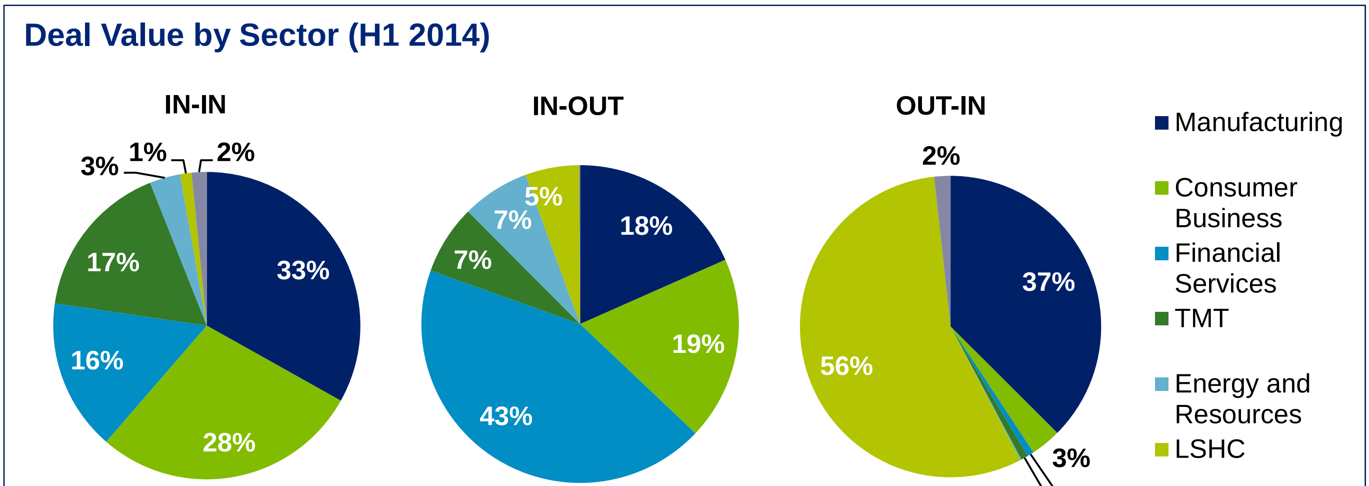
Values (JPYbn)	Domestic	Outbound	Inbound	Total
2013 H1	1125(38%)	1,690(57%)	142 (5%)	2,958
2014 H1	819 (16%)	3,588 (72%)	600 (12%)	5,008
% Change	-27%	112%	323%	69%

Deal Volume

On a quarterly basis, deal volumes decreased 9% from 574 deals in 2014 Q1 to 522 deals in 2014 Q2. On a half-yearly basis, domestic, outbound and inbound deal volume all increased during 2014 H1 relative to 2013 H1.

Volumes	Domestic	Outbound	Inbound	Total
2013 H1	660 (69%)	226 (24%)	68 (27%)	582
2014 H1	777 (71%)	248 (21%)	72 (7%)	1,906
% Change	-27%	112%	323%	69%





Note:
- IN-IN: Acquisition of Japanese companies by Japanese companies
- IN-OUT: Acquisition of non-Japanese companies by Japanese companies
- OUT-IN: Acquisition of Japanese companies by non-Japanese companies

The myth of 'The First 90 Days'

There is a potentially dangerous assumption that's being propagated by popular business tomes. From The First 90 Days to the slightly more generous The New Leader's 100-Day Action Plan, best-selling business books are placing perilous time constraints on newly minted members of a C-suite. But there's good news for executives who find themselves taking the reins: These time constraints are merely a best-selling myth.

Our research on executive transitions across multiple C-level roles shows that many executives actually frame their initial plans and establish themselves around a longer period of time. We first knew something was amiss four years ago, when a study of CFO transitions overwhelmingly found that they typically plan around a six-month period to establish themselves in their roles. Between June 2010 and May 2014, Deloitte has helped over 500 CFOs, CIOs, CHROs, C(Tax)Os, and business school deans frame their transition plans in our Executive Transition Labs—a one-day, personalized workshop where incoming executives establish their priorities, design their organizations, define relationship strategies, and create a tangible action plan to execute their agendas. What our Labs reinforce is that while the first 90 days are important and busy, generally, it is far better for executives to use a six-month planning horizon to realistically implement an effective transition. And even this can be an ambitious timeframe.

So why give yourself six months? First and foremost, this is generally the minimum time it takes to critically assess your team and, as needed, restructure it with new hires. The higher you go, the more you accomplish through others on your team. Having a strong team of direct reports with effective organizations beneath them is vital to your effectiveness. It takes time to assess direct reports, hold skip-level meetings, recruit new staff, and restructure an organization amid ongoing projects. Second, in large, complex organizations, it takes time to take stock of how the business really operates. If you are recruited from outside the industry, it takes time to learn the specific nuances of different product divisions and their markets. Third, senior executives are recruited to produce significant results. Thus, generating meaningful and recognizable wins in the first 90 days is not easy, but it is much more reasonable to garner tangible accomplishments—in addition to resetting your organization—in six months. For example, we have seen CFOs undertake myriad initiatives such as currency hedging or a specific tax strategy to generate distinctive early wins, but even the best-laid plans are only rarely realized in their first 90 days. So how should you use your first six months in an executive role? The guide below gives a simplified structure to refer to.

0–30 days

First, connect with your important stakeholders, direct reports, and perhaps one level down to establish hypotheses about critical issues needing attention, staff capabilities, and how to operate in your organization. This is a period of listening and connecting to stakeholders and absorbing critical information from your organization. We usually require our lab participants to marinate at least 30 days in their new role.

30–90 days

Keep connecting with stakeholders, and define an initial set of signature priorities for your team to address. Build an initial go plan to socialize with stakeholders—ideally by the end of 90 days. Where you are uncertain about the capabilities of specific staff, you can frame particular assignments to clarify their capabilities. These assignments are ideally completed or have clear milestones within the next 45–60 days, which enables you to assess individuals' capabilities. Ideally, by the end of 90 days, you are ready to frame and execute your organizational model, including deciding the roles into which you need to hire new staff. Third, if there is a burning platform issue or inherited train wrecks, take some concrete steps to diagnose and frame the issues, and establish stakeholder consensus to set them on a corrective path. Fourth, it is good to use this honeymoon period to also decide what initiatives need to be "killed" or deferred to free resources for more important priorities.

90–180 days

Ideally, start delivering a new organizational model, and recruit staff to supplement your team as needed. Garner substantial progress on at least one signature initiative. Establish a communications strategy that reinforces the culture you desire within your organization, and effectively communicate your team's priorities and accomplishments to stakeholders.

Takeaway

Dispense with the myth of the first 90 or 100 days, and get realistic. After helping 500 executives and interviewing a wide range of stakeholders, we know that CEOs, boards, and peer executives recognize that it takes time to assemble a team and establish a foundation for sustained results. Give yourself the gift of time in your next transition.

Time, Talent, and Relationships

Deloitte's research and insights from its transition labs suggest there are three fundamental resources that executives must manage during a transition: time, talent, and relationships. Focusing on these three resources can help you cut through the inherent bustle of an executive transition and unlock your organization's potential.

Time

The flood of issues crossing an incoming executive's desk can be overwhelming. As an incoming or newly promoted executive, you need to develop a clear sense of your organization's priorities while keeping the existing engines running. We often hear about 60–80-hour work weeks at the outset as incoming executives get pulled into meetings and launch their listening tours to get a handle on the issues.

As an incoming executive, you generally have to address four issues to garner better control of your time:

Establish a realistic timeframe, as I discussed in my last essay, and dispense with the myth of the first 90 or 100 days. Unless you're addressing an emergency, this is usually not enough time to drive meaningful results on the important things. Often, we find incoming executives—for example, a CIO joining a retailer in June and having to focus almost exclusively on Cyber Monday and e-commerce through the Christmas season—pulled in other directions before moving more broadly to frame an IT agenda. So much for the first 90 days.

Establish relationships with key stakeholders. Influential and good relationships with key stakeholders make it easier to move your agenda forward. It's critical to spend time establishing a personal, one-on-one connection and hearing their concerns and needs. So, in the initial months, listening tours take time.

Establish three to five key priorities, and make some tangible progress on them in the first six months of your tenure. Make these priorities—and their value—"elevator ready" by succinctly framing them.

After 30–45 days, take an audit of where your team's time is going, and decide what must be stopped. Kill the unproductive meetings or the less important projects that drain you and your best talent so you can focus more productively on your most important priorities.

Time is your one irrecoverable resource, so it is imperative to prioritize and guard it during a transition.

Talent

No senior executive could do their job alone, and you are dependent on your new team to deliver results from day one. Generally, executives have to address a talent agenda with the following four items fairly quickly after a transition:

- Get the right people in the right seats. This can entail assessing the inherited staff and recruiting or reassigning staff to effectively deliver key priorities.
- Establish a high-performing leadership "team." Often, incoming executives inherit broken organizations and teams with each direct report driving isolated initiatives. Resetting these behaviors and establishing a team can be vital to delivering key priorities.

- Set a talent development agenda. You want to get the best out of your people and build a sustained organization. To do so may require a broad, talent-development agenda—from training to coaching key staff, rotating some people into key development positions, and developing succession plans. Showing a strong commitment to talent early can help retain and motivate staff.
- Design your organization for the future. The organization you inherit is often designed for the previous leader. It is important to design the organization to best serve you as well as the future needs of your company.

Given that talent is key to your success, you are likely to spend between a half day and a full day each week to execute your talent agenda.

Relationships

New executives have to foster relationships with a wide range of stakeholders during their transitions. Dialogues with stakeholders can shape priorities, and good relationships make it easier to move forward on key priorities. In our research and labs, the unhappiest executives are vexed by relationship issues. Thus, establishing good relationships is vital to transition success, and again, it can take up considerable time. Fortunately, there are a wide range of tools available today to help executives develop influence strategies and assess the needs, personalities, and communication styles that are effective with other stakeholders to accelerate relationship building.

Takeaway

Effectively managing time, talent, and relationships can help you accelerate the creation of a focused agenda and realistic execution plans that enhance the likelihood of a successful transition.

The CFO Program for Foreign 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 foreign companies to provide insights and networking opportunities.

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