CFO Insights | Japan

2015 Q2

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Japan Economic Outlook – Finally, growth

Japan has come out of recession

The government reports that, after having declined sharply in the second and third quarters of 2014, real GDP grew in the fourth quarter, though not by much. It was up at an annualized rate of 1.5 percent. For all of 2014, GDP actually contracted compared with 2013.

A disproportionate share of fourth-quarter growth came from strong exports, while consumer spending remained weak and business investment declined. Exports, on the other hand, registered strong growth from the third to the fourth quarter, likely as a result of the weak Japanese yen, which made exports cheaper for foreigners.

Weakness in consumer spending probably reflected the continuing stagnation of wages. Declining business investment means that companies are not yet convinced that demand will rise, or that deflation will be avoided. While investors were disappointed that growth wasn't stronger, there is reason to expect an improvement in performance in the quarters to come. Certainly the sharp drop in the price of oil will boost consumers' discretionary income. And the more aggressive monetary policy should boost inflation and, in the process, lower real interest rates.

Japan also appears to be moving away from deflation

The GDP report shows that in 2014, nominal GDP increased faster than real GDP for the first time since 1998. That is because the GDP deflator, a measure of inflation for all components of GDP, increased in 2014 for the first time since 1998. The GDP deflator is a broader measure of inflation than the consumer price index. The fact that it increased is good news and suggests that the aggressive monetary policy is bearing fruit. However, critics may point out that last year's increase in the national sales tax played a role in boosting nominal GDP. This is true. On the other hand, there is reason to believe that the boost to nominal GDP is not only due to the tax increase. The government also reported that employee compensation (wages, bonuses, and benefits) increased in 2014 at its steepest pace since 1998. Thus it appears that inflationary pressures are beginning to develop.

Conflicting labor market signs

As for wages, some of Japan's largest companies have announced sizable wage increases, among the biggest in a decade. Prime Minister Shinzo Abe was pleased and said, "With the usual negotiations between business and labor, executives get stuck in a deflationary mind-set. I am counting on this progress to continue." The companies that are now increasing wages are mostly export oriented and have benefitted substantially from a declining yen. They are flush with cash that they can share with their workers. Yet smaller, domestically oriented companies have been hurt by a rising yen, which raises import prices. They are not yet increasing wages. Still, the overall effect is an increase in wages, which, in turn, will help boost consumer spending.

Nevertheless, Japan's job market remains a bit of a puzzle

The government reports that the unemployment rate, which stood at 3.6 percent in January, is near the lowest level in 18 years. In addition, the ratio of jobs available per job seeker is the highest in 23 years, and the number of job offerings is up 5.6 percent from a year earlier. Given a clearly tighter job market, one would expect a surge in wages. But while big companies are starting to boost wages, smaller ones are not. Instead, wages are mostly stagnant and, adjusted for inflation, have been consistently falling for the past 17 months. Companies are increasingly hiring contract or part-time workers rather than full-time employees. This is having a dampening effect on overall compensation.

It appears that businesses are being excessively cautious owing to the perceived weakness of the economy. Consequently, they are reluctant to commit to hiring full-time workers.

Another factor that could be suppressing wages is the rise in labor force participation, especially among women. In the past two years the female participation rate has risen rapidly. From a demographic point of view, this is good as it boosts the ratio of workers to retirees and helps replace the large number of aging workers who are retiring. It should also help boost economic growth.

Weaker yen

The sizable drop in the value of the yen, largely a result of an aggressive monetary policy, is starting to pay off in terms of export strength. The government reports that January exports were 17.0 percent higher than a year earlier. However, export growth slowed to 2.4 percent in February, partly due to the timing of the Lunar New Year holiday. This was the sixth consecutive month of rising exports. The weaker yen allows exporters to either cut prices or boost margins. In addition, a stronger economic recovery in the United States is playing a role in Japan's export rebound. Meanwhile, the government also reported that imports fell 3.6 percent in February versus a year earlier. This was largely due to the decline in the price of oil. It also led to a decline in the trade deficit. Japan has run a trade deficit for the last two-and-a-half years.

A weaker yen should benefit the industrial side of the economy

Indeed, Japanese industrial production increased 3.7 percent from December to January but was down 2.8 percent from a year earlier. In addition, the government reports that shipments of industrial goods were up 5.6 percent, while inventories of industrial goods were down 0.4 percent. These numbers bode well for future increases in output, especially as businesses will need to replenish inventories and meet rising demand. However, it should be noted that industrial production remains only 2.4 percent above the level seen in 2010. Thus, after a sharp decline in recent years, production has finally rebounded to the level of five years ago.

Policy considerations

Last year, Japan's budget deficit was 7.1 percent of GDP. Meanwhile, Japan's total sovereign debt is in excess of 200 percent of GDP. Moreover, with an aging population, the deficit is set to worsen as the number of retirees rises faster than the number of workers. Thus it is not surprising that Japan's government is keen to raise taxes in order to get its finances under control. Yet last year's tax increase resulted in recession, which is why next year's tax increase is postponed until April 2017. However, the government has gone out of its way to confirm that the next tax increase will not be postponed again. It wants to reassure markets that Japan will return to fiscal probity.

Why there is concern about market sentiment is not clear

Japan has among the lowest bond yields in the world. This suggests that investors are not worried about Japan's ability to service its future debts. Plus, the best way to reduce the debt-GDP ratio is to boost GDP growth rather than slow the growth of debt. Regarding that, Abe said that the Trans-Pacific Partnership (TPP), a free-trade agreement between Japan, the United States, and other Pacific Rim nations, is nearing completion. He said, “At last the end is in sight.” A TPP deal could be the factor that forces Japan to liberalize domestic markets, thereby boosting productivity and growth. Among the sticking points between the United States and Japan has been the latter’s reluctance to liberalize its agricultural market. Protection of farmers costs the economy substantially, and reducing protection would free up resources and likely boost growth significantly.

Abe said, “After the war, our agricultural population was more than 16 million people, [and] now it is 2 million . . . and their average age is greater than 66. It is past time for a big reform of agriculture.”

By Japanese standards, this is a revolutionary statement, taking on one of the country’s most powerful vested interests. His statement bodes well for reform.

Accounting News

IFRSs

No new standards or interpretations issued by the IASB. Please see U.S. GAAP section below for topics discussed at the joint Transition Resource Group in March.

U.S. GAAP

US FASB tentatively decides to defer the new revenue standard

On April 1, 2015, the FASB tentatively decided to defer for one year the effective date of the new revenue standard (**Accounting Standards Update (ASU) 2014-09 “Revenue from Contracts with Customers”**) for public and nonpublic entities reporting under US GAAP. The Board also tentatively decided to permit entities to early adopt the standard. The tentative decisions will be exposed in an upcoming proposed ASU with a 30-day comment period.

The Joint Transition Resource Group for Revenue Recognition (TRG) formed in June 2014 (responsible for soliciting, analyzing, and discussing stakeholder issues arising from implementation of the new standards in order to assist the IASB and the FASB to determine what, if any, action will be needed to address those issues) held its fourth meeting in March 2015. The TRG discussed the accounting treatment for the following matters:

- Variable discounts
- Material rights
- Consideration payable to a customer
- Partial satisfaction of performance obligations prior to identifying the contract
- Warranties
- Significant financing component
- Whether contributions are included or excluded from the scope
- Series of distinct goods and services

It is currently unclear whether the IASB will defer the effective date of **IFRS 15 Revenue from Contracts with Customers**; the IASB plans to discuss this issue later in April.

US FASB aligns with IFRSs on presentation of debt issuance costs

On April 7, 2015, the FASB has issued **ASU No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs”**, as part of its simplification initiative. The ASU changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. According to the ASU’s Basis for Conclusions, debt issuance costs incurred before the associated funding is received (i.e., the debt liability) should be reported on the balance sheet as deferred charges until the related debt liability amount is recorded.

For public business entities, the guidance in the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after 15 December 2015. For entities other than public business entities, the guidance is effective for fiscal years beginning after 15 December 2015, and interim periods beginning after 15 December 2016. Early adoption is allowed for all entities for financial statements that have not been previously issued. Entities would apply the new guidance retrospectively to all prior periods (i.e. the balance sheet for each period is adjusted).

Japanese GAAP

Japan completes endorsement of IFRS 9 "Financial Instruments" without modifications

The Financial Services Agency (FSA) of Japan has announced that additional IFRSs were designated for use by companies voluntarily applying IFRSs in Japan. The announcement effectively includes all IASB pronouncements issued up to 31 December 2014. This means that endorsement of **IFRS 9 "Financial Instruments"** is now complete in Japan.

Accounting Standards Board of Japan (ASBJ) decided to kick off a comprehensive project on revenue recognition under Japanese GAAP

In March, ASBJ has decided to commence a project to develop revenue recognition standard. The project is motivated by the completion of IFRS 15 and ASBJ will consider convergence with IFRS 15. The detailed project plan including the target timing of completion has not been set.

Guidance for computing the effective tax rates for income tax accounting comes out

In March, ASBJ released its thought on how the effective tax rates should be computed after changes in tax laws enacted in March, in a form of supplement to its summary minutes. The guidance deals with the situation where national laws are revised while relevant laws are not yet changed by local government.

New and revised standards come out from the ASBJ

ASBJ issued following new or revised guidance in response to new transactions and changes needed in light of recent environment:

- ASBJ Statement No. 1 (revised 2015) Accounting Standards for Treasury Shares and Appropriation of Legal Reserve
- ASBJ Guidance No. 2 (revised 2015) Guidance on Accounting Standards for Treasury Shares and Appropriation of Legal Reserve
- ASBJ Guidance No.25 (revised 2015) Implementation Guidance on Accounting Standard for Retirement Benefits
- PITF No.5 (revised 2015) Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)
- PITF No.7 (revised 2015) Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)
- PITF No.18 (revised 2015) Practical Solution on Accounting for Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements
- PITF No.30 (revised 2015) Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts
- PITF No.31 Practical Solution on Accounting for Leases by Lessees under the New Measures to Promote Investment in Facilities Using Lease Methods

These standards are available in Japanese from the ASBJ Website.

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), Etsuya WATANABE, Senior Manager (etsuya.watanabe@tohmatsu.co.jp) or Laurent FOUGEROLLE, Senior Manager (laurent.fougerolle@tohmatsu.co.jp).

Tax News

2015 Tax Reforms Now Enacted

The 2015 tax reform proposals were enacted on 31 March 2015 without significant modification. As a brief reminder, certain provisions (e.g. reduction in the corporate income tax rate, further restrictions on utilization of brought forward tax losses, increase in the non-income based enterprise tax rate, etc.) will take effect for tax years beginning on or after 1 April 2015. Also, foreign supplies of digital services will become subject to Japanese consumption tax after 1 October 2015.

Recent Tax Audit Experience

In our recent experience, the tax offices continue to perform detailed field audits, and their areas of focus include:

Corporate tax issues:

- Requests for related party information, even if the tax authority is not focused on transfer pricing related matters in the particular audit. In a number of cases, tax examiners are even asking for foreign related party financial statements and related information. This potentially creates an issue where a taxpayer is reluctant to supply information that it considers is not within the scope of the current audit and is not relevant to the entity that is the subject of the audit, but is wary of appearing to be uncooperative. It should also be noted that the tax authority may be able to obtain information via the information exchange clauses in Japan's treaties.
- Increased focus on review of emails (including using software to recover deleted emails).
- Continued efforts to ensure appropriateness of management fees and headquarter recharges.
- Increased review of whether a transaction should be treated as a tax-free reorganization.

Customs duties:

- Ensuring that the dutiable value of imports reflects increases in transfer prices or includes related royalties, etc. Customs officers have been requesting that additional customs duties are paid to reflect a higher value of imported goods than that initially used at importation, e.g. when there has been a transfer pricing adjustment to increase the cost of the goods or where they consider that related royalties, etc., should be included in the dutiable value.

Individual taxes:

- Increase in the number of tax audits of high net worth individuals and focus on various types of investment income. The tax authorities appear to be focusing on investment income, such as income from foreign partnerships, and unreported income from foreign financial assets. Since 2014, the law requires certain individuals to report foreign assets held and the government is starting to use such information, along with information exchanges with foreign authorities to identify unreported income.
- Continued focus on individual's foreign equity compensation.

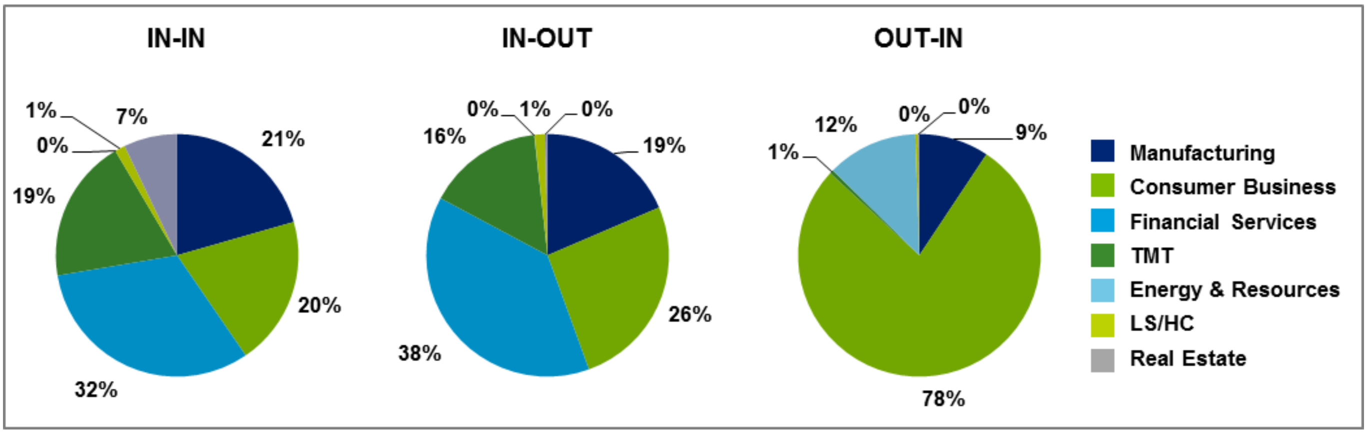
For more information, please speak to our Deloitte experts Russell BIRD, Partner (russell.bird@tohmatsu.co.jp), or Shingo IIZUKA, Director (shingo.iizuka@tohmatsu.co.jp).

M&A News

Deal Value

The value of announced M&A transactions with Japanese involvement totaled 5,242 billion yen during 2015 Q1, almost doubling from 2014 Q1 (2,678 billion yen). The disclosed deal value was primarily spread across three sectors Financial Services at 1,854 billion yen or 35% of total value, Consumer Business at 1,513 billion yen or 29% of total value, and Manufacturing at 948 billion yen or 18% of total value.

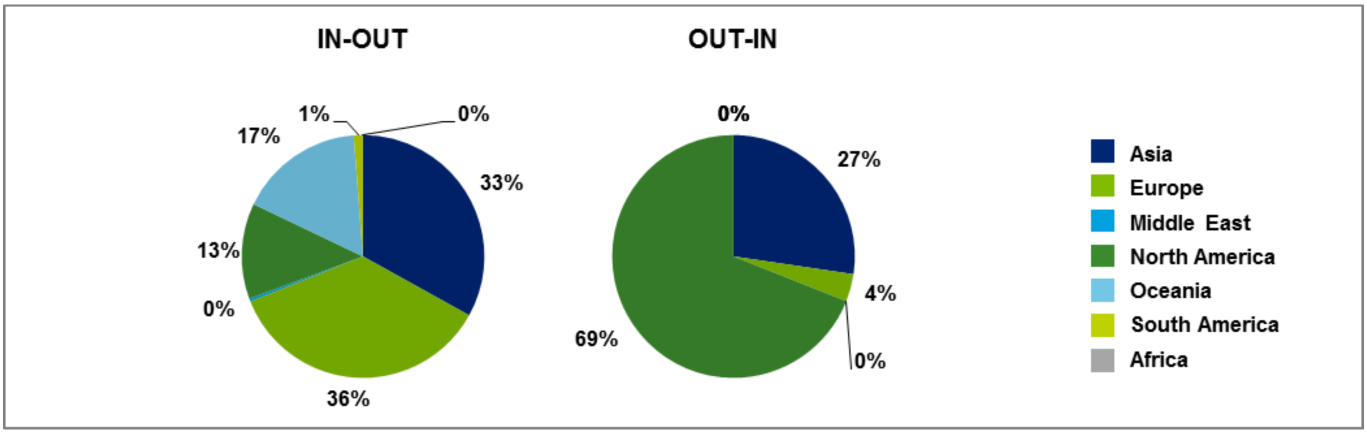
Deal Value by Sector



Deal Value by Type

Japanese domestic deals recorded a total of 380 billion yen in value, increasing by 18% vs. 2014 Q1 (322 billion yen). Domestic deal activity accounted for 7% of total deal value in 2015 Q1 with the Financial Services and Consumer Business sectors representing 32% and 20% of the value, respectively. Japanese outbound cross-border activity more than doubled to 4,519 billion yen vs. 2014 Q1 (2,210 billion yen). Outbound deal activity accounted for 86% of total deal value in 2015 Q1 with the Financial Services and Consumer Business sectors representing 38% and 26% of the value, respectively. Japanese inbound cross-border activity more than doubled to 343 billion yen vs. 2014 Q1 (146 billion yen). Inbound deal activity accounted for 7% of total deal value in 2015 Q1 with the Consumer Business sector representing the majority share at 78%.

Deal Value by Region



Deal Volume

611 deals involving Japanese companies were announced during 2015 Q1, a 6% increase vs. 2014 Q1 (574 deals).

Deal Volume by Type

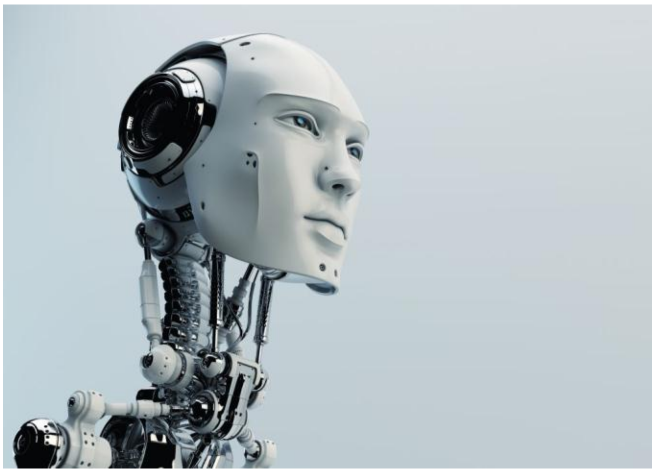
Domestic deal activity accounted for 430 transactions or 70% of total deal volume in 2015 Q1, a slight increase of 5% vs. 2014 Q1. Outbound deal activity accounted for 130 transactions or 21% of total deal volume in 2015 Q1, a slight decrease of 2% vs. 2014 Q1. Inbound deal activity accounted for 51 transactions or 8% of total deal volume in 2015 Q1, a significant increase of around 55% from 2014 Q1 levels.

Values (Billion JPY)	IN-IN	IN-OUT	OUT-IN	TOTAL
2014 Q1	322 (12%)	2,210 (83%)	146 (5%)	2,678
2015 Q1	380 (7%)	4,519 (86%)	343 (7%)	5,242
% Change	18%	104%	135%	96%

Volumes (Transactions)	IN-IN	IN-OUT	OUT-IN	TOTAL
2014 Q1	409 (71%)	132 (23%)	33 (6%)	574
2015 Q1	430 (70%)	130 (21%)	51 (8%)	611
% Change	5%	-2%	55%	6%

IN-IN | Acquisition of Japanese companies by Japanese companies (domestic)
IN-OUT | Acquisition of non-Japanese companies by Japanese companies (outbound)
OUT-IN | Acquisition of Japanese companies by non-Japanese companies (inbound)

Autonomics: Show me the money!



From the 1977 Star Wars movie character C-3PO and KITT from the 1982 TV series Knight Rider to the 2013 Her movie character Samantha, we have envisioned "artificially intelligent" technologies that enhance human life by learning the human way of performing tasks and requiring no intervention.

Autonomics, the new buzz word among automation enthusiasts, may help bring us one step closer to that dream.

For almost two decades, outsourcing served as a means for companies to standardize their non-core processes across geographies to promote operational efficiency. A primary benefit of outsourcing was financial savings due to labor arbitrage. However, this advantage is depleting due to the lack of available skilled resources or increasing wages for skilled labor in existing "outsourcing havens". Companies are now being forced to either move back or relocate to another country - both ineffective approaches in the long term.

Autonomics offers a potential solution where technology replaces human resources to perform the outsourced work.

This can have multiple benefits - decoupling of business growth from labor requirements, and freeing human resources to focus on more innovative and value-added work. The question, is it real or hype?

Autonomics - a new era in outsourcing?

The term "autonomic" describes systems which are designed to perform routine tasks and operations performed by humans. The technology interfaces with existing applications for processing transactions and triggering responses.

In the context of outsourcing, autonomics refers to automation where a computer drives existing enterprise application software in the same way that a trained user does. This means that unlike traditional application software, autonomics is a tool or platform that "observes" the way a trained user resolves issues and replicates the same "decision making" process to troubleshoot similar issues in the future, thereby eliminating the need for a human operator.

Autonomics can be impactful in back-office centers running high volume, rules-based work. It can perform these tasks round the clock at a fraction of the cost of a human resource without any manual errors maintaining or mitigating processing risk. Industry analysts predict this technology will completely transform the BPO industry.

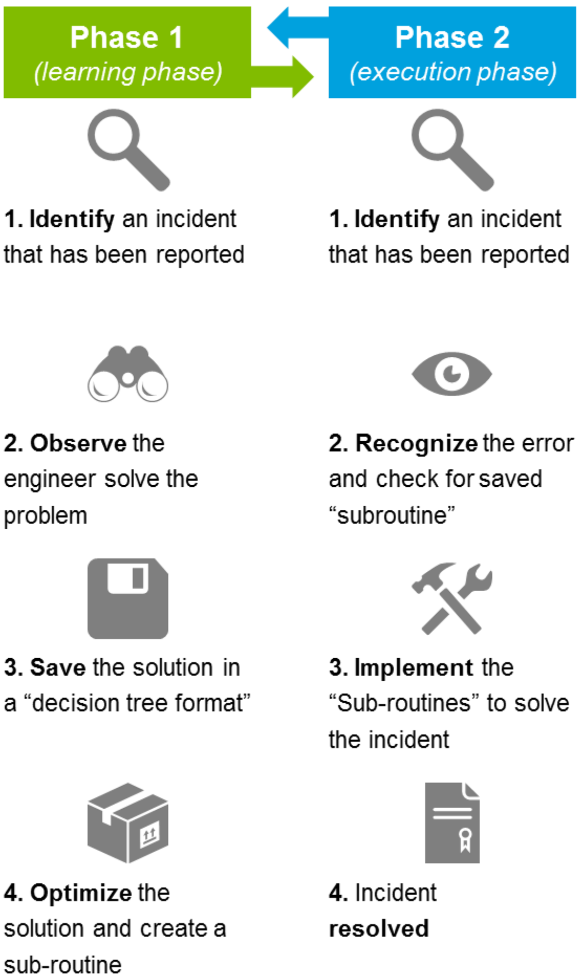
A number of companies have hyped this technology, and have developed early incubated software platforms with hopes of improved accuracy, enhanced service levels, and reduced costs. In 2013, a humanoid named Eliza4 was created by IPsoft as a virtual service desk employee to enable back office process automation with no human intervention: Some reports say it could answer up to 100,000 emails and 67,000 phone calls per day. Blue Prism, a U.K.-based firm, enables business users to create software robots to automate rules-driven business processes. According to Blue Prism's website, its robot full-time equivalents (FTEs) can be scaled up to any number based on demand instantly and cost a third of offshore human FTEs. Blue Prism already has many large clients.

A look under the hood reveals how this technology could work

Early autonomic platforms combine both back-end and front-end automation to enforce logic and imitate the human decision making process. Simply put, it controls the engine and the driver of a car.

The platform goes through two phases - Learning phase & Execution phase - as it learns to solve incidents. The below table summarizes the steps in these two phases.

Iterative "learning-execution" process



Autonomics is poised to disrupt the BPO market

Autonomics could be the next wave to shake the BPO market at its roots, with technology at the heart of the revolution. Early adopters, those now thinking about using this technology could realize cost reductions in the range of 60% in contrast to 15-30% offered by the conventional approach (that relies on labor arbitrage). The autonomics landscape is nascent with only a handful of autonomics technology players in the market. However, as these players continue to develop their products and new players enter the market, the potential of autonomics to be a market disrupter is significant. It would be prudent for the outsourcing market players to carefully scrutinize developments over the next few years in order to plan for changes in revenue streams, avoid cash flow erosion, and ride the autonomics wave in style.

The Takeaway

Autonomics has the potential to be a disruptor in the outsourcing industry, particularly altering the conventional approach to BPO. However, due to the lack of sufficient number of industry use cases, stakeholders are waiting to witness how the large scale implementation of autonomics will pan out. It is important to remember that successful automation of complex services is as dependent on the orchestration of diverse initiatives and proper service delivery as on the technology itself. It remains to be seen if autonomics will vastly transform the industry in the near term or is a technology with a lot of potential whose time is yet to come.

For more information, please speak to our Deloitte experts Marc MANCHER, Principal (jmancher@deloitte.com), or Simon TARSH, Director (starsh@deloitte.com).

Are Your Conversations Strategic?

Increasingly, many CFOs strive to be seen as strategic. But what does that mean in practice - specifically, in the critical conversations needed to move your company forward?

Such conversations happen in organizations all the time - in every economic environment. How much capital should we allocate toward organic growth versus new acquisitions? Is there a short-term solution to stem eroding margins? Is there an optimal cadence for rolling out a product expansion? Making these decisions effectively, however, isn't particularly suited for today's frequently overstructured meeting formats. Instead, the process calls for a more thoughtful approach, with the right input, players and environment.

For CFOs, who often have a finite tenure, instituting protocol around such strategic conversations can have another benefit: they are often the means to making an impact in a relatively short period of time. In this issue of CFO Insights, we'll discuss the what, when, why and how of having strategic conversations - and outline some leading practices for making the resulting decisions stick.

When to Have Strategic Conversations

On a day-to-day basis, CFOs can face both technical and adaptive challenges. Technical challenges are typically more clear-cut and often have one or just a few "right" answers. Think of approving a 5% cut to a marketing budget or deciding whether or not to hire additional finance staff. Adaptive challenges, on the other hand, involve situations where the question is complicated or open-ended, and multiple perspectives are needed to gain real insight. Capital-allocation decisions are often a case in point.

Typically, with capital allocation there is a business strategy driving the decision. For example, suppose you had to decide how aggressively to respond to a new disruptive technology in your industry. The decision may be complicated by competing interests, tax considerations, multiple stakeholders and several viable options. Moreover, human differences, perspectives and judgments may likely come into play. And instead of "next steps," the situation would call for alignment and new insights that could propel your company forward. To attain that alignment in a strategic conversation, it's important to identify the people with the right perspectives to solve the problem; a common platform that leverages a sense of urgency with a shared sense of purpose; and a common understanding of the issues. In addition, strategic conversations should be held in an environment that fosters creative collaboration - and an experience should be created for the participants that is both powerful and shared.

When to have that conversation is another matter. It often depends on the "ripeness" of the issue. On one extreme, say with margin erosion, you may be in such a negative spiral that it's hard to think straight, and even a strategic conversation might be stunted by a lack of creative problem solving. On the other hand, you may have an issue that is important, but not urgent, and it could take many of your leadership skills to engage people in a productive conversation. That's why, ideally, you want to call a strategic conversation when the issue is clearly important, but you are not in crisis mode.

Common Habits of Strategic Thinkers

Here's a short list of things that strong strategic thinkers often do habitually:

- Systems thinking:
  Construct - and constantly tinker with - mental models about how their business works to solve problems and spot new opportunities.
- Scanning and pattern recognition:
  Perpetually scan for new data points and insights from a wide range of sources - including those beyond their industry.
- Challenge their own assumptions:
  Invite other people to challenge their thinking as well as their underlying thought processes.
- Balance future and present orientation:
  Consider the future and the present needs of their business at the same time, without conflict.
- Synthesis and storytelling:
  Take observations and ideas from a wide range of contexts and combine them into coherent stories about future options.
- Hypothesis telling:
  Look for quick-and-dirty experiments to test emerging hypotheses and see what works.

Three Types of Strategic Conversations

There are three types of strategic conversations, depending on where you are in the process of resolving an adaptive challenge. To work toward a resolution, it is critical not to mix them up.

Building Understanding

This is basically a diagnostic session. It is called for when your team doesn't know much about a particular issue nor has multiple divergent views. Overall, the purpose is to try to get alignment around specific insights and gain shared understanding. The challenge, however, can be keeping it at the knowledge-sharing level. People often try to rush to decision-making, but it's generally a bad idea to go from initial insight to decision-making in the same session (in fact, if a "smoking gun" answer is arrived at, it almost always presents a technical challenge). Leading practices include posing a clear challenge and defining the end point.

Shaping Choices

When the issue is well understood but the resolution is not, a shaping choices conversation is needed. In this conversation, participants discuss different options based on their shared understanding of the situation, and evaluate the pros and cons of each. The key practices in this type of strategic conversation are to develop a manageable number of options - say, three to five - and to also treat the status quo as one of them. After all, by putting “do nothing” on the table as a specific option, you can remove its “default” power and treat it as just one of several possible choices.

Making Decisions

Once there is understanding and the choices are evaluated, it is time to make a decision. While some organizations like to pretend that big strategic decisions are made in executive-team or management-committee meetings, that’s usually not the case. Rather, most big decisions are made by leading players “offline” and then ratified in formal meetings. For this reason, real decisions tend not to be made at meetings that are billed as decision-making sessions. Rather, decisions are typically shaped much further upstream - which can be all the more reason to focus the bulk of your energy on designing powerful strategic conversations around **Building Understanding** and **Shaping Choices**. By the time it rolls around to **Making Decisions**, the game could be mostly over.

Elements of Effective Resolutions

Whichever type of strategic conversation is called for, there are certain elements that can make them more effective. Consider the following:

Convene the dream team

For strategic conversations, there is often a “dream team” of participants and a “must invite” team. For a really important adaptive challenge, you’ll likely need the dream team. Take a step back and consider who could really make a difference in understanding this challenge and in making progress against it. That may include customers and subject-matter specialists. Then invite only those folks - or figure out how their perspectives can be represented.

Be clear about decision rights

While adaptive challenges are often vague and cut across many parts of a business, there still needs to be clarity on who has final say. Make it clear before the session who will be responsible for making execution decisions. Otherwise, you may run a real risk that no decisions will be made.

Avoid fake participation

Even if you will be making the final decision as CFO, it is wise to seek input from multiple sources. But be genuine about these asks. Do not convene participants simply to make them feel like they’ve been involved in the decision. These types of check-the-box invitations can make people feel more cynical rather than supportive, although they’re unlikely to say so to your face.

Give it time

Typically, strategic conversations last a day or two, but the effort usually doesn’t stop there. In fact, adaptive challenges need a sustained effort that may take months and involve everything from informal discussions to market experiments. During the sessions themselves, however, the point is to generate momentum and energy that will help propel the team toward a solution.

Change the box

The phrase “think outside the box” is often used to ignite a lot of strategy discussions. But in a strategic conversation, it may be more effective to think inside different boxes. For example, challenge participants to imagine what a new entrant might do or how the situation might change if you had either unlimited or severely limited resources. Such contexts could generate new ideas that could be more possible than originally thought.

Consider your culture

Culture is usually a huge consideration in a strategic conversation. There are typically three types: aggressive-aggressive, passive-aggressive, and healthy. Depending on your organization’s culture, you could be faced with interactions that are either consensual or conflictual. Unfortunately, healthy debate is often a distinct minority. But by modeling the spirit of healthy debate (that is, don't be a bystander, don't be a fighter), CFOs can help move the dialogue toward a constructive resolution.

Find a style that works for you

While there may be strategic conversations happening every day within large organizations, few executives naturally embody the skills to facilitate them. But some leaders manage to develop practices over time that work well for them. Take, for example, the chief marketing officer of a large consumer tech company who had competing business units play a budget-planning game to get on the same page about the company's marketing spend. Or the innovation leader at Intuit who sent her executive team members on a scavenger hunt so they could fully appreciate the new powers of mobile technologies. Or the CEO of Plum Organics, who engaged his board members in a war-room activity to help them understand the changing nature of competition in their markets.

There are about as many different ways to approach a strategic conversation as there are adaptive challenges. The point is that, when faced with an adaptive challenge, you should get creative and engage people in ways that are more likely to generate breakthrough insights than your standard meeting.

Establish a consensus for execution

Strategy is dynamic and, as such, is never fully resolved. Still, once there is consensus on what is wrong, alternative choices identified, and decisions made, execution should be put in motion. You may stand a better chance of success though, if you visualize your best-case scenario before going into a strategic conversation and sketch out a few initial plans for follow-up. Otherwise, you may continue having messy conversations and remain unsure if you're making progress.

Accept the Risks

Despite your efforts, there will likely be times when strategic conversations don't work. Politics may be one reason. Sometimes participants simply cannot rise above self-interest. Near-termism - for example, the way an organization's incentives are structured or certain market realities - is another factor. Consider, for example, that the average publicly traded stock is now held for only about a year, and you'll understand how time horizons can affect decision-making. Finally, strategic-thinking capabilities can be a constraint. In many organizations, people rise to senior levels based on execution capabilities, but lack the skills that strategic choices demand.

The Takeaway

For CFOs looking to make an impact in a short time frame, strategic conversations are a useful tool. And given their place in the organization, it seems natural for CFOs to convene such conversations. So, go ahead: build understanding, shape the choices, and make decisions. In the process, you'll create your moment of impact.

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.

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