CFO Insights | Japan

2015 Q4

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Japan: Struggling to recover?

The state of the economy

Japan's economy failed to grow in the second quarter of 2015. Moreover, real GDP has fallen in three of the last five quarters – hardly an indication of a rebound in economic performance. Part of the problem is the weakness of the household sector. Household spending has increased only in 3 of the last 20 months – and it continued to fall in July. This reflects a combination of declining wages and virtually no inflation. In 6 of the last 12 months, consumer prices have fallen. Meanwhile, consumer spending has not yet recovered from the shock of last year's increase in the national sales tax. On the other hand, there are indications that the labor market is starting to tighten and, as a consequence, compensation is starting to improve. The unemployment rate is low, and the ratio of job openings to applicants reached a 23-year high in July. Moreover, a relatively large increase in the official minimum wage takes effect in October. Therefore, consumer spending could rebound somewhat in the second half of the year.

Another problem concerns business investment, which has remained stagnant, reflecting business pessimism as well as the negative effect of weak export demand. However, corporate earnings are rising rapidly, especially due to the impact of a weak Japanese yen on translated earnings from foreign operations. If a boost to wages causes a rebound in consumer demand, this should bode well for the willingness of businesses to invest.

Historically, Japan's growth has been fueled by exports of manufacturing goods. In 2014, real exports increased 8.4 percent, helping to offset weakness in nearly every other category of spending. However, in 2015, exports have weakened, largely because of the slowdown in China's economy. Exports to China account for about 20 percent of Japanese exports. Thus while the weaker yen has helped to boost exports to the United States and Europe, Chinese weakness has hurt Japan's recovery. Still, the impending change in US monetary policy could lead to a further appreciation of the US dollar. This, in turn, could significantly boost the competitiveness of Japanese exports to the United States. Also, trade in services has been a positive factor for the Japanese economy. Tourist arrivals, largely from Greater China and South Korea, soared in both 2014 and 2015. In August of this year, total tourist arrivals were up 64 percent from a year earlier. Tourists are attracted, in part, to the low value of the yen.

Overall, the outlook for Japan's economy indicates continued slow economic growth. Inflation is likely to remain low, especially given the impact of declining energy prices and a weaker Chinese renminbi.

The policy environment

The principal policy tool that has been used to address the economic situation is the quantitative easing (QE) now underway by the Bank of Japan (BOJ). This involves massive purchases of government bonds, with the intention of boosting inflation (or at least averting deflation), suppressing the value of the yen and borrowing costs, and boosting wealth. All of these things have been accomplished, but it is increasingly clear that QE is not enough. While the drop in the yen has helped exporters, it has hurt domestically oriented businesses by boosting import prices. While QE has created some inflation, it remains well below the BOJ's target; in fact, core inflation is close to zero. Moreover, wages have mostly fallen, thus suppressing consumer spending power. And while borrowing costs are low, this has not convinced businesses to invest more, especially given both weak external and domestic demand.

The question then is what more can be done to repair Japan's fragile economy. Recall that the economic policy of Prime Minister Shinzo Abe, popularly dubbed "Abenomics," involved three "arrows": monetary stimulus, fiscal stimulus, and structural reform.

The monetary stimulus is clearly underway with QE. However, in nearly two years, it has failed to bring inflation close to the desired level. Yet despite speculation to the contrary, it is not expected that the BOJ will accelerate the pace of asset purchases.

As for fiscal stimulus, the opposite has taken place, with a sizable increase in the national sales tax in April 2014 and another one planned for April 2017. Moreover, the government continues to run a large budget deficit (7.7 percent of GDP in 2014) and has one of the highest debt-to-GDP ratios of any advanced industrial country. At the least, this means that any effort to temporarily boost the deficit in order to stimulate the economy (as has been suggested by some) would face severe political resistance and thus is unlikely to happen.

The principal remaining tool is structural reform. More specifically, this would entail legislation meant to remove obstacles to the proper functioning of the market economy.

Such obstacles come in the form of labor market regulations, anticompetitive rules in various industries, and trade protection. The idea is that if these rules and regulations are removed, the private sector could become more productive, there would be a greater incentive to invest in those industries that become deregulated, and, consequently, the economy would grow faster.

Yet the pace of reform has been slow. The government has expended its political capital on foreign policy-oriented legislation. In September, the parliament passed controversial legislation to allow the use of Japanese troops in overseas combat. Meanwhile, progress on the Trans-Pacific Partnership (TPP), a proposed free trade agreement between Japan, the United States, and 10 other Pacific Rim nations, has halted. It had been hoped that, following the US Congress's recent passage of legislation to allow speedy approval of new trade deals, the TPP might be quickly finalized. Instead, there have been continuing disagreements about rules of origin for trade in automobiles and agricultural products, and the protection of intellectual property. If and when the TPP is ultimately completed, it will compel Japan to open various markets to greater competition and implement the kinds of structural reforms that Abenomics promised. The fact that the TPP's completion has been delayed is a blow to supporters of economic reform in Japan. There remains hope that the deal can be finished before 2016, after which US politics will make it more difficult to obtain congressional approval.

Accounting News

IFRSs

No new standards or interpretations were issued by the IASB during this Quarter. However, several amendments to existing standards were discussed:

The IASB to consult on a package of temporary measures regarding IFRS 9 and IFRS 4

The IASB tentatively decided that it will consult on a package of temporary measures to address concerns about issues arising from implementing IFRS 9 **Financial Instruments** before the new insurance contracts Standard comes into effect.

The proposed amendments would permit an entity to exclude from profit or loss and recognize in other comprehensive income the difference between the amounts that would be recognized in profit or loss in accordance with IFRS 9 and the amounts recognized in profit or loss in accordance with IAS 39 Financial Instruments: Recognition and Measurement, provided that the entity issues contracts accounted for under IFRS 4, applies IFRS 9 in conjunction with IFRS 4, and classifies financial assets as fair value through profit or loss in accordance with IFRS 9 when those assets were previously classified at amortized cost or as available-for-sale in accordance with IAS 39.

The IASB also proposed an amendment to provide entities whose business model is to predominantly issue insurance contracts the option to defer the effective date of IFRS 9 until 2021.

The insurance contracts Standard is currently being deliberated by the IASB and a final Standard is expected to be issued in 2016.

An ED setting out these measures will be published later this year for public consultation. If confirmed after the public consultation, these measures will not affect companies that do not issue insurance contracts.

Amendments to IFRS 10 and IAS 28

The IASB published an Exposure Draft (ED) of proposed amendments to IFRS 10 **Consolidated Financial Statements** and IAS 28 **Investments in Associates and Joint Ventures**.

The proposed amendments aim at deferring the effective date of the September 2014 amendments to these standards indefinitely until the research project on the equity method has been concluded. The IASB suggests that earlier application of the September 2014 amendments should continue to be permitted.

New Revenue Standards

Please see IFRS & U.S.GAAP – New Revenue Standards below.

U.S. GAAP

The FASB has issued several Accounting Standards Updates, including:

ASU No. 2015-16

Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments requires that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The acquirer is also required to record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date.

For public business entities, the ASU is effective for fiscal years beginning after 15 December 2015, including interim periods within those fiscal years. The ASU should be applied prospectively to adjustments to provisional amounts that occur after the effective date of the ASU with earlier application permitted for financial statements that have not been issued.

For all other entities, the ASU is effective for fiscal years beginning after 15 December 2016, and interim periods within fiscal years beginning after 15 December 2017. The amendments in the ASU should be applied prospectively to adjustments to provisional amounts that occur after the effective date of the ASU with earlier application permitted for financial statements that have not yet been made available for issuance.

ASU No. 2015-15

Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting adds SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015 EITF meeting about the presentation and subsequent measurement of debt issuance costs associate with line-of-credit arrangements, which is related to ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost. ASU No. 2015-15 clarifies the guidance in ASU 2015-03 by stating that for debt issuance costs incurred in connection with line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting such costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement.

ASU No. 2015-13

Derivatives and Hedging (Topic 815): Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets (a consensus of the FASB Emerging Issues Task Force) specifies that the use of locational marginal pricing by the independent system operator does not constitute net settlement of the contract for the purchase or sale of electricity on a forward basis that necessitates transmission through, or delivery to a location within, a nodal energy market, even in scenarios in which legal title to the associated electricity is conveyed to the independent system operator during transmission.

The ASU applies to entities that enter into contracts for the purchase or sale of electricity on a forward basis and arrange for transmission through, or delivery to a location within, a nodal energy market whereby one of the contracting parties incurs charges (or credits) for the transmission of that electricity based in part on locational marginal pricing differences payable to (or receivable from) an independent system operator.

The guidance in the ASU is effective upon issuance and should be applied prospectively. Therefore, an entity will have the ability to designate on or after the date of issuance any qualifying contracts as normal purchases or normal sales.

ASU No. 2015-11

Inventory (Topic 330): Simplifying the Measurement of Inventory requires entities to measure most inventory "at the lower of cost and net realizable value", thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market (market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin). Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The ASU more closely aligns the measurement of inventory in GAAP with the measurement of inventory in IFRS.

The ASU does not apply to inventory that is measured using LIFO or the retail inventory method. For public business entities, the ASU is effective for fiscal years beginning after 15 December 2016, including interim periods within those fiscal years.

ASU No. 2015-10

Technical Corrections and Improvement includes changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice. Covering a wide range of Topics in the Codification, the amendments in the ASU generally fall into one of the following categories:

- Amendments related to differences between original guidance and the Codification,
- Guidance clarification and reference corrections,
- Simplification, and
- Minor improvements.

Transition guidance varies based on the amendments in the ASU. The amendments in the ASU that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after 15 December 2015. Early adoption is permitted, including adoption in an interim period. All other amendments are effective immediately.

IFRS & U.S. GAAP – New Revenue Standards

IASB and FASB have been jointly trying to address implementation issues identified since the issuance of new converged revenue standards in 2014. However, the direction of their travel has showed difficulty to get to the identical solution for issues identified.

Effective Date

In August 2015 the FASB issued ASU 2015-14, which defers the effective date of the Board's revenue standard, ASU 2014-09, by one year for all entities and permits early adoption on a limited basis.

Public business entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after 15 December 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after 15 December 2016, including interim reporting periods within that reporting period.

Non-public business entities should apply ASU 2014-09 in annual reporting periods beginning after 15 December 2018, and interim reporting periods within annual reporting periods beginning after 15 December 2019. Such entities may apply the guidance in ASU 2014-09 earlier as of an annual reporting period beginning after 15 December 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance in ASU 2014-09.

Similarly, in September 2015, the IASB published **Effective Date of IFRS 15** deferring the effective date of IFRS 15 **Revenue from Contracts with Customers**. The amendments have changed the mandatory effective date of IFRS 15 from annual periods beginning on or after 1 January 2017 to annual periods beginning on or after 1 January 2018. Earlier application of IFRS 15 continues to be permitted. Entities also continue to be permitted to choose between applying the standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

Clarifying Amendments

The IASB published an Exposure Draft (ED/2015/6) with proposed clarifications of IFRS 15 **Revenue from Contracts with Customers**.

The proposed amendments address three of the five topics identified and aim at transition relief for modified contracts and completed contracts. In all its decisions, the IASB considered the need to balance helping entities with implementing IFRS 15 and not disrupting the implementation process. The topics included in the proposed clarifications are as follow:

- Identifying performance obligations,
- Principal versus agent considerations,
- Licensing,
- Transition relief; and
- Other topics.

To date, the FASB has exposed the following three exposure drafts to clarify new revenue standards:

Issued in:	Title
12 May 2015	Proposed Accounting Standards Update, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing.
31 August 2015	Proposed Accounting Standards Update, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)
30 September 2015	Proposed Accounting Standards Update, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedient

The proposal issued by the FASB in September is to amend the guidance related to collectability, non - cash consideration, and completed contracts at transition, and the addition of new practical expedients.

Since these clarifying proposals from both Boards are not identical, a careful analysis is needed in understand similarities and differences.

Japanese GAAP

Tokyo Stock Exchange (TSE) releases the analysis of data on voluntary IFRS adoption in Japan

The TSE has released data showing that 112 companies listed on the TSE, accounting for almost a quarter of the market capitalization, have adopted or plan to adopt IFRS. In addition, nearly 200 further companies are actively considering adoption.

Since the issuance of **Japan's Modified International Standards (JMIS)** in June 2015, there are four sets of accounting standards for consolidated financial statements in Japan: namely, JMIS, designated IFRSs, Japanese GAAP and US GAAP. On 30 June 2015, the Cabinet in Japan adopted a revised **Japan Revitalization plan** that includes encouragement of further IFRSs adoption by Japanese companies to promote the nation's growth. The data released takes stock and shows the number and market capitalization of companies that have adopted IFRSs or plan to do so, IFRS adoption by industrial sector, scheduled adoption dates, and the stage of progress by companies considering IFRS adoption.

English translation of the analysis is available from the TSE 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) or Etsuya WATANABE, Senior Manager (etsuya.watanabe@tohmatsu.co.jp).

Tax News

Overview of Base Erosion and Profit Shifting initiative and Adoption by Japan

The Japanese government is supportive of the OECD's Base Erosion and Profit Shifting ("BEPS") initiative and may be considered as a "first mover" in adopting BEPS-related changes in the region.

Japanese tax law already contains certain BEPS-related measures (such as controlled foreign company rules), and recent tax reform has changed the way that Japanese consumption tax applies to digital transactions and sought to neutralize benefits from hybrid mismatches through an exclusion of "deductible" dividends paid by foreign subsidiaries from the Japanese dividend exemption rule.

This article outlines potential further action in relation to the following topics covered under some of the OECD's final BEPS papers: transfer pricing documentation (BEPS action 13); interest deductions (BEPS action 4); and permanent establishments (BEPS action 7).

Transfer pricing documentation (BEPS action 13)

It is broadly expected that the Japanese government will introduce transfer pricing documentation changes in response to BEPS action 13.

The date for such changes has not been announced, however it is expected that such rules would be contained in the 2016 tax reform package (to be released in December 2015) at the earliest. The content of these rules is expected to be generally consistent with the OECD report, introducing a three-tiered approach to reporting and documentation (i.e. country by country reporting ("CbC"), and a master file and local file approach to documentation). There are no existing CbC reporting or master file rules in Japan, so these rules may substantially follow the OECD report. Local file rules would take into account Japan's existing TP documentation rules and may take longer to implement.

Interest deductions (BEPS action 4)

The Japanese government has not announced how the new documentation rules would operate from a timing perspective.

Currently, Japanese documentation rules do not have a contemporaneous requirement. If the new rules are in line with the OECD report then most likely:

- the CbC report would be due one year after the end of the first fiscal year to which the rules apply,
- the master file would need to be prepared by the filing date of the Japanese income tax return, and

- the local file would need to be prepared by the filing date of the Japanese income tax return.

It remains to be seen whether the Japanese implementation of the rules will take into account Japan's short timeframe for preparing income tax returns (generally within 3 months of the fiscal year end) in setting the due dates. It is possible that the timing for preparation of the master file and local file would be in line with the CbC report (i.e. one year after the end of the relevant fiscal year).

BEPS action 4 provides guidance in the form of a "best practice" approach for countries to prevent erosion of their tax base through the use of interest expenses. Action 4 is focused on the use of third-party, related party and intragroup debt to obtain "excessive" deductions or to "finance the production of exempt or deferred income". The "best practice" is an approach based on a fixed ratio rule (with a potential range of ratios), supplemented by a worldwide group ratio rule, as well as certain targeted rules.

Japanese law already includes a three-pronged approach to limit the erosion of a company's tax base through the payment of excessive interest. The transfer pricing rules limit excessive interest determined relative to interest rates (where rates exceed an arm's length amount); thin capitalization rules limit excessive interest relative to equity (i.e., limiting interest deductions in highly leveraged companies); and, since 1 April 2013, an earnings stripping rule limits excessive interest determined relative to income (i.e., limiting interest deductions in companies that do not generate sufficient income).

Given the comprehensiveness of the existing rules, and the relative newness of the earnings stripping rule, it is unlikely the Japanese government will prioritize revisiting the existing rules in the context of the approach in action 4.

Permanent establishments (BEPS action 7)

BEPS action 7 covers the prevention of artificial avoidance of permanent establishment ("PE") status and introduces several changes to the OECD model treaty.

The proposed changes focus on the following situations:

- the use of commissionaire arrangements and similar strategies to avoid an agency PE (effectively lowering the bar for what activities may constitute an agency PE),
- use of specific activity exemptions (e.g. maintenance of stocks of goods for storage, delivery or processing) to avoid a fixed place PE,
- fragmentation of activities between related parties to meet the exception for preparatory and auxiliary activities, and
- splitting up of construction contracts to circumvent the 12 month time period for creating PEs for building sites.

The potential impact of action 7 will depend on how quickly the Japanese authorities move to reflect the OECD's suggested wording into treaties in Japan's existing treaty network, as well as the impact of the multilateral instrument that is intended to allow the effective modification of many treaties. The multilateral instrument will be negotiated during 2016 and will then be available for countries to ratify. It is expected that there will be significant flexibility within the instrument, such that participating countries may make different choices.

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)

The Power of Business Chemistry

It happens all the time. You walk into a meeting anticipating a clear resolution only to encounter someone who asks to bring others into the equation; or someone who insists on crunching more data; or someone who simply has a better idea. Sound familiar?

For CFOs, juggling such diverse stakeholder personalities comes with the territory. But how a CFO interacts with these individuals often means the difference between getting nowhere and getting that resolution you want. Luckily, there are clues to deciphering personalities in business that can help CFOs better relate to others. Termed Business Chemistry, the framework identifies distinct patterns of behavior that can be harnessed to not only improve individual interactions, but also to influence strategy.

Deloitte teamed with scientists from the fields of neuro-anthropology and genetics to develop a personality system that leverages modern computational techniques to bring a data-driven approach to observing and understanding personality differences. The resulting system is easy to remember, but with a sophisticated underpinning that highlights statistically relevant behavioral cues in a business environment.

Not just another personality test

The claim that personality is important in business is by no means new. Many executives have been exposed to a breadth of personality tests over the course of their careers. And yet, there are several flaws with existing tests that make them ill-suited to today's business world. For example, many are:

- Hard to remember. They either have too many types, too many acronyms, or names that have little to do with the business environment ("…was I a blue or a peacock?").
- Too focused on introspection. They may help you understand yourself, but offer little insight into others ("So that's why I'm terrible at trivia night…").
- Not designed for business. While our core personalities may not change dramatically between a business and nonbusiness environment, the way we behave in each setting can be significantly different ("Honey, if you flip to slide 20, I'll show you our upcoming family vacation plan…").

Deloitte's Business Chemistry instead uses a series of 70 behavioral questions to reveal four dominant personality patterns: **the Driver, the Pioneer, the Integrator, and the Guardian**. While each pattern is unique, each has shared traits with its "neighbors" (Driver with Pioneer and Guardian, Pioneer with Driver and Integrator, Guardian with Driver and Integrator, and Integrator with Guardian and Pioneer). And for CFOs, one benefit of knowing Business Chemistry is an awareness of your own predilections and tendencies.

Perhaps more important, however, Business Chemistry helps you recognize personality patterns in your colleagues.

For example, does your CEO make snap decisions as he/she jaunts down the hall? Does your controller insist on voluminous detail to support decisions? Do certain members of your board have the propensity to debate more than decide?

Such clues allow CFOs to recognize the dominant patterns of colleagues and gain insight into how to connect on a personal level and build effective teams.

After all, we may assume that our colleagues are just like us, and therefore interact with them in the way that we prefer. The problem with this approach is that most people are actually not like us. Simply put, knowing Business Chemistry may help you make a transition from the Golden Rule (treat others as you wish to be treated) to the Platinum Rule (treat others as they wish to be treated.

Real-world applications

The consequence of misreading personality types may be as harmless as two parties walking away thinking, "Wow, that person just doesn't get it." But as countless client anecdotes suggest, the real results are often more serious: workplace inefficiency, poor team dynamics, and personal brand damage. On the other hand, a CFO who understands her own Business Chemistry, as well as her team's, is better suited to:

Engage and influence stakeholders

CFOs engage with such a broad range of stakeholders that an understanding of where and how people's tendencies and preferences vary is essential. For example, a CFO might present the same business case differently depending on the primary pattern of the audience. In presenting to a Driver, he/she might come equipped with a one-page summary and start the conversation with the overall impact of the initiative. In presenting to an Integrator, he/she might start with the broader context of the business case (for example, how it came about, the long-term goal) and include details about which stakeholder groups are on board.

This ability to adjust one's own style to suit different stakeholder preferences is one of the leading ways to build effective relationships. Another way is to intentionally leverage one's own differences in a way that is complementary to someone else's tendencies. So, for instance, a Driver CFO working with a Pioneer CEO can participate in the brainstorming that a Pioneer loves, but also bring a helpful data lens to complement the Pioneer's more intuitive natural position.

Manage team strengths and weaknesses

The complementary potential of different personality patterns should come as no great surprise. In fact, effective teams have both diversity - a mix of the four types - and an awareness and ability to leverage that diversity.

That doesn't happen automatically, of course. In some instances, individuals are drawn to - and therefore hire - others of their own personality type. Other times, teams have diversity, but are unaware of its value, leading to misunderstandings and conflict.

For CFOs, this suggests two related questions. First, what is the personality composition of my team? And second, how can I use that composition to promote effective team coordination and broader organizational engagement?

To address these questions, consider the following steps:

- Observe and hypothesize. Based on observable behaviors, what personality patterns are represented on my team?
- Identify gaps. Are there gaps that will pose risks to achieving our goals? Do we have strategies to mitigate potential blind spots?
- Leverage strengths. What strengths exist relative to achieving our goals, and how can we get the most out of those traits?
- Celebrate diversity. How can we recognize personality differences and leverage complementary traits where they exist?

Once a team is profiled, CFOs can build on existing strengths and introduce processes to combat potential pitfalls - and in the process possibly shift the perception of finance for the better within their organization.

Flex to multiple roles

At first glance, many of the traditional CFO responsibilities seem to map neatly to the Guardian pattern: preserving the organization's assets, getting the books right, minimizing risk, and so on. And indeed, many CFOs say that their stakeholders often assume they're Guardians, simply because of their role. But this is problematic for two reasons.

First, not all CFOs are Guardians. Those aligned more closely with other patterns often struggle with a misperception about how they ought to engage or feel the need to play to the stereotype. Second, although the stereotype around what a CFO "should be" persists, the reality is that today's CFOs are expected to play roles that go beyond the traditional "Operator" and “Steward” categories and require skills other than those associated with Guardians.

Still, since everyone is a mix of patterns, even if a CFO is dominant in the Guardian pattern, he/she can dial up secondary traits as needed. And where there is truly a gap, extra effort may be needed to occasionally do something that doesn’t come naturally to meet a particular need. After all, no capability is limited to a single type, meaning everyone is capable of being detail oriented or logical or collaborative.

The Four Patterns of Business Chemistry

While everyone displays a combination of traits from the four Business Chemistry patterns, most people align closely with one - and sometimes two - of the following types:

Driver

Drivers are analytical thinkers who are intellectually creative and prefer experimentation over theorization. To them, business is just that: business. As such, they have limited tolerance for small talk and aren’t afraid to ruffle feathers to get their point across.

Pioneer

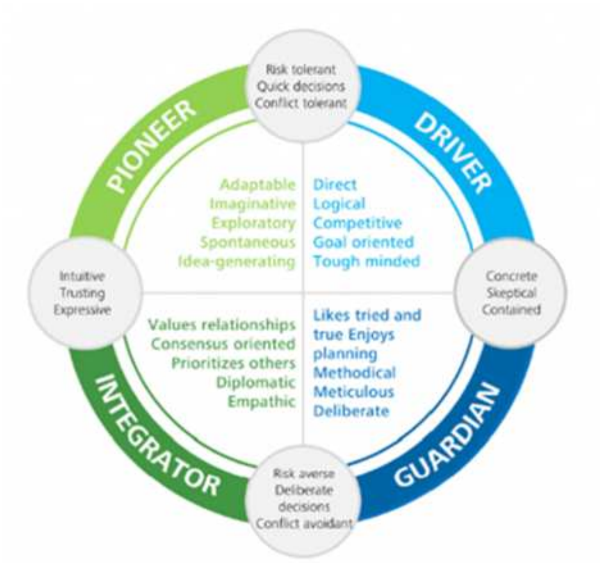
Pioneers are blue-sky ideas people, whose adaptability allows them to thrive in multiple environments. To them, business is exciting when they’re exploring possibilities and redefining the status quo. As such, they sometimes feel weighed down by structure and details.

Integrator

Integrators are masters of empathy and nuance, and are particularly skilled at understanding the broader context of an issue. As such, they often take time to consider everyone’s opinions and socialize an approach before moving forward.

Guardian

Guardians prefer concrete reality and are particularly skilled at providing structure and minimizing risk. As such, they can be reluctant to pursue unproven ideas and often deliberate thoroughly before making decisions.



Small Steps, Big Results

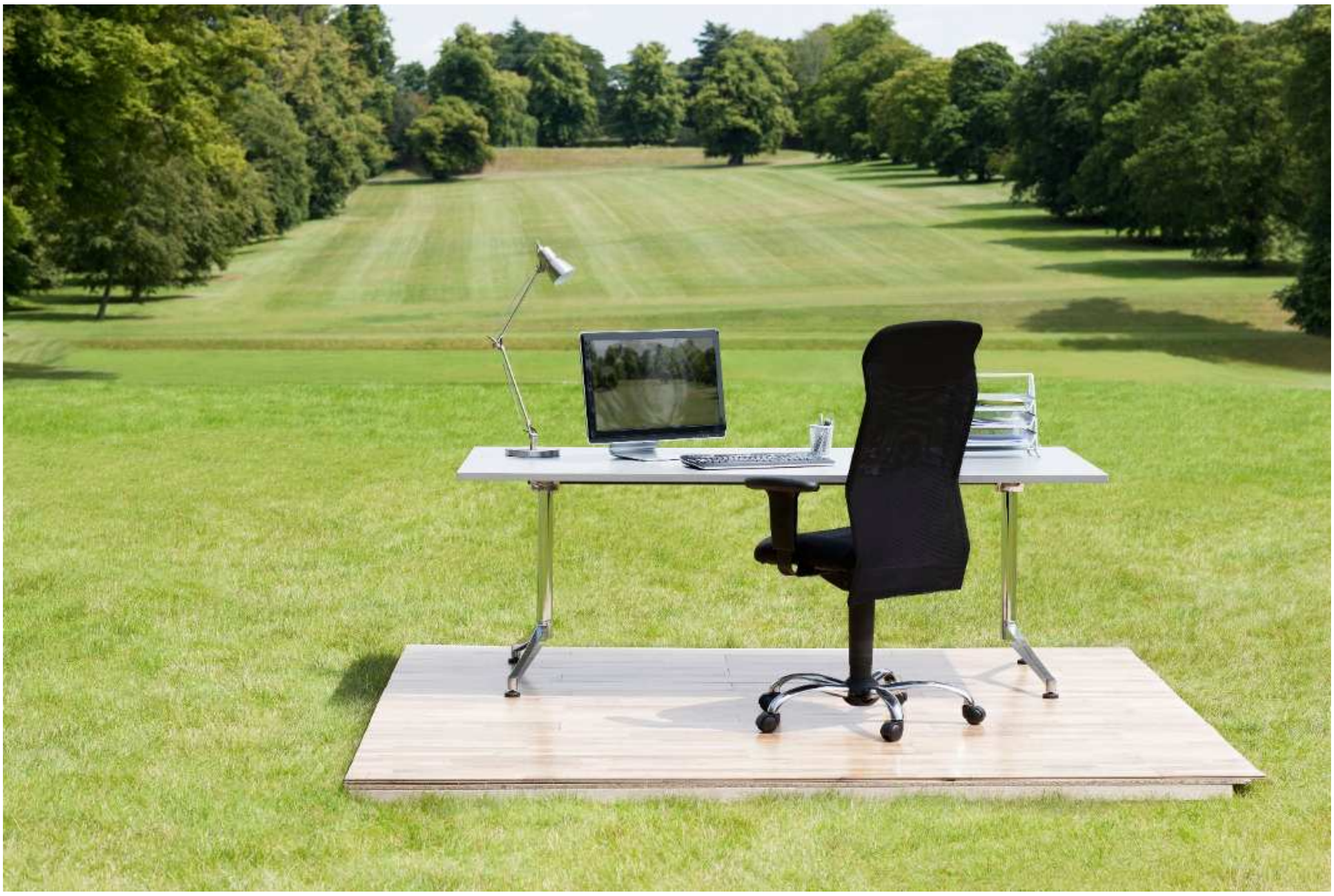
In a way, you can think of personality as you would think of language. Not everyone “speaks” the language you’re fluent in, but many of us are capable of learning other languages (or personalities in this case). By training yourself to look for a few important behaviors, you can quickly hypothesize what personality/language someone else is speaking. For example, to develop a hypothesis of someone’s personality type, look for shared traits. Drivers and Pioneers, for example, are tolerant of both risk and conflict and are generally quick decision makers; Integrators and Guardians, on the other hand, are risk- and conflict-averse and make more deliberate decisions.

Specific words also offer clues to personality preferences. For example, if someone says, “trust and integrity” or makes continued mention of “risks,” you can hypothesize that they may be high on Guardian; common use of the term “cooperate” is a natural word choice for an Integrator.

Implementing just a few basic principles of Business Chemistry can create better alignment within your teams, better engagement and relationships with your stakeholders, and a better understanding of how to change perceptions and build credibility within your role. Doing this well is not only about creating a personal advantage, but creating a competitive advantage as well.

The Importance of Being a "How" CFO

David (Dave) Rader, who served as CFO and senior vice president of the Fortune 100 Company Frito-Lay from 1998 to 2010, discusses the changes he has seen in the CFO's world during and since his tenure and their impact on both CFOs and businesses. He also talks about the need to gain the trust - of the CEO, the board, operations and employees - to drive change and long-term growth in this interview with Deloitte.



What are the biggest challenges CFOs face today that may not have existed during your finance career?

One of the biggest challenges I see is the faster clock speed at which CFOs must operate. The speed at which business decisions have to be made ramped up greatly during the time I served as CFO, and it has accelerated even more in the last few years, as social media has taken hold. Today, a statement or opinion issued through social media can drive a company's stock price down in minutes, and those kinds of events can destroy a company very quickly. The CFO has to be on top of such developments and be prepared to respond instantly. Cybersecurity also has become a huge issue since my days as CFO, as companies embrace not only social media, but big data, the cloud and mobile workforces.

The faster clock speed is also building up around the quarterly earnings. Some investors are putting so much pressure on companies to deliver strong quarterly earnings that CFOs can end up focusing on the short-term aspects of the company, and sacrifice its long-term success. I see some companies hesitate to make long-term investments and strategic shifts because of the pressure on quarterly earnings. Everybody talks about long-term shareholder value: Wall Street analysts tell you, "We're concerned about the long term." But if a company misses a quarterly earnings estimate by two cents because of a strategic shift to help growth or an external event, like a natural disaster, that impacts the supply chain for a quarter, the stock can drop 5% or more. The pressure on companies to deliver zero earnings surprises and constant, profitable growth is enormous.

What can CFOs do to manage today's accelerated pace and the quarterly earnings pressures?

In today's world with this faster clock speed, decisions have to be made faster. That means not getting bogged down in a slow-moving process and pushing every business decision to the most senior level.

The aim has to be establishing a culture of trust so the organization can move smartly and quickly. This means decisions have to be pushed down, not pulled up.

With regard to earnings pressures, one thing CFOs can do is to make sure their company communicates with analysts as early, honestly and openly as they can when issues arise and explain the long-term implications of decisions. In this environment, nothing is more important than being transparent and establishing trust: you want people to see and understand what you're doing so that they can trust management when it says, "We are making this move to improve our long-term strategic position."

But sometimes the real issue is that senior management may be afraid to make some of those big, long-term decisions, and therefore is hesitant or reluctant to be transparent and explain decisions.

Many times when a company replaces the CEO - and the CFO - you'll see the new team come in and reset the profit trajectory and do the things previous management should have done but didn't do because they starved the business to make quarterly earnings.

How can CFOs help their CEOs stay focused on the long term?

You have to look for opportunities to shift the costs of business to support your investment strategy. For example, if you need to increase investments in advertising and marketing (A&M) to grow the business, you have to find productivity elsewhere in the business to do that.

At the operating level organizations require a productivity mindset and at the executive level a strategic mindset toward shifting the cost of business as needed. Many CFOs are not as aggressive in driving productivity into the business as they could be, either because they aren't trusted by other business leaders and get pushback, or because they don't have enough knowledge of their business model to see productivity opportunities. Instead of working to dramatically change productivity, companies tend to incrementalize their productivity improvements.

One of the accomplishments that I'm most proud of during my tenure as CFO at Frito-Lay was driving the productivity culture all the way through the organization. We took a tremendous amount of cost out of the business without impacting the product or employees, and we were able to shift the savings into investments in the business as well as the profit stream. It takes a lot of energy to drive costs out so they can be reinvested into the business. If you reinvest cost reductions into profit only, you're headed down the wrong path, one that will likely hit a wall and lead to a new CEO and CFO at the helm.

How did you gain buy-in from other leaders and stakeholders?

The most important element of being able to catalyze change was earning the trust of my CEO, the board and the business leaders that I had the best interests of the organization at heart.

To be a true partner to the business and be a leader in your organization, people have to believe that you're trying to do the right thing for the business, not just the right thing financially. To achieve that sense of trust you have to demonstrate that your focus is on the success of the business.

For example, when I became CFO, the finance organization worked separately from operations. I changed that by moving the supply chain finance people to the supply chain wing, marketing finance people to the marketing wing and so on. I wanted my team to work alongside their business partners. Doing that sent a message to the organization that we weren't just saying we wanted to be a partner to the business - we showed that we wanted to work with operations.

A lot of people in finance didn't like the arrangement at first, but they got immersed in the business, saw their business partners all day and learned what was going on from the business's perspective. And when meetings were taking place or there were hallway conversations, they were part of them.

How did you balance being a business partner with your role as financial steward?

Building trust across the organization is important. I need the team to trust me so that my goal to improve the business was clear and not seen as just cut costs.

Establishing trust allowed me to do things, say things and be involved in things that a typical "No" CFO can't. A "No" CFO gets isolated very quickly. You don't want to be a "Yes" CFO, either. The ideal is to be a "How" CFO - the one who says, "How are we going to take your idea and make it work financially?"

So, I worked with the supply chain people to make sure that they got the money they needed to invest in productivity. I worked with the marketing team to make sure they got the investments needed to drive marketing. If people believe your objective is to help them be more effective, they'll allow you to work with them. At some point, you may have to cut their budget, but if you do it from a position of the trust you've built with them, they'll accept those cuts. I also made sure there was a measurable return on those investments, so when I talked to Wall Street or went to the board, I could point to that ROI and say, "Here's why we invested the money from those productivity savings into A&M instead of directing it into profits to boost our quarterly earnings, and here's how it's helping us grow long term."

How did you gain the board's confidence while you were CFO?

I keep using the word "trust," but really, nothing's more important than developing that sense of trust; once you develop trust with others, you can be more open with the process. I made a practice of inviting board members to financial meetings and asking for their input. I wanted them, and particularly the audit committee chairman, to get to know me and how I operated as CFO. You have to build relationships over time, gradually give others an inside look and see how they deal with it. I'm an audit committee chair now, and I make a point of encouraging the CFO to talk to me and use me as a sounding board.

Unlocking the Secrets of Employee Engagement

After decades of corporate discourse about the war for talent, it appears that the battle is over, and talent has won. Employees today tend to have increased bargaining power, the job market is highly transparent, and attracting top - skilled workers is a highly competitive activity.

Many companies are now investing in analytics tools to help figure out why people leave, and the topics of purpose, engagement and culture seem to weigh on the minds of business leaders everywhere.

Recent research conducted by Bersin by Deloitte suggests that the issues of “retention and engagement” have risen to the number-two spot in the minds of many business leaders, second only to the challenge of building global leadership. Those concerns are grounded in disconcerting data:

Gallup’s 2014 research shows that only 13% of employees surveyed are “highly engaged,” and 26% are “actively disengaged.”

- Glassdoor, a company that allows employees to rate their employers, reports that only 54% of employees using its site recommend their company as a place to work.
- In the high-technology industry, two-thirds of all workers surveyed believe they could find a better job in less than 60 days if they only took the time to look.
- Eighty percent of respondent organizations believe their employees are overwhelmed with information and activity at work (21% cite the issue as urgent), yet fewer than 8% have programs to deal with the issue.
- More than 70% of Millennials surveyed expect their employers to focus on societal or mission-driven problems; 70% want to be creative at work; and more than two-thirds believe it is management’s job to provide them with accelerated development opportunities in order for them to stay.

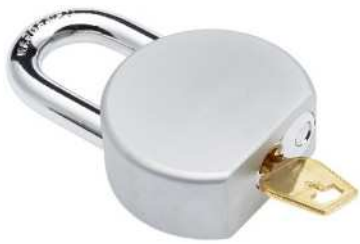
In short, in many cases, the balance of power has shifted from employer to employee, pushing business leaders to learn how to build an organization that engages employees as sensitive, passionate, creative contributors.

The shift taking place is moving from improving employee engagement to a focus on building an irresistible organization. Below is a discussion of how the traditional employee-work contract has changed and why companies should embrace the shift needed to become irresistible.

Time for a Change

Let’s start with the employee engagement survey. While such measures of engagement have been used for years, most organizations say they aren’t providing modern, actionable solutions.

Consider the typical process: companies deploy annual surveys to benchmark the level of employee satisfaction from year to year. Most use vendor-provided surveys that claim to be statistically validated ways of measuring engagement.



The marketplace of survey providers, which is around $1 billion in size, is largely staffed by industrial psychologists who have built statistical models that correlate turnover with various employment variables. The pioneer in this market, Gallup, promotes a survey of 12 simple factors that statistically predict retention. Other vendors have their own models, many focused on the characteristics of leadership, management, career opportunities and other elements of the work environment. While none of these models are “wrong,” companies generally say the surveys don’t prescribe actionable results.

In a recent survey among 80 of the most advanced users of engagement surveys, only half believe their executives know how to build a culture of engagement. Among the broader population, the percentage is far lower.

Consider the radical changes that have taken place at work: employees typically operate in a transparent job market where in-demand staff may find new positions in their inboxes. Organizations are often flattened, giving people less time with their direct managers. Younger employees have helped increase the demand for rapid job rotation, accelerated leadership and continuous feedback. Finally, the work environment is highly complex - where employees may have once worked with a team in an office, they now work 24/7 with email, instant messages, conference calls and mobile devices that have significantly reduced the barriers between work and personal lives.

These changes to the workplace have altered the engagement equation, causing many organizations to rethink it. For example, a well-known pharmaceutical company found that its executives and scientists in China were leaving the company at an alarming rate. The annual engagement survey provided no information to help diagnose this problem. By running a statistical analysis on all the variables among these departing high-potential workers, the company realized that in China, compared with other parts of the world, their people were expecting very high rates of compensation increase every year. The job market there was highly competitive, so people were being poached based on salary progression alone.

Today, more and more companies are deploying analytics solutions to help predict retention and correlate factors such as compensation, travel schedule, manager and demographics to understand why certain people are less engaged than others. But the answers can be hard to find: high-technology companies, for example, often throw benefits at employees to see which ones stick - unlimited vacation, free food, health clubs, parties, stock options and fun offices are common. Do these all result in high engagement? Most companies can't really tell.

So what matters today? How can management create an organization in today's work environment that is magnetic and attractive, creates a high level of performance and passion, and continuously monitors problems that need to be fixed?

Making Work Irresistible

The research suggests that organizations should rethink the problem. There are three typical issues to address:

- Companies should expand their thinking about what "engagement" means today, giving managers and leaders specific practices they can adopt, and holding line leaders accountable.
- Companies should use tools and methods that measure and capture employee feedback and sentiment on a real-time, local basis so they can continuously adjust management practices and the work environment at a local level. These tools include employee feedback systems as well as data-analytics systems that help identify and predict factors that may create low engagement and retention problems.
- Leaders in business and HR should raise employee engagement from an HR program to a core business strategy.

A Refreshed Model for Engagement

After two years of research and discussions with hundreds of companies, Bersin by Deloitte uncovered five major elements that can work together to help make organizations "irresistible."

Make work meaningful

Perhaps the most important part of employee engagement is job-person fit. We need to make sure jobs are meaningful, people have the right tools and autonomy to succeed, and that we select the right people for the right job. Despite the rise of technology and pressures for increased productivity, research shows that when we enrich jobs, giving people more decision-making power, time, and support, the company tends to make more money. Beyond that, research also shows that meaningful work often takes place in small teams - and engaged people need time to think, create, and rest.

Foster great management

The word management is used here - not leadership - to refer to the daily, weekly and monthly activity managers use to guide, support and align their people. Specifically, high-performing managers typically create simple goals, make sure they are clear and transparent, and revisit them regularly. In addition, a coaching culture is a practice that is highly correlated with business performance, employee engagement and overall retention. Generally, high-impact organizations also spend 1.5-3 times more on management development than do their low-impact peers. In addition, most recognize the need to simplify the annual performance review, given that it can sometimes be one of the most damaging and disheartening processes employees face.

Establish a flexible, humane, inclusive workforce

Given the nature of work today, if leaders want employees to engage with their organizations, they should give them a flexible and supportive work environment. In addition to benefits that help make work fit our lives and employee wellness programs, research also shows that open, flexible workspaces can have a major impact on engagement. Another driver is the need for continuous and ongoing recognition. The key to effectiveness here is to create a social environment where recognition can flow from peer to peer, freeing managers from being the judge and jury of employee recognition. Finally, highly engaged workplaces are typically inclusive and diverse. And the inclusion usually comes from the top: leaders should overcome their unconscious biases and make every effort to listen, create open forums for discussion and promote people of varied backgrounds (gender, nationality, race, age) who embrace listening and inclusive values.

Create ample opportunities for growth

Building opportunities for growth can be a complex and systemic challenge. First, there should be developmental opportunities, both formal and informal, that let people learn on the job, take developmental assignments, and find support when they need help. Companies should also support and honor facilitated talent mobility. That means supporting internal mobility, giving people the freedom to try something new and move from a role where they are highly productive to one where they may be a trainee again. Finally, organizations should look at their management and leadership behaviors to make sure they foster a learning culture. Most leaders are rewarded for "making the numbers." While this is certainly important, leaders should also be rewarded for developing people, moving them into the most effective roles and keeping retention high.

Establish vision, purpose and transparency in leadership

There are four leadership practices that we've found most directly impacts employee engagement. The first is to develop and communicate a strong sense of purpose. Our research shows that "mission-driven" companies surveyed have 30% higher levels of innovation and 40% higher levels of retention, and they tend to be first or second in their market segment. The second important element is transparency. In fact, new research shows that among Millennials, transparency among leadership rates among the most important drivers of company loyalty. Third, leaders should continually invest in people. Our research on "high-impact organizations," conducted in 2005, 2008 and 2011, found that investing in people matters in good times and in bad. Finally, our research shows that leaders should continually focus on inspiration. Through their words, communications and actions, it is often the top executives who ultimately engage everyone in the organization.

While 90% of executives surveyed understand the importance of employee engagement, fewer than 50% understand how to address this issue. Today's technology-flooded world of work has become complex, demanding and integrated into our lives. Even though 79% of respondent companies today find it daunting and difficult, they can plot their path to the future and design organizations that will thrive with passion, performance and engagement by focusing on the elements of irresistible organizations.

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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