

# **Deloitte CFO Signals Survey Report**

2019 Q4  
March 2020

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# About Deloitte CFO Signals

Deloitte CFO Signals is a quarterly global survey for investigating the thinking and actions of leading Chief Financial Officers (CFOs). We share the highlights of survey results with analysis from Deloitte Tohmatsu and publish them as the CFO Signals report.

It was conducted for the first time in August 2015, making this the 18<sup>th</sup> edition. The survey consists of two sessions: the "Survey on the Economic Environment" which is assessed globally in every edition, and the "Geopolitical Survey", and the "Survey on the Economic Environment", we analyze chronological changes in CFOs' thinking as well as the latest forecast at the time of the survey. In addition to recurring questions, we also inquire about risk scenarios for the Japanese economy and the world's major countries from a macro-level perspective. Regarding Japan-specific geopolitical topics, we chose to ask CFOs about accounting process issues, current initiatives, and future prospects.

Surveys for this edition were conducted in March 2020, and we were able to receive responses from 25 CFOs and finance and accounting executives.

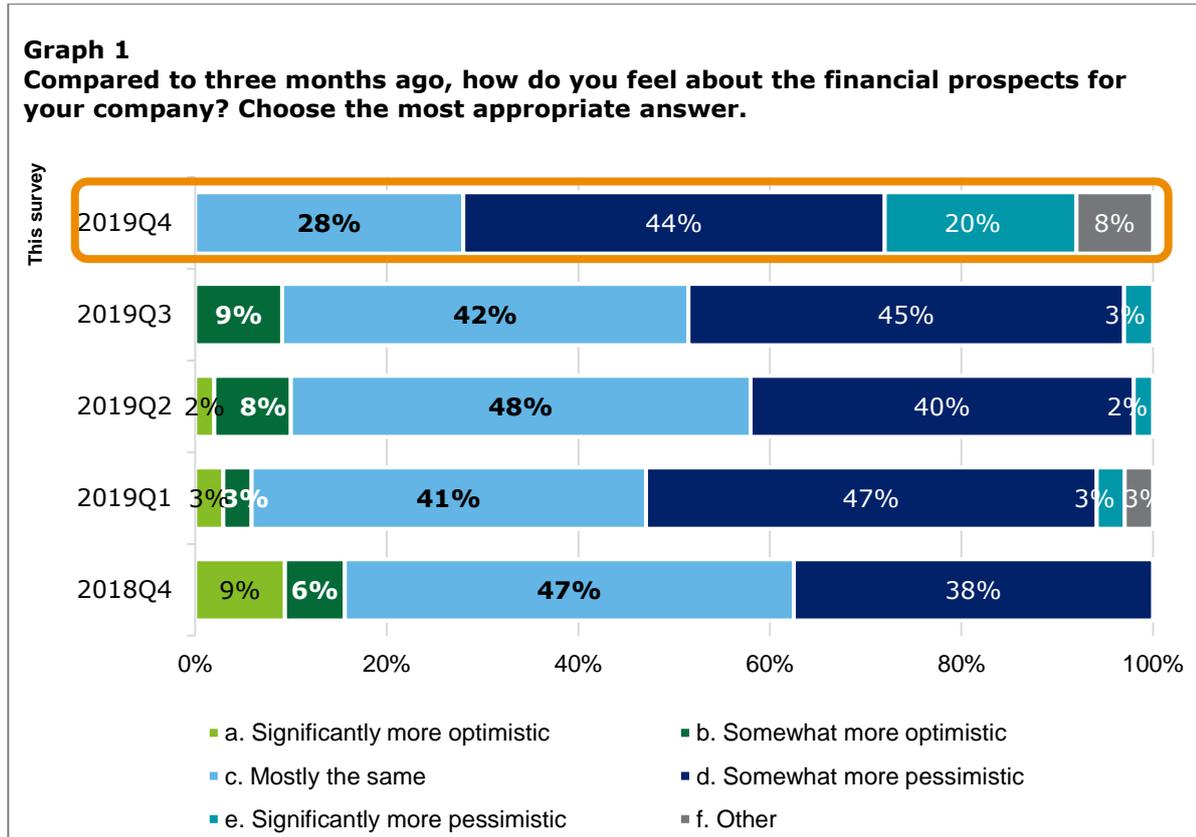
Thank you for your cooperation.

Deloitte Tohmatsu Group  
The CFO Program  
April, 2019

# Survey on the Economic Environment

## Financial Environment Prospects

The fiscal environment deteriorated sharply:



Graph 1 shows how the financial prospects of the respondents' businesses have changed over the last three months. The pessimistic fiscal outlook expanded further in the fourth quarter of 2019. The total number of respondents who said their financial outlook was "somewhat more pessimistic" or "significantly more pessimistic" increased to 64% from 48% in the previous quarter. Meanwhile, none of the respondents said that they became "significantly more optimistic" or "somewhat more optimistic". The main reason for the poor financial outlook appears to be the spread of the COVID-19 infection. In January, COVID-19 began to infect Wuhan and other areas in China, and there were concerns about a sharp slowdown in the Chinese economy and disruption of the supply chain. At the time, it was not yet clear whether COVID-19 would spread, and the infection was considered to be a risk originating in China. However, as of March, the COVID-19 infection spread globally, indicating a significant decline in economic activities in countries including Japan. In the financial market, there have also been major fluctuations, such as a sharp decline in stock prices. In February, the Cabinet Office "Survey of Economic Watchers" indicated that the market

economy was deteriorating rapidly. CFO confidence is expected to deteriorate further in 2020Q1 survey due to the spread of COVID-19 infection.

## Business Performance Outlook

The business performance outlook worsened:

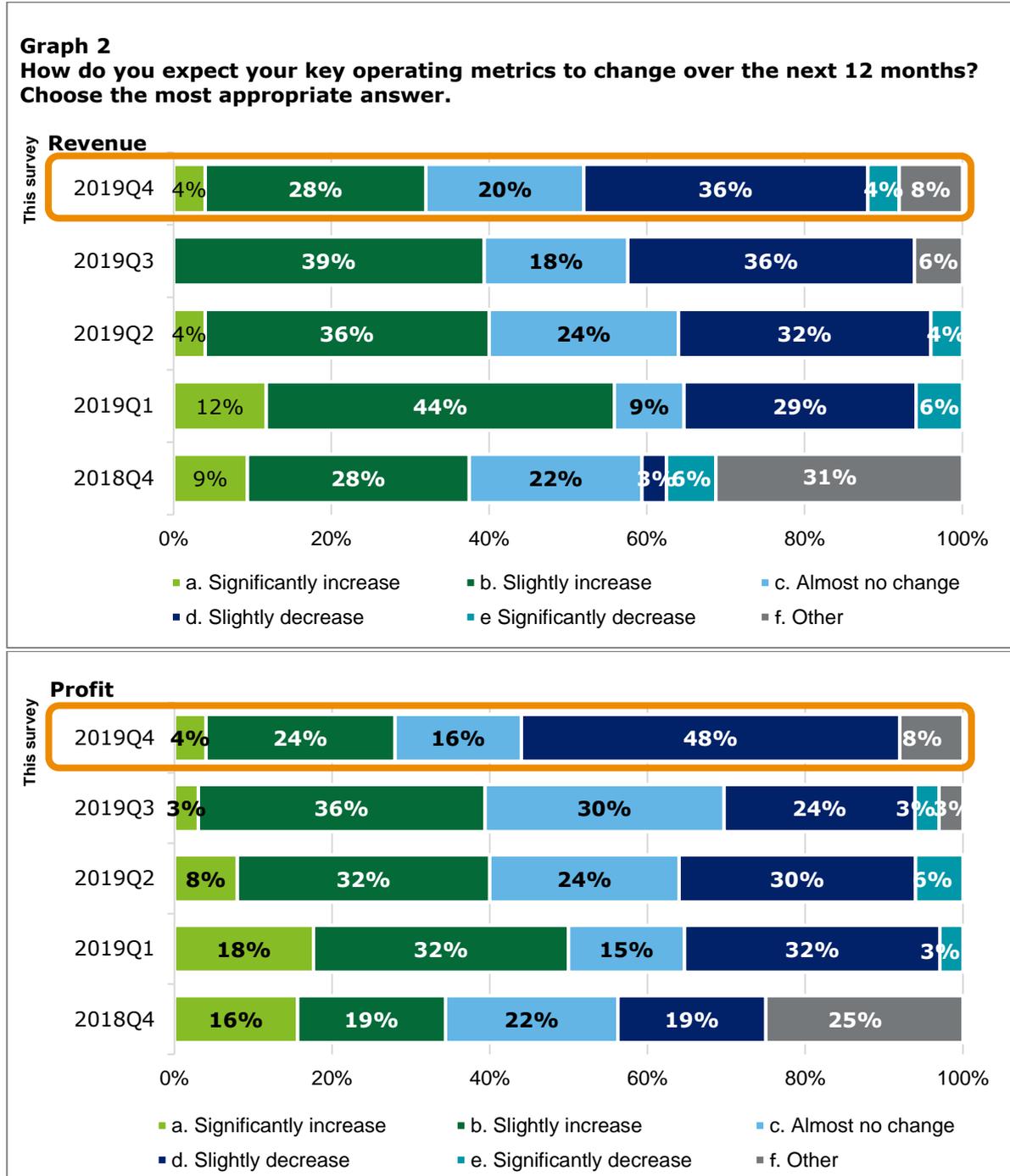
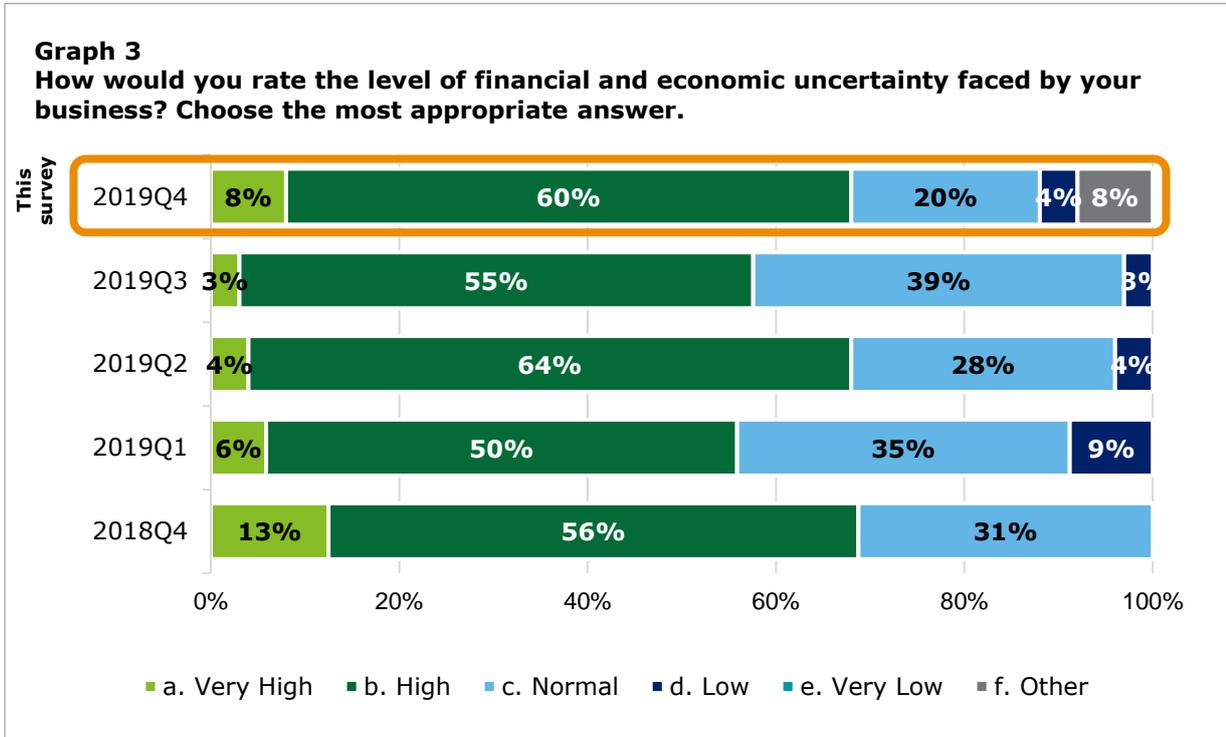


Chart 2 shows CFOs' outlook for their companies' financial performance (revenue and profit) over the coming year. The spread of COVID-19 infection has led to a particularly bleak outlook for operating metrics. When asked about revenue, 32% said they expected it to "significantly increase" or "slightly increase" - down from 39% in the previous survey. On the other hand, the total number of answers expecting revenue to "slightly decrease" or "significantly decrease" was

42%, which is up from 36% in the previous survey. As for profits, expectation for them to "slightly decrease" was 48%, up from 27% in the previous survey, which suggests CFO concern about COVID-19's impact on corporate performance. In January, it was not yet clear how the spread of infectious diseases would affect corporate performance. In Japan, there was a view at first that the disruption of the supply chain from China and the decrease in inbound consumption would be the main influences. However, as the infection spread globally after the survey, restrictions on the movement of people in and outside Japan have been implemented, and economic activities in each country have been severely restricted. The impact on corporate performance is expected to be even greater. The 2020Q1 period also corresponds to the period for Japanese companies to formulate their business plans for FY2020. It is highly likely that companies will be forced to review their business plans in response to the spread of the infection. Future surveys are expected to show further deterioration in CFO revenue and profit outlooks.

 **Uncertainty**

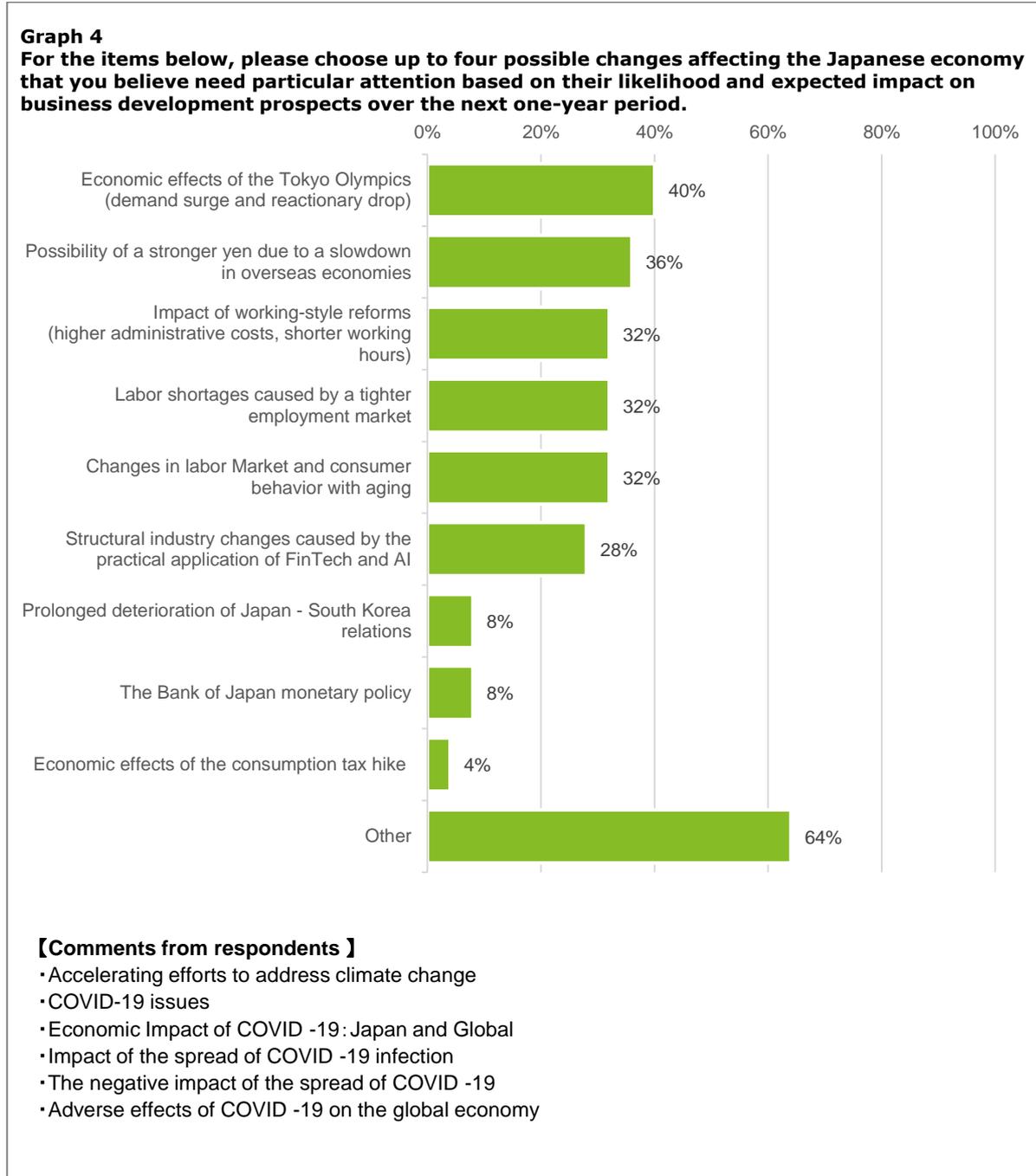
Uncertainties in the business environment increased:



Graph 3 shows CFO’s perception of financial and economic uncertainty. In the latest survey, 68% of respondents said uncertainty is “very high” or “high”, up from 58% in the previous survey. With the spread of COVID-19 infection, CFOs view the business environment as highly uncertain. Even as of March, there is no current forecast for the resolution of the infection. Central banks have taken emergency steps to ease their monetary policies, while governments have strengthened measures to contain the spread of infection and are considering large-scale fiscal spending. However, the effectiveness of these measures is currently unknown. Uncertainties about global risks will be hard to dispel until we see a contraction in the spread of infection.

**Key Factors in the Japanese Economy**

COVID-19 and its impact on the Japanese economy:



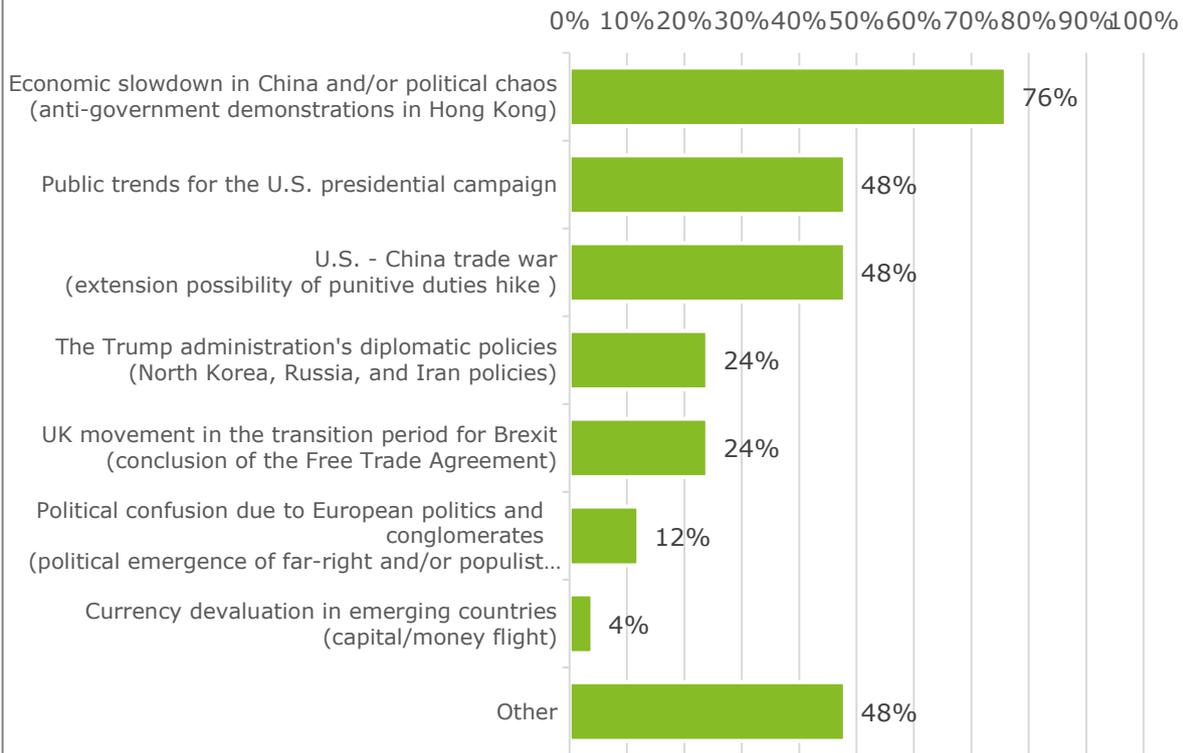
Graph 4 shows what trends in the Japanese economy are most closely watched by CFOs when preparing business plan over the next one-year period. With the spread of COVID-19 infection, "Other" (many of the responses were associated with the infection) ranked first with 67%. "The economic effects of the Tokyo Olympics" and "possibility of a stronger yen due to a slowdown in overseas economies" ranked second and third, respectively. The sudden spread

of COVID-19 has been the top concern of CFOs, ahead of other concerns. Concerns are growing over the possible impact on the Japanese economy as a whole, including uncertainty over the prospects for holding the Tokyo Olympics. The "appreciation of the yen" is also a focus of attention. As of mid-March, the yen tended not to rise in line with the increased risk of COVID-19 infection, but rather returned to the US dollar. However, the risk of a strong yen is likely to increase as the risk of infection increases. After the survey, the focus points of attention for the Japanese economy are likely to be the spread of the infection itself, a decrease in domestic demand, and a decrease in exports from China and other countries. The GDP growth rate of Japan in the 2020 calendar year is expected to be substantially negative due to the spread of the infection in addition to the reactionary drop from the consumption tax hike last year. The effectiveness of business continuity is also being tested, with many companies shifting to telecommuting as infection spreads.

€ **Key Factors in the Global Rconomy**

Focus on China and COVID-19:

**Graph 5**  
**From the items below, choose up to four events that risk affecting foreign economies and that you believe need particular attention, based on their likelihood and expected impact on business development prospects over the next one-year period.**



**【Comments from respondents】**

- COVID-19
- Decoupling of important markets (China-USA)
- Accelerating efforts to address climate change
- COVID-19 issues
- Economic Impact of COVID -19: Japan and Global
- Impact of the spread of COVID -19 infection
- The negative impact of the spread of COVID -19
- Adverse effects of COVID -19 on the global economy

Graph 5 shows what trends in the global economy are most closely watched by CFOs when preparing their business plan over the next-one year period. This time, "Economic slowdown in China" was 76%, followed by "Other" (many answers are associated with COVID-19). China's rapid economic slowdown in the wake of the COVID-19 outbreak was the top concern at the time of the survey. According to China's economic indicators released, retail sales and industrial production in the January-February period have turned sharply negative compared to the previous year, and China's real GDP growth rate in the January-March period is expected to be unusually negative compared to the previous year. As COVID-19 spreads globally, the growth rate of major countries is likely to turn negative. In Japan, the national economy is expected to post a negative growth rate in 2020 calendar year due to the impact of last year's consumption tax hike as well as the impact of COVID-19. In European countries including Italy, where many people have been infected with COVID-19, government measures to restrict movement and to close businesses have been increasing. The United States had relatively strong economic growth until the end of last year, but economic activity is expected to slow sharply due to measures against COVID-19 such as curfews in major states. In the meantime, the impact of the infection will remain a global risk event.

# The Key to Winning in a Disruptive World from a CFO Perspective



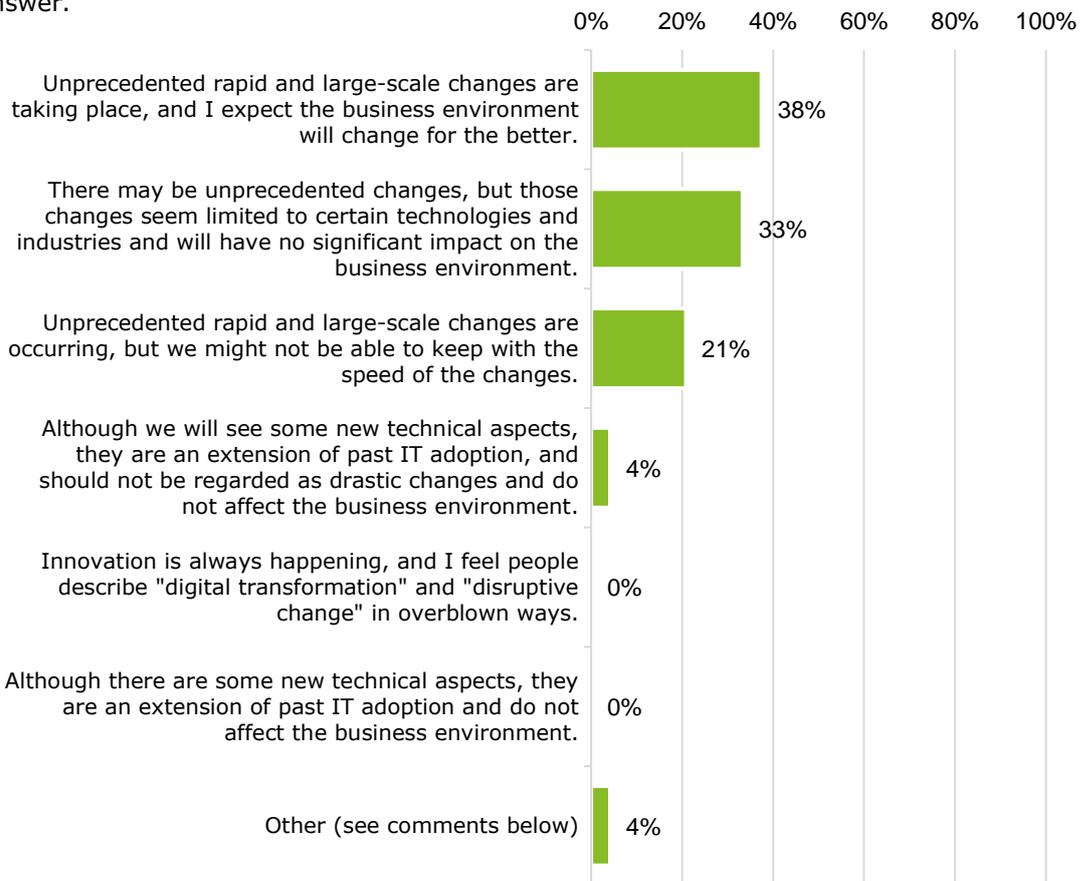
## Views on Current Innovation and Digital Transformation

Every fall, Deloitte Tohmatsu Group holds a conference for CFOs of famous companies. In 2019, the seventh year since the initial CFO VISION conference was held, we had about 100 CFO attendees at *Finance Leaders Summit - Winning in a Disruptive World*. We were impressed by the CFOs' eagerness to listen to the sessions about drastic changes in the economic environment and information technology, which can be called "disruption, represented by the digital revolution.

In this session of the survey, we asked CFOs about the rapidly changing economic and social environment which may not seem to be directly related to accounting and financial department.

**Graph 6**

**How you see innovation and digital transformation today?** Choose the most appropriate answer.



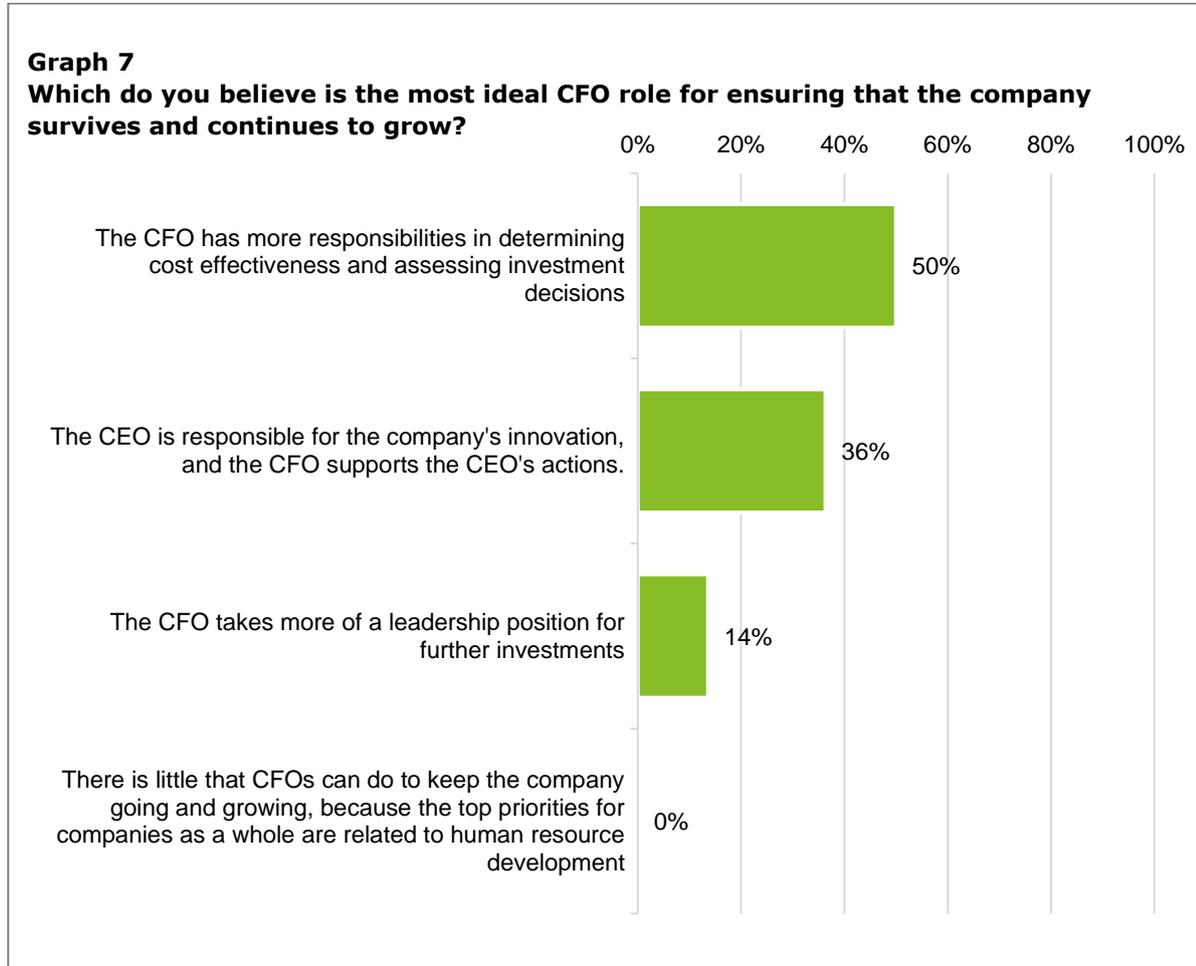
**【Comments from respondents】**

• There is no effect at the present time (or not appearing yet), but attention should be paid to future points of change.

Most answers indicated that the CFOs recognized that there would be big changes in the business environment, and that innovations in information technologies differed from those in the past. In particular, it is encouraging that more than a third of CFOs responded positively that they would like to take advantage of this situation. On the other hand, it is worth noting that one third said that it will not affect their businesses much. In other words, there are many companies in Japan that have nothing to do with GAFA or the rapid advancement of Chinese companies through the technology. An additional 20% are aware of the impact and appear pessimistic. However, there were some opinions that there was no visible impact, and that attention should be paid to the surrounding environment. It will be interesting to see how the companies answering that they may not be able to keep up with the changes in the environment will survive in the future.

**The Ideal CFO Role for the Company**

The question of how a CFO is involved in strategic management is frequently asked in this survey. We asked them about their involvement in the disruptive world.

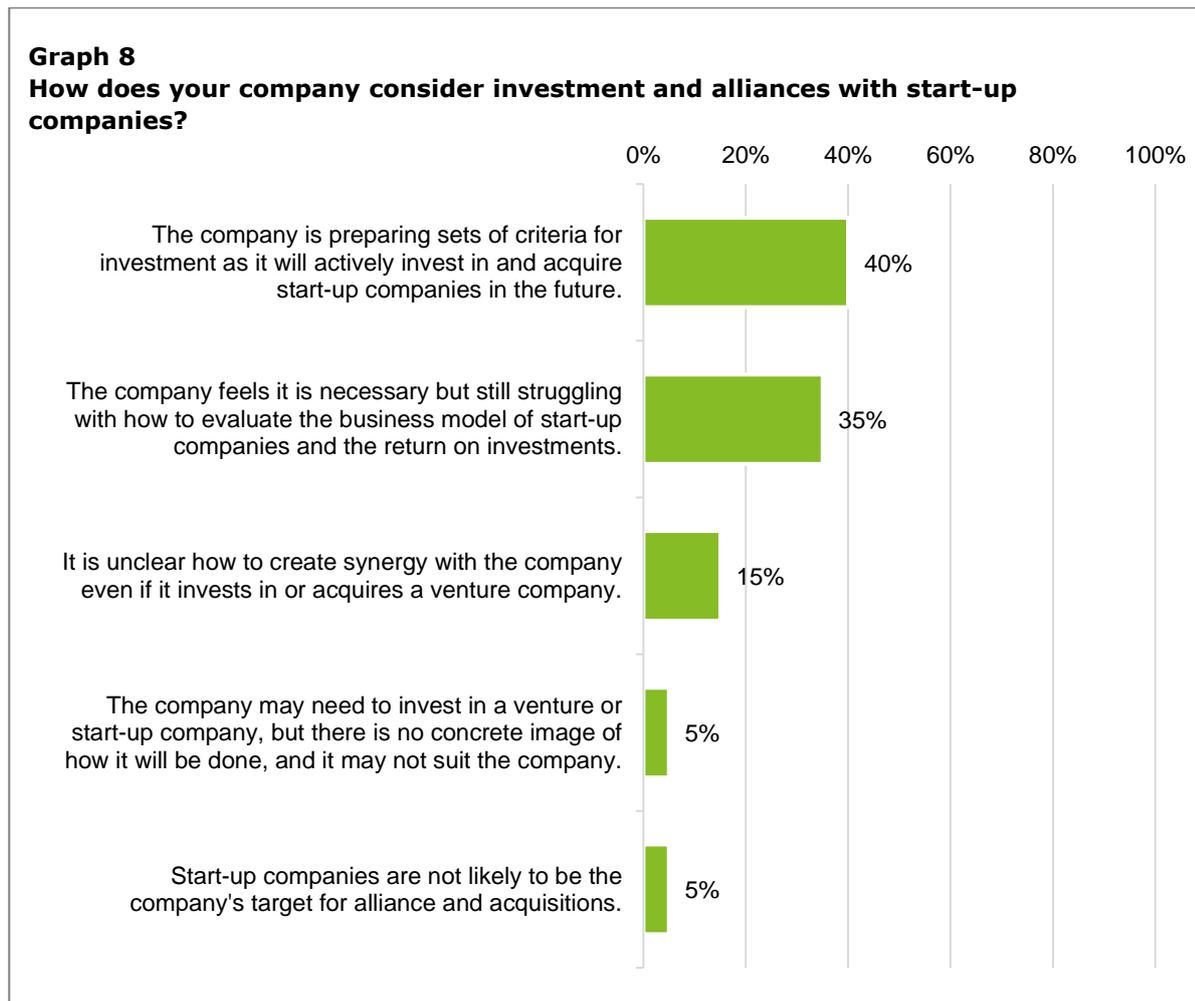


As we expected, more than half answered that CFOs should play an active role. Responses that "CFOs should play an active role" may have been higher than ever. In many European and American companies, the CFO also serves as the CIO. How to utilize information technology, where to invest to expand business opportunities, and where to upgrade management are considered to be the primary roles of the CFO as one of the management strategies. When we spoke to the CFOs of leading foreign companies in Japan, they told us that their most important roles are to be involved in expanding revenues directly. The conservative response of "CFOs are in charge of support" still accounts for 30%, but it is necessary for CFOs to consider taking the lead in strategic management in order to win in this disruptive world.



## Views on Investment and Alliances with Start-Up Companies

There is a strong argument in economic publications that this is the time when innovation is needed, and a change to an innovative corporate culture is necessary. However, when it comes to “innovation”, the Japanese economy is said to be lagging behind not only European and American companies but also Chinese companies. As one of the solutions, attention is focused on how to take in emerging powers (such as ventures and start-ups), who are small but capable of moving swiftly, and who grow by actively adopting advanced technologies.

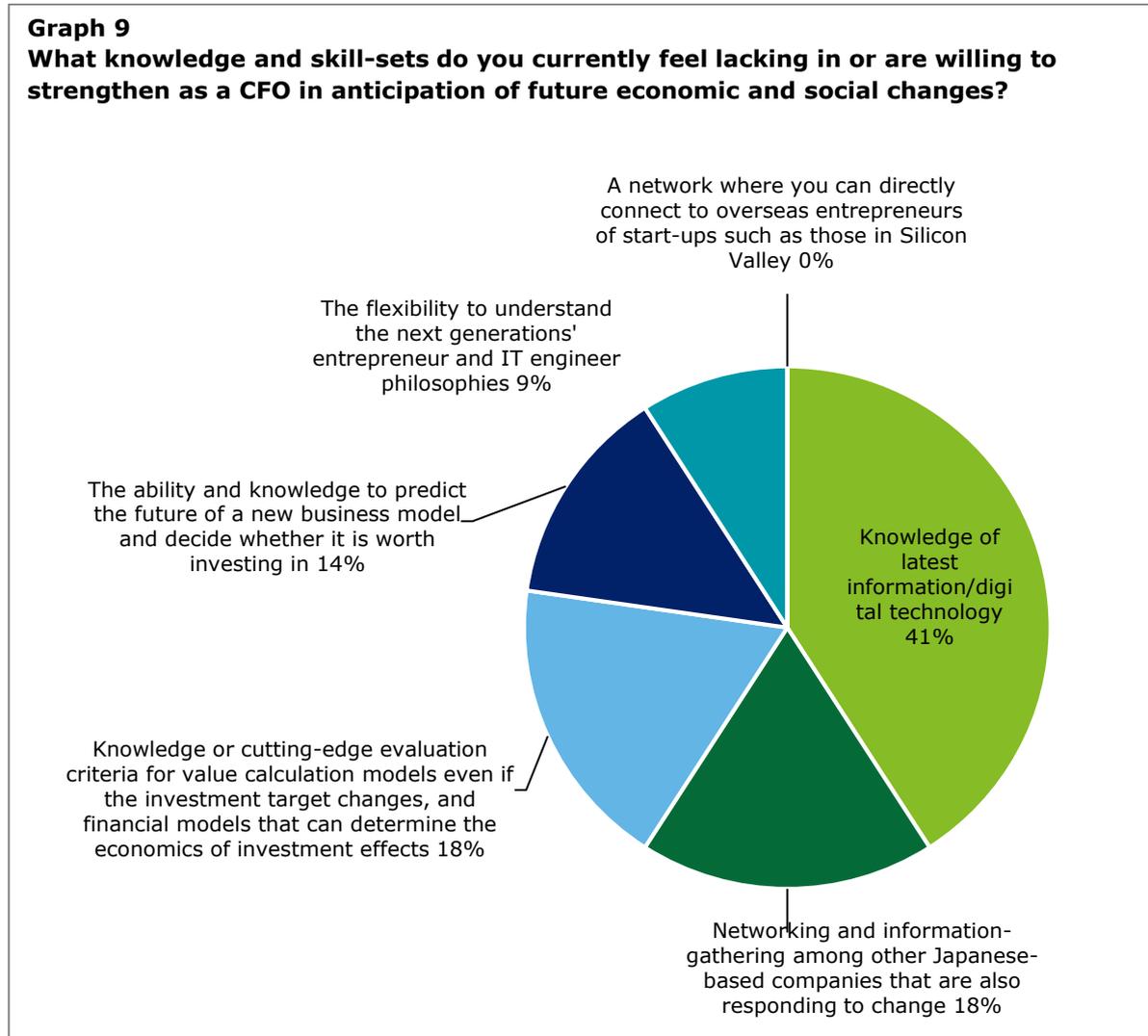


More than 2/3 of respondents were positive about investing in or partnering with ventures or start-ups. However, only half of the respondents said that they have established criteria for investment. We should consider this to mean that half of the companies that think positively are already working on investment standards. This is a theme that needs to be clarified, including the responses indicating that it is “unclear” how the company considers investment and alliance with start-ups, and that they “may not suit the company”, as some people may think that a partnership is more appropriate than investment.



## Knowledge and Skill-Sets You are Willing to Strengthen as a CFO

Finally, we asked a question that might be hard to choose one. In order to survive in this disruptive world, CFOs have options to think and decide for ourselves, or to ask someone for advice.



As was expected to some extent, it seems that there are many CFOs who are weak at planning or judging things that they do not have knowledge and experience in. Or, there were responses indicating the desire to expand networks and exchange information with other companies, as well as a small number of respondents who wanted to listen to opinions across generations and industries. The majority of the respondents desire to improve their experience and knowledge in order to see, hear, and judge start-up initiatives as business newspapers and publications continue to introduce them. But there is no CFO who desires to have direct connection with Silicon Valley. This may prove what Mr. Yasumasa Yamamoto, a venture capitalist living in Silicon Valley, spoke at this year's Financial Leaders Summit. Mr. Yamamoto told that there are many investors and investment companies from various countries in Silicon Valley, and that Japanese companies have a small presence there.

## What is the CFO Program?

The CFO program is a comprehensive effort by the Deloitte Tohmatsu Group to revitalize the Japanese economy by supporting the CFO of companies that support the Japanese economy and contributing to the improvement of the CFO organization's capabilities. As a trusted advisor (The Trusted Advisor), we bring together professionals from all walks of life to help you solve your CFO's challenges. In addition, we aim to improve the competitiveness of Japanese companies by providing the latest information, including global trends, and CFO-networking beyond corporate and industry boundaries.

### Deloitte Tohmatsu Group

The CFO Program

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