



Deloitte CFO Signals Report

2022Q3

December 2022

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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.

The survey consists of two sections: the “Survey on the Economic Environment,” which is assessed globally in every edition, and the “Survey on Hot Topics,” which varies for each country.

In Japan, it was conducted for the first time in August 2015, making this the 30th edition. In 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 on the experience and skill-set a CFO is expected to have.

Surveys for this edition were conducted in November 2022, and we were able to receive responses from 31 CFOs and finance and accounting executives.

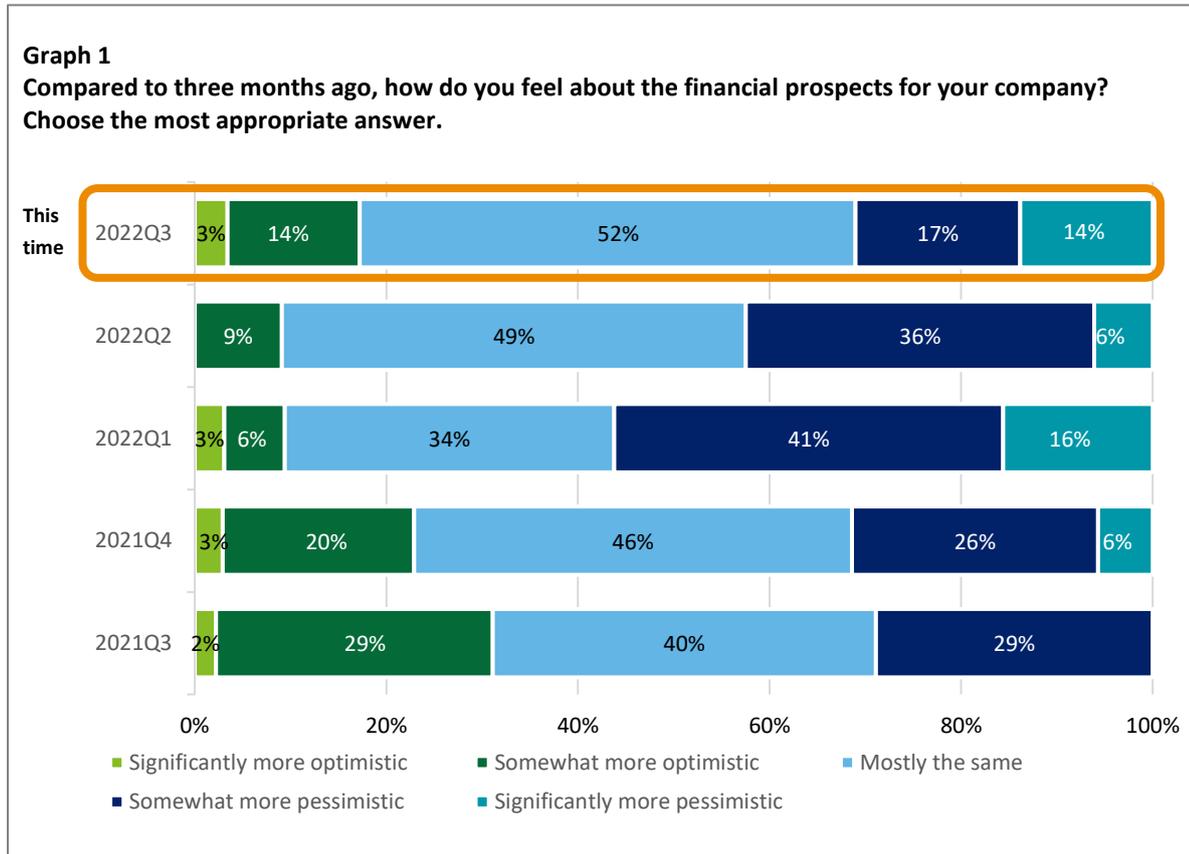
Thank you for your cooperation.

Deloitte Tohmatsu Group
The CFO Program
December 2022

Survey on the Economic Environment

Financial environment prospects

Slight upturn in the financial prospects



Graph 1 shows how the financial prospects of the respondents’ businesses have changed over the last three months. In the current 2022Q3 survey, a total of 17% of respondents indicated that they were “Significantly more optimistic” or “Somewhat more optimistic” about the financial prospect, an increase from 9% in the previous survey. Meanwhile, the total of those responding “Significantly more pessimistic” or “Somewhat more pessimistic” decreased to 31%, down from 42% in the previous survey. This result indicates that the financial prospective for CFOs has marginally improved. The optimistic outlooks have remained below pessimistic outlooks since 2021Q1 survey, and this 2022Q3 survey also reveals a polarization between optimistic and pessimistic outlooks. While the the global economy has continued to hit by a high price of raw materials and supply chain disruptions from the previous survey, the central banks in the US and Europe continue to raise interest rates, contributing to a deteriorating business sentiment in the market.

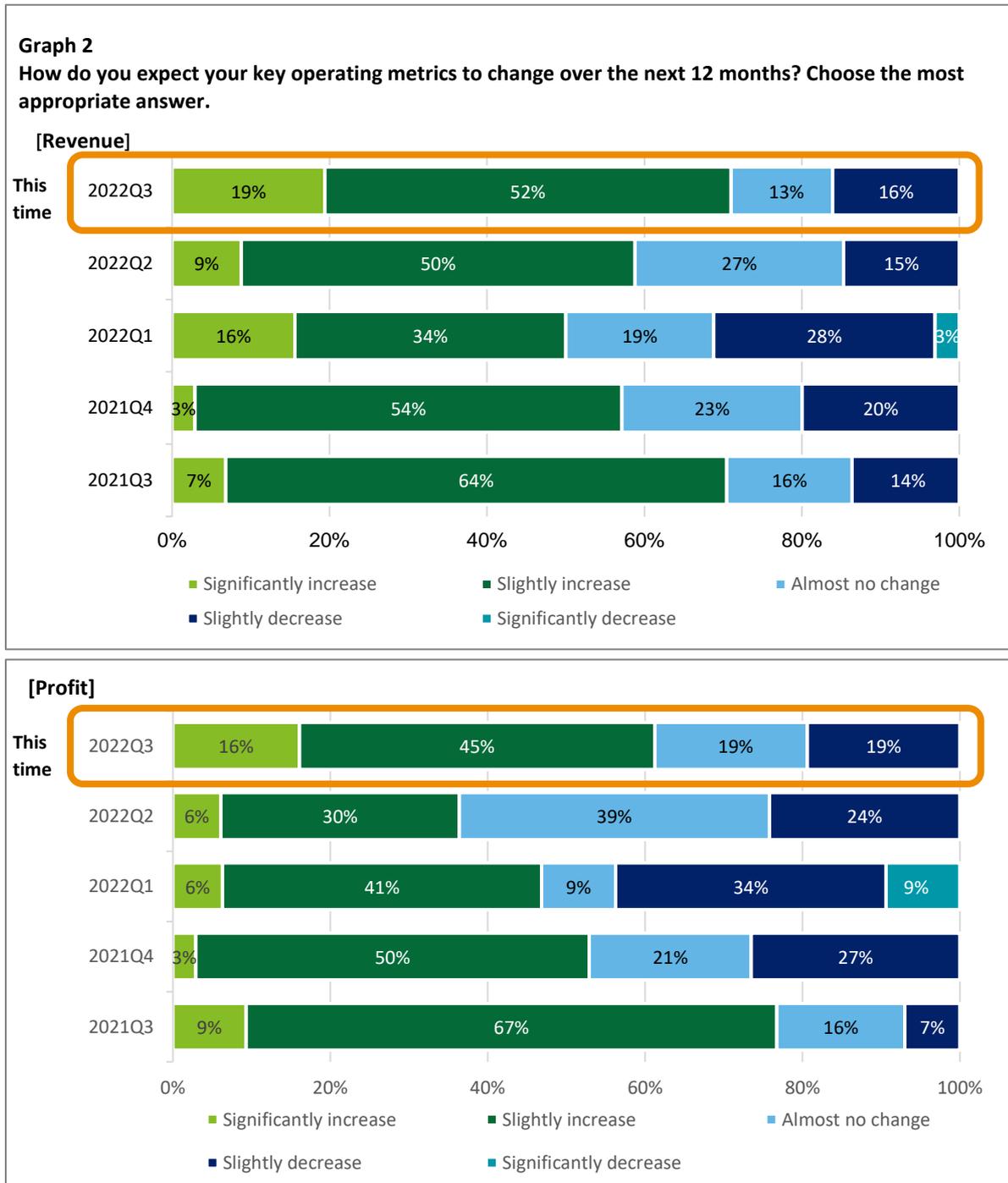
On the other hand, the economic activities in Japan rebounded after the seventh wave of COVID-19 subsided and travel and business restrictions were lifted. In addition, the yen weakened in the foreign exchange market and the stock market also generally remained stable. We believe the factors behind the split between the optimistic and pessimistic responses are decoupling between the Japanese and foreign economies, as well as differences in the degree

to which the yen's depreciation will affect corporate finances. While economic and political conditions in Japan and abroad will continue to vary by country and region, business confidence is expected to worsen over the coming year generally due to inflation and rising interest rates, and the financial prospects for each industry and individual company is likely to differ.



Business performance outlook

Business performance outlook has improved significantly

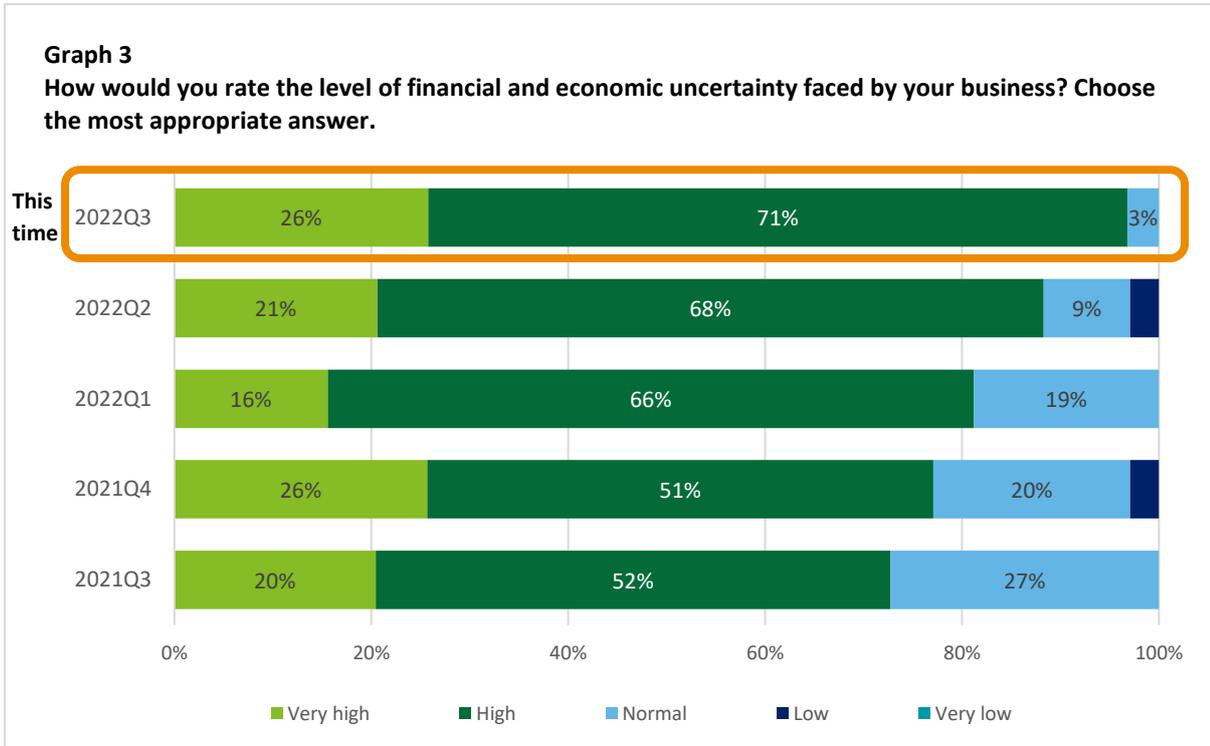


Graph 2 shows the CFOs' prospects for each company's financial performance (revenue and profit) for the coming year. Both the revenue and profit outlooks have shown a turnaround from the previous 2022Q2 survey. The total number of respondents who said they expected revenue to "Significantly increase" or "Slightly increase" came to 71%, up from 59% in the previous survey, while those who said they expected profit to "Significantly increase" or "Slightly increase" rose to 61%, a substantial jump from 36% in the previous survey. Both of these levels are the highest since the 2021Q4 survey. This significant turnaround in the revenue

and profit outlook is also consistent with its actual record-high corporate earnings. However, this turnaround may be partly a reaction to the shocks from the Russian-Ukrainian crisis, soaring raw material prices, and rising interest rates overseas after the start of this year. On the other hand, the situation remains unchanged, as companies' profit margins are under downward pressure due to insufficient progress in shifting increased production costs, including raw materials, transportation, and labor costs, to consumers, and the global economic outlook is also deteriorating. It is therefore unlikely that the business performance outlook among CFOs will trend in the same positive direction in the future, and any expected improvement in the outlook in the next and subsequent surveys may have to be tempered.

 **Uncertainty**

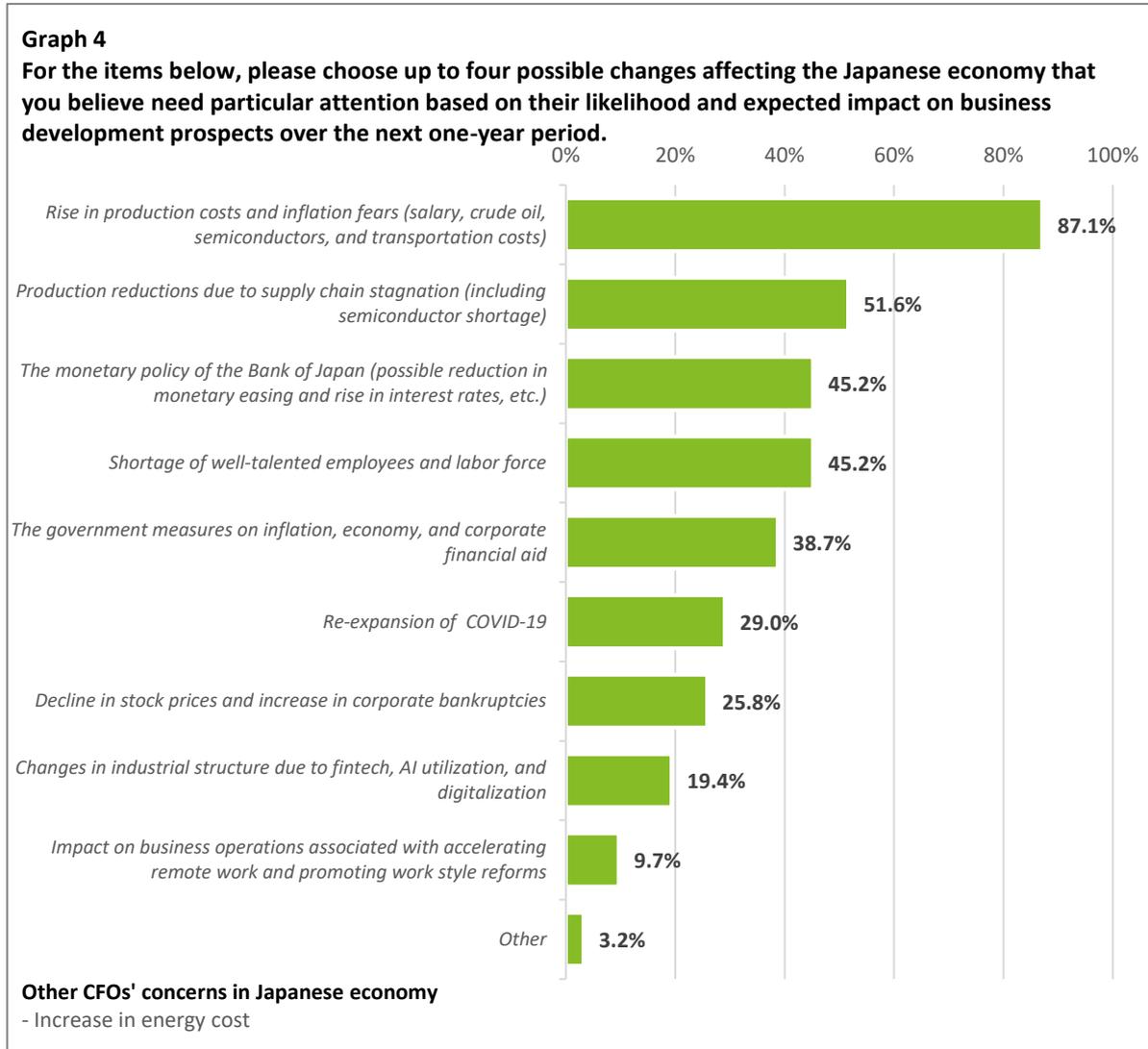
Uncertainty continues to grow



Graph 3 shows CFOs' perceptions of financial and economic uncertainty. The uncertainty felt by CFOs was even greater, with a significant 97% of respondents indicating that uncertainty was "Very high" or "High." On the economic front, the outlook for inflation and rising interest rates is difficult to predict. In the political arena, the Russia-Ukraine crisis, US-China conflict, and domestic politics in Japan are all factors contributing to uncertainty. Uncertainties will remain on the economic front until there is a slow down of interest rate hikes by the US and European Central Banks, and there is a respite in the rise of inflation overseas. Furthermore, in global politics, there are moves to pursue alliances involving not only the United States and China, but also European countries, India, and various nations in the Middle East, raising the likelihood of further uncertainties. CFOs are expected to maintain a high level of uncertainty going into the coming year.

Key change factors in the Japanese economy

Production costs and inflation remain the top focus; concern about the Bank of Japan also increased

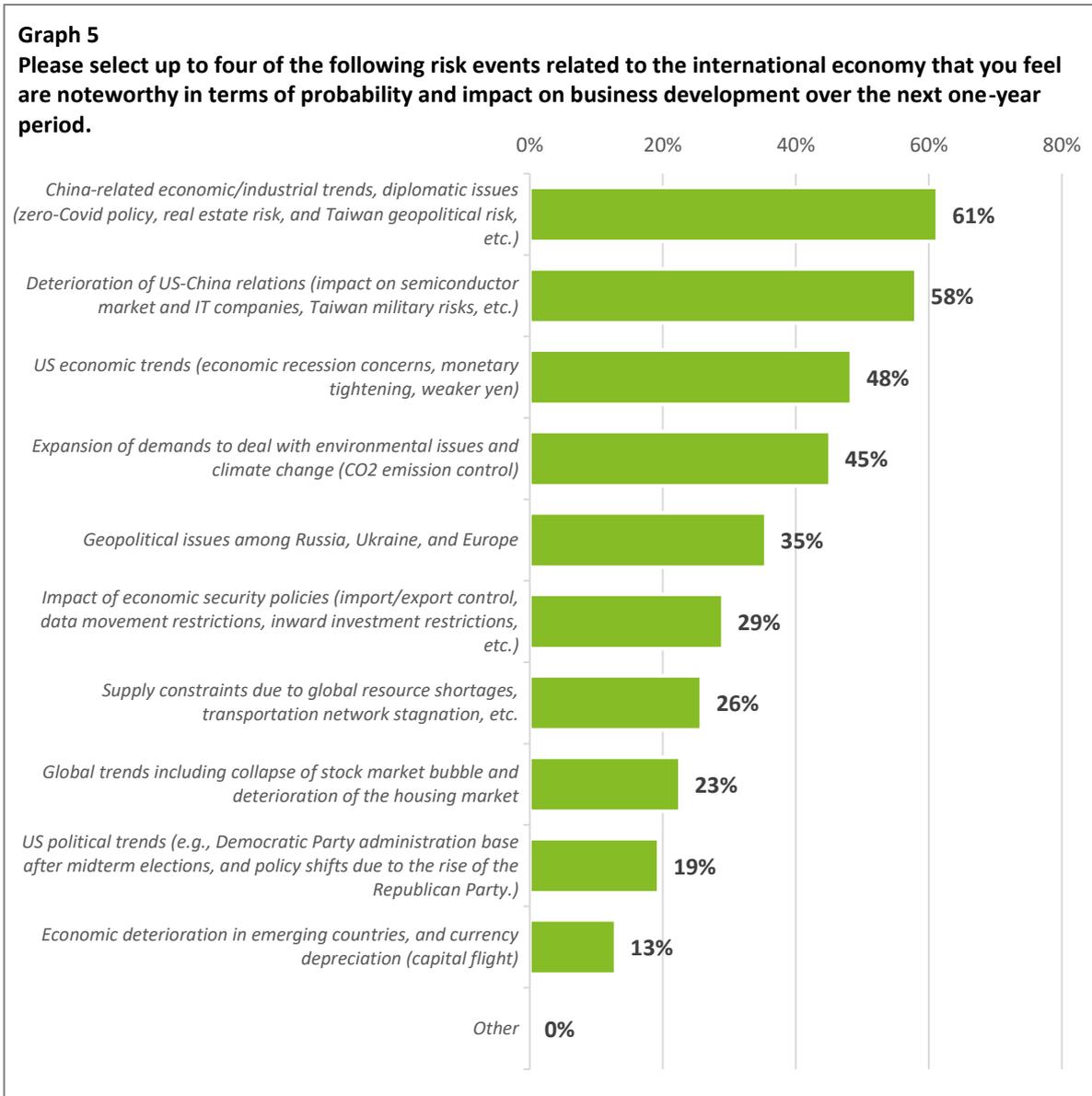


Graph 4 shows the key factors in the Japanese economy that CFOs will most closely watch when preparing business plans over the next year. Once again, the first and second places in the survey were the same as in the previous 2022Q2 survey: “Rise in production costs and inflation fears,” and “Production reductions due to supply chain stagnation.” In third place, “The monetary policy of the Bank of Japan” jumped significantly from fifth place in the previous survey. The pace of increase in production costs is expected to ease somewhat in 2023, but the level will likely remain high. Supply chain stagnation is unlikely to ease significantly while global political and geopolitical turmoil persists, and we will have to wait for companies and governments to reform industrial structures, such as by bringing in-house procurement. Looking at the Bank of Japan’s monetary policy, which for the first time has ranked in the top three of responses, the focus will be on whether there will be any changes to its quantitative and qualitative easing policy following the change of BOJ governor in the spring of 2023. If normalization of monetary policy were to take place, higher corporate financing costs and a stronger yen could have a significant impact on the business environment. Note that “Remote

work and work style reforms,” which was at the top of the list of points of interest immediately after the initial spread of COVID-19 at the beginning of 2020, now attracts virtually no attention, suggesting that companies have now largely adapted to the “new-normal” work style.

€ **Key change factors in the global economy**

China-related economic trends are now the number one concern



Graph 5 shows what trends in the global economy CFOs will most closely watch when preparing their business plans over the next year. “China-related economic/industrial trends, diplomatic issues” was the top of concern in this 2022Q3 survey, up significantly from the fifth place ranking in the previous survey. During the survey period, China’s strict zero-COVID policy severely constrained economic activity, resulting in a significant decline in GDP growth for the April-June period. In addition to the zero-COVID policy, China’s economic outlook had been deteriorating due to the worsening real estate market. Moreover, President Xi Jinping’s reporting and party appointments at the National Congress of the Communist Party of China were more ideologically oriented than focused on economic growth. For Japanese companies, heavily influenced by the Chinese economy, it is understandable that attention towards China’s political and economic trends has increased dramatically. There have since been moves in China for the government to significantly mitigate its zero-COVID policy in light of increasing

demonstrations and criticism of the ruling authorities. Meanwhile, an emerging risk is that the spread of the COVID-19 could be a setback to the Chinese economy. China is likely to remain one of the top concern for CFOs going forward, given the uncertainty that is likely to continue to surround the Chinese developments. The second and third places were taken by “Deterioration in US-China relations” and “US economic trends,” respectively, the same as in the previous survey, suggesting that these are potentially medium-term focus points.

Survey on the Experience and Skill-set a CFO is Expected to Have

The CFO Signals 2022Q1 survey revealed that the role of the CFO as a partner to the CEO is expanding, diversifying, and assuming increasing importance, and the previous CFO Signals 2022Q2 survey found that companies are considering the selection and development of CFO successor candidates.

In this survey, we asked about the experience and skill-set that a CFO is expected to have.

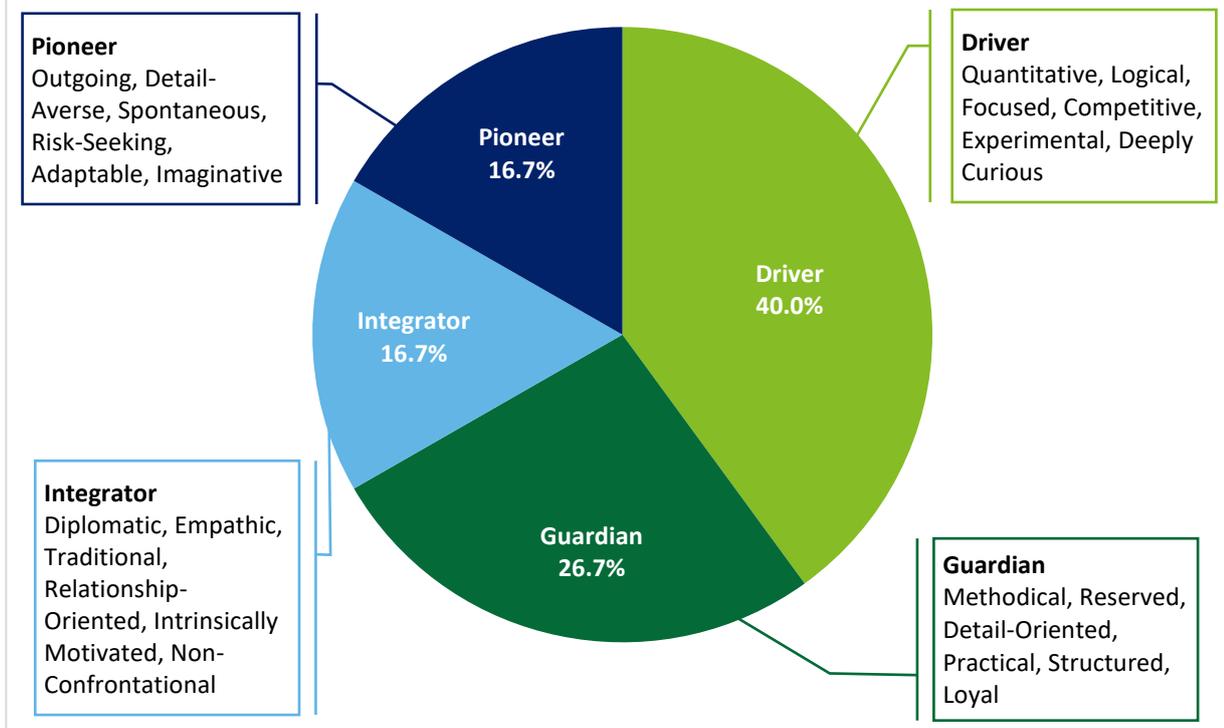


CFO Personality type

A "Driver" was seen to be the most common personality type for a CFO

Graph 6

Please identify the personality type that most closely describes you (or your company's CFO).



First, we conduct a survey about CFO personalities. In conducting this questionnaire, CFOs were asked to declare which of the four keyword personality types mostly applied to them, based on the Business Chemistry framework, which was developed by the Deloitte global team to help individuals understand differences in business styles and communicate effectively with all stakeholders.

- **Driver :**
Quantitative / Logical / Focused / Competitive / Scientific / Experimental / Technically oriented / Deeply curious
- **Guardian :**
Methodical / Reserved / Detail-oriented / Practical / Structured / Loyal
- **Integrator :**
Sociable / Empathetic / Team player / Dreamer / Intrinsically motivated / Traditional / Non-confrontational
- **Pioneer :**
Outgoing / Detail averse / Risk-seeking / Self-motivated / Adaptable / Imaginative

The result shows that the Driver type was the most common type, followed by the Guardian type. A similar questionnaire previously conducted among CFOs globally (March 2017, N=131) also found the “Driver” personality type to be the most common, followed by the “Guardian,” consistent with the trend seen in this Japan CFO Signals survey.

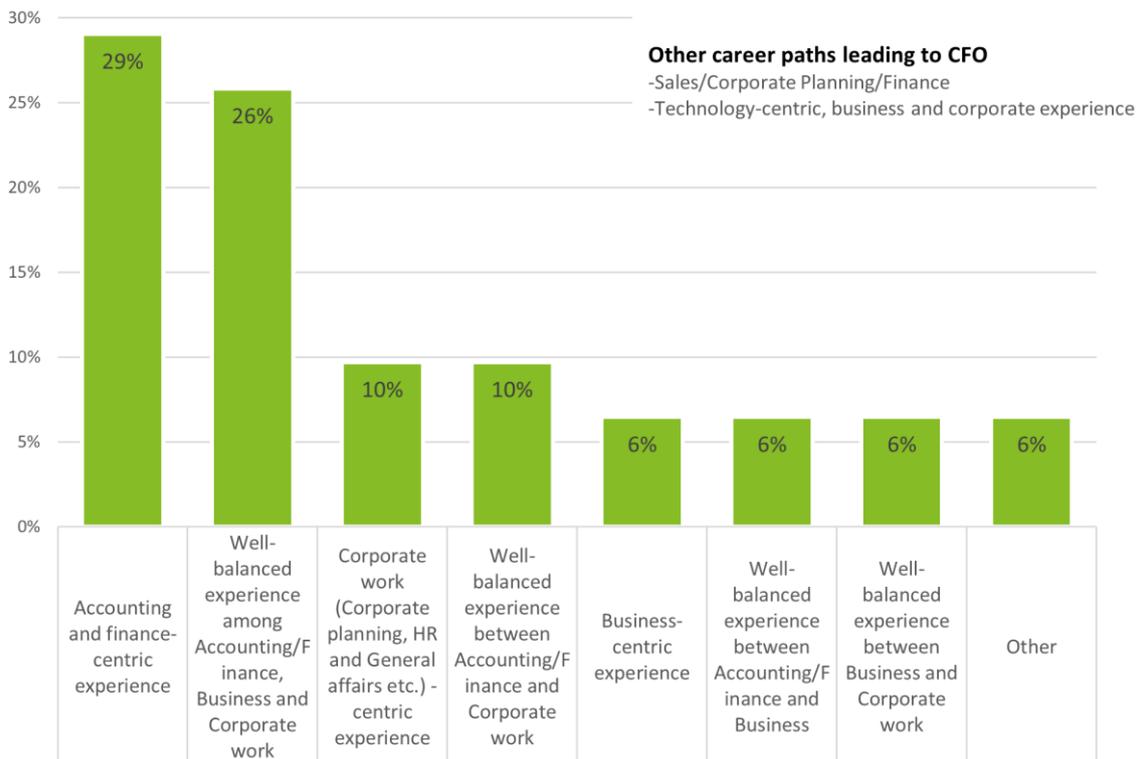


Career path to the position of CFO

The result exceed 50% combined for “Accounting and finance-centric experience” and “Well-balanced experience among Accounting/Finance, Business and Corporate work”

Graph 7

Which of the following options best describes your (or your company's CFO's) career path to the position of CFO?



Functions Incl. in each	Accounting and finance-centric experience	Well-balanced experience among Accounting/Finance, Business and Corporate work	Corporate work (Corporate planning, HR and General affairs etc.) - centric experience	Well-balanced experience between Accounting/Finance and Corporate work	Business-centric experience	Well-balanced experience between Accounting/Finance and Business	Well-balanced experience between Business and Corporate work	Other	Total % by Fuction
Accounting & Finance	✓	✓		✓		✓		✓ (Partially)	74%
Corporate		✓	✓	✓			✓	✓ (Partially)	58%
Business		✓			✓	✓	✓	✓ (Partially)	41%

As shown in the vertical bar graph above, the highest ranked career path to CFOs was “Accounting and finance-centric experience” at 29%. This was followed by 26% of respondents having a well-balanced expeicece among Accounting/Finance, Business and Corporate work; combined, these first and second-placed results contribute more than half of the total.

An another perspective as shown in the table below the graph, we tabulated the responses for the functions that included each option into the three elements of “Accountitng and Finance,” “Coporate (excluding Accountng and Finance,” and “Business.” 74% of the total responses included “Accounting and Finance” experience, indicating that about 1/4 of the CFOs had no prior experice in accounting and finance function. It can be said that there are certain cases

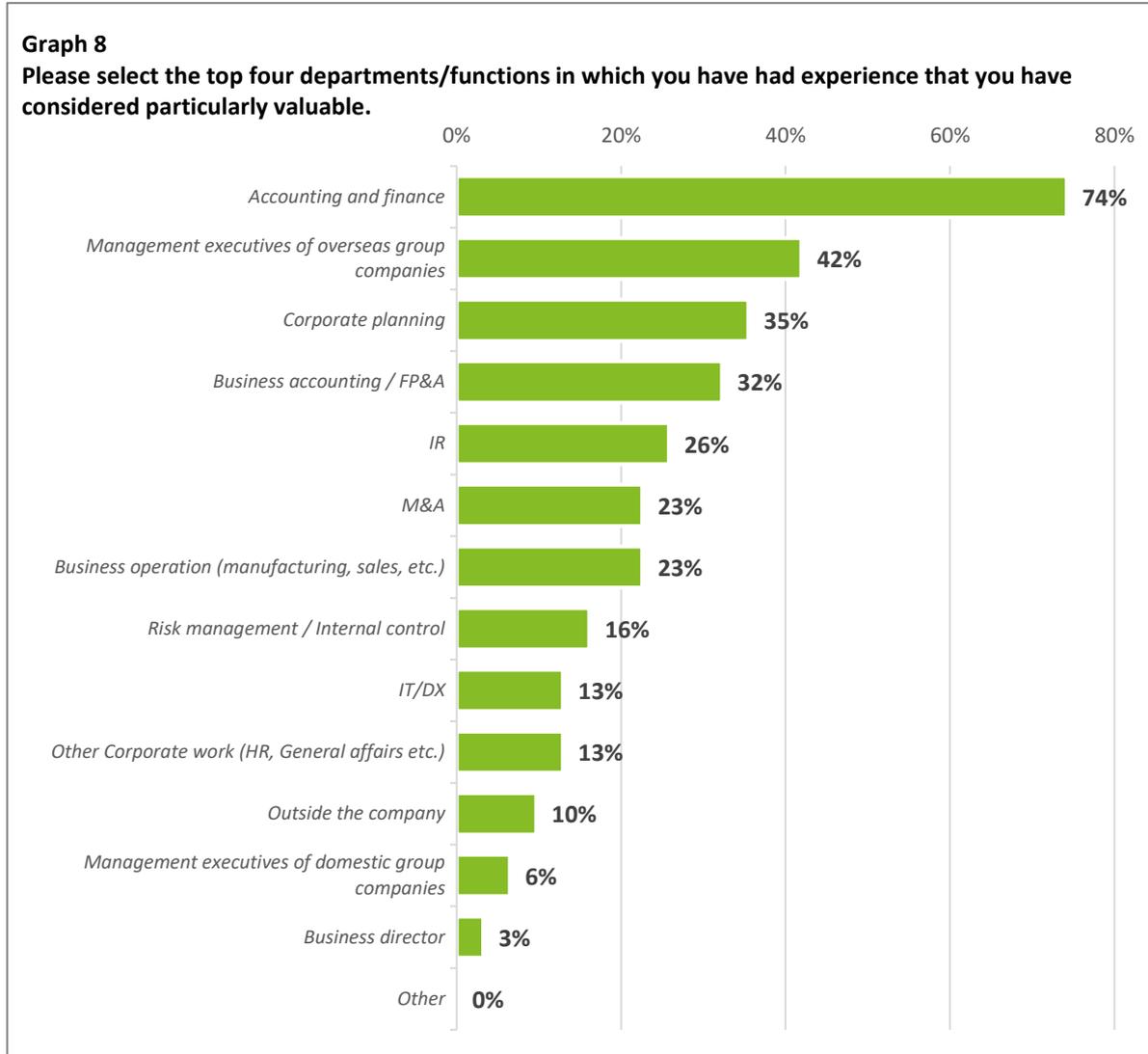
where candidates from business and other corporate work backgrounds are appointed to CFOs, even if they do not have accounting or finance experience.

Likewise, it reveals that more than 50% of the CFOs have "business" experience. This indicates that half of them have experience not only in accounting and finance, but also in business. As per the previous survey results, the need for business experience will become even more important given the increase in offensive roles as Strategists and Catalysts in the future.



Beneficial past experiences - Department/functions

In addition to experience in accounting and finance, results show that experience at the management executives of overseas group companies.



The result shows that accounting and finance are the most beneficial experience as being CFOs. This 74% is the same as that of the percentage of CFOs who had experience in accounting and finance in Graph 7, it can be said that all responded CFOs who had experience in accounting and finance considered it beneficial.

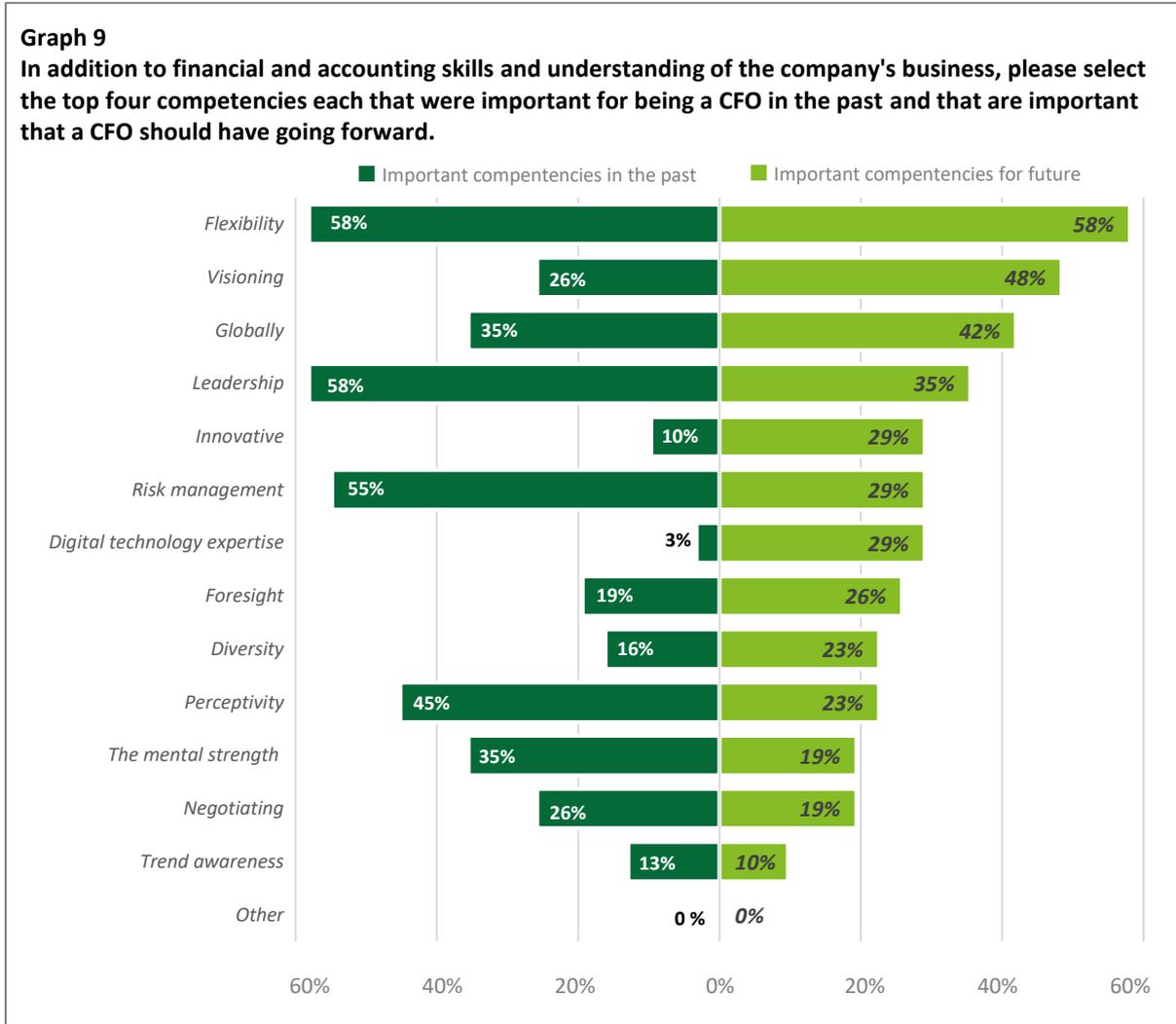
This was followed by those who indicated that their experience as the management executives of their overseas group companies was beneficial. Meanwhile, only a small number of respondents indicated that they had held management executives of domestic group companies. It can be reasonably inferred that if they are going to engage in management of their group companies, they would find it more valuable to have overseas experience, which in many cases is more diverse, has underdeveloped infrastructure/operations, and is more difficult to manage.

Responses to the other options were more dispersed, suggesting that the career paths to the CFO position are also diversifying in line with the diversification of the CFO role.



Competencies that a CFO is expected to have

Having the flexibility to deal with change is a most critical competency for CFOs both for “past” and “future”



CFO considers a most critical competency that CFOs should have, both for “past” and “future,” was seen as having “Flexibility” in dealing with change. In this increasingly uncertain era, this result suggest that this is a constant competency required of CFOs.

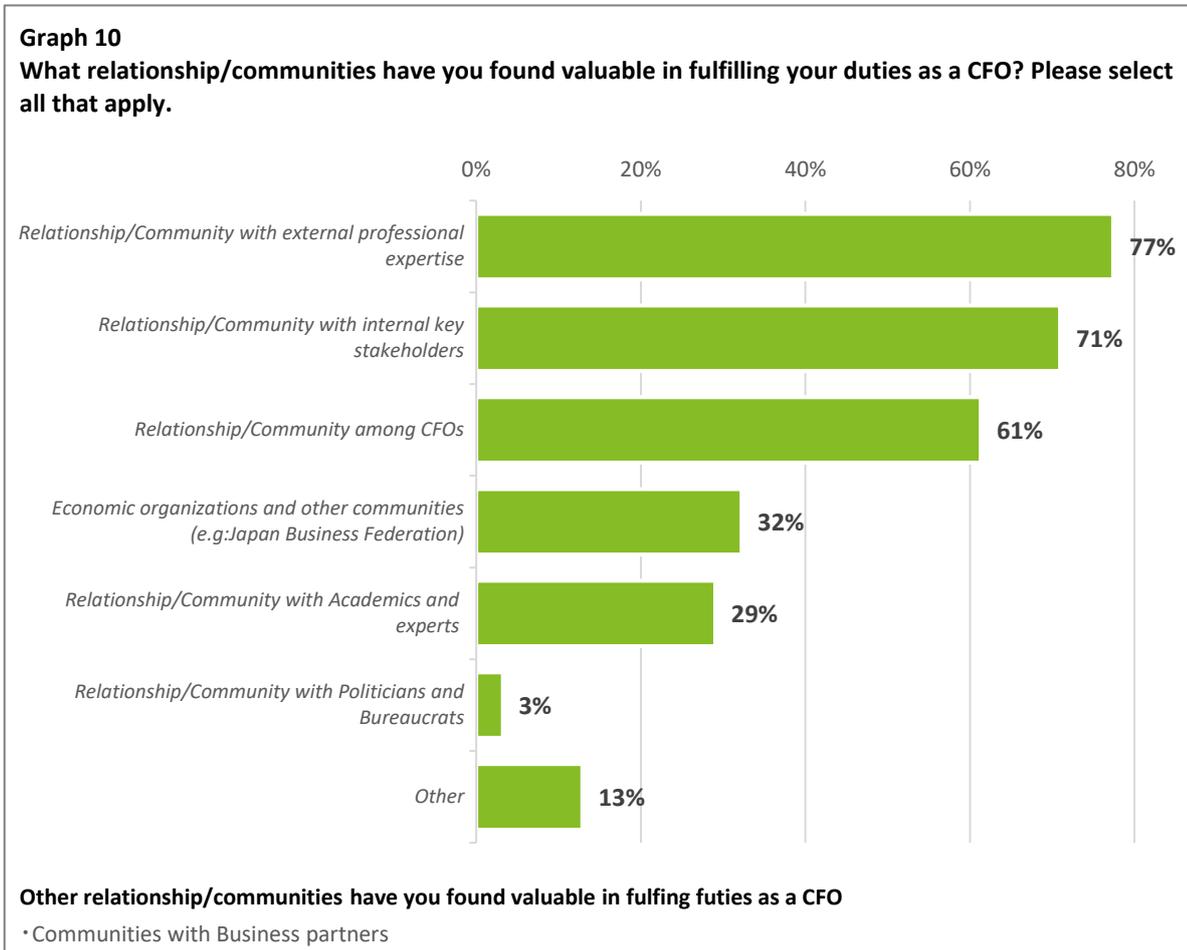
“Visioning,” “Innovative,” and “Digital technology expertise” particularly increased when comparing “past” to “future.” With the rapid development of digital technology, it can be said that there is a greater need to respond to what is possible only for human personel to do, and to master new technologies. Although “Risk management” and “Perceptivity” received fewer reponses for future than for past, it can also be infered that this is presumably due to the fact that there will be addressed to a certain extent by digital technology with the rise of AI and other technologies going forward.

Responses to the other options were more dispersed again, suggesting that the competencies for CFO position are also diversifying in line with the diversification of the CFO role.



Relationship/Communities that assist in performing duties as CFO

Relationship/community among external professional expertise, internal key stakeholders and CFOs prove to be beneficial



CFOs consider that the most beneficial relationship/community is one with external professional expertise. This is assumed to be due to the need for complex and wide-ranging consultations in a rapidly changing environment, such as in response to regulatory and social demands, and organizational reform.

It was followed by the relationship community with internal key stakeholders in the company. It is clear that communication within the company is essential to its role as a business partner.

61% of respondents also indicated that the relational community among CFOs is beneficial, suggesting that they also value horizontal connections where they can discuss their challenges with other CFOs in the same position.

As the role of the CFO diversifies, it is important to build relational communities across multiple fields and to build an environment in which they can request advice and consultations.



To conclude this section...

In this 2022Q3 CFO Signals survey, we inquired about the experience and skill-set that a CFO is expected to have.

In terms of career path, the result indicated that not only their experience in accounting and finance, but also their business experience has been beneficial. As given the situation the CFO's role shifts to one that is more offensive in near future, business experience will become even more crucial. The results also suggest that it is important to gain experience in more uncertain situations, as many respondents indicated that they experienced the management executives of overseas group companies.

On the other hand, flexibility in dealing with change was found to be as important as ever in the past as well as in the future, and it is clear that it is a required competency for CFOs. In this era of increasing uncertainty, it will emphasize how important they are to be flexible in their judgements and decision-making.

What is CFO Program?

The Deloitte Tohmatsu Group's CFO Program is a comprehensive program to revitalize the Japanese economy by supporting the CFOs of companies that it rests on and contributing to improving the capabilities of CFO organizations. As a Trusted Advisor, we bring together professionals from all walks of life to help CFOs solve 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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