



# Deloitte CFO Signals Report

2022Q4

March 2023

# Contents

## **Survey on the Economic Environment**

Financial environment prospects .....	3
Business performance outlook .....	4
Uncertainty .....	6
Key change factors in the Japanese economy .....	7
Key change factors in the global economy .....	9

## **Survey on the Initiatives of Transforming the Finance Function**

Medium-to-long-term plan for transformation.....	11
KPIs as a finance function .....	12
Initiatives currently focusing on as a finance function .....	14
FTE invested in the transformation initiatives.....	16
Initiatives to focus on in the future (in 3-5 years) as a finance function.....	17
To conclude this section.....	21
<i>What is CFO Program?</i> .....	22

## 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 the report as CFOs' Signals.

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 31st 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 regarding the initiatives on transforming the finance function this time.

Surveys for this 2022Q4 edition were conducted in February 2023, and we were able to receive responses from 32 CFOs and finance and accounting executives.

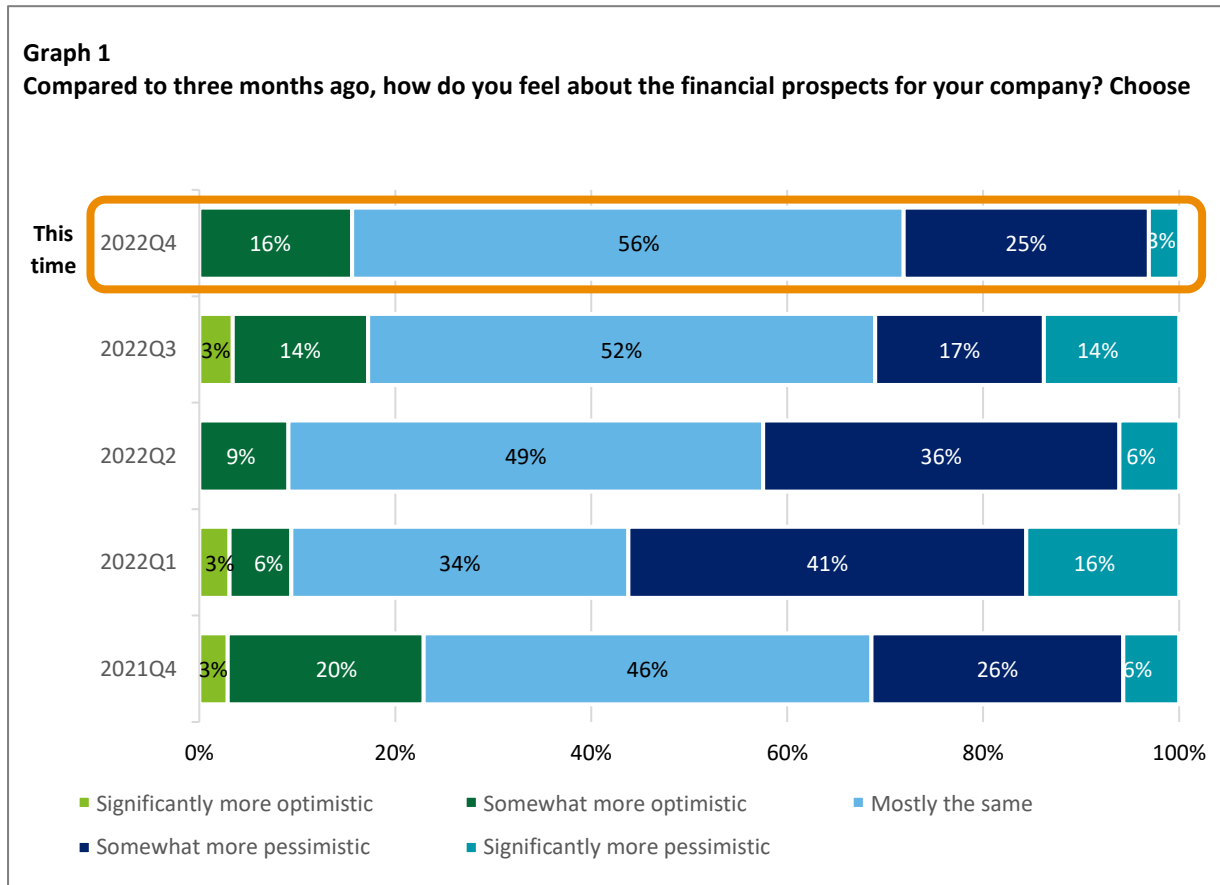
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Deloitte Tohmatsu Group  
The CFO Program  
March 2023

# Survey on the Economic Environment

## Financial environment prospects

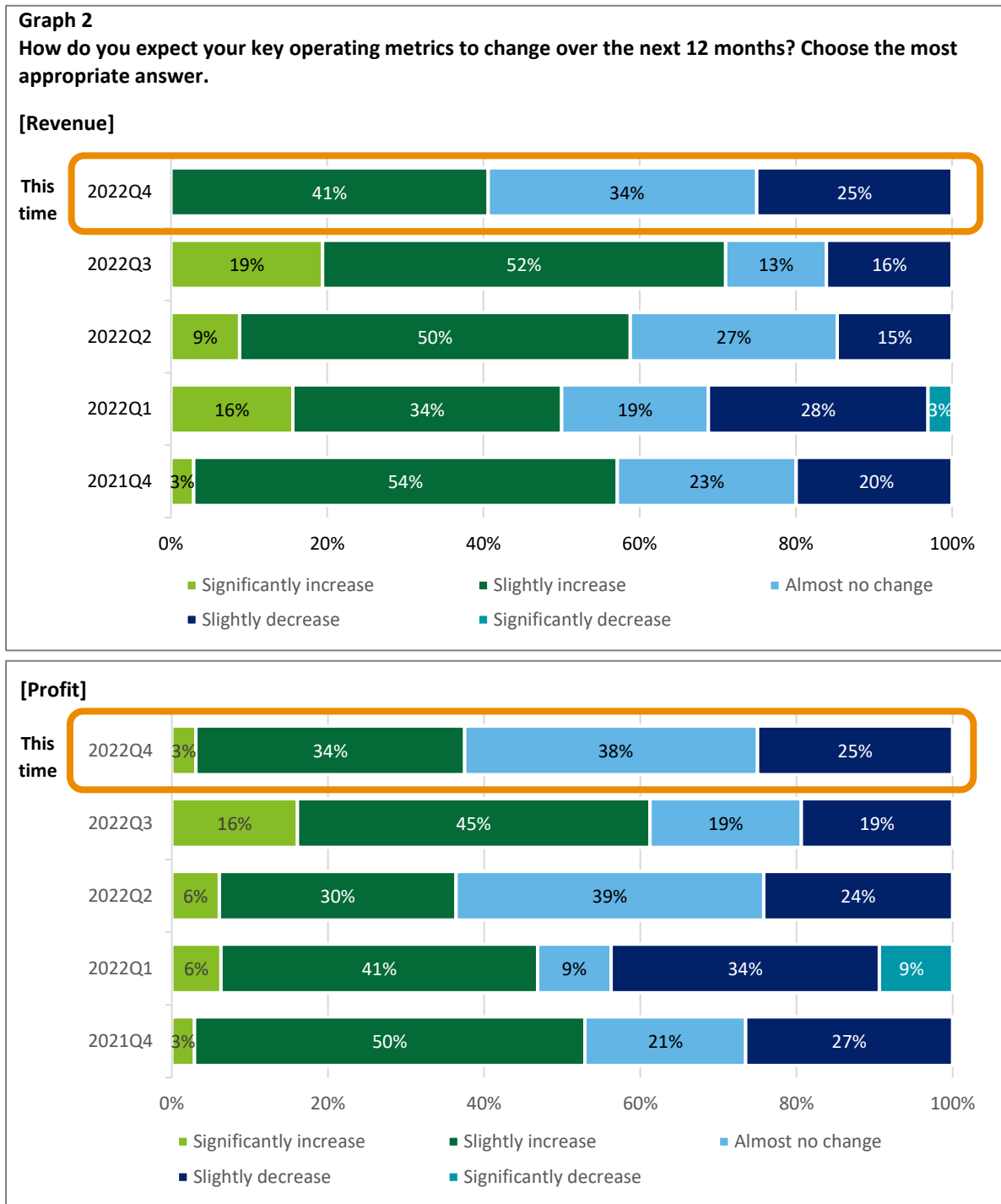
Financial prospects remain unchanged



Graph 1 shows how the financial prospects of the respondents' businesses have changed over the last three months. In the current 2022Q4 survey, more than half of the respondents (56%) said their financial prospects were "Mostly the same," which leads to conclude that financial prospects remain unchanged. During the survey period, February 2023, economic activities in Japan had already recovered due to the lifting of COVID-19-related movement restrictions at the end of 2022. Also to note, the economic sentiment for the non-manufacturing sector, which was greatly suffering by the COVID-19 pandemic, had recovered significantly as reported in Bank of Japan's TANKAN (Short-Term Economic Survey of Enterprises in Japan). On the other hand, the global inflationary trend continues to be a cost-increasing factor for companies, and the shrinking margins companies faced remained unchanged. Looking into global issues, with the Russia-Ukraine conflict at a stalemate and the deterioration of US-China relations, both may say somewhat attributed as a negative factor for the outlook. Going forward, the collapse of US medium-sized banks in mid-March may increase financial market instability and affect the economic outlook in the future, which may also impact the CFOs' financial prospects in the next survey.

## Business performance outlook

Optimism regarding revenue and profit declined

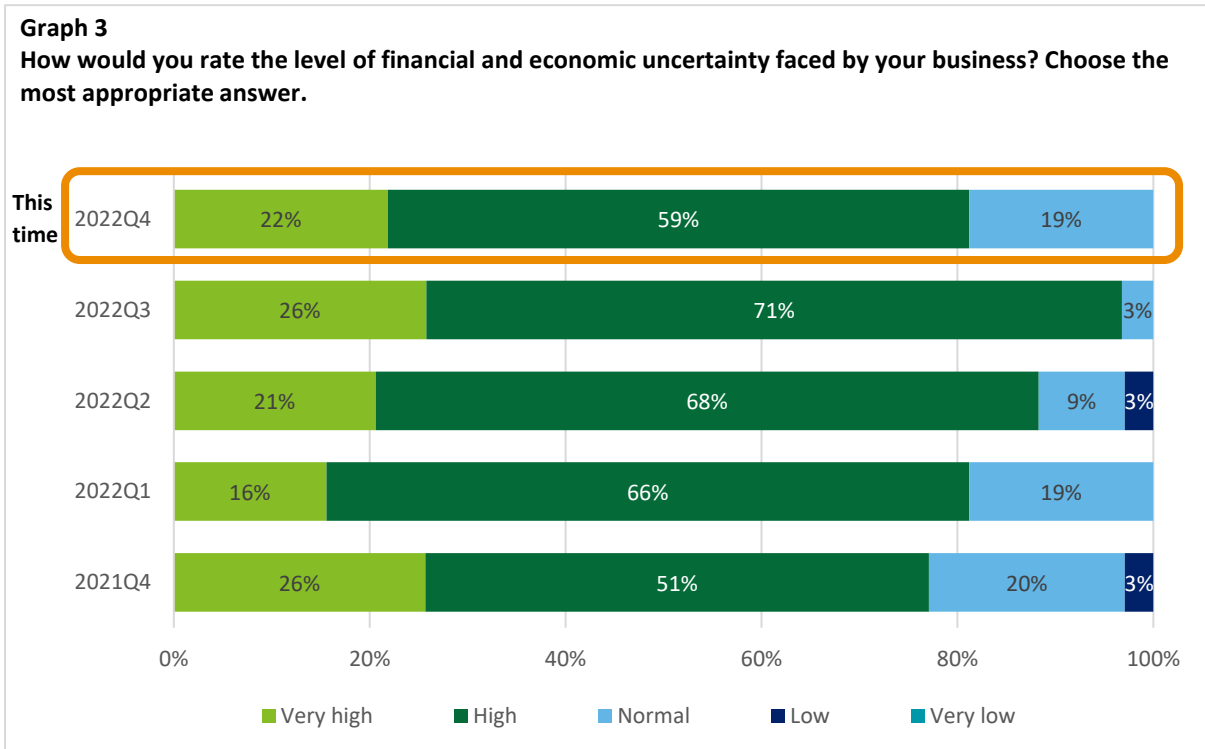


Graph 2 shows the outlook for each company's performance (revenue and profit) for the coming year. A total of 41% of respondents said that they expected revenue to "Significantly increase" or "Slightly increase," down sharply from 71% from the previous 2022Q3 survey, and also in terms of profit, 37% expected to "Significantly increase" or "Slightly increase," again sharply decreased from previous 61%. Although the reasons for this deterioration in the outlook are not identified, it can be assumed that, as for the revenue, it may be due to the impact of

the US tightening economic sanctions against China and the uncertainty towards China's economy in the medium-term view. As for profit, the continuing anticipation of low profit due to the increasing production cost, as mentioned in Graph 1, may be the cause of the decline in the outlook. The economic outlook, and in terms of the global economy, the US and Europe in particular, are widely expected to face a shallow recession this year, while domestically, Japan is likely to face a moderate economic slowdown due to the ending of build-up demand from COVID-19 restrictions. In this sense, the performance outlook for both revenue and profit will likely continue to weaken in the future. Last year, in 2022, corporate revenue increased to its largest scale ever due to the recovery caused by the lifting of COVID-19-related restrictions and the yen depreciation, but continuing that momentum may seem difficult this year.

**Uncertainty**

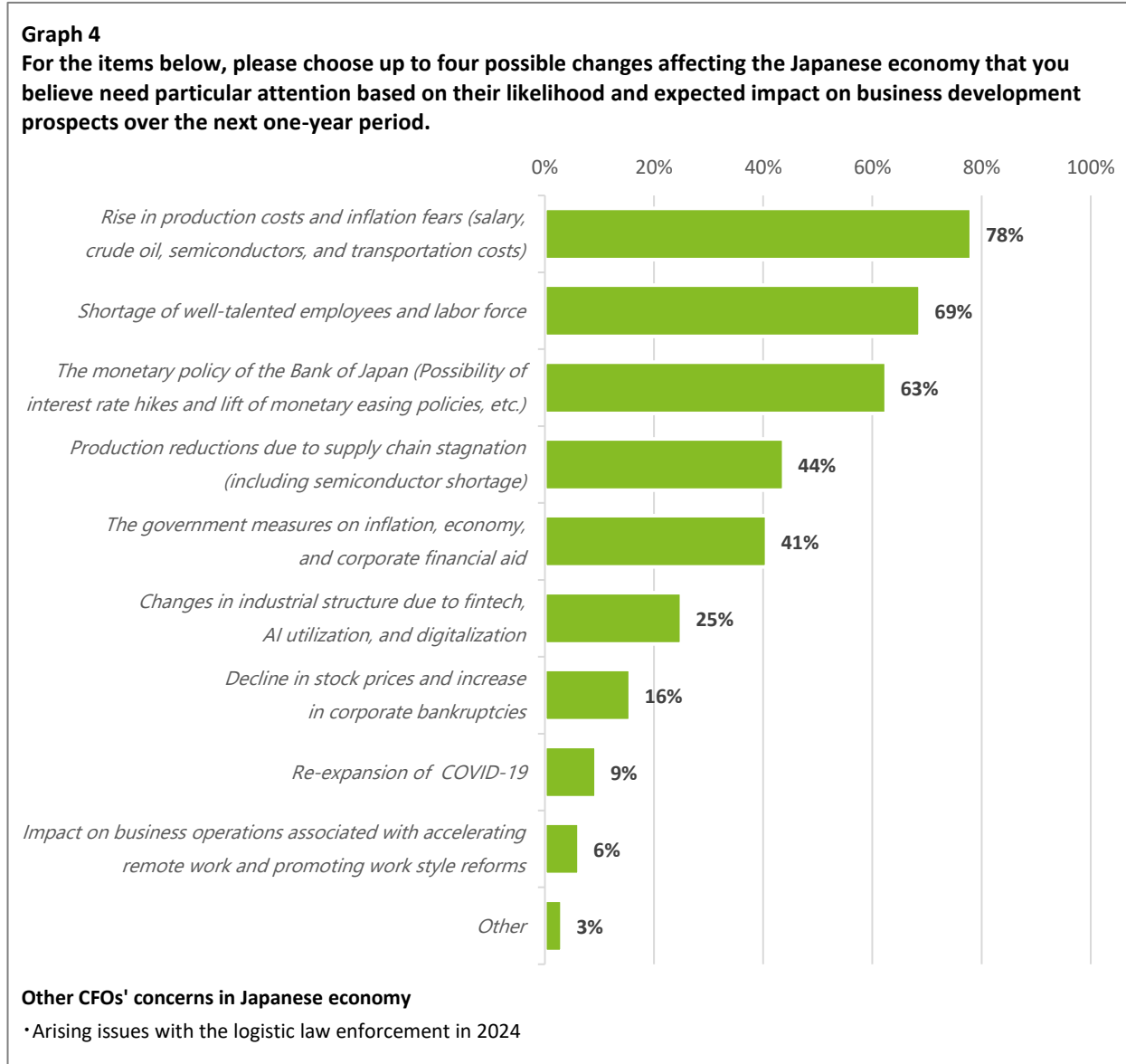
Uncertainty remains high



Graph 3 shows CFO’s outlook for financial and economic uncertainty. A high total of 81% of respondents said that uncertainty is “Very high” or “High,” down from 97% in the previous survey - however, the uncertainty remains extremely high. In particular, geopolitical and international order trends, such as the situation in Russia and Ukraine, the intensification of the political conflict between the US and China, and security issues in Asia, are highly volatile and difficult to predict what’s to come. In addition, in terms of inflation and economic trends, expectations of interest rate hikes from US and European central banks also fluctuate depending on economic indicators and central bank exchange statements. These causes of uncertainties are likely to continue for some while. To note, in March, after this 2022Q4 survey was conducted, several medium-sized banks subsequently collapsed in the US, and this led to widespread concerns regarding the business of large banks in Europe as well. Trends in the financial system are likely to be a new source of uncertainty in the future.

## Key change factors in the Japanese economy

Production costs, labor shortages, and the monetary policy of the Bank of Japan are the three key change factors



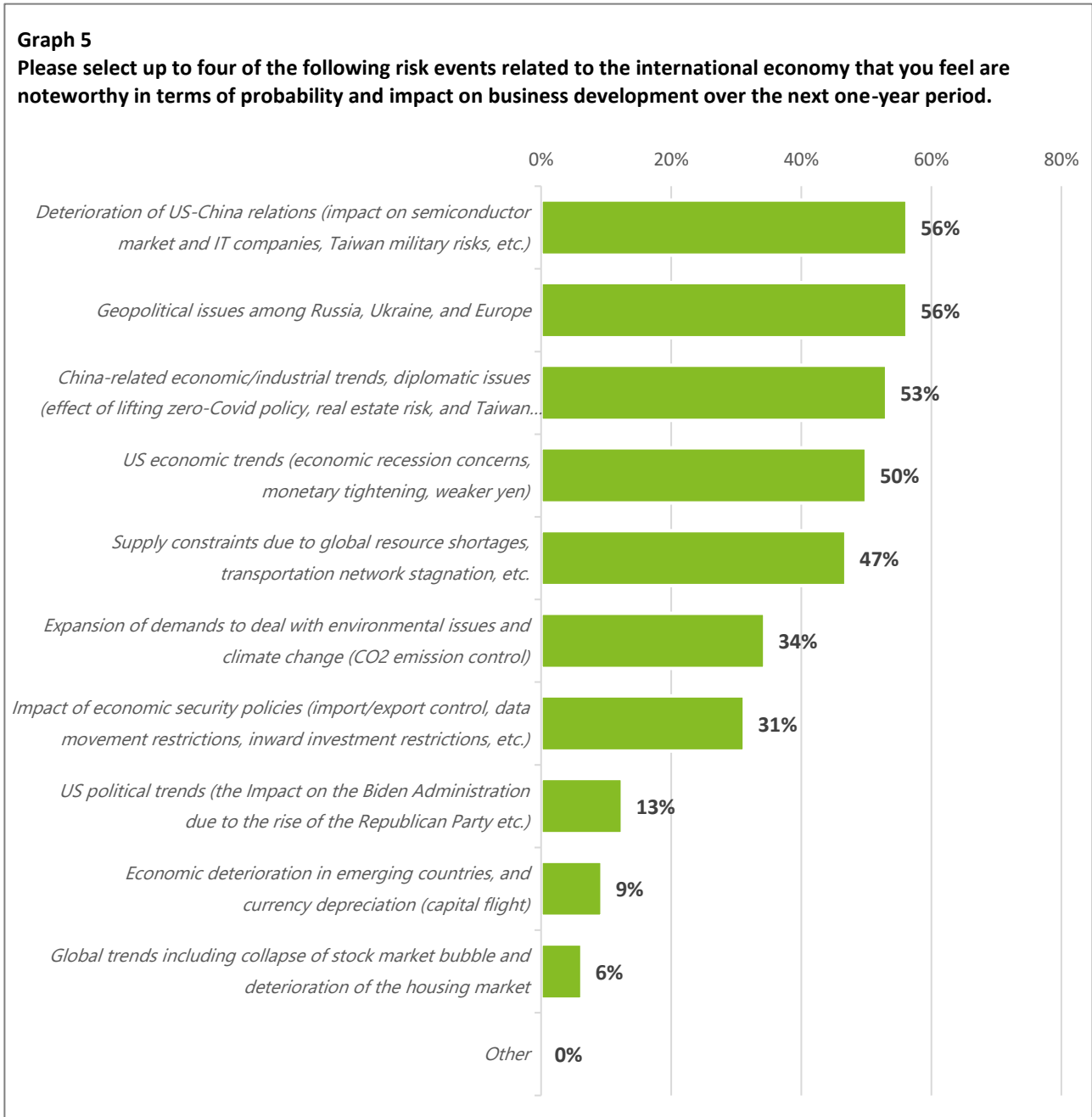
Graph 4 shows the key factors in the Japanese economy that CFOs will most closely watch when preparing business plans over the next year. Same to the previous 2022Q3 survey, “Rise in production costs and inflation fears” ranked first, indicating that rising costs, including raw material prices, transportation costs, and possibly labor costs, remain top concerns for CFOs. Although commodity prices such as crude oil have stabilized, prices of electricity, gas, water, agricultural, forestry and fishery produce, and mineral products continue to rise, and the Producer Price Index rose at a high rate of 9.1% year-on-year as of February. Service-related prices have also risen due to increased demand following the lifting of COVID-19 activity restrictions. Concerns about these rising costs have not yet been dispelled. In second place, “Shortage of well-talented employees and labor force” ranked higher than the previous fourth place. Labor demand for the domestic service-related industries, namely Food and Beverages



industry, is increasing due to the restart of businesses, and companies acquiring digital-skilled personnel also remain in high competition. As we saw more companies fully accepting the wage increase request in this year's labor-management negotiations, companies are actively coming up with ways to secure their labor force which can be said this suggests both the shortage of labor force and the risk of rising labor costs. "The monetary policy of the Bank of Japan" ranked third, unchanged from the previous survey result. The main concern assumed here is whether the new BOJ Governor Ueda will modify the monetary easing policy to allow interest rates to rise and if so, whether it will cause the appreciation of the yen. Meanwhile, "Production reductions due to supply chain stagnation" dropped from second to fourth place, and this may be reflecting the ease of tight supply and demand in some areas of the semiconductor market.

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

Deterioration in US-China relations is the number one concern



Graph 5 shows what key factors in the global economy CFOs will most closely watch when preparing their business plans over the next year. "Deterioration of US-China relations" moved up from second place to first as the top concern this time. We can see the US-China relationship deteriorating with incidents such as Chinese hot-air balloons found over the US, both countries expanding their military exercises, and politicians exchanging criticisms. On the trade front, the US is also tightening restrictions on doing business with Chinese companies. This intensification of the US-China conflict will be a large concern for CFOs, as it can contribute to a major constraint on supply chains and trading for Japanese companies. In second place, "Geopolitical

issues among Russia, Ukraine, and Europe” moved up from fourth place this time. The fact that the situation in Russia and Ukraine is still stagnant and the inflation rate continues to rise in Europe, suggests that both political and economic concerns are likely to arise once again. In third place, "China-related economic/industrial trends" dropped from its previous first-place ranking. This is presumably due to China's economic activity which has recovered significantly following the lifting of its zero-COVID policy at the end of last year, and the concern for China’s economic deterioration has dissolved to an extent, compared to the last survey period. However, still there are many risk factors, such as the Chinese real estate market in the medium term, in which the Chinese economy trend is likely to remain a matter of concern in the future. It can be said that the US-China relationship and the Chinese economy will likely continue to be the top concerns for the CFOs to prepare their business plans, but the emerging risks of US and European financial systems may also become an additional key change factor going forward.

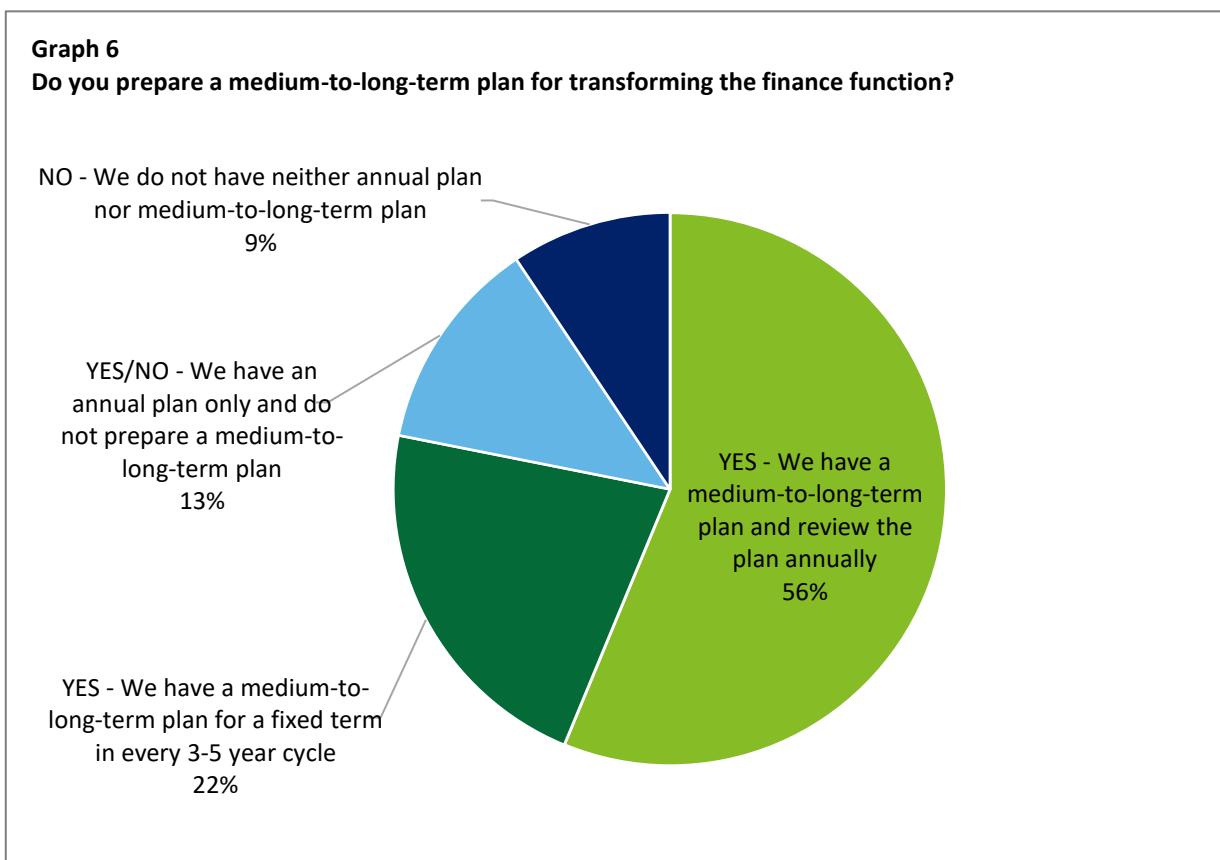
## Survey on the Initiatives of Transforming the Finance Function

From our findings through previous surveys, the role of the CFO as a partner to the CEO, is expanding, diversifying, and its importance is increasing.

In the latter section of this survey, we asked about the initiatives of transforming the finance function.

### Medium-to-long-term plan for transformation

More than half of the companies have a medium-to-long-term plan for transformation and review it annually



The results show that a total of 78% of companies have a medium-to-long-term plan for transforming the finance function. It can be said that many companies are developing plans to envision their actions in the medium-to-long-term, rather than only focusing on current issues/tasks.

Among the 78%, 56% of the respondents review their medium-to-long-term plan annually, and it can be inferred that they are respectively updating the plans with flexibility in the era of high uncertainty we face today.

Even if no medium-to-long-term plans are prepared, some companies do have annual plans, and supposedly they are developing plans as a finance function following the company-wide medium-term plan or budget cycle.

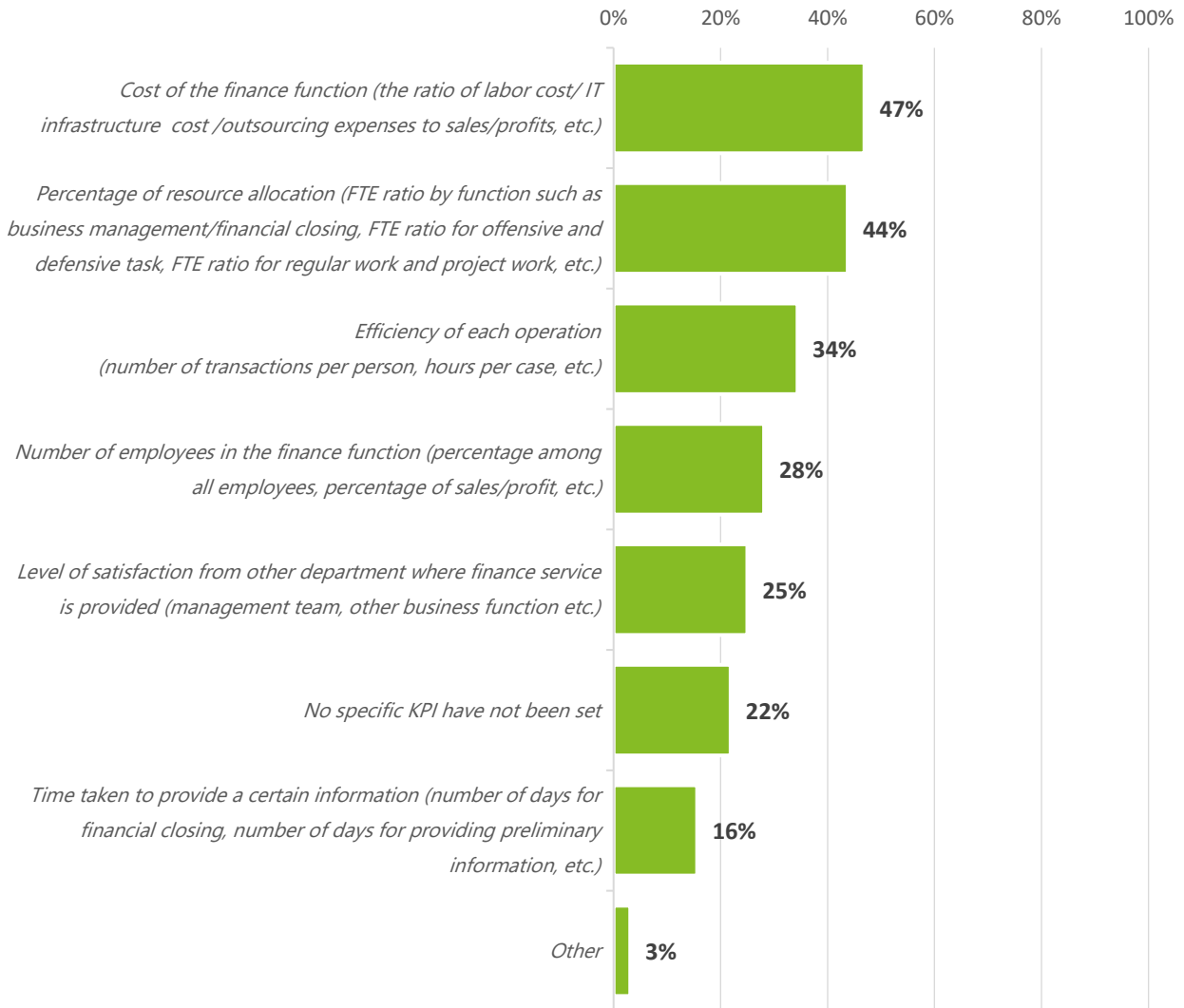


## KPIs as a finance function

In addition to costs, some set percentage of resource allocation as a KPI

**Graph 7**

**What KPI(s) have you set as a finance function? Please select all that apply.**



**Other KPIs set as a finance function**

- Accuracy of business forecasting (range difference)
- Cash Conversion Cycle

Although cost was ranked the highest as the KPI set for the finance function, “Percentage of resource allocation” came in second with 44%, outweighing “Efficiency of each operation” in third and “Number of employees” in fourth place. When the same question was asked in the survey conducted in 2019, the response was 24% - which remarkably increased since then. It can be said that the CFO’s awareness of value-added performance as a finance function has increased, and are not only concerned about indicators common in traditional cost centers, such as cost reduction and efficiency.

Meanwhile, 25% replied that the “Level of satisfaction from other department where finance service is provided” is also set as a KPI. In other words, it suggests that the finance function

evaluates the value of their service provided to the management team and other business functions and works towards improvement as being a business partner.

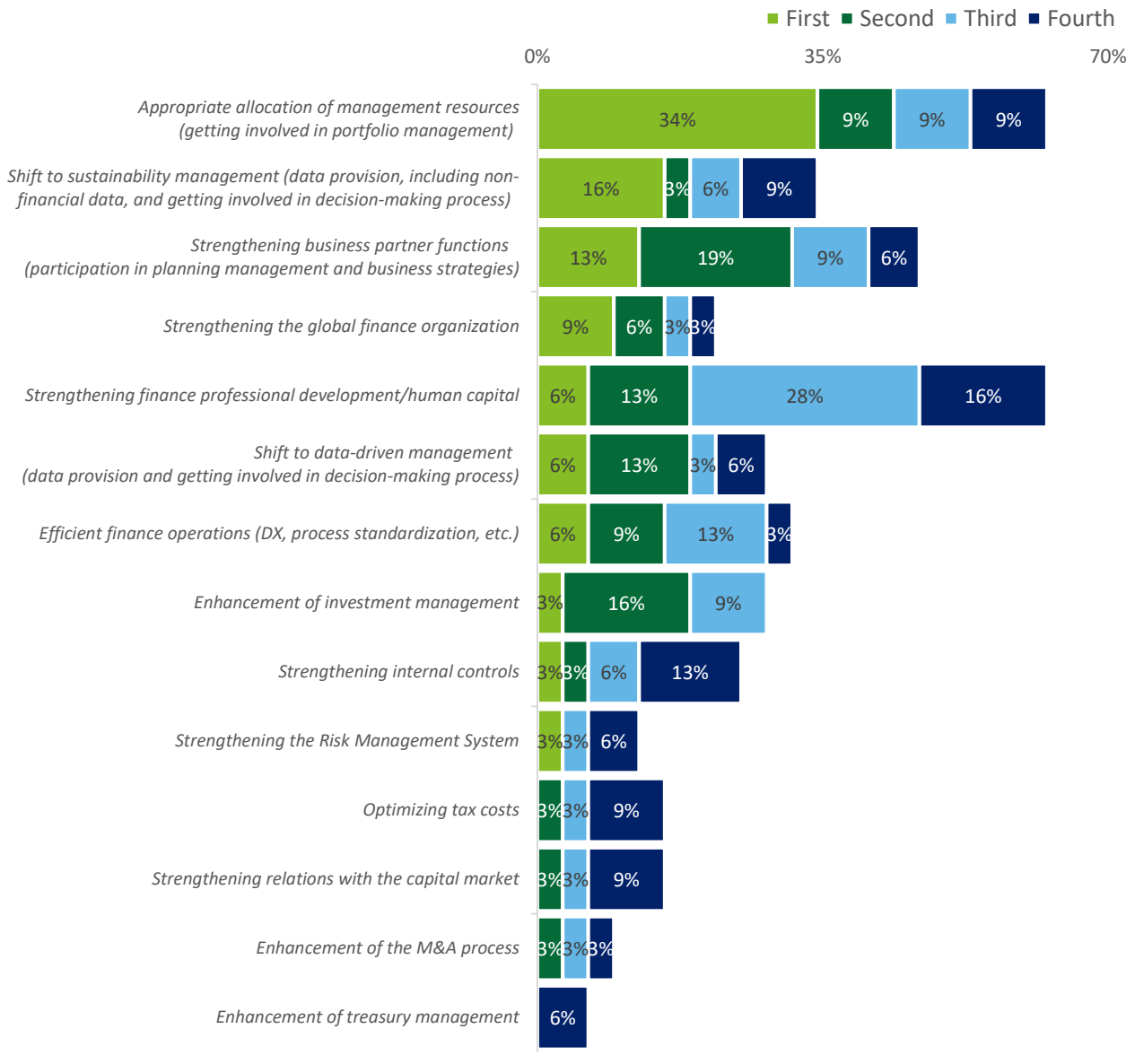


## Initiatives currently focusing on as a finance function

Many companies are focusing on the appropriate allocation of management resources

**Graph 8**

Please select four finance function initiatives you are currently focusing on, and set first to fourth in order of importance.



The top priority of the finance function was "Appropriate allocation of management resources (getting involved in portfolio management)" in both the number of first-place votes and the total number of first- to-fourth-place votes from each company. This shows that more focus is put into the role of the strategist supporting the development of business and corporate strategies.

"Strengthening finance professional development/human capital" also came first for the total votes overall. This indicates that as the role of the finance function diversifies and with the progression of digital transformation, companies are also focusing on employees' re-skilling and acquiring new well-talented personnel. This response ranked fifth for the number of first-place

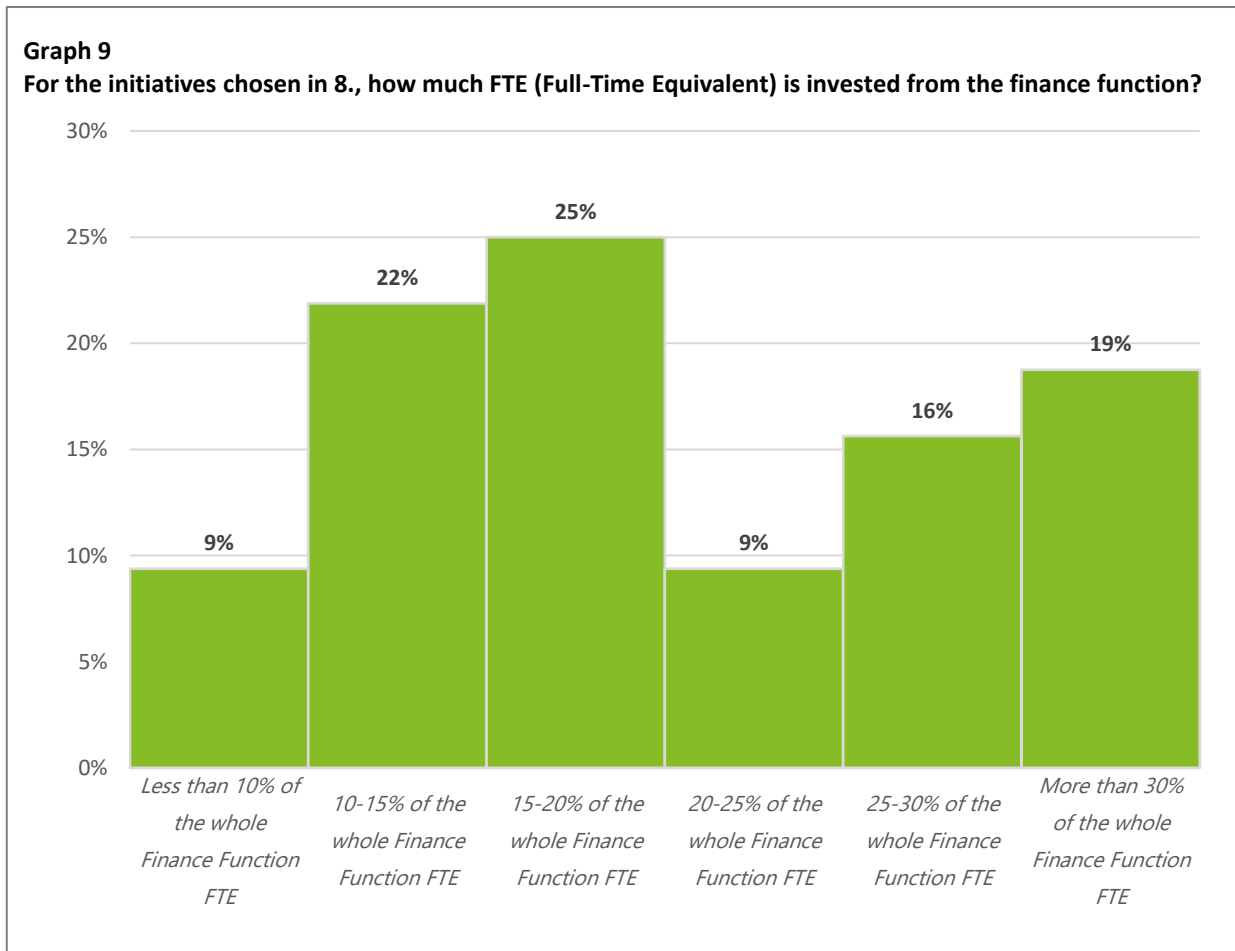
votes and interestingly received many third and fourth-place votes which resulted in first place of total votes, but it can be suggested that generally, many companies are putting a certain amount of effort into this area.





## FTE invested in the transformation initiatives

Nearly half of the companies are investing 10-20% of the finance function FTE for transformation initiatives



The results reveal that approximately half of the companies that responded are investing 10-20% of the finance function FTE (Full-Time Equivalent) into their transformation initiatives.

In addition, 19% responded that they are investing 30% or more of the FTE in their transformation initiatives, which shows that they are not only working on their current business operations but also focusing on initiatives for their bright future.

Looking back at graph 7, few companies set the “Number of employees in the finance function” as a KPI. One of the reasons for this, we may say, instead of aiming to reduce the total number of employees, companies are shifting over to using the existing FTE for transformation initiatives.

We can expect that the amount of FTE spent on transformative initiatives will continue to increase further as the value of the finance function offers diversifies, and with its increasing effort to create added value.

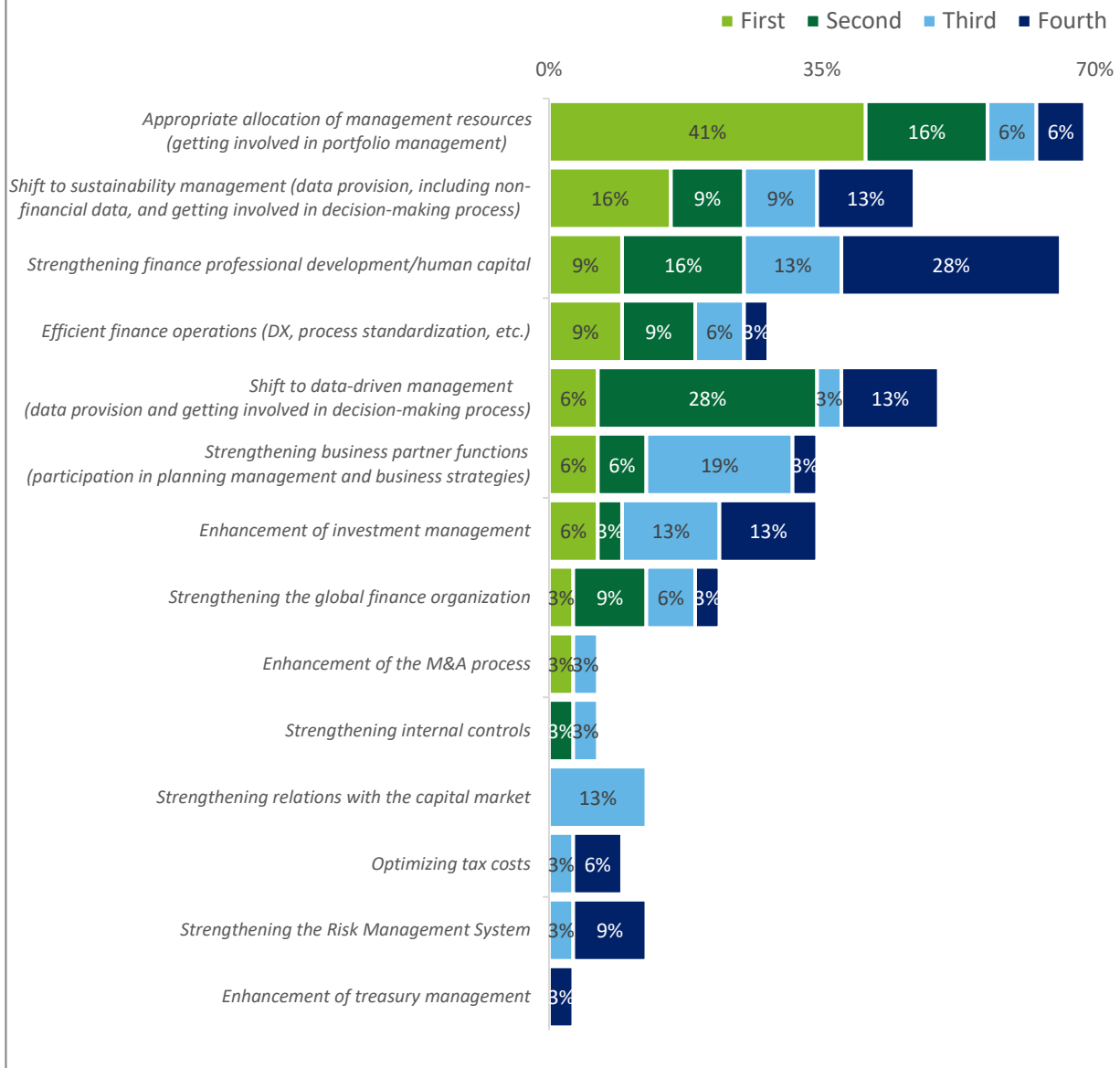


## Initiatives to focus on in the future (in 3-5 years) as a finance function

Same to the current focus, many companies also want to put their effort into the appropriate allocation of management resources in the next 3-5 years

**Graph 10**

**Please select four finance function initiatives you would like to focus on in 3 to 5 years, and set first to fourth in order of importance.**



The results show that the initiatives that companies are willing to focus on in the next 3-5 years is "Appropriate allocation of management resources (getting involved in portfolio management)" which received both the highest number of first-place votes and the highest votes from first to fourth place in total; which ended up to be the same result for initiatives currently in focus. It can be inferred that CFOs are strongly concerned with optimizing the portfolio in line with the changing environment. Moreover, this suggests that this initiative is not something that will be achieved in a short period of time, but companies want to continuously work on as one of the most important initiatives for the finance function.

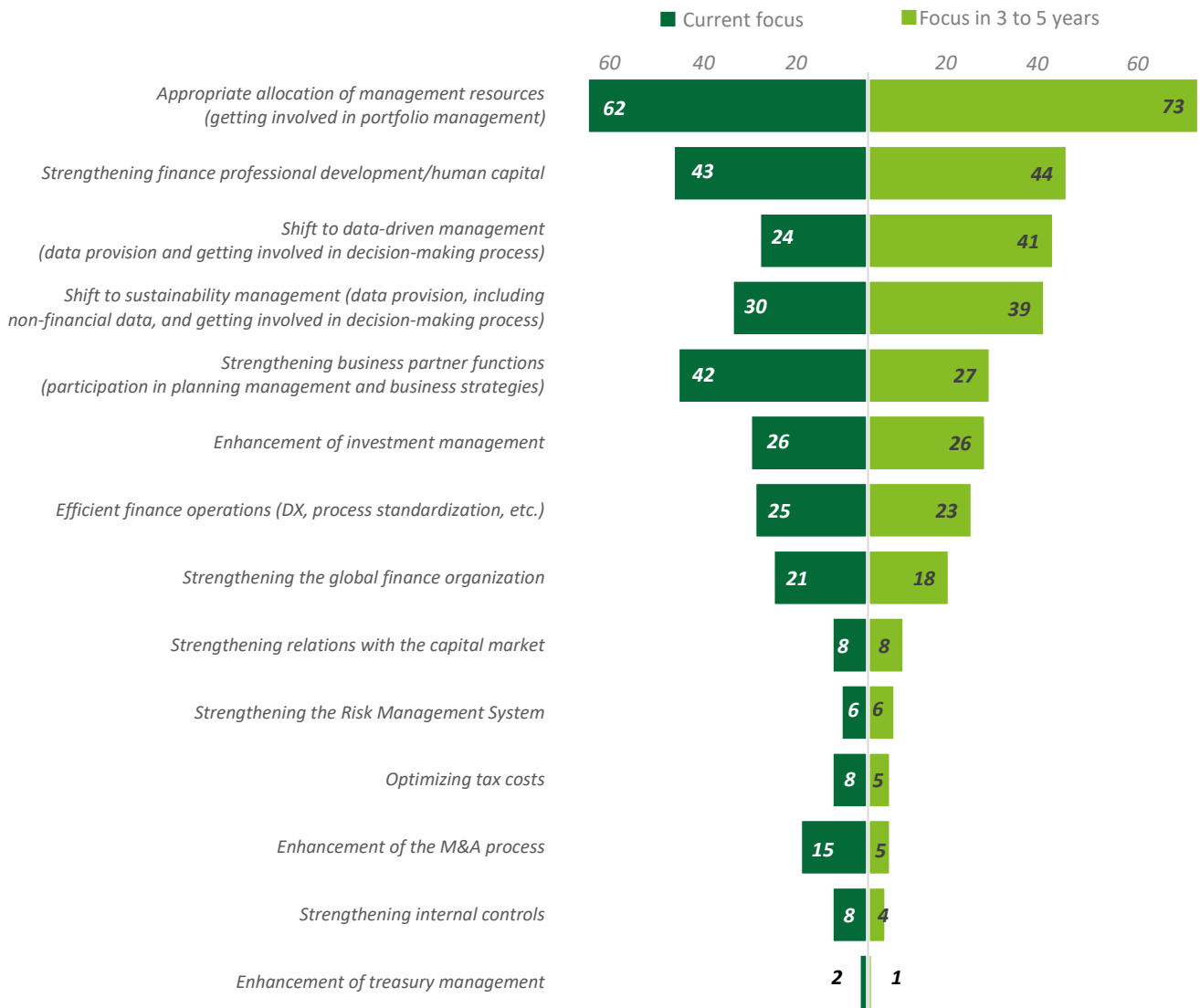
In terms of the total number of votes, "Strengthening finance professional development/human capital" ranked second. As the capabilities/requirements for finance functions and finance professionals evolve rapidly, it can be said that this initiative continues to be a focused matter for the CFOs.

## Appendix

### Appendix for graphs 8 and 10

#### Finance function initiatives you are currently focusing on / would like to focus on in 3 to 5 years

(Votes converted as: first place- 4 points, second - 3 points, third - 2 points, fourth - 1 point)



When we converted the ranks into points and compared the initiatives that companies are currently focusing on and to those in the next 3 to 5 years, the result showed an increase in the responses “Shift to data-driven management (data provision and getting involved in decision-making process)” and “Shift to sustainability management (data provision, including non-financial data, and getting involved in decision-making process).” On the other hand, "Strengthening business partner functions (participation in planning management and business strategies)" showed a decrease. While the emphasis has been on participating in strategic planning in the past, we can expect that, in the future, the finance function will shift to work more on initiatives that specifically contribute to decision-making processes. To make these business management decisions based on various internal and external data, it will become more important to develop both data infrastructure and the systems/processes to utilize the data.

The number of points scored for “Strengthening relations with the capital market,” “Optimizing Tax Costs,” and “Enhancement of treasury management” came out to be low, but it may be suggested that as these initiatives require highly specialized skills, they are being implemented with limited resources.



### To conclude this section...

In this 2022Q4 CFO Signals survey, we inquired about the initiatives on transforming the finance function.

Through our previous surveys, it has become clear that the role of the finance function is diversifying and shifting to an offensive role, and what we have learned from this survey, is that in fact many companies have a medium-to-long-term plan while investing a certain amount of resources to accelerate the transformation initiatives.

Among these initiatives, the appropriate allocation of management resources (participation in portfolio management) came as a top priority that companies want to focus on both now and in the future. By this, we can reassure that appropriately and quickly making business judgments on the forecasts in each business from a financial perspective, reconfiguring portfolios, and maximizing corporate value, are regarded with high importance in today's rapidly changing business environment.

The survey also revealed that companies are also focusing on educating finance professionals and maximizing the value of their professionals. As the role of the finance function continues to evolve, the emphasis on maximizing its value is expected to increase in accordance. It will become more important for companies to establish a recruitment and skill-development strategy in the medium-to-long-term view, in addition to dealing with current issues.

## **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.*

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The CFO Program

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