



# Deloitte CFO Signals Report

2024Q2

September 2024

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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 the report as CFOs' Signals.

In Japan, the survey was conducted for the first time in August 2015, making this the 37th edition. In the "Survey on the Economic Environment," we analyse 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 initiatives for strategy execution in this edition.

This CFO Signals 2024Q2 was conducted in August 2024, and we were able to receive responses from 62 CFOs and finance executives.

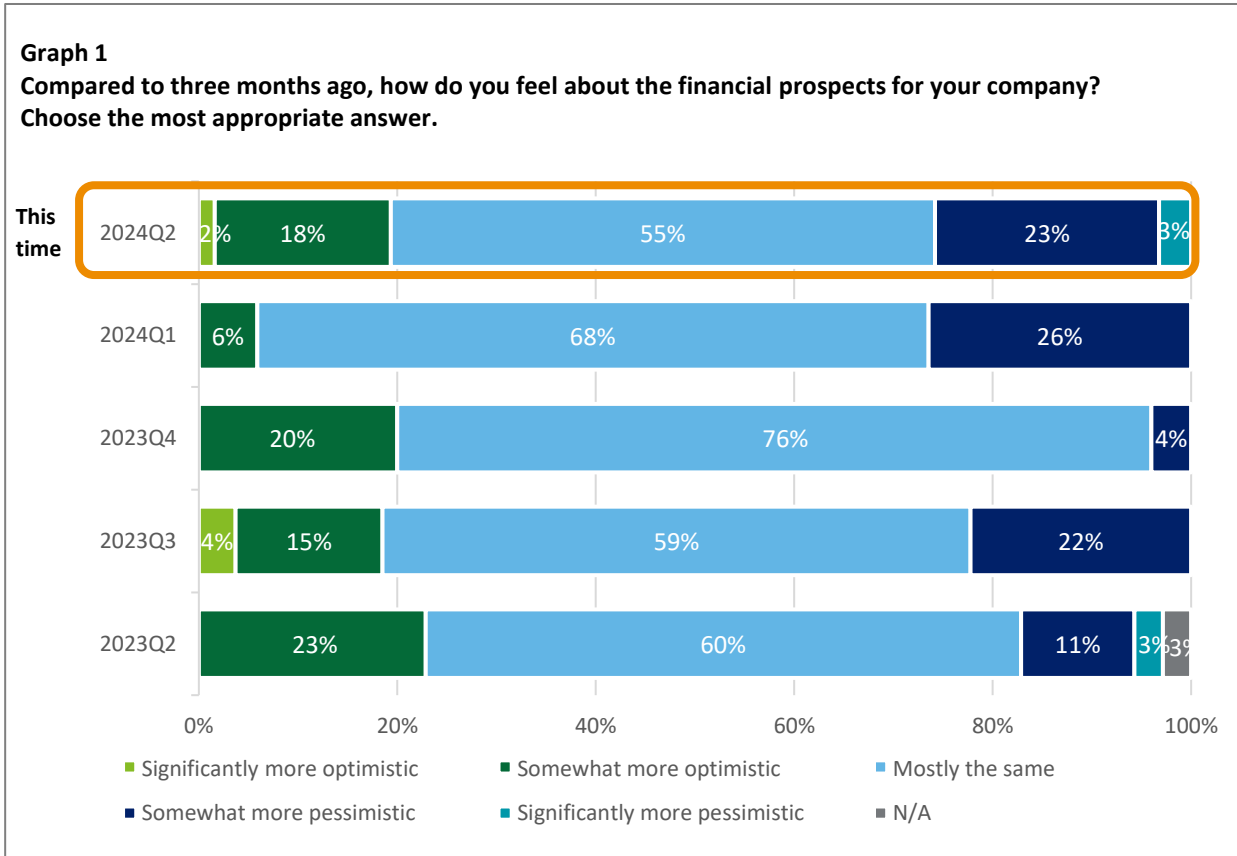
Thank you for your cooperation.

Deloitte Tohmatsu Group  
The CFO Program  
September 2024

## Survey on the Economic Environment

### Financial environment prospects

Financial prospect is improving



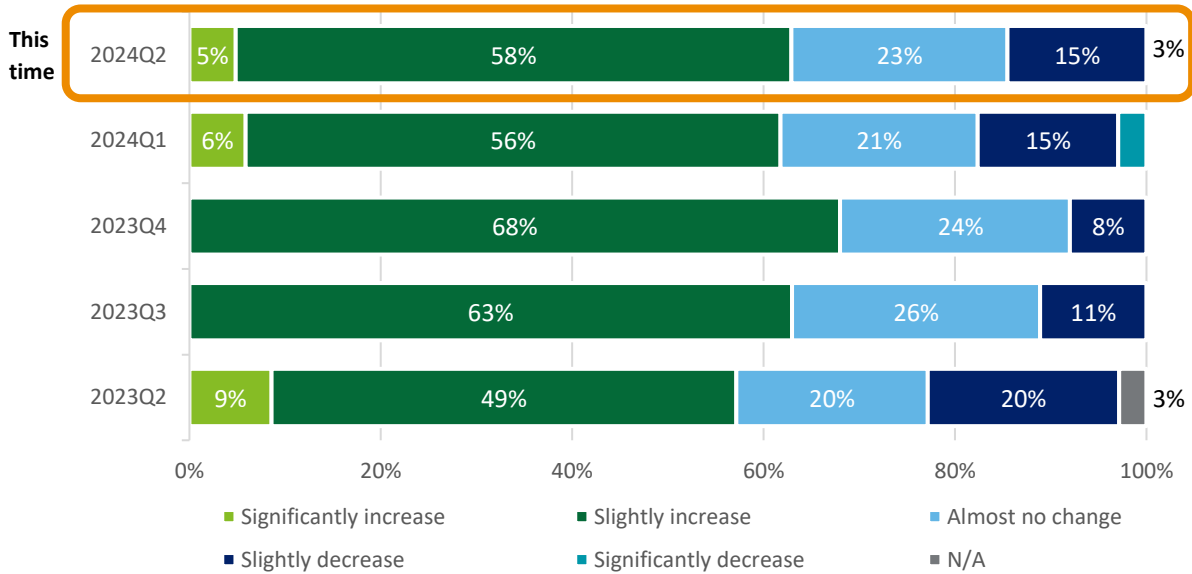
Graph 1 shows how the financial prospects of the respondents’ businesses have changed over the last three months. In this 2024Q2 survey, the number of “optimistic” responses increased compared to the previous survey. During the previous survey period, production and exports declined due to the impact of certification issues in the automotive industry, which also had a negative impact on personal consumption. This 2024Q2 survey showed that the temporary downward pressure has eased, and the economy has returned to a gradual recovery trend. Meanwhile, the number of “more pessimistic” responses remained at the same level as before, showing that there are still a considerable number of companies that are cautious about future prospects. From the end of July to early August, there was a rapid decline in stock prices and a sudden fluctuation in exchange rates, which came from the rise in concerns of economic recession in the US and the interest rate hike by the BOJ. The market has regained some stability since then, but it is likely that CFOs are conscious of the uncertainty regarding the future of the US economy and aware of the risk that market trends become unstable by any potential shocks going forward.

## Business performance outlook

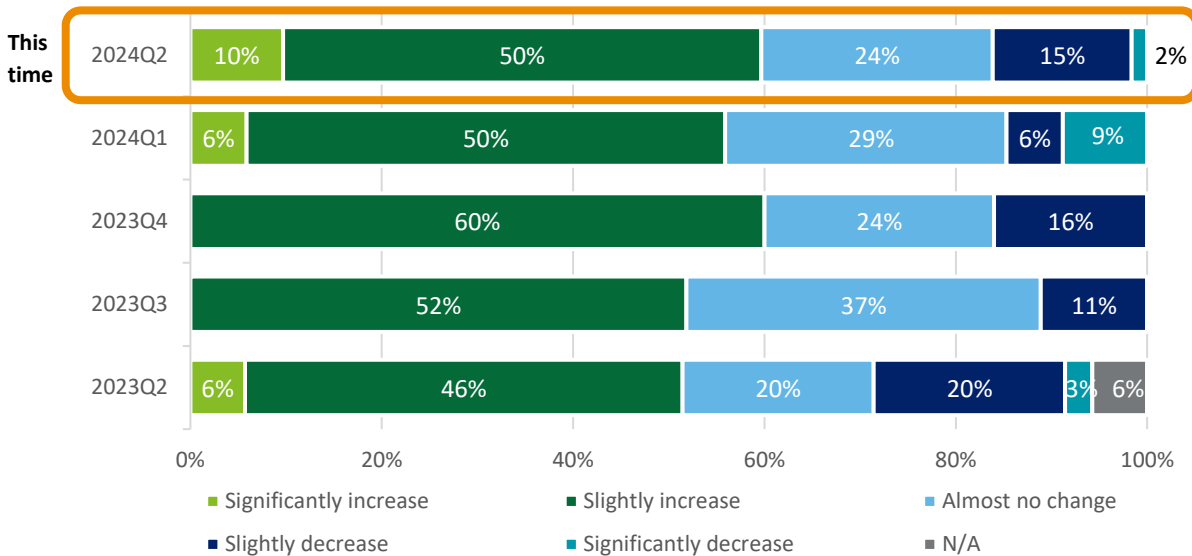
A favorable business performance outlook continues

**Graph 2**  
**How do you expect your key operating metrics to change over the next 12 months?**  
**Choose the most appropriate answer.**

[Revenue]



[Profit]

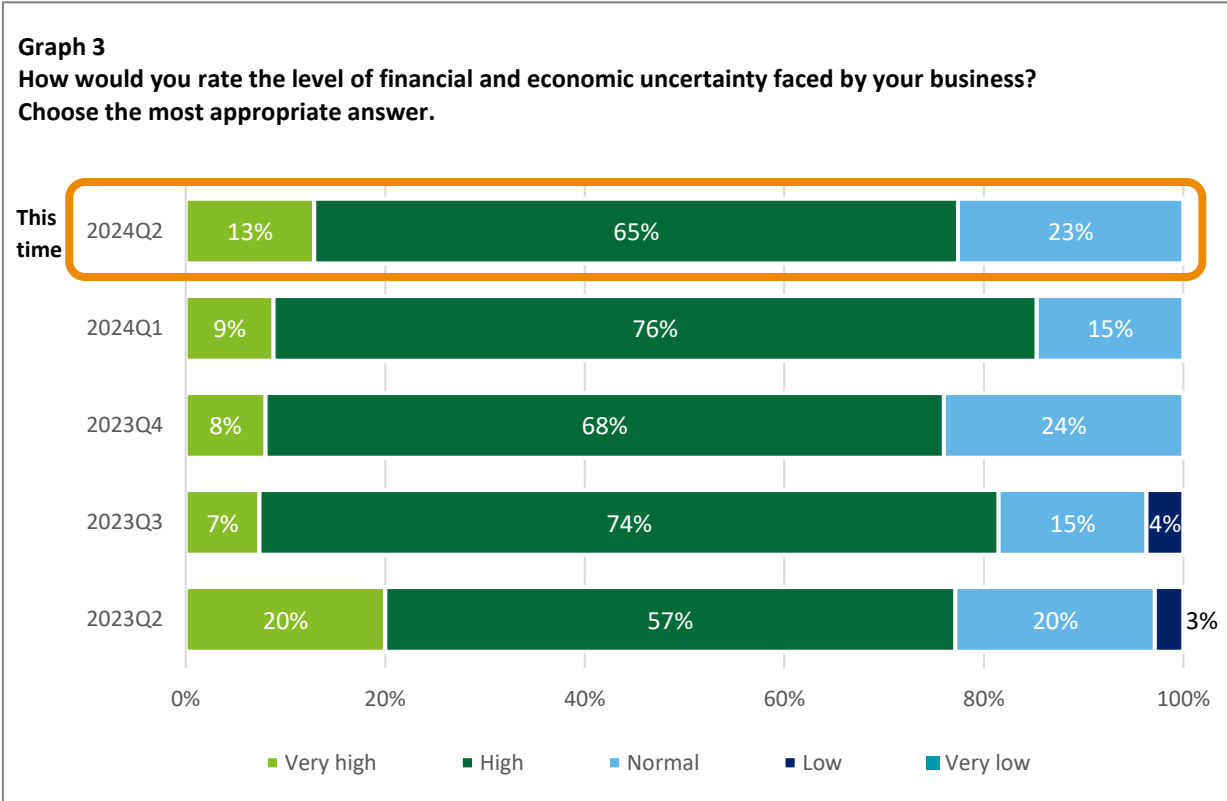


Graph 2 shows the CFOs’ prospects for each company’s financial performance (revenue and profit) for the next 12 months. The combined responses for “Significantly increase” and “Slightly increase” were 63% for revenue and 60% for profit, both exceeding the majority, which reflects that a favorable business environment continues on a cross-company basis. Despite brief periods of a pronounced yen appreciation, the medium-to-long-term prospects remains one of a weaker yen. In addition, the facts that both domestic and international economies are growing at a certain pace so far, and the price pass-through of cost has progressed to some

extent, are contributing factors that support the positive business performance. However, given the uncertainties surrounding these factors, it is necessary to pay close attention to future developments.

 **Uncertainty**

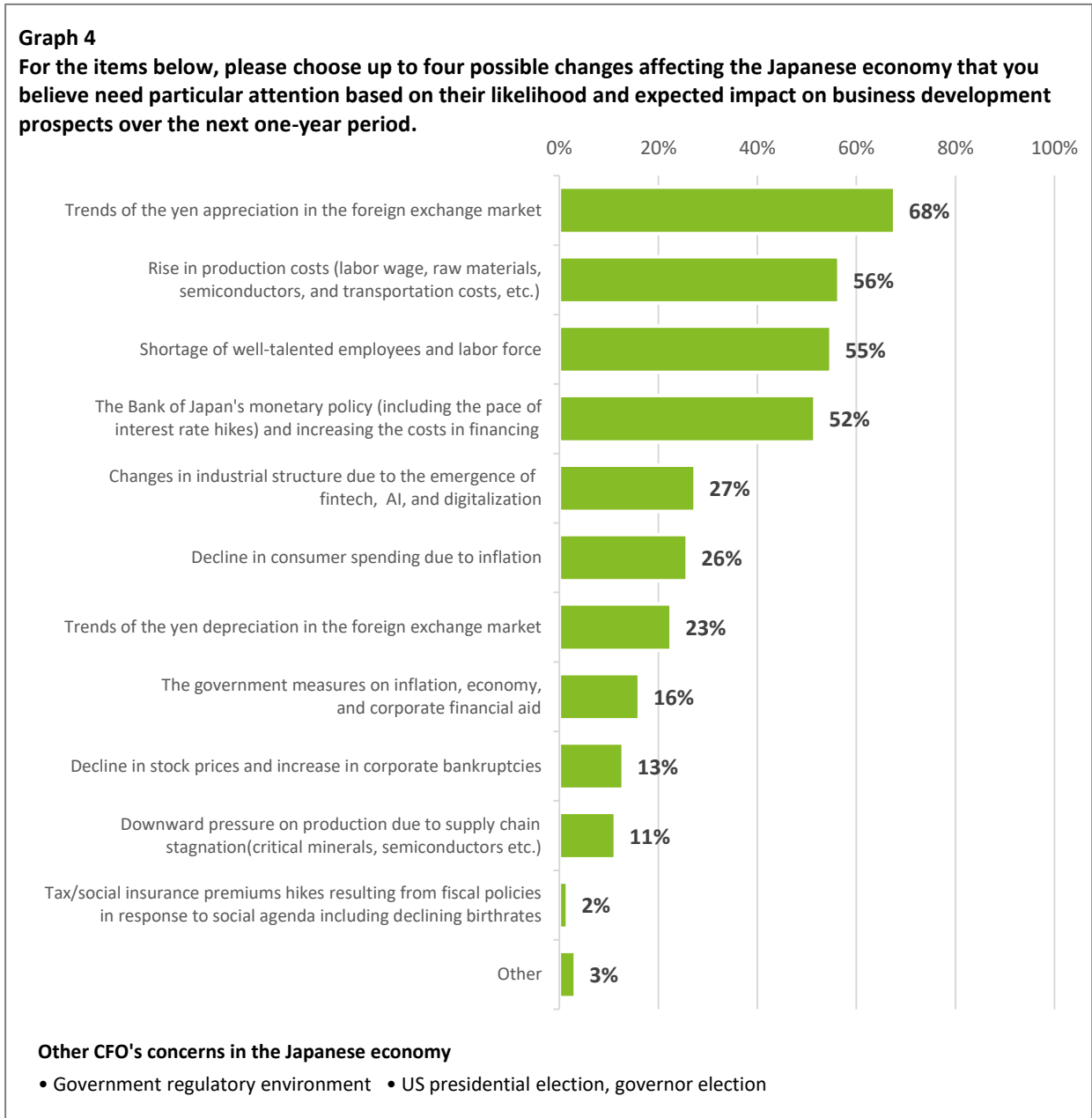
Uncertainty remains high



Graph 3 shows the outlook for financial and economic uncertainty. The total of respondents that said uncertainly was “Very high” and “High” reached 78%. This is comparatively slightly lower than the 85% in the previous survey, which was then affected by certification issues in the automotive industry but can still be regarded as a high number. This result may be due not only to the uncertainty of the US economy but also to concerns about China’s weakening economy, given the prolonged adjustment in the real estate market and the slowdown in personal consumption growth. Furthermore, with the upcoming US presidential election in November, there is a renewed awareness of the trend towards fragmentation in the global economy and the risks related to the global supply chain. Moreover, with the recent re-escalation of tensions between Israel and Iran and the deteriorating situation in the Middle East, and the increasing complexity of the Russia-Ukraine conflict, CFOs are inevitably paying close attention to such geopolitical risks.

## Key change factors in the Japanese economy

Trends of the yen appreciation and shortage of labor force are the key change factors



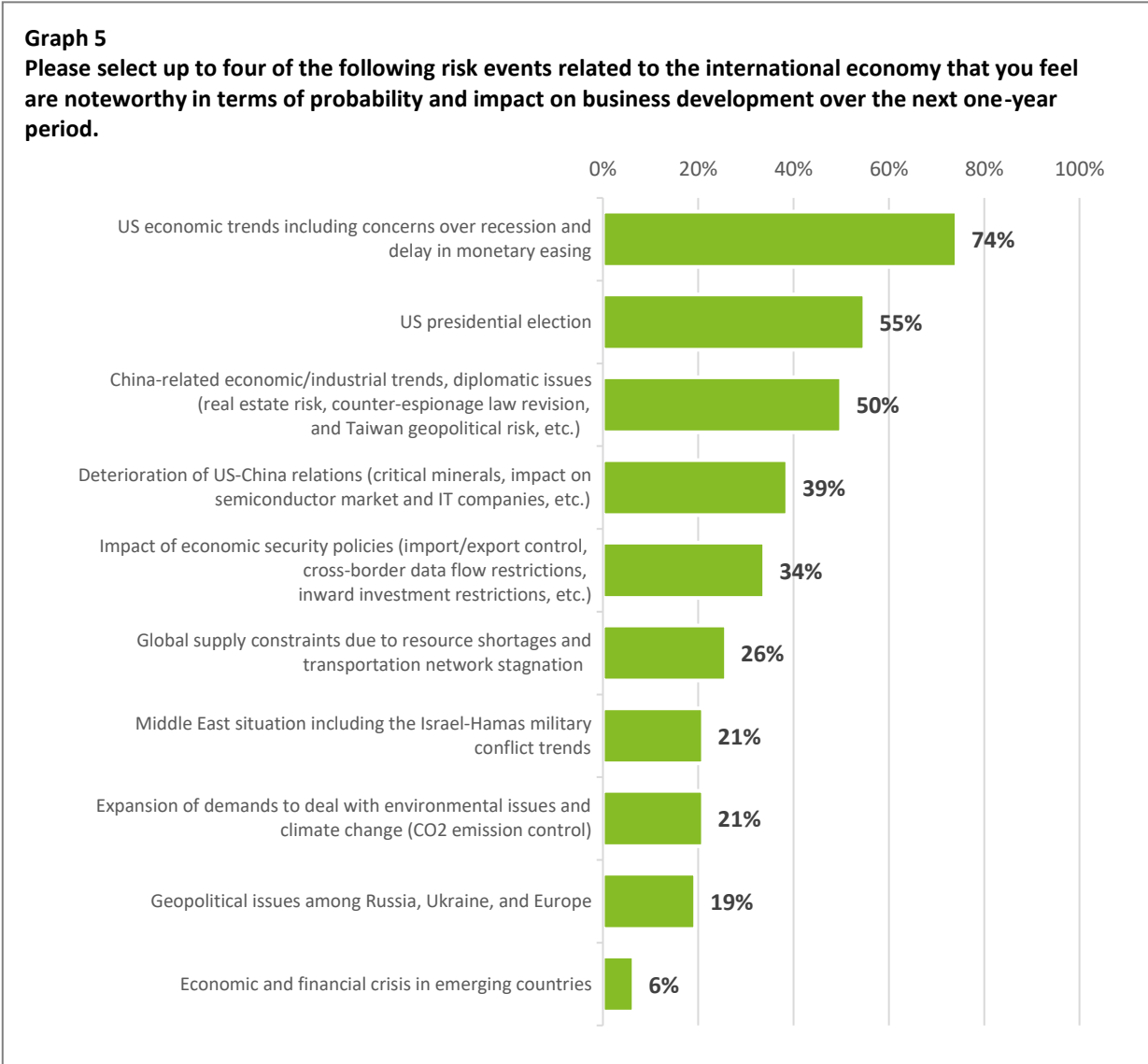
Graph 4 shows key factors in the Japanese economy that CFOs will most closely watch when preparing business plans over the next year. In this survey, we provided two options regarding exchange rate trends: the progression of “a stronger yen” and “a weaker yen.” The former was selected as the top choice. Indeed, companies are benefiting from the weaker yen, and it can be inferred that CFOs are concerned about the risks associated with the related changes. Conversely, “Trends of the yen depreciation” was ranked only seventh. It appears that import companies have shifted their focus away from the trend of the weakening yen, as the risk of extreme yen depreciation has decreased compared to earlier times. The second-ranked response was the “Rise in production costs,” and the third was “Shortage of well-talented employees and labor force.” The situation of labor shortage has become quite structural.



Securing well-talented employees, the necessary wage increases to do so, and the cost increases as a result have become crucial concerns for CFOs. Also, the BOJ's additional interest rate hike in July will have a significant impact on the domestic financial environment and will be a major key change factor going forward.

€ Key change factors in the global economy

US economic trends is the main 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. Having experienced sudden market fluctuations due to heightened concerns of a potential US economic recession, “US economic trends” has emerged as the highest rank, which was ranked third in the previous survey. While consumer spending in the US remains relatively stable, the labor supply-demand balance is gradually easing. This will require close attention to future developments. The US presidential election was ranked second, indicating its continued high interest among CFOs. In addition to the difficulty in predicting the outcome of the election itself, the feasibility of various election campaign promises depends on the results of the concurrent congressional elections, which makes the uncertainty extremely high. Ranked third was “China-related economic/industrial trends” and fourth was “Deterioration of US-China relations.” In the US, there is a growing tendency to adopt a more critical stance on China regardless of traditional political affiliations. With the ongoing US-China conflict, it is inevitable that CFOs will be concerned about the trend toward increased global political and economic fragmentation and the growing fluidity in the

world order. The situation is likely to remain highly uncertain regarding resource allocation and supply chain risk management for global operating companies.

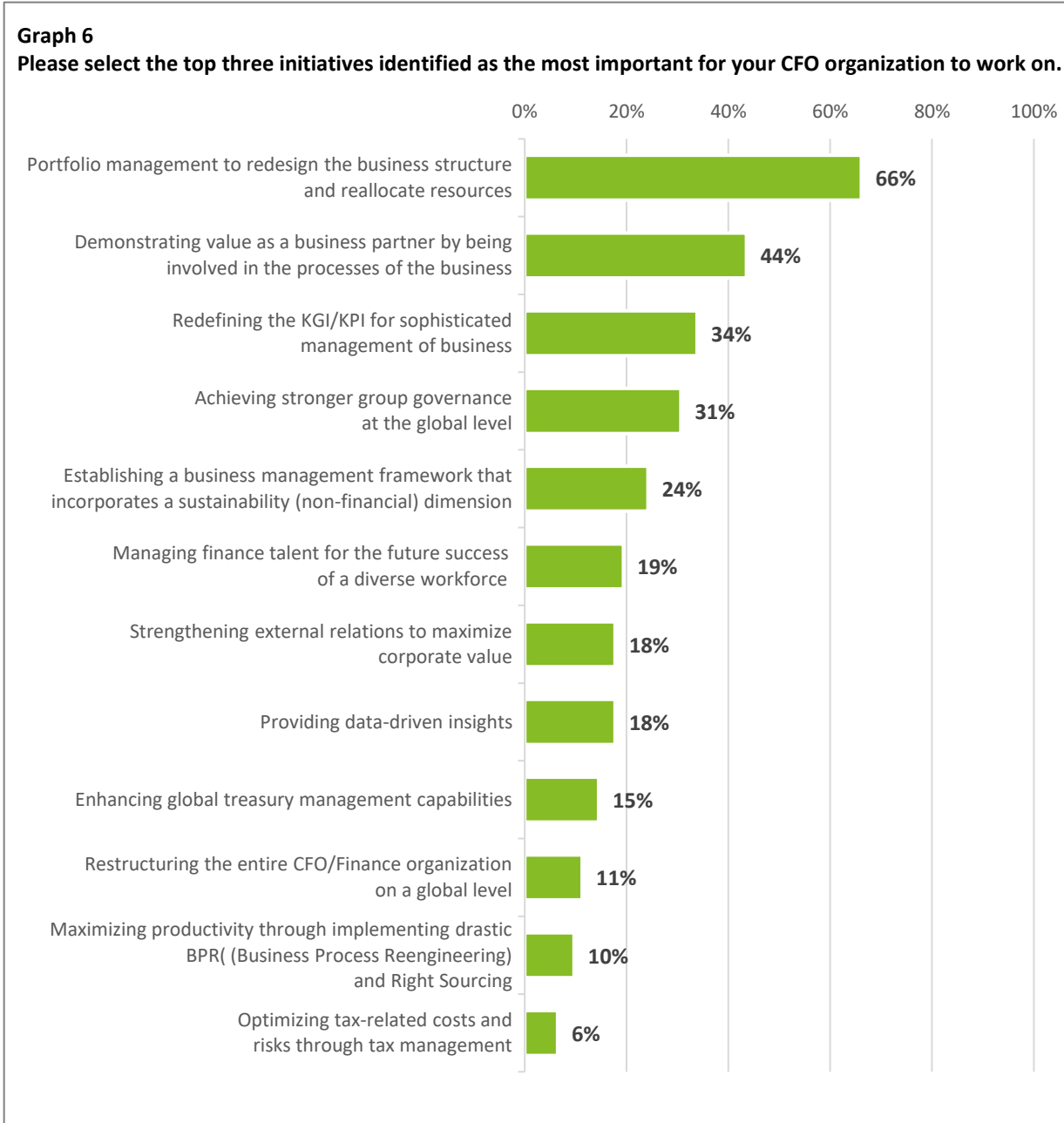
## Survey on Initiatives for Strategy Execution

In the latter part of the survey, we inquire about “initiatives for strategy execution.”



### Important initiatives the CFO organization is focusing on

Resource allocation was the most important initiative for CFO organizations



The CFO organization has identified “Portfolio management to redesign the business structure and reallocate resources” as a key initiative, with over 60% of respondents ranking it as a top priority. The survey conducted in February 2023 identified a clear priority for future CFO organization: Appropriate allocation of management resources (getting involved in portfolio management). This remained the most important initiative for the majority of CFO organization,

ranking in first place by far in this survey as well. This result reaffirms the importance for CFO organizations to evaluate businesses and engage in prompt and appropriate portfolio management in today's rapidly changing business environment.

"Demonstrating value as a business partner by being involved in the processes of the business" ranked second, and "Redefining the KGI/KPI for sophisticated management of business" ranked third. Both involve the "offensive role" of participating and implementing in strategic planning, which highlighted the importance for CFO organizations to become deeply involved in business operations.

The fourth most important initiative was "Achieving stronger group governance at the global level." As the number of cases of acquiring local companies increases as an option for entering new businesses or expanding into new markets, the CFO organization is expected to play a "defensive role" in this area. This includes not only managing the initial PMI (Post-Merger Integration) phase but also enforcing continuous governance and ensuring compliance across the company.

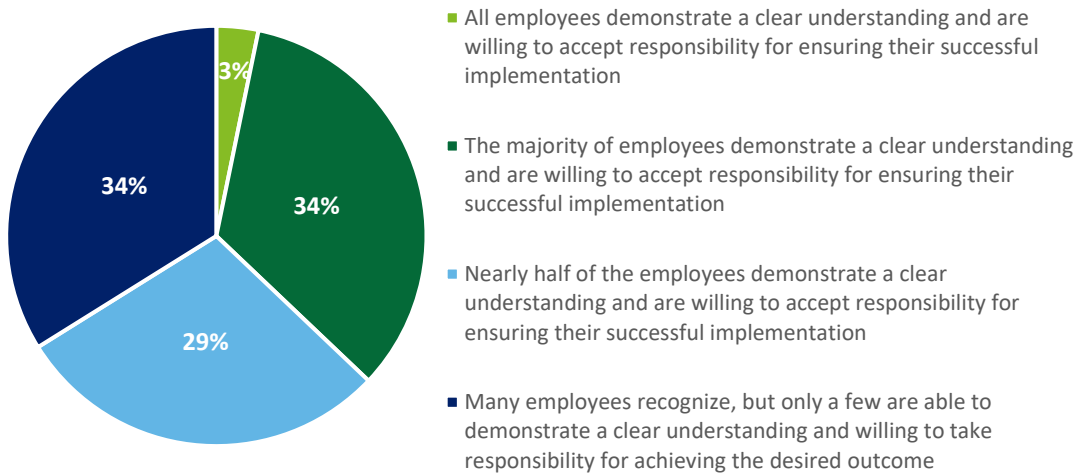


## The penetration of company strategies and transformation policies

The level of penetration of company strategies and transformation policies varied widely

**Graph 7**

**To what extent do you believe your company's strategies and transformation policies are being adopted by the employees? Please select the option that best describes your situation.**



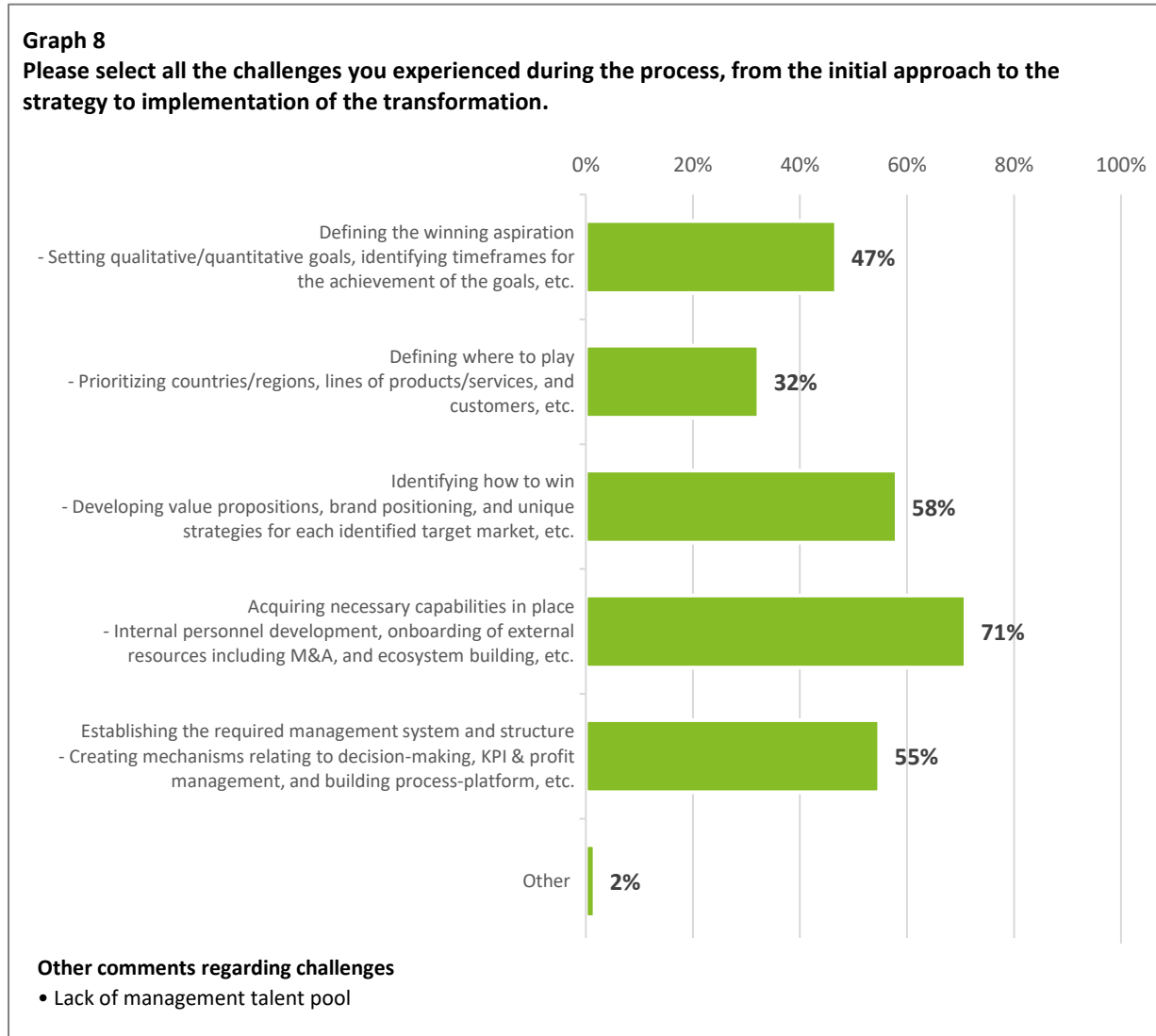
Only 3% of companies responded, “All employees demonstrate a clear understanding and are willing to accept responsibility for ensuring their successful implementation.” The remaining responses were approximately split into three, indicating that each company is at a different stage in the implementation of its strategies and reform policies and how it is adopted by the employees.

Considering that all responses were at least at the level of “Many employees recognize,” it can be inferred that there are certain hurdles in moving from the stage of recognizing strategies and transformation policies to the stage of making them into a personal matter and taking self-motivated actions.

It is still a challenge for many companies to determine how top management, including the CFO, can effectively engage employees and drive transformations.

## Challenges in strategy development and implementation of transformation

More companies see challenges in the implementation of transformation rather than in the initial approach to strategy development

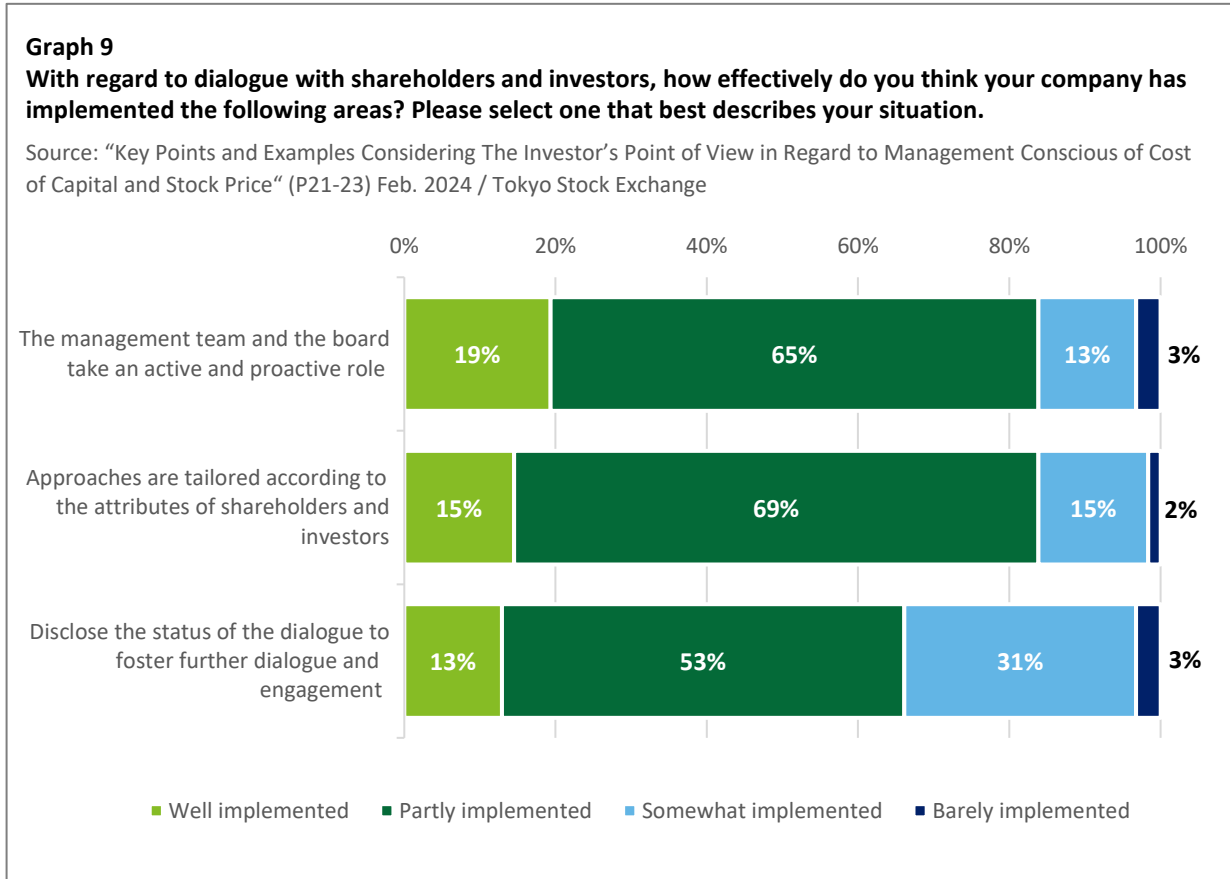


The top challenge from the process of strategy formulation to the implementation of transformation was “Acquiring necessary capabilities in place,” with over 70% of respondents. During the implementation of the transformation, not only existing skills/capabilities but also knowledge and execution skills in new areas and technologies are required. To continuously drive the transformation, it is necessary to go beyond the temporary acquisition of new knowledge/skills, establish systems and structures for internal resource shifts and integrate externally acquired capabilities into the organization.

The result was followed by “Identifying how to win” and “Establishing the required management system and structure,” both challenges related to the strategy implementation phase. On the other hand, less than half of the companies perceived challenges in the strategy development phase, such as “Defining the winning aspiration” and “Defining where to play.”

## Key points for engaging in dialogue with shareholders and investors

Over 80% of companies responded that their management team and board actively and proactively engage in dialogue with shareholders and investors



Regarding dialogue with shareholders and investors, over 80% of companies responded that “The management team and the board take an active and proactive role.” Similarly, over 80% of companies responded that “Approaches are tailored according to the attributes of shareholders and investors.” After the Tokyo Stock Exchange issued “Action to Implement Management that is Conscious of Cost of Capital and Stock Price” in 2023, (March 2023/Tokyo Stock Exchange), it can be said that many companies have increasingly focused on engaging with the dialogue with shareholders and investors.

On the other hand, just short of 70% of companies responded that they “Disclose the status of the dialogue to foster further dialogue and engagement,” which suggests that some companies have not yet fully utilize the outcome of the dialogue. It is expected that domestic and international shareholders/investors will have increased expectations regarding disclosure in the future. Thus, this is likely to become one of the key agendas that CFOs and CFO organizations should take the lead on going forward.





## To conclude this section...

In this 2024Q2 CFO Signals survey, we inquired about “initiatives for strategy execution.”

When asked about key initiatives that CFO organizations should focus on, “Portfolio management to redesign the business structure and reallocate resources” and “Demonstrating value as a business partner by being involved in the processes of the business” ranked high. This finding reaffirms the critical role of CFO organizations in stepping up to the business side to add value in the strategy development and implementation phases.

Regarding initiatives related to company strategy and transformation, many companies are able to define the winning aspiration and communicate it to employees in the strategy development phase. Meanwhile, many companies still face challenges in the implementation phase, such as equipping the organization with necessary capabilities and linking them to self-motivated actions by employees. Overall, it is necessary to put in place systems and structures that are capable of continuous implementation of transformation, rather than relying on one-time measures.

Many companies also find challenges in how to communicate the strategies and transformation policies to shareholders and investors and how to leverage the outcome for further actions. If companies can create a virtuous cycle where strategies are developed, disclosed, and the new insights gained through dialogue with stakeholders are reflected in the strategy and then implemented, it will lead to building trust with stakeholders and greatly contribute to enhancing corporate value.

In today's rapidly changing and increasingly complex business environment, companies are expected to continuously implement transformations swiftly and appropriately. In such an environment, how to effectively drive the initiatives will continue to be a key agenda for CFOs and CFO organizations going forward.

## **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

Marunouchi Nijubashi Building, 3-2-3 Marunouchi Chiyoda-ku, Tokyo, 100-0005

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