

The CFO Program

Adapting to a new normal:
CFOs perspectives and priorities for 2021
2021 Q1 China CFO Survey

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A new year means new perspectives and priorities. As the world begins to rebound from the uncertainty of 2020, CFOs need to make concrete decisions about how to position their firms for an adjusted future. Opportunities are indeed emerging - 50% of CFOs are more optimistic about the economy from six months ago, 81% believe that the economy will improve in 2021 and 89% expect their businesses to perform better over the coming 6-12 months - but not without uncertainty and challenges.

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William Chou

National Managing Partner
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Executive Summary

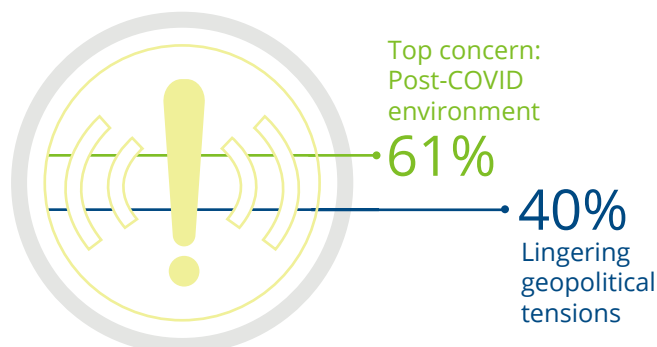
The latest edition of Deloitte's China CFO Survey is focused on the changing business environment in China and around the world. How are finance professionals investing in and managing the adoption of technology, given its indispensable role in helping firms adapt to COVID-19? What about the geopolitical environment – are Chinese CFOs seeing trade tensions ease on the back of the recent US elections or is it too soon to tell? How are companies responding to the evolving demands around talent and employee engagement?

These are the kinds of questions facing companies as they navigate the new normal. This report presents the views of our CFO community on these important issues.

Optimism is rising but caution is still needed

CFOs are optimistic about the economy based on China's economic rebound on the back of its containment of COVID-19, driven by revivals in consumer spending and strong export performance since Q2 2020. Such positive sentiment is likely to continue throughout 2021, as the Chinese government focuses on stimulating private spending and supporting the country's SMEs. The rollout of vaccinations globally and recovery in the United States and other Western markets over the first few months of this year are also contributing factors.

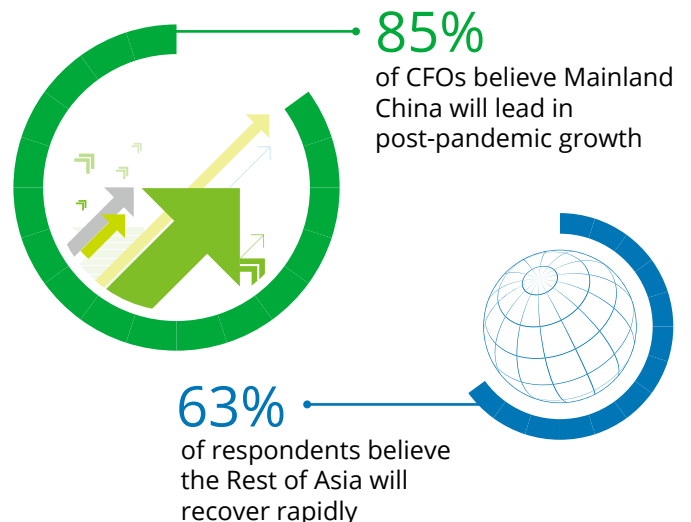
While there are opportunities, CFOs still harbour worries about the operating environment. Of the respondents,



61% identified the post-COVID environment as their top concern, while 40% worry most about lingering geopolitical tensions.

China and Asia are key growth drivers

Given the progress the country has made in resuming economic activity, 85% of CFOs believe Mainland China will lead in post-pandemic growth. But it is not just China that has CFOs confident, another 63% of respondents believe the Rest of Asia will recover rapidly once the dust settles from the pandemic.

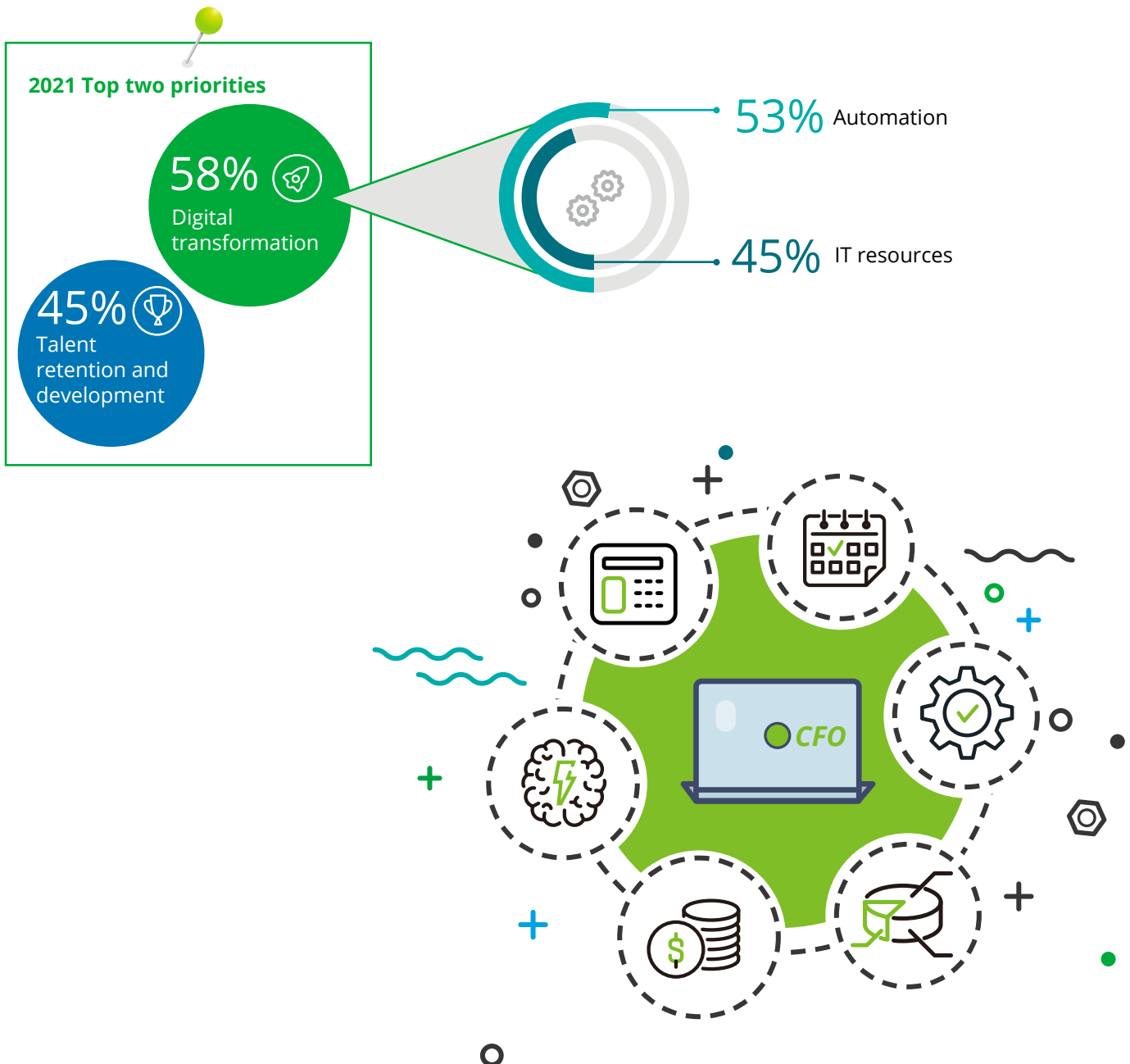


Tech and talent are strategic priorities

Among the CFOs surveyed, digital transformation (58%) and talent retention and development (45%) were identified as the top two priorities for capturing growth opportunities in 2021.

In terms of digital technology, automation (53%) and IT resources (45%) will be the top targets of investment in 2021. Investments in workforce enablement, which was a priority last year under the impact of the pandemic, will likely shift to AI in 2021.

In response to the current environment, 71% stated they would undergo some form of business transformation in the coming 6-12 months. With this comes implications for workforces – 82% of CFOs expect to acquire or develop talent with different skillsets from their current mix of abilities.



“ All eyes are on China and the Rest of Asia as the global economy works to overcome the turmoil of the previous year. Among the CFOs surveyed in this report, the vast majority (85%) believe Mainland China will command the most post-pandemic growth. Because it was the first in the world to reopen its economy, paired with its widespread adoption of digital means of doing business across practically all sectors, it is well positioned to lead in the coming year. Many other countries in the region have also made significant progress in containing the spread of the virus and resuming economic activity, leading 63% of respondents to believe that the greatest post-pandemic growth will come from the Rest of Asia. ”

Norman Sze

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More optimism, more opportunity

Sentiment among CFOs in China about the economy has grown increasingly optimistic, with a vast majority seeing the coming year in a positive light for their businesses. China's manufacturing and retail recovery, as well as the rollout of COVID-19 vaccination programs around the world, could be some of the key contributing factors.

There is no question that 2020 was a difficult year for many businesses. A squeeze on liquidity, supply chain disruptions and a general climate of uncertainty-plagued decision making and limited access to raw materials and other resources that support business operations. However, as progress has been made in overcoming these conditions, sentiment has improved as a result. Our survey revealed that half of CFOs feel more optimistic about the economy from six months ago and 81% see a better economic outlook in 2021 compared to 2020.

Chart 1: Economic sentiment compared to 6 months ago

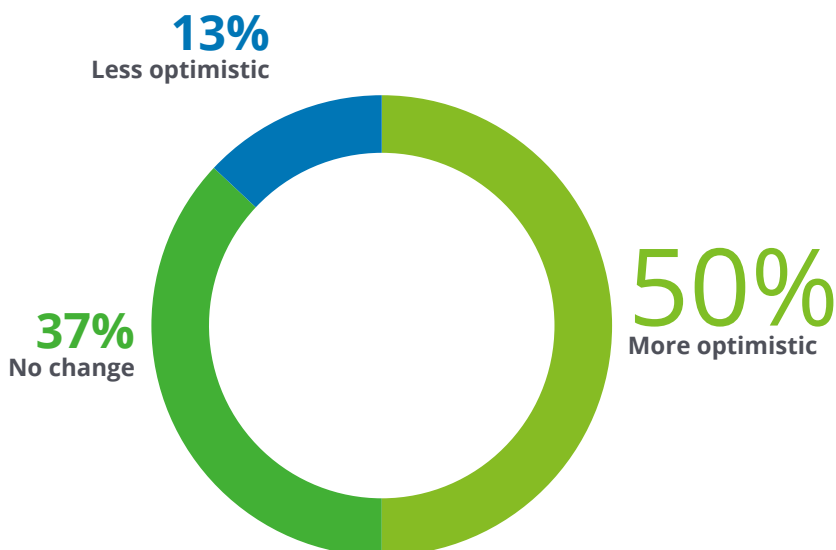


Chart 2: Economic outlook for 2021 compared to 2020



After contracting 6.8% year-on-year in 2020 Q1, China's GDP grew by 3.2% in Q2, 4.9% in Q3 and 6.5% in Q4, a trend which matches the increase in optimism among CFOs over the past six months. The country's recovery has been driven by significant investments in infrastructure, strong global demand for medical-related exports and a return of steady growth in domestic consumption.

Exports beat expectations in the first two months of the year, surging 60.6% compared to the same period in 2020. Li Keqiang, Premier of the State Council of the People's Republic of China, also announced a national GDP growth target of over 6% in 2021, supporting the view of the majority of CFOs that the economic outlook is becoming more positive. Similarly, emerging from the negative impact on economic activity last year, 89% of CFOs expect their businesses to perform better over the coming 6-12 months. This is a strong indication that the recovery in China is taking hold and business confidence is rising.

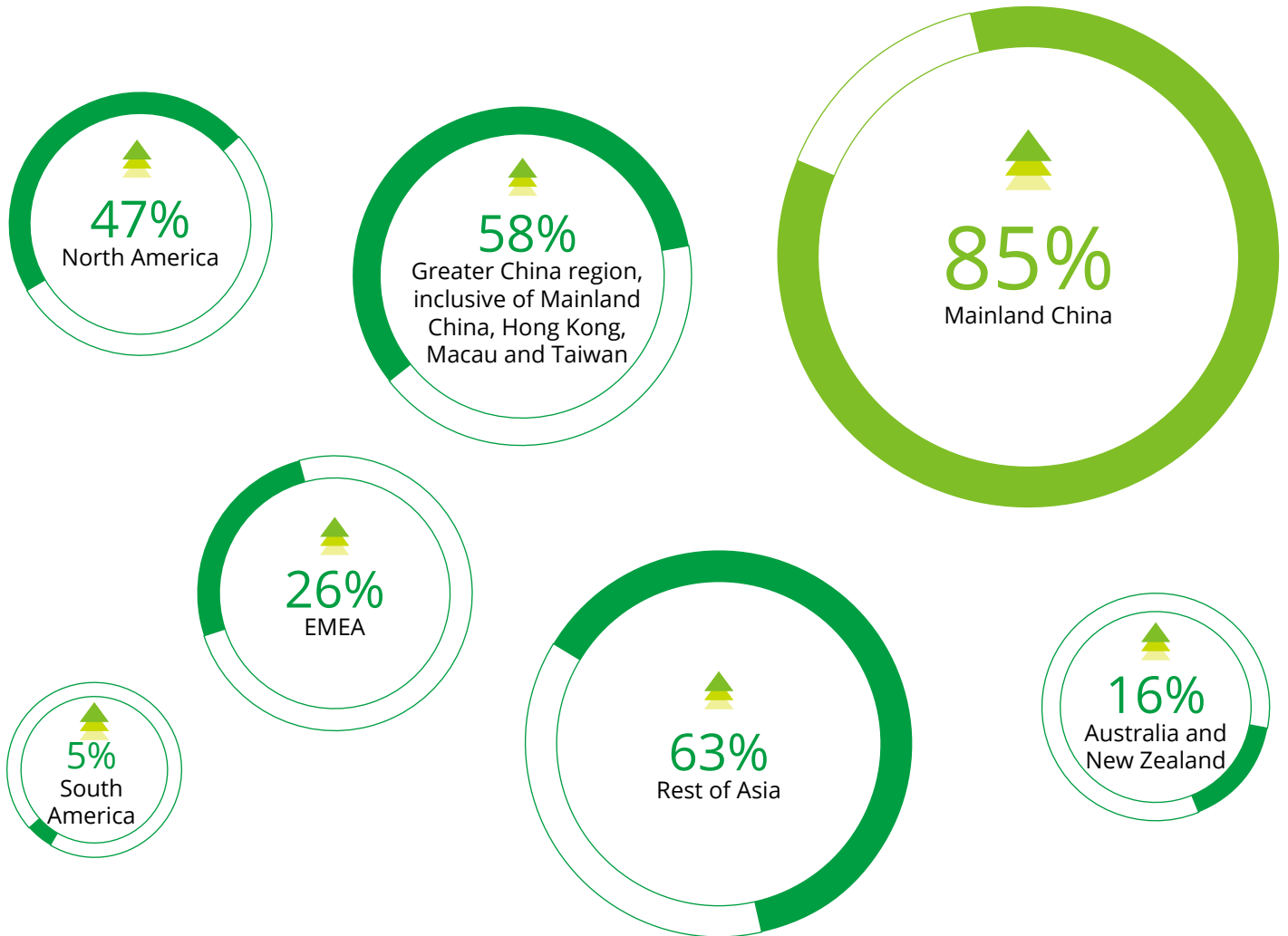
China: shouldering the global recovery

While many countries continue to struggle against COVID-19, those in Asia have made significant progress in containing the spread of the virus and resuming economic activity. With China being the first economy to emerge from the impact of COVID-19, CFOs see the country shouldering much of the recovery in 2021.

The swift policy response by Asian nations in closing borders, implementing social distancing measures and wearing face masks have proven effective. In China, new cases of COVID-19 dropped significantly since 2020 Q1 while there were sharp increases around the world. Not only did this allow China to start its economy back up, but it also benefitted countries that relied on Chinese manufacturing. According to data released by the National Bureau of Statistics, China's GDP expanded 2.3% in 2020, making it the only major economy to end the year in positive territory.

Asked to rank which geographical area will see the greatest post-pandemic growth, the highest number of respondent (85%) expect Mainland China to command the most significant gains, followed by the countries comprising the Rest of Asia (63%) and the Greater China region (58%), inclusive of Mainland China, Hong Kong, Macau and Taiwan. The fact that the economic slowdown in Asia began to reverse around 2020 Q2, brightening the prospects for the region, may have been a contributing factor.

Chart 3: Geographical areas to command the most significant post-pandemic growth



Still, caution is needed

Although CFOs are feeling more optimistic on the back of China's economic recovery, concerns remain. A slow overseas rebound and lingering geopolitical tensions being two of the most notable.

The global environment in 2021 is still wrought with uncertainty that requires caution in how CFOs decide their courses of action in the months ahead. When asked about the risks that worry them most, 61% stated the post-COVID recovery as their top concern. Scenarios such as a sluggish rebound in the West and renewed economic lockdowns if cases begin to rise again may be among the contributing factors. Two in five CFOs are primarily concerned about geopolitical issues. US-China tensions and the post-election environment in the US are areas that they will be following closely in the coming months.

These concerns correspond to a number of difficulties facing finance departments as they prepare themselves for the future. Consistent with previous surveys, obtaining the right metrics, information and tools for sound decision-making is the most acute obstacle for 52% of CFOs, resonating with the rise in demand for better risk management given the pandemic's impact on supply chains and physical modes of doing business. Digital transformation, which was newly added to the current survey's list of possible challenges, was selected by 44% of CFOs, indicative of how important digital technology has been for adapting to the pandemic.

As far as how CFOs are planning to address these challenges, strengthening risk assessments and controls (60%), accurately modelling cashflows (55%) and effectively monitoring and managing receivables (53%) were the top three focus areas. While CFOs are seeing 2021 in a better light from last year, having a clear financial picture and strong set of risk management protocols are still necessary to navigate the uncertainties ahead.

Chart 4: Top concerns of CFOs

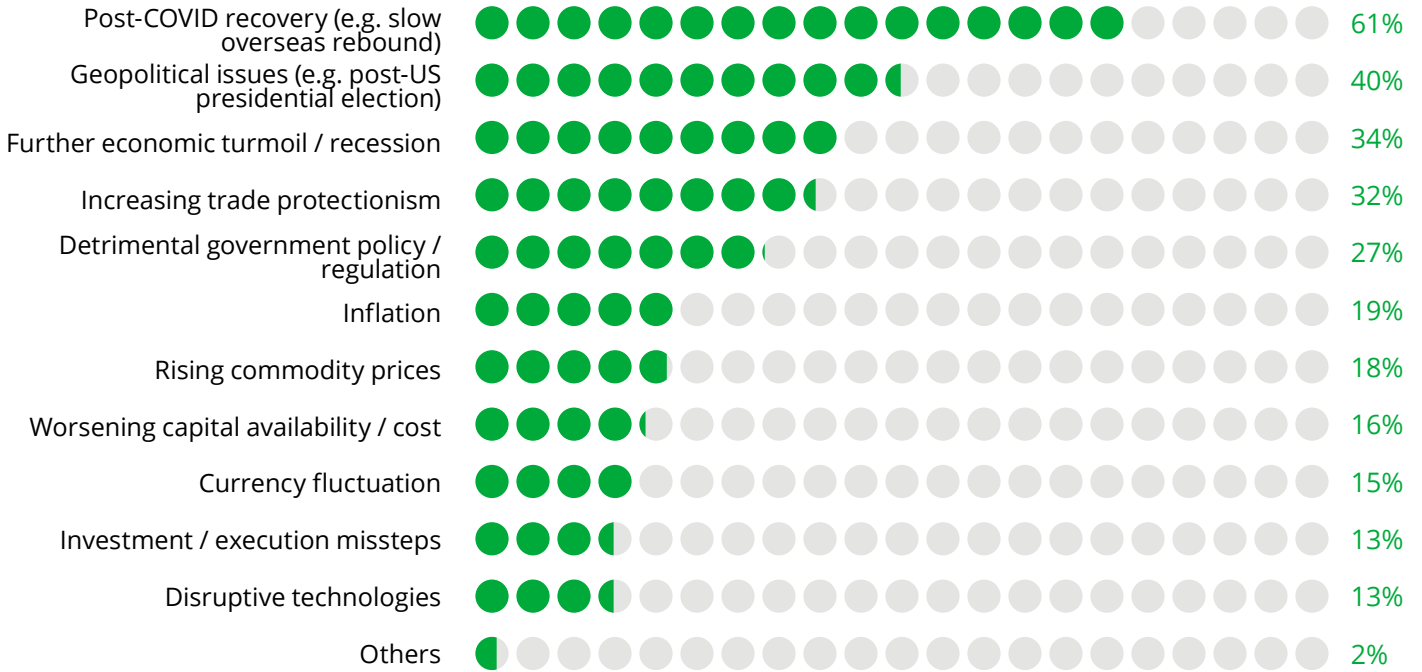
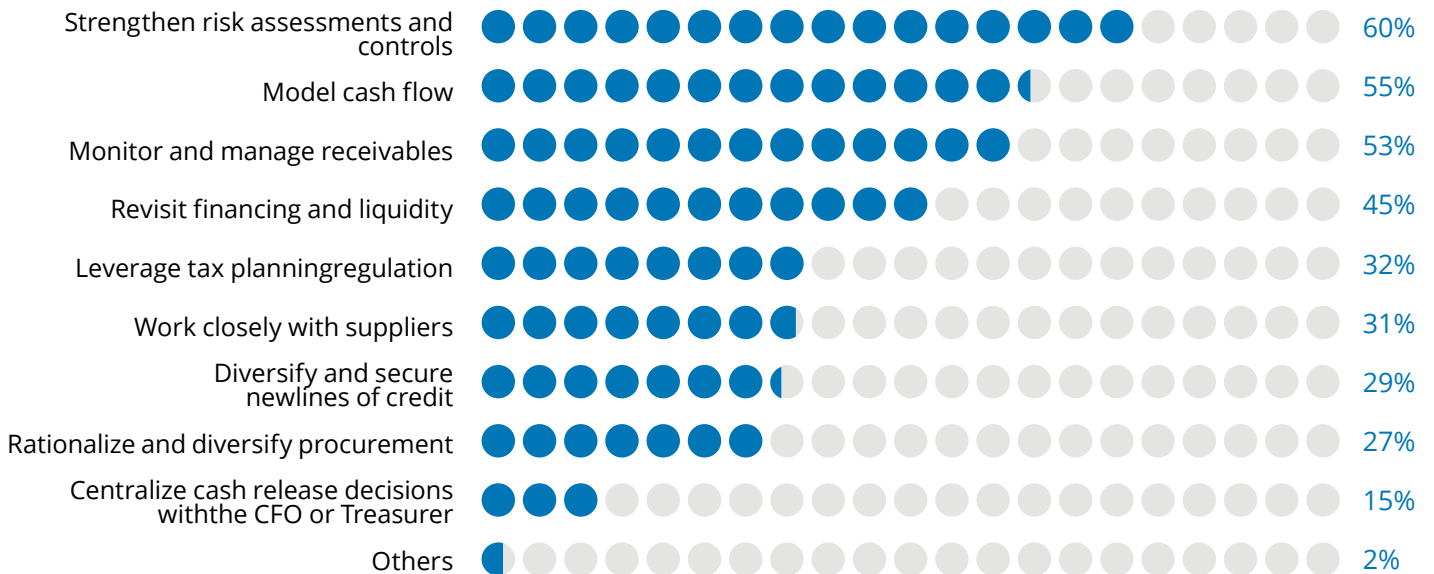


Chart 5: How do CFOs plan to address the challenges



Business transformation is a priority

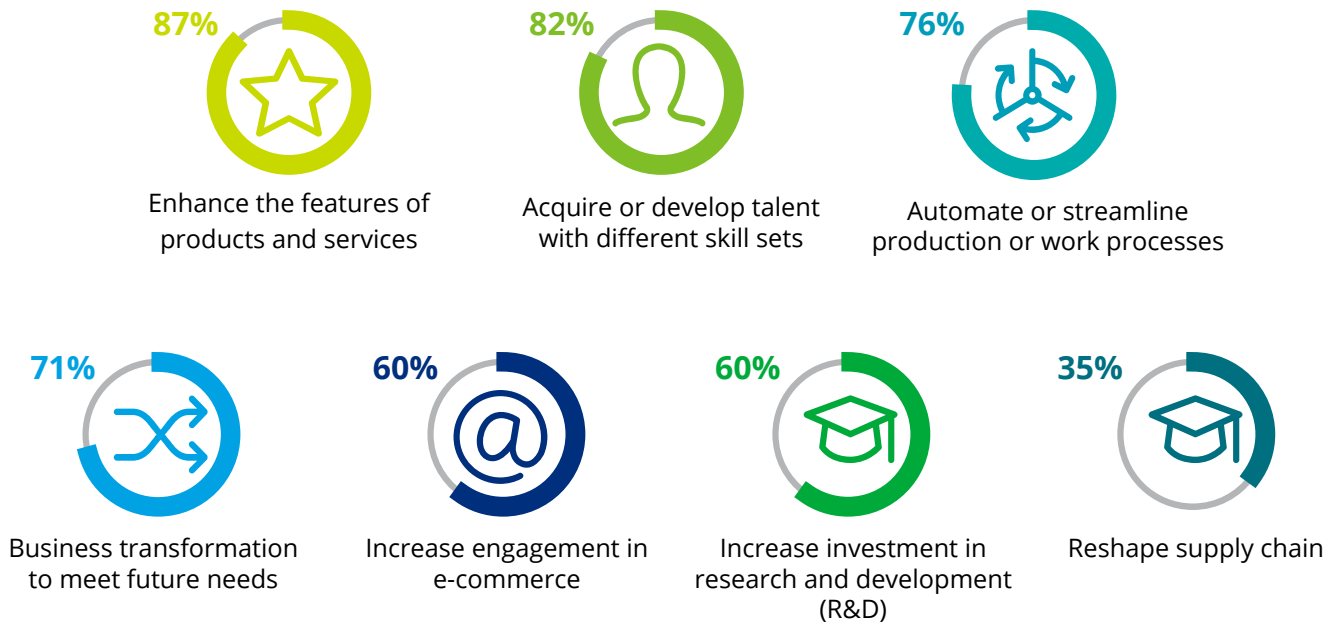
In today's environment, organizations need to think strategically about how to adapt to market changes. With digital technology developing rapidly and altering the way we live and do business, CFOs have come to realize the value of transforming their companies to remain competitive.

New technological breakthroughs, shifting market demand, a changing competitive environment, new regulatory requirements and the impact of the pandemic are just some of the forces impacting enterprises today. For these reasons, over 70% of CFOs expect to transform the way they do business over the coming 6-12 months to increase their resilience and adaptability in the market.

Many of the changes currently underway – spanning how we shop, work, entertain ourselves, and so on – may turn out to last long after the pandemic ends. Because of this, 87% of respondents expect to enhance the features of their products and services in response to the evolving consumer environment; and 76% of CFOs said their organizations are likely to automate or streamline production or work processes, indicating the need to deliver new efficiencies in today's context.

Another 60% anticipate their organizations will increase engagement in e-commerce, a key channel of growth throughout the pandemic. Paired with three-fifths of respondents reporting they will increase their spend on research and development over the coming months, this suggests that businesses are actively seeking opportunities to generate value and grow in new ways.

Chart 6: Top changes that are likely to happen in its organization in the coming 6-12 months



Investment in technology is up and rising

CFOs in China reported plans to invest more in technology and digital transformation to capture growth opportunities on the horizon of 2021. IT resources, automation and AI were identified as key areas for investment during the months ahead as organizations build up their technological capabilities.

The pandemic has led to a major shift in the way people work and consume, with social distancing increasing the use of digital channels. Chinese companies have not been idle during these changes and 50% of CFOs said their organizations have invested in IT resources in 2020, while 48% said their organizations adopted new forms of automation. To ensure employees had the right tools for carrying out their work remotely, 39% of respondents said they invested in work enablement measures last year.

Among the various areas that Chinese companies are investing in for 2021, CFOs see automation and IT resources as the two most important technological areas. More than half of those surveyed said their organizations plan to prioritize investment in automation over the next 6-12 months. With the growth of such technology as a core aspect of business operations, many companies see automation as integral to business continuity and streamlining efforts. At the same time, 45% said IT resources are their primary investment target over the coming year, while 40% are prioritizing investment in AI.

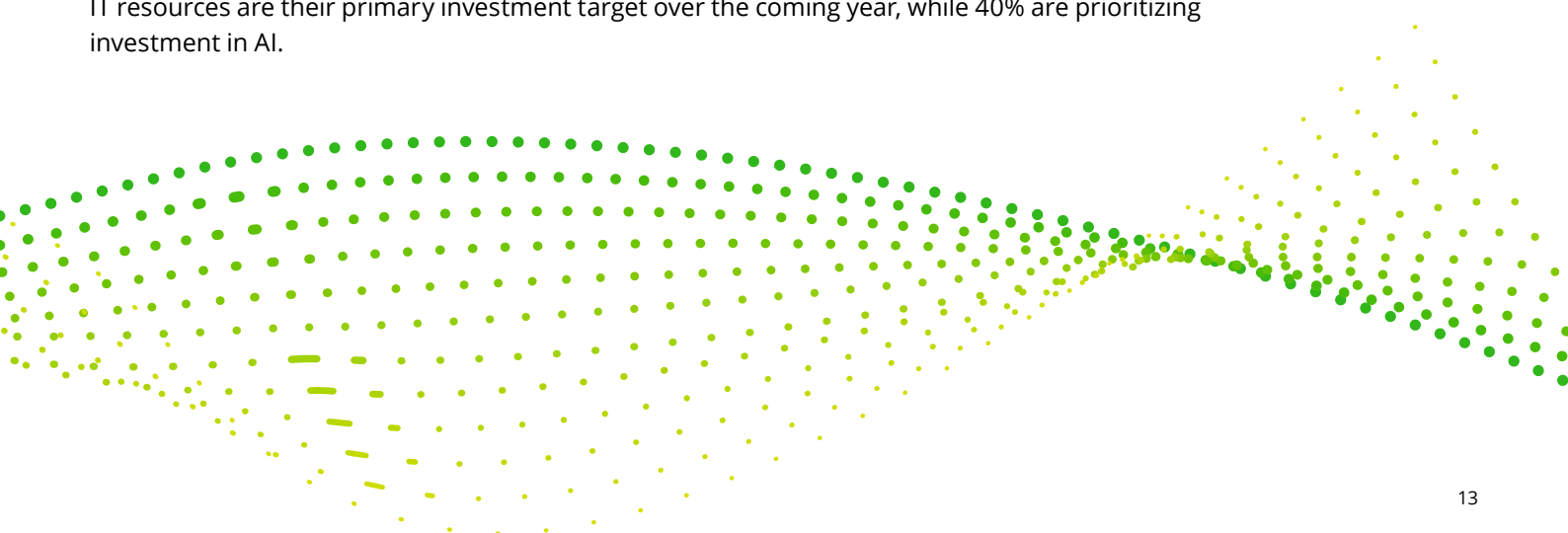
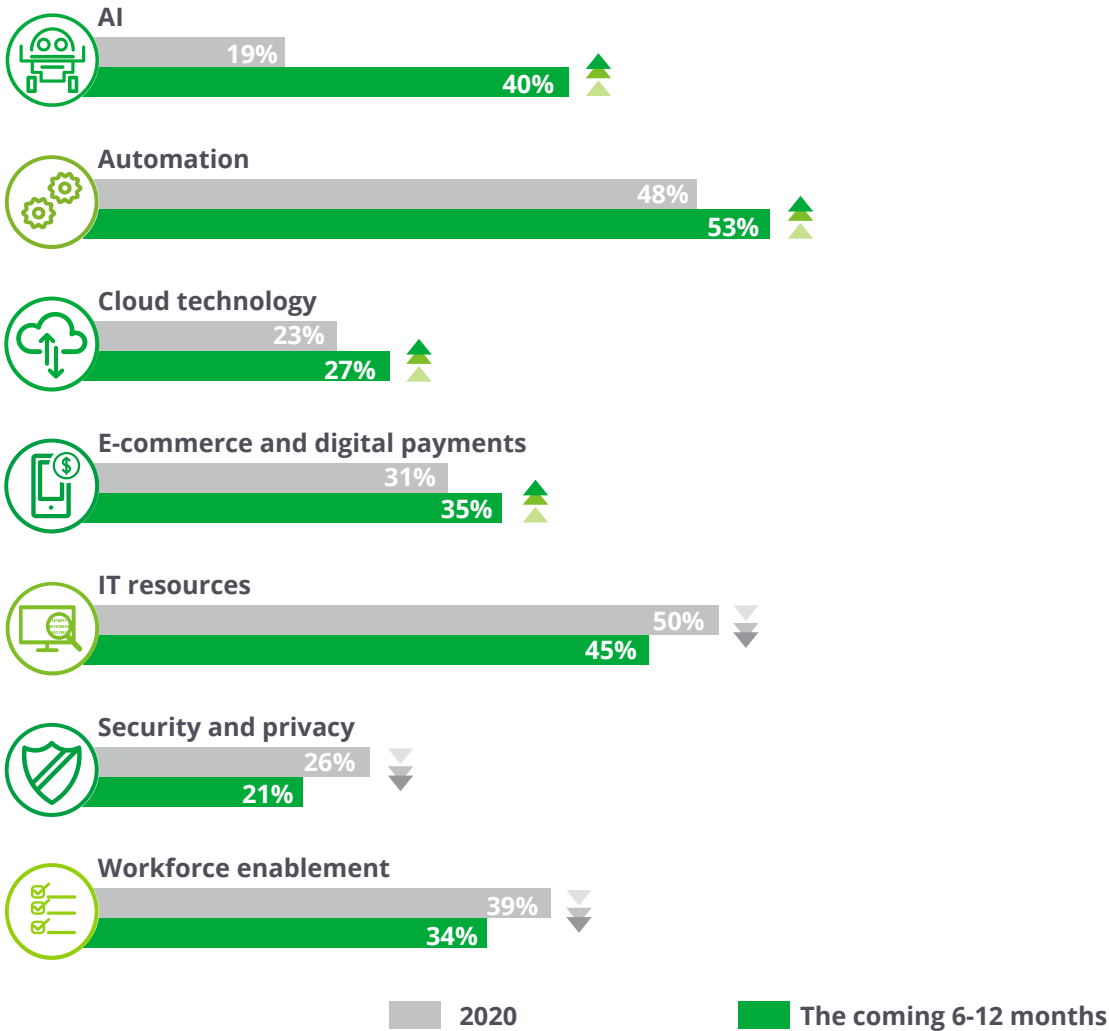


Chart 7 : Comparison of investments in technological areas



As many business activities have shifted online during the pandemic, future opportunities will require sufficient technological capabilities to capture. CFOs also see a correlation between investing in technology and realizing growth opportunities, with digital transformation initiatives being the top priority among our respondents for doing so in 2021.

Talent at a crossroads

The question of talent in the COVID-19 era is an important one for CFOs to get right. Finding and hiring the right people as well as strategically developing existing team members are challenges and opportunities at the same time.

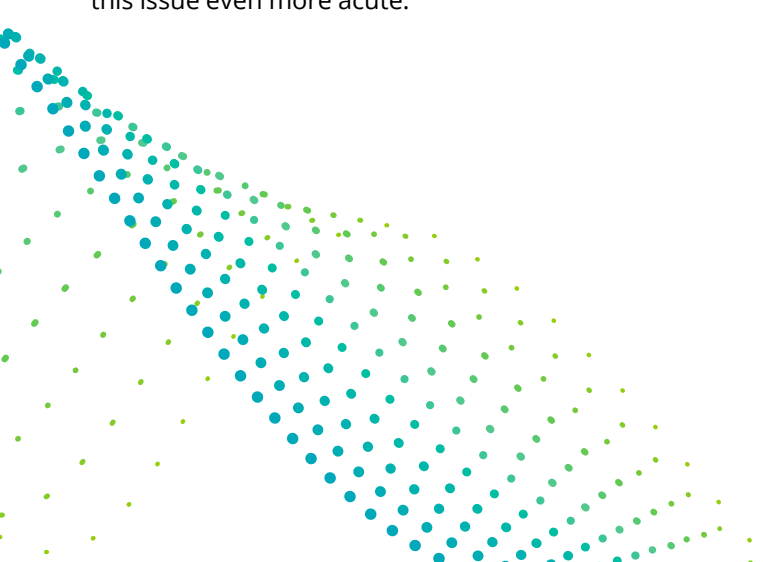
The pandemic has changed how people work, connect and collaborate, altering the needs and priorities of organizations along the way. With technology playing such a central role in this process, businesses have had to audit their talent pools for skillset gaps and find ways to bridge them.

Confirming this need, 82% of CFOs expect their organizations to acquire or develop talent with different skillsets from those their organizations currently have on hand.

82%

Another important trend is the shift toward human-machine integration as opposed to substitution. Organizations have responded by revisiting their recruiting techniques and prioritizing training and development needs, especially in the areas of reskilling and upskilling, to build a future-ready workforce. Of the CFOs surveyed, 45% see talent retention and development as the top priority for capturing new opportunities over the coming year.

Nevertheless, achieving these goals requires a creative approach to overcome the scarcity of key skillsets. According to ManpowerGroup's Talent Shortage survey 2019, even before the pandemic, 54% of companies globally were reporting talent shortages and the top 10 in-demand roles in 2019 were largely the same from 2018 – 80% of which were already experiencing a dearth in applicants. In the current context, remote workforces and primarily digital ways of collaborating have made this issue even more acute.



About the survey

The Deloitte China CFO Survey is to understand the sentiment of the CFO community in China and gather insight into the priorities of Chinese companies. The Q1 2021 edition of the survey was conducted in February and reflects the views of CFOs and senior finance practitioners from companies across China. Regarding the distribution of job titles, 56% of the respondents are CFOs, 24% are financial directors, 14% are financial controllers or financial managers and 6% held other affiliations.

The sectors represented by the respondents spanned consumer and industrial products, life science and healthcare, financial services and energy and resources, among others. Of the respondents, 42% came from companies that generated more than RMB10 billions of total revenue during the last financial year, while another 42% generated between RMB1 billion and RMB 10 billion.

Of the companies represented, 43% are foreign invested or multinationals, 39% are privately-owned and 18% are state-owned. Approximately 85% of the companies are based in Mainland China, 11% are from other regions and 3% are based in Hong Kong.

This survey is to provide readers with a more personalized view of the priorities of financial professionals in China. With the country recovering economically and new challenges and opportunities on the horizon, we hope the findings and discussion provides a helpful glimpse into the key areas of focus for CFOs as they navigate this environment in 2021.



Acknowledgement

We would like to thank all participating CFOs for their support in completing this survey.

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