



Deloitte CFO Signals Report

2020Q4

March 2021

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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 sessions: the “Survey on the Economic Environment”, which is assessed globally in every edition, and “Survey on Hot Topics”, which varies for each country. In Japan, it was conducted for the first time in August 2015, making this the 23rd 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 about the approach to finance organizations and finance professionals under the high uncertainty era due to COVID-19.

Surveys for this edition were conducted in February 2021, and we were able to receive responses from 42 CFOs and finance and accounting executives.

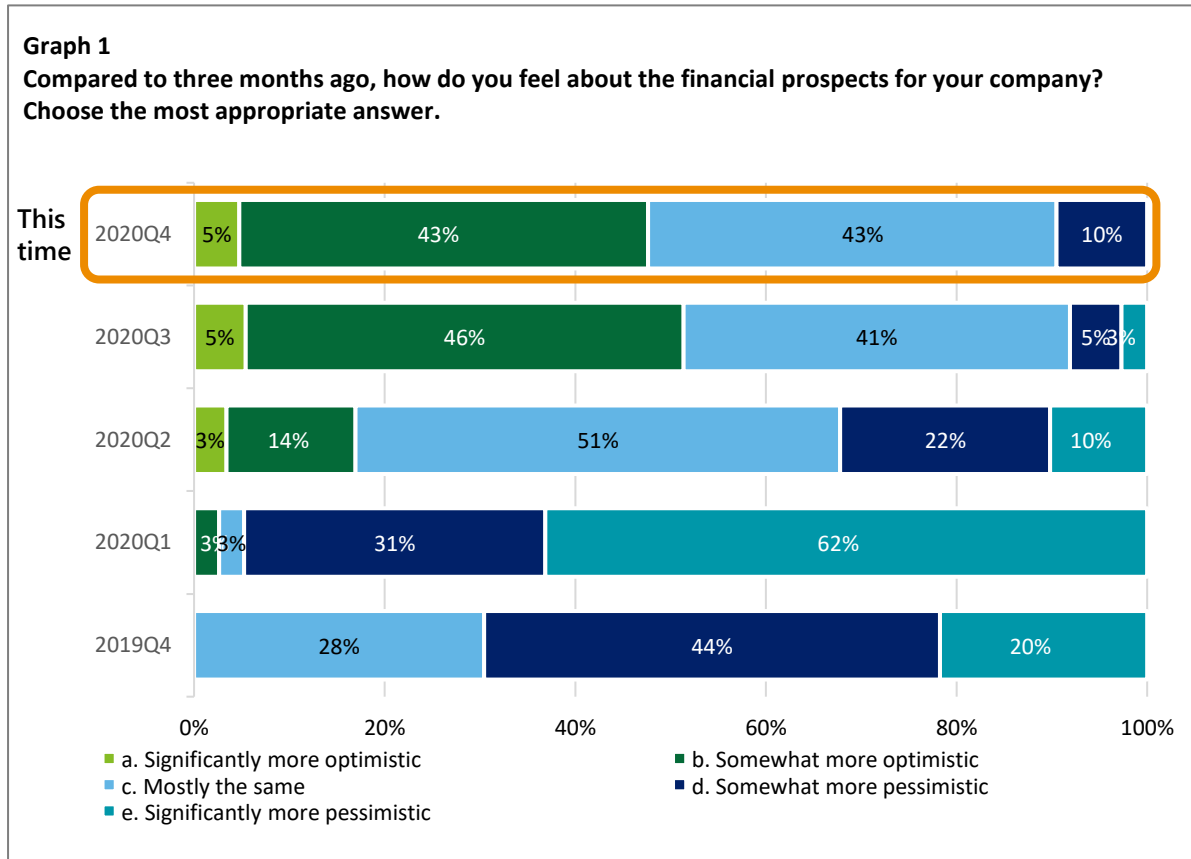
Thank you for your cooperation.

Deloitte Tohmatsu Group
The CFO program
March, 2021

Survey on the economic environment

Financial environment prospects

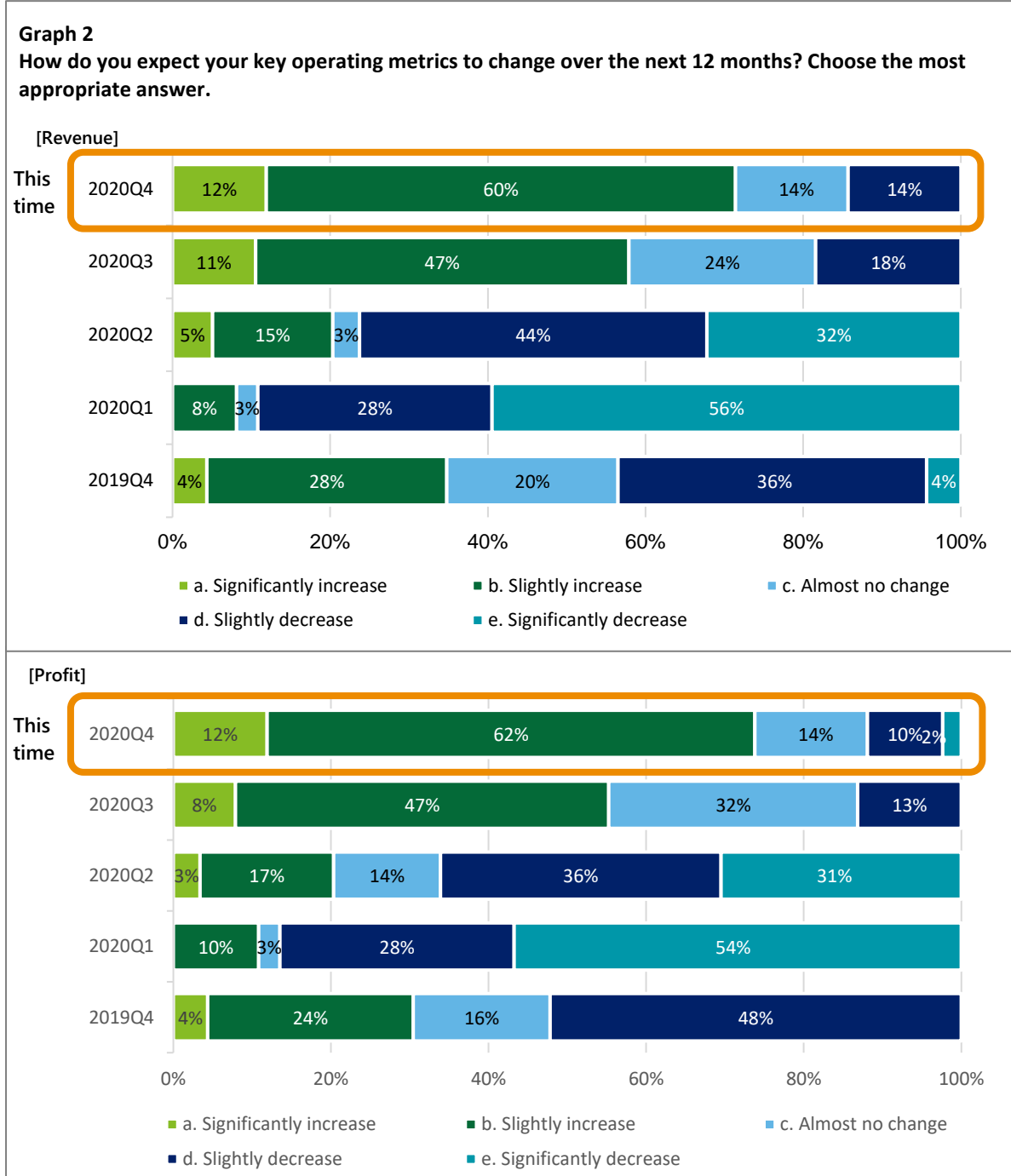
The financial prospect continues to improve, but judgments are polarized.



Graph 1 shows how the financial prospects of the respondents' businesses have changed over the last three months. In this 2020Q4 survey, 48% of CFOs were "significantly more optimistic" or "somewhat more optimistic" about their financial prospects, virtually unchanged from 51% in the previous survey. This means that approximately 50% of CFOs indicated that their financial prospects had improved. This result seems unexpectedly optimistic, given the sharp increase in the number of new coronavirus infections through January and the second declaration of a state of emergency in early January. During the survey period in February, the number of new coronavirus infections had decreased to roughly the same level as in December of the previous survey period. In addition, the targets and restrictions on movement of the second state of emergency declaration were more limited than the first. The Cabinet Office of Japan's February Economic Watchers Surveys also showed an upturn in results compared to January due to a decrease in the number of infected people and expectations for the start of vaccinations. It is believed that CFOs maintained a reasonably optimistic outlook based on the successfully COVID-19 controls and expectations for the future, including vaccines. However, the total number of respondents who answered, "mostly the same" and "somewhat more pessimistic" slightly exceeded the majority, indicating that business sentiment among corporate CFOs appears to be somewhat split. On March 18, after this

survey, the Japanese government decided to lift the declaration as of March 21. The future financial prospects for CFOs will depend on trends of the infections and movement restrictions after the lifting of the declaration of emergency.

The business performance outlook continues to improve.

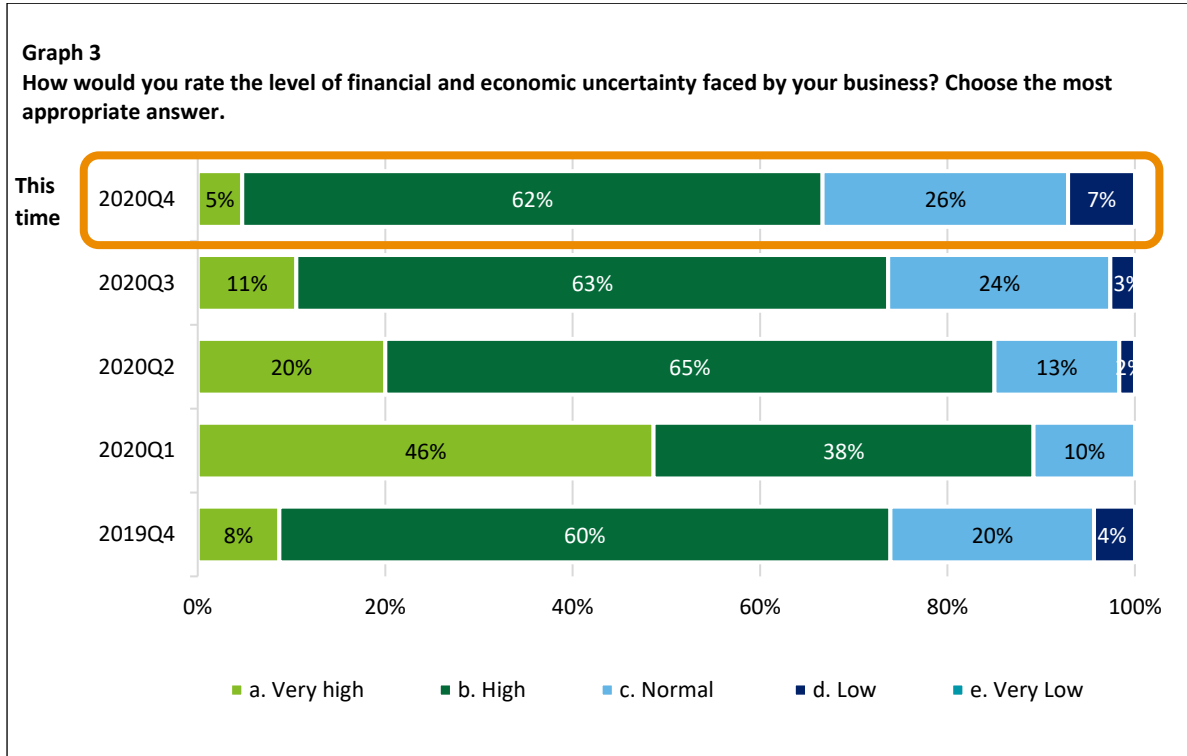


Graph 2 shows CFOs' prospects for their company's financial performance (revenue and profit) over the coming year. As with financial environment prospects, revenue outlook has improved in this survey. The total number of respondents who said that they expect business performance to "significantly increase" or "slightly increase" was 72% for revenue and 74% for profit, both improving for the third consecutive quarter from the previous survey. This is also a more positive result than had been expected at the time of the previous survey. Limited restrictions on movement from the declaration of a state of emergency, a

decrease in the number of infected people, and expectations for the start of vaccinations have contributed to the continued improvement in the financial outlook. In addition, industries that benefit from the economic environment of the COVID-19 crisis have expanded their business performance, and new business models have been developed that are adapted to restricted mobility and remote environments, suggesting that companies' resilience to the spread of coronary infections continues to grow. The sensitivity of business sentiment to changes in the number of cases of coronavirus infections should be expected to decline in the future.

 **Uncertainty**

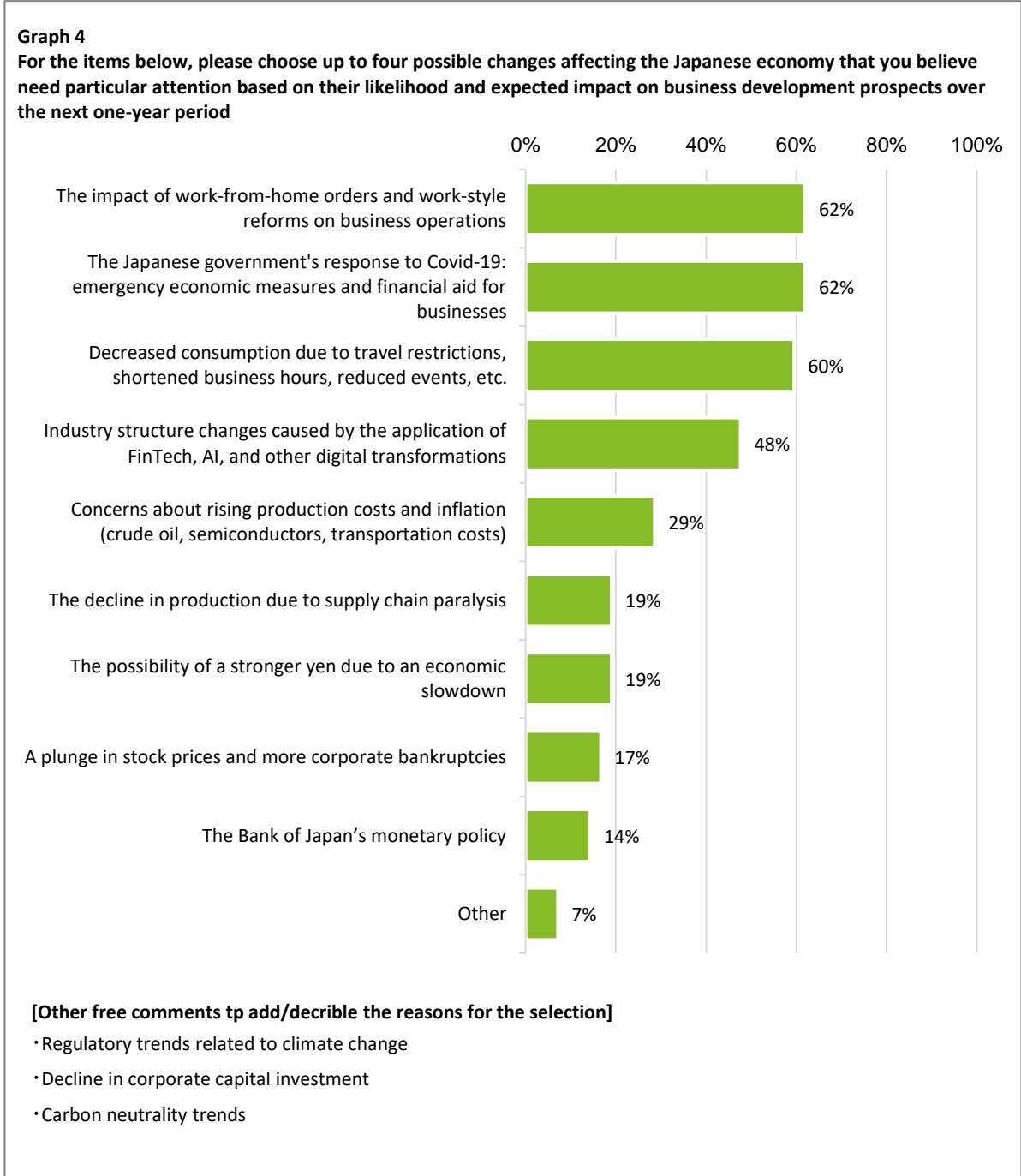
Uncertainty is slowly receding



Graph 3 shows CFOs’ perceptions of financial and economic uncertainty. In this 2020Q4 survey, the total response rate for "very high" and "high" was 67%, a decrease from 74% in the previous survey. Uncertainty also improved for the third consecutive quarter, as did the financial outlook. While the level of uncertainty is still high, it can be said that uncertainty about the future is steadily decreasing due to the effects of the declaration of a state of emergency, expectations for the start of vaccination, and the progress of companies in responding to the corona environment. Future trends will depend on the number of infected people and movement restrictions after the state of emergency is lifted, as well as the progress and effectiveness of vaccination. However, it can be seen from the receding uncertainty that companies are becoming more adapted to the so-called new normal under the COVID-19 situation.

Key factors in the Japanese economy

Continued focus on business continuity under COVID-19 situation, government response measures, and declining consumer consumption.



Graph 4 shows what trends in the Japanese economy CFOs will most closely watch when preparing business plans over the next year. In this 2020 Q4 survey, the number one item was "The impact of work-from-home orders and work-style reforms on business operations," the second item was "The Japanese government's response to Covid-19: emergency economic measures and financial aid for businesses," and the third item was "The decline in consumer spending due to voluntary re-suspension of business and events,

and restrictions on entry into Japan," with almost the same response rate and the same three items as in the previous survey. As in the previous survey, items related to coronavirus infections dominated the list. This reflects the fact that the development and adaptation of new work patterns, such as telework, is still a challenge for companies, the concern that restrictions on movement due to the declaration of a state of emergency will slow consumer spending again, and the realization that economic recovery will still depend on government support. In fourth place, as in the previous survey, was "Industry structure changes caused by the application of FinTech, AI, and other digital transformations." Working styles and digitalization are both issues related to structural change, and even if the coronavirus infection is contained in near future, these items are likely to remain a concern for CFOs over the medium term.

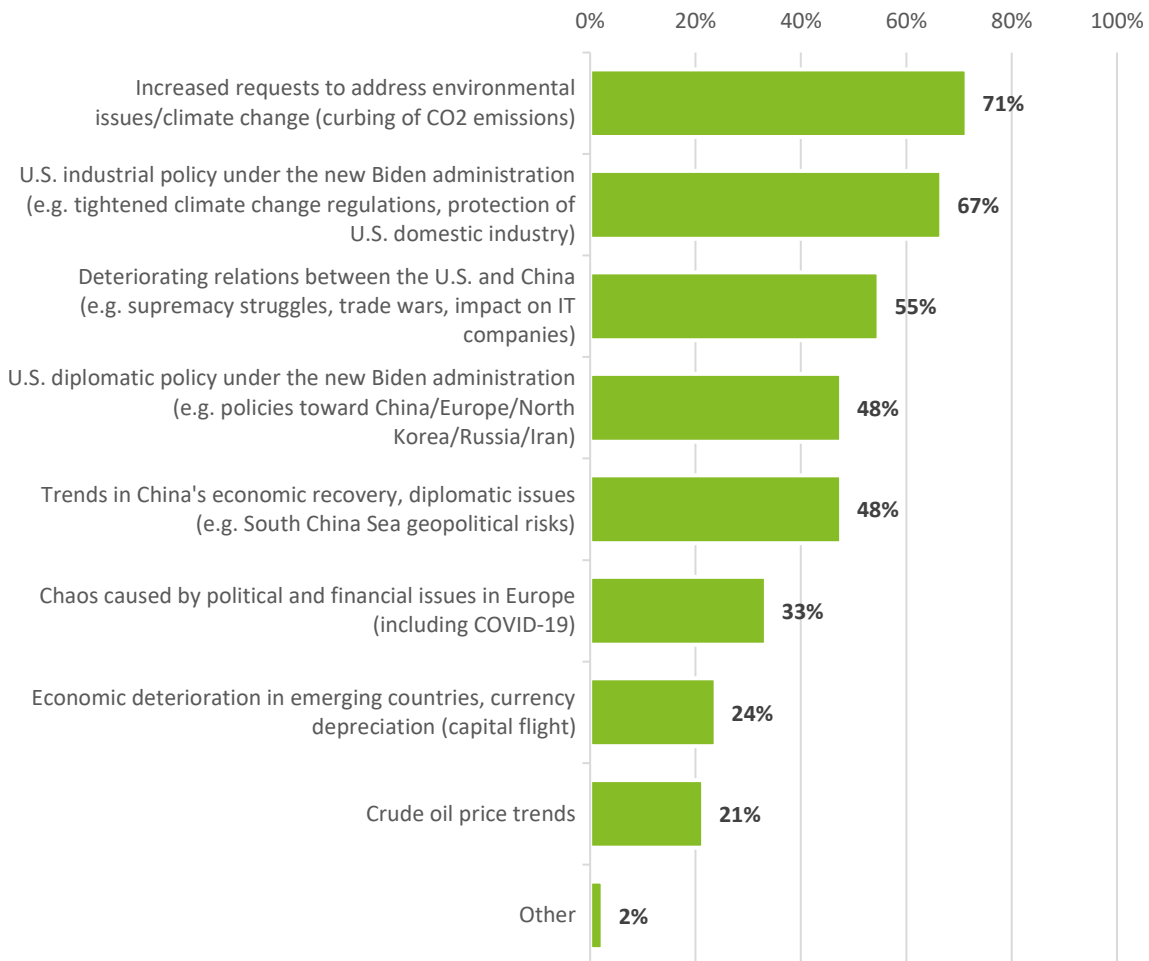


Key factors in the global economy

The primary focus is on responding to climate change.

Graph5

Please select up to four of the following risk events related to the international economy that you feel are noteworthy in terms of probability and impact on business development over the next one-year period.



【Other comments to add/decribe the choises】

- Economic recovery in the U.S. during the post-Corona era (including travel and tourism)
- Slow economic recovery in Southeast Asia
- Climate change policy

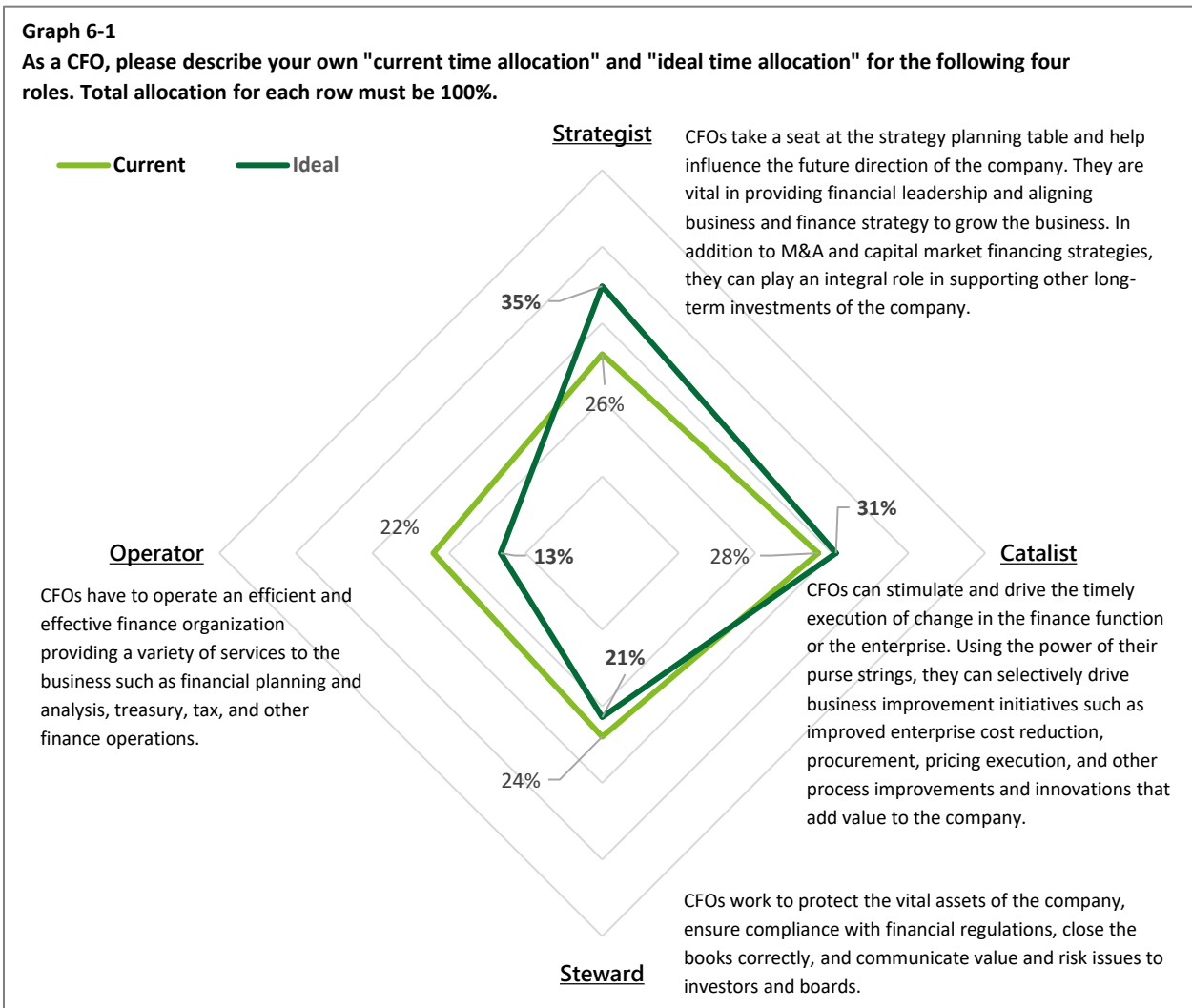
Graph 5 shows what trends in the global economy CFOs will most closely watch when preparing business plans over the next year. "Increased requests to address environmental issues/ climate change" ranked first, which was newly added in this survey. The second and third were "U.S industrial policy under the new Biden administration" and "deterioration relations between the U.S. and China," respectively. Responding to environmental and climate change is an agenda with great impact on all companies, and corporate awareness of this issue is rapidly growing, especially with the inauguration Japan Suga administration and the U.S. Biden administration. Responding to climate change, for example specific reduction

strategies for CO2 emitting companies, monitoring and disclosure of global warming risks, drastic review of procurement and investment/loan sources to reduce CO2 emissions, requires structural changes not only in individual companies, but also in global capital markets and supply chains. Over the next few years, addressing the environment and climate change will be a key agenda for CFOs. As for the second- and below-ranked topics, the U.S. Biden administration has made it clear since its inauguration that it will foster domestic industry and take a confrontational line with China. For Japanese companies, the policies of the new Biden administration on industry and China will have a significant impact on their business. Until the direction and specific policies of the new administration are further clarified, Japanese companies will have to closely watch the situation with both expectations and concerns.

Survey on the approach to finance organizations and finance professionals under the high uncertainty era

CFO roles and time allocations

While CFOs currently devote equal time to each of the four roles, they ideally would like to shift from a “defensive” role to an “offensive” role.

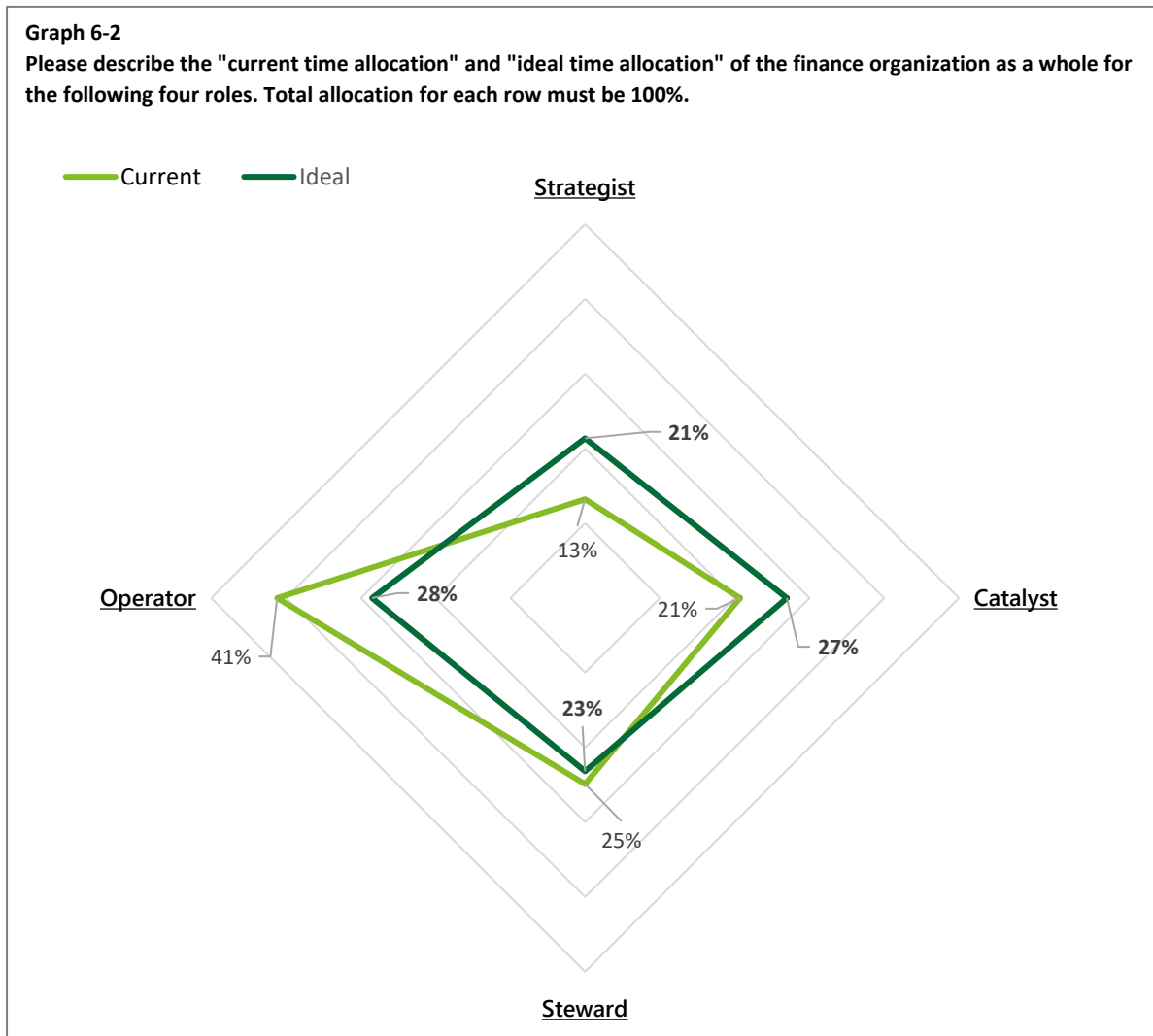


At the first question of second-half session, we asked the CFOs about their current and ideal time allocation for these four roles. In an ideal world, CFOs would like to spend less time on the defensive functions of *operator* and *steward*, and more time on the offensive roles of *strategist* and *catalyst*. Although these trends are unchanged from the results conducted in December 2018, the results this time are more balanced, with 33% of respondents saying they are ideally *strategists*, compared to 43% in the previous survey. In the high uncertainty era, it can be said that in addition to the role of the *strategist* of strategic planning (planning itself), there is also more emphasis on the role of the *catalyst*, which is to drive strategy execution, and the *operator*, which is to perform accounting operations.



Roles and time allocation as a finance organization

The results showed that it is desirable to allocate time in a balanced manner even though most of the time is currently spent on operators in the finance organization.

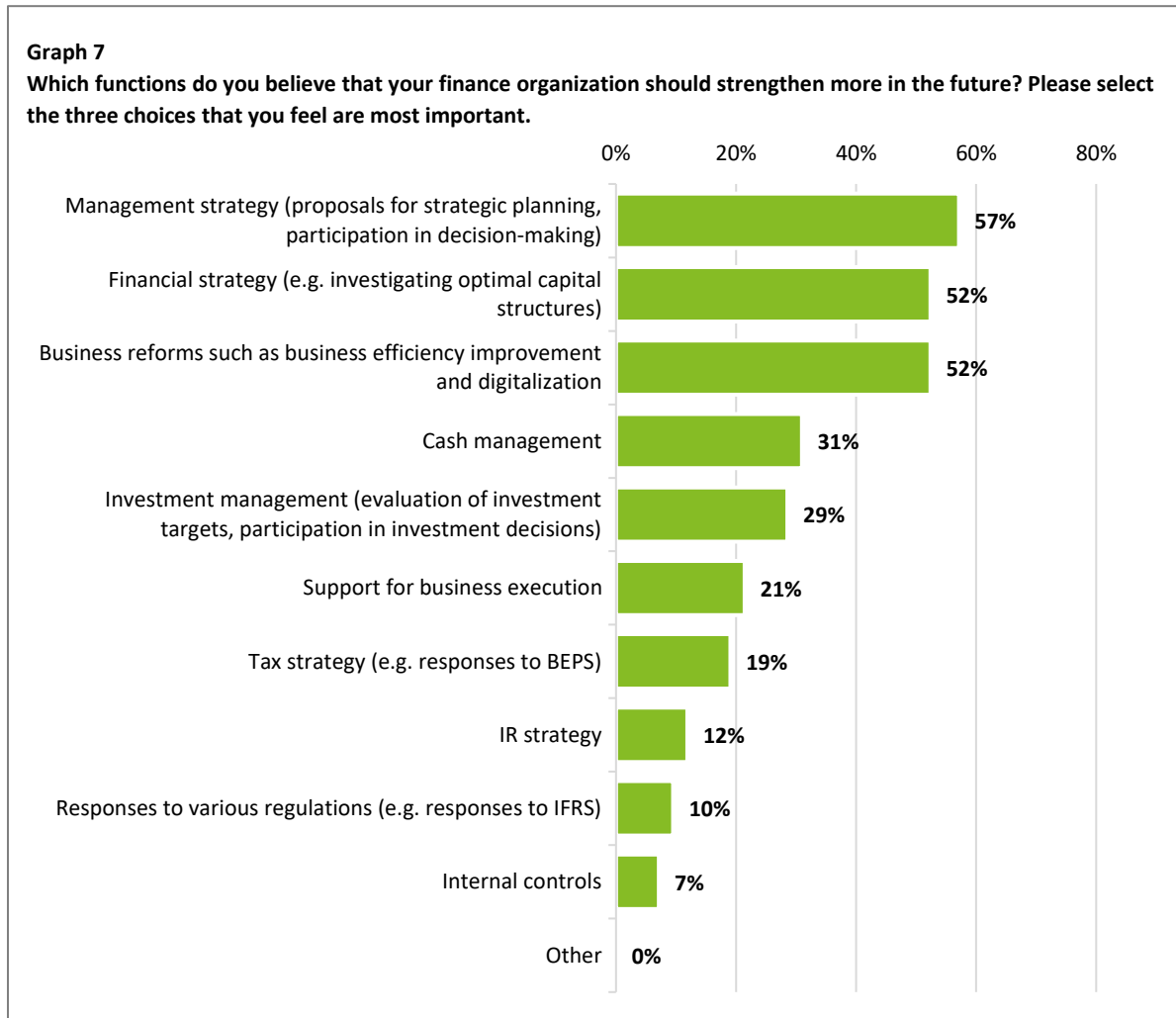


In addition to questions about CFO's time allocation, we also asked about the "current and ideal time allocation" for the four roles in finance organizations as a whole. The results suggest that finance organizations would ideally like to have a balanced time allocation of all roles. On the other hand, respondents currently devote the most time to *operators* (41%), which is much higher than the ideal time allocation. While companies have been promoting 'digital transformation' to improve business efficiency recently, this is that many companies are still working on, suggesting that it will take some time before the benefits to become apparent. Even in those companies that have seen benefits, it has taken time to shift resources that were previously engaged in *operator* roles to *strategist* roles. We could assume that the finance organization is under-resourced, making it difficult to shift to the role of *strategist*. These factors also possibly prevent the effect from being reflected significantly in the ratio.



Functions that finance organizations should strengthen

Finance organizations need to be more involved in business strategy for future improvement.



The functions that finance organizations need to strengthen in the future are "management strategy," "financial strategy," and "business reform such as efficiency improvement and digitalization." In particular, the fact that management strategy ranked first indicates that there is a desire to expand the role of finance organizations. The fact that institutional support and internal control were ranked lower is also a result of the fact that companies are paying more attention to offensive functions rather than defensive functions as a direction for future improvement. The result that case management (31%) was ranked at fourth, which was up from the previous survey (22%) in March 2016 indicates that the importance of cash management as a foundation for business operations has been growing amid increasing uncertainty.

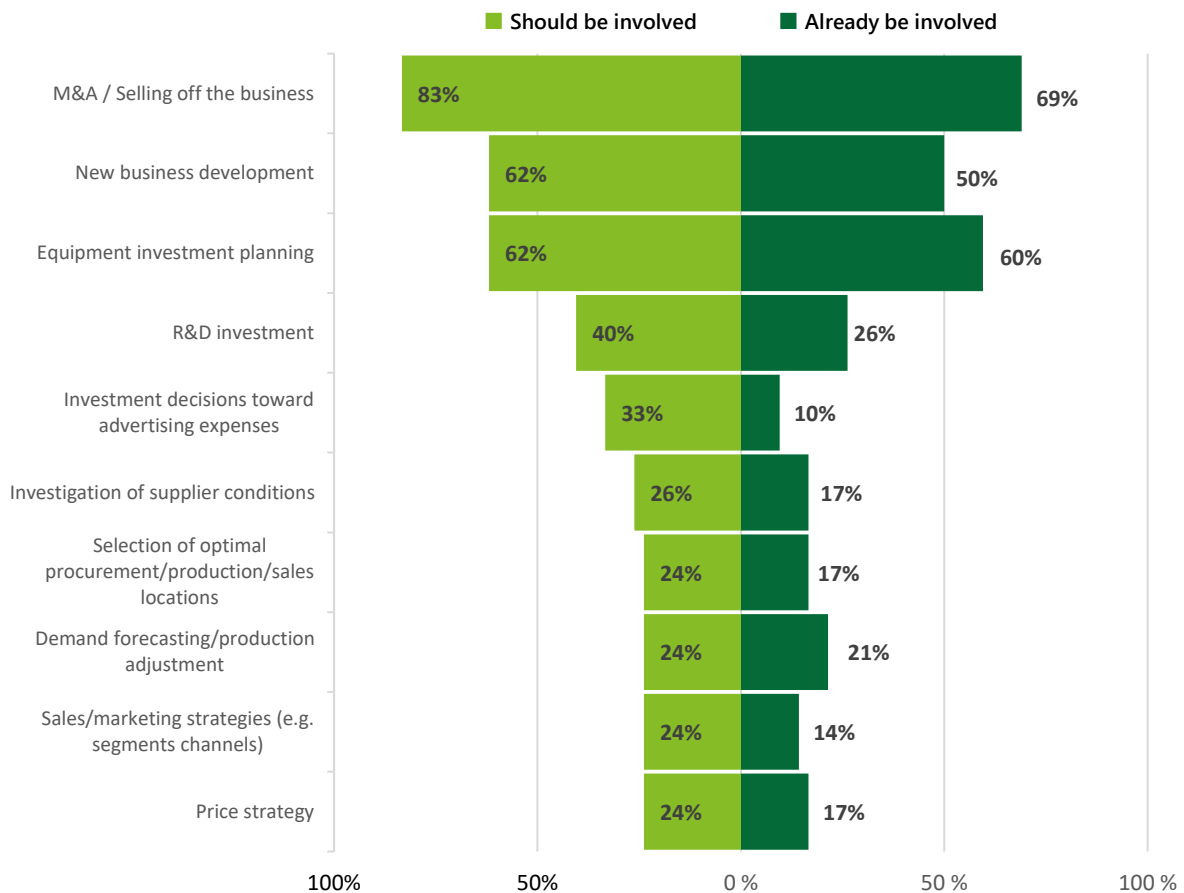


Areas where finance organizations should be involved in decision-making from the initial stages

While there is no significant gap between the areas in which finance organizations should be involved in decision making (areas of interest) and the areas in which they have been involved, there is room for improvement in the actual involvement.

Graph8.

In your opinion, in which areas should your finance organization participate in decision-making from the initial stage of initiatives, and in which areas is your finance organization actually involved from the initial stage of initiatives? (Multiple answers may be selected)



Any other additional comment for each areas

【Areas should be involved】

- KPI selection
- Promotion of sustainability business management
- Financial strategy planning
- Countermeasures against strategic shareholdings, credit screening of customers and suppliers
- Credit management, foreign exchange risk management

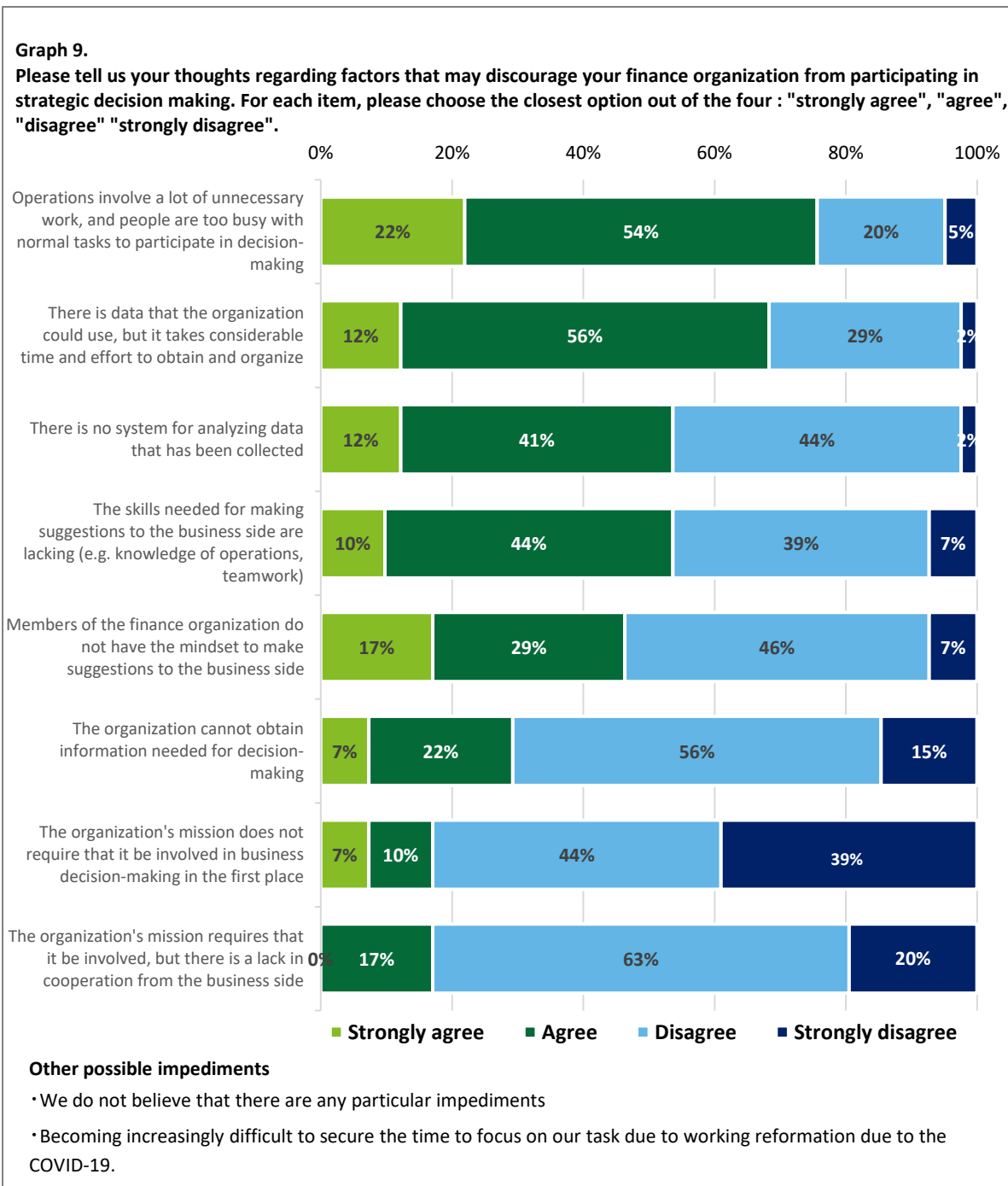
【Areas already be involved】

- Countermeasures against strategic shareholdings, credit screening of customers and suppliers
- Credit management, foreign exchange risk management

“M&As, selling off the business” was ranked first in both areas where finance organizations should be involved in decision-making from the initial stage and the areas where they are actually involved. The reason that only 69% of the respondents are actually involved can be assumed that the know-how has been accumulated on the business side. The top three areas are all deeply related to the key business strategies, and there is an increasing interest in those areas within the finance organization. On the other hand, both interest and actual involvement rates for operation-oriented areas such as procurement, production, and marketing are relatively low compared to the top three, but both interest and involvement have increased compared to the results of a similar survey conducted in June 2016 (both involvement rates were less than 10%). The importance of finance organizations providing value to the business as a business partner has been recognized, and it is expected that finance organizations will become more and more involved in each business operation

Impediments for engaging in strategic decision making

The biggest impediment to involvement in decision-making was being too busy with regular work.

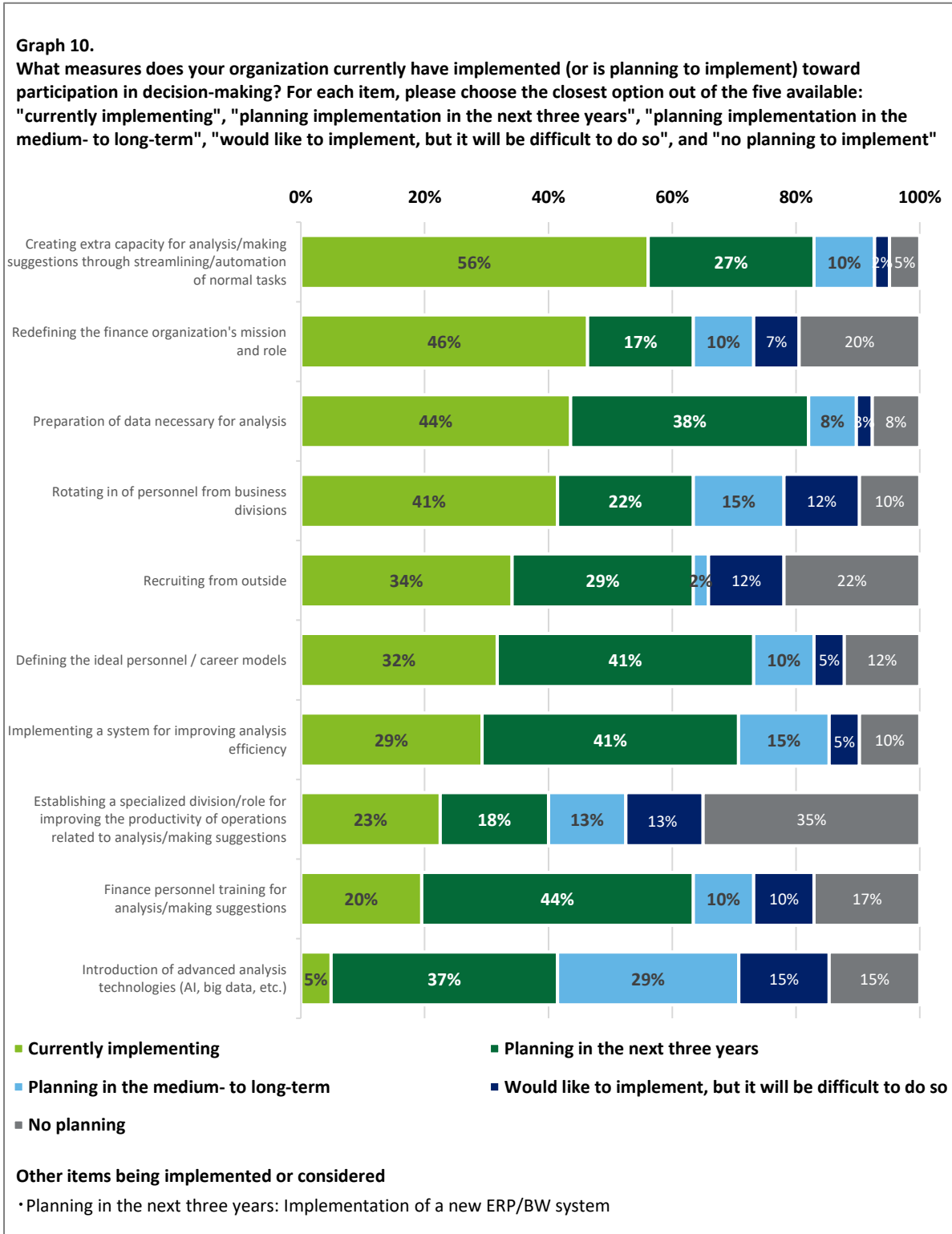


The top impediments for involvement in strategic decision-making were "too busy with normal work" and "takes a lot of time and effort to obtain useful data." In the previous question on functions that need to be strengthened, "business reform such as efficiency improvement and digitalization" was the one of top answers, confirming that all companies are facing the challenge of generating time. On the other hand, responses such as "the lack of cooperation from business side" and "the mission does not require to be involved in business decision-making" were at the bottom of the list, which indicates that the businesses also have high expectations to finance organizations.



Initiatives for participation in decision-making

In order to participate in the decision-making process, the current focus is to create extra capacity for analysis and making suggestions through the streamlining & automation of regular tasks.

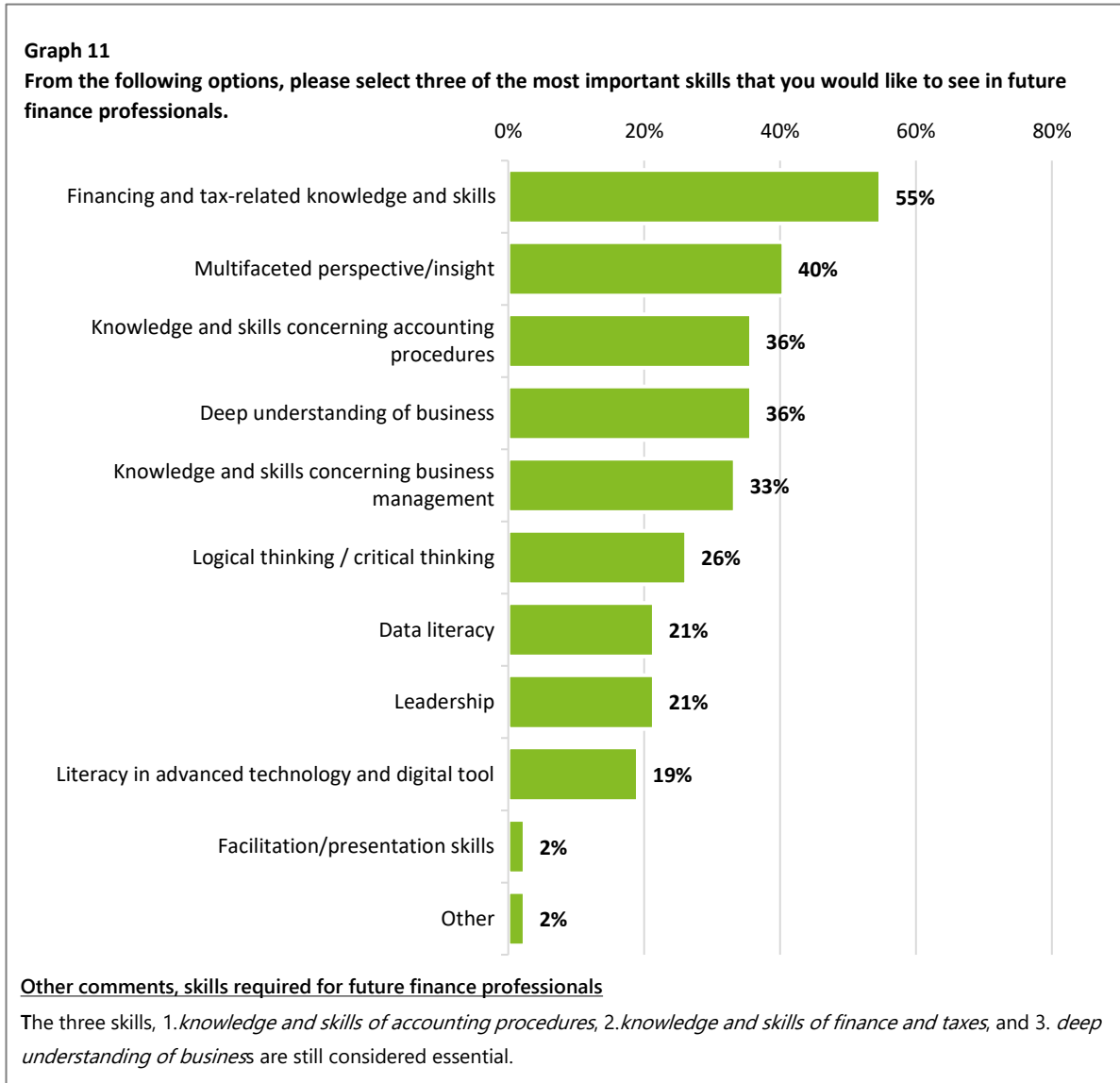


In response to the impediments mentioned previously, "Creating extra capacity for analysis/making suggestions through streamlining/automation of normal tasks" was ranked first among the initiatives currently being implemented, which is resulted in a sense of urgency among the companies. Overall, many of the initiatives are scheduled to be implemented within three years, indicating a high level of awareness of improvement toward participation in decision-making. In terms of human resources in finance organization, current needs are being covered through rotation and external hiring, and there are plans to implement medium- to long-term training, but it appears that there is still much progress to be made.



Skills required for future finance professionals

CFOs identified "financing and tax-related knowledge and skills" as the most important skill for future finance professionals.



"Financing and tax-related knowledge and skills " ranked first as a skill required of finance professionals, indicating the importance of core finance skills is evident. In the previous section of the questionnaire, there was a desire to expand the functions and roles of the finance organization in business operation, and it could be said that they see their contribution to the business as a result of utilizing their core skills (strengths) as finance professionals. For the other options, the responses were scattered, indicating how the skills required of finance professionals are becoming more diverse. In the future, it is expected that skill sets will be defined and fostered according to roles and positions instead of developing professionals with a standardized skill set.



Summary

How should CFOs and finance organizations strengthen their functions in the future, and what initiatives should be taken to achieve this objective?

While this is a fundamental concern, in today's climate of increasing uncertainty, we have once again conducted a similar survey the ones from 2016 to 2018.

The focus of CFOs and finance organizations has not changed over the past few years, as they want to strengthen “offensive” role. However, the result of emphasizing a balance among roles rather than simply strengthening offensive side can be seen as a response to highly uncertainty era.

This survey prevailed that while the roles required of finance organizations are becoming more and more diverse, there are a noticeable challenge that finance organization is struggling on the balance between much workload and less time. In the future, it is expected that the company will continuously reform its business operations, designing in concrete proposals on what kind of value they will offer to the business and management sides, and working on resource shifting while developing its finance personnel.

What is the 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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