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China CFO Agenda 2024

To CFOs

Following the release of economic data in the first half of 2024, China's economy is gradually recovering and showing signs of stabilization, and the GDP growth target of "around 5%" for the whole year is indeed within reach. However, complexities and uncertainties of external environment still persist, as indicated by looming protectionism. Businesses face a complex macro environment, while responding to the long-term implications of social changes and technological iterations.

The role of the Chief Financial Officer (CFO) has evolved beyond the traditional financial responsibilities such as meeting regulatory deadlines, managing accounting controls, and overseeing cash and working capital. Today, CFOs are expected to step beyond the finance department and navigate complex, interconnected issues arising from macro factors like capital markets, geopolitics, demographics, technology, and the environment. However, the job has become increasingly complex, increasingly intricate. One big reason: convergence. Convergence in technology, yes. But there's a more complex kind of convergence at play here. To be effective, the CFO may need to accelerate the pace of his or her own transformation, looking beyond the finance department and taking on the dual responsibilities of functional leader and business leader to identify and create value.

The CFO Agenda is a thought leadership piece that provides insights into the key challenges, opportunities, and focuses for CFOs. This report is based on Deloitte's extensive research and survey data, focusing on priorities of CFOs, their role in the organization, and the future of finance in a rapidly evolving business landscape. We hope that finance executives and their colleagues find this report instructive.

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Vice Chair
Leading Partner of CFO Program
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The CFO Agenda 2024

If the job of the CFO was neatly defined, it would be much easier to do. Meet regulatory deadlines on time. Make sure accounting controls are in place. Manage cash and working capital. And to be sure, those items are still part of the brief. But to perform the job more effectively, chief financial officers likely have to step out of the finance department. This is not simply a matter of being a strategic partner, an innovator, or an influencer. The reality is, the CFO's job is expanding.

In some ways, this expansion is due to macro factors organizations are facing right now. The issues seem more complex and more interconnected than in the past.

Capital markets
The PBOC's interest rate decisions have been impacted by the Federal Reserve and the foreign exchange market. As US interest rates are expected to continue the "higher and longer" trend, many Asian central banks, including the PBOC, are expected to maintain their current monetary policies. Monetary policies will impact companies' long-term investment decisions.

Geopolitics
Geopolitical tension has created additional risk and complexity for businesses. Protecting cross-border assets and maintaining the flow of goods through supply chains become major challenges when conflicts break out or transit routes get blocked. Complicating matters: Global trade restrictions have almost tripled in three years.[1]

Demographics
The shift in demographics—aging populations, mostly—is also rising as a CFO priority. Finance chiefs will likely need to address product mixes that satisfy very different customer bases. Business portfolios may need revisiting. At the same time, companies may need to revamp how they serve younger customers. For some, the shopping *experience*—and not just the purchasing of products—is important. Indeed, one survey found that nearly 70% of Gen Z consumers regard brick-and-mortar stores as good places to socialize.[2]

Technology
Breakthrough technologies are arriving at a dizzying pace. Consider artificial intelligence (AI). While large language models have been around for some time, Generative AI (GenAI) burst onto the corporate landscape in the past year or so. It's not clear where businesses will land with GenAI, but it will likely be a different place than they are now. One study found that large language models will change 23% of today's jobs.[3] For their part, CFOs may need to assume the role of technologists, working with IT and helping C-suite leaders make informed decisions on whether or how to integrate AI into workflows.

Environment
All of these are set against a backdrop of unprecedented severe weather events and rising sea levels. To help position their companies to compete in a low-carbon environment, CFOs will likely look to factor sustainability into capital allocation decisions. Here again, this is hardly a black-and-white decision. A burning question for finance chiefs: How to balance the need to address climate concerns with the need to create value for shareholders. In doing so, employers may want to factor in workers' expectations of their companies' climate action. Sixty-nine percent of employed adults in a global survey said they want their companies to invest in sustainability efforts.[4]

This brings us to the 2024 CFO Agenda. In putting together this year's version, we looked at how these macro factors are shaping the CFO's job on the ground. Ultimately, we identified six key issues—six drivers that seem to be top of mind for CFOs. Those six drivers are Value Creation; Talent & Culture; AI & Digital Transformation; Operational Efficiency & Resiliency; Climate & Sustainability; and Enterprise Security & Risk. Like the broader forces at play, the drivers are not isolated items and resist being neatly defined. They, too, are converging, interconnecting. The CFO's job, then, is an ongoing challenge: to see the whole chess board—and make moves accordingly.

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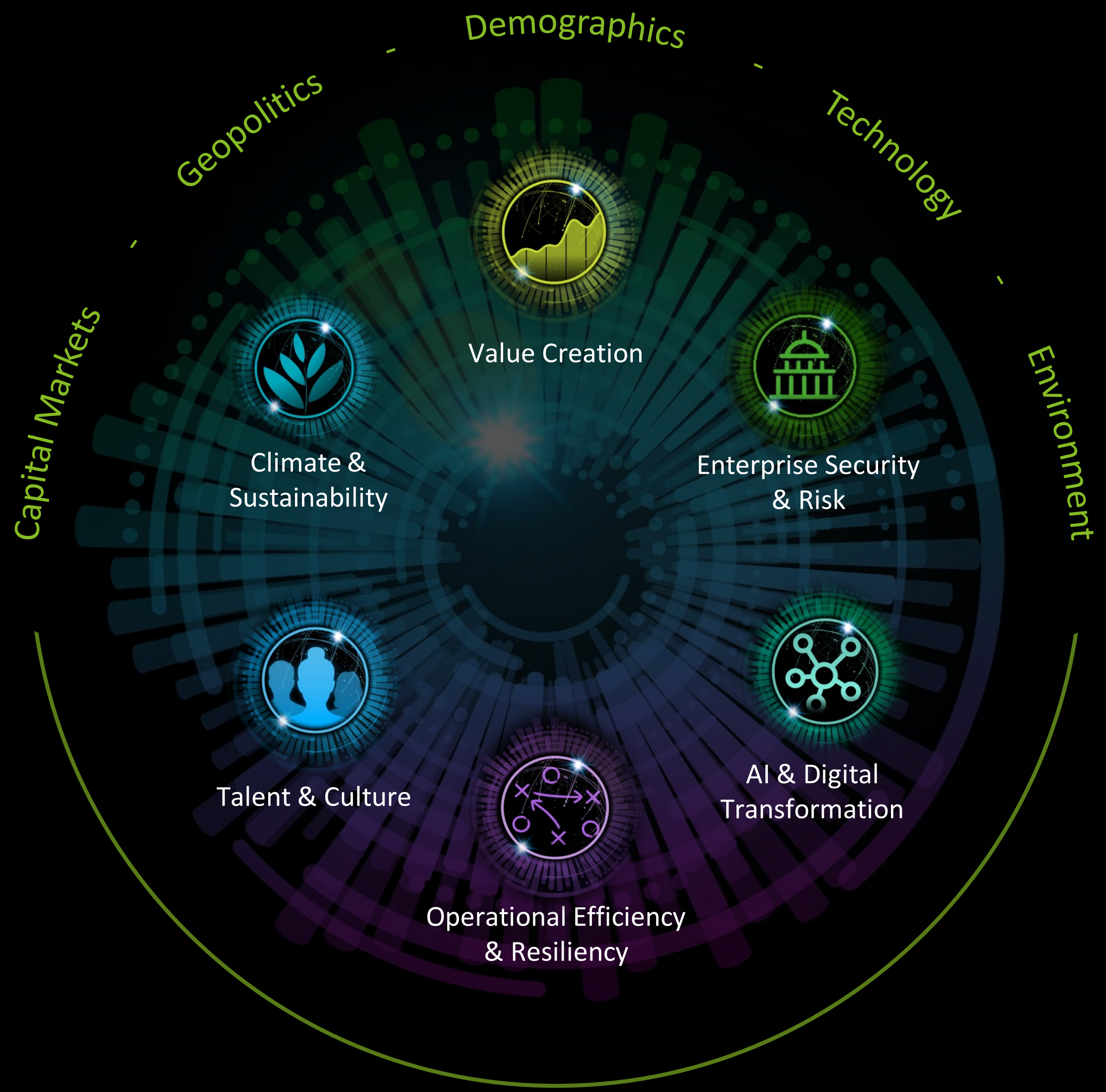
Global Leader CFO Program, Deloitte Touche Tohmatsu

Drivers of the CFO Agenda



Value Creation

At its most basic level, creating value is a simple equation. Boost shareholder return and you've created value. Decrease shareholder return and you've created a problem.

But of late, creating value has become more difficult, messier. For one, stakeholders are now fully part of the equation. Indeed, failing to satisfy the expectations of stakeholders in areas like sustainability and equity can lead to customer dissatisfaction, negative press, and more. The dilemma: Investments in climate and equity initiatives may not generate returns that are easily (or quickly) quantified. Building value for stakeholders requires a different lens—one that helps CFOs look beyond stock prices and return on investment (ROI) and next quarter's results.

This can put CFOs in a tight spot. Stakeholder satisfaction is important, but rewarding investors is paramount. Doing so, however, gets tougher amid geopolitical tensions and macroeconomic turmoil. Despite glimmers of hope—potential reductions in borrowing rates, for one—jitters seem to linger. Many CFOs remain on the defensive, cutting costs and reserving capital. Consider this: In the 1Q 2024 North America CFO Signals™ survey, 60% of CFOs said now is not a good time to be taking on greater risk.

Creating value in a volatile, uncertain, complex, and ambiguous (VUCA) environment puts a premium on a CFO's ability to reframe—to see things from a different vantage point. Finance chiefs who spot opportunities, who are ready with the necessary funding to finance key strategic acquisitions or mergers, can position their companies for long-term success. Get it right and the payoff may be of a magnitude of order.

That does not mean more risk-averse CFOs will be standing still. Finance chiefs are ideally situated to work with C-suite leaders to reassess their companies' business portfolio mix. Jettisoning a non-core business—or allocating valuable capital to acquire one that's a good fit—can reinforce a company's brand. Shareholders should be kept in the loop, though. Whether results are good or not so good, CFOs will need to tell the story the right way, framing the narrative for investors.

In the meantime, CFOs will have to figure out what to do with advanced technologies. Finance chiefs will likely be asked by boards to weigh in on capital needed to fund technologies like cloud computing and artificial intelligence—and what the payoffs and trade-offs might be.

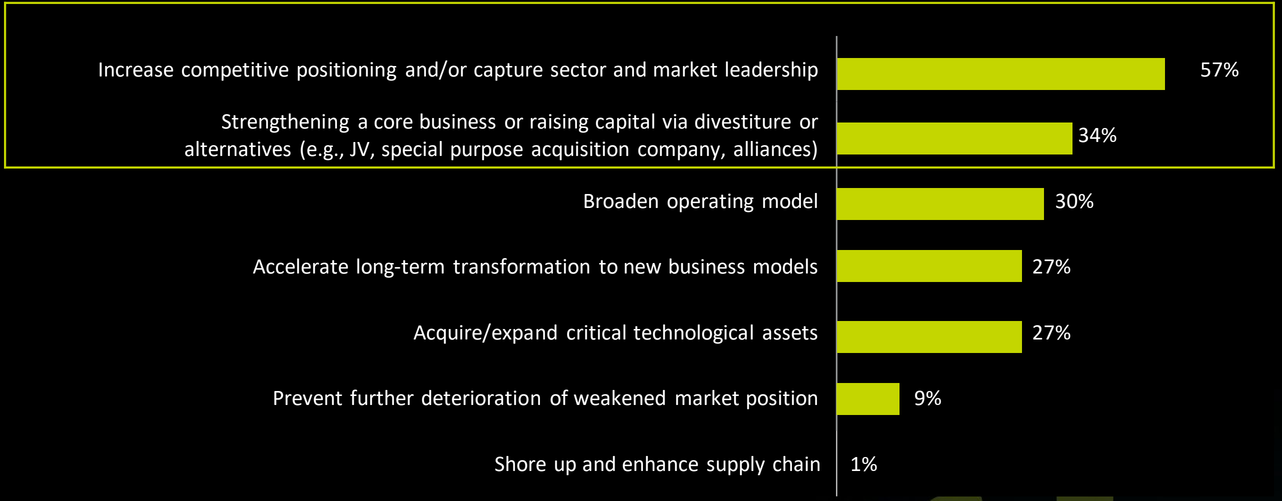
Value creation

According to the survey, although Chinese companies are currently cautious about investment in general, with the steady recovery of the economy, CFOs still recognize the important role of M&A and restructuring in long-term business transformation, broadening operating models and strengthening market positions in specific industries and sectors. Against the backdrop of high uncertainty faced by Chinese companies in the current period of globalization, four M&A opportunities stand out:

- **Industry Consolidation**: The economic downturn will lead some smaller or less profitable companies to consider selling themselves to industry leaders or more powerful companies at reasonable prices.
- **Foreign Investment Localization Strategy**: The continued downturn of the domestic economy has led to more rational valuations of many promising domestic companies. For foreign investors, this will be an excellent time to invest in China's promising companies and accelerate the localization of multinational enterprises.
- **Chinese Overseas Investment**: In the context of weak domestic demand, Chinese companies will pay more attention to overseas markets, and may accelerate the pace of Chinese companies going overseas through overseas mergers and acquisitions to further expand their territory and accelerate globalization.
- **State-Owned Capital Acquisition**: State-owned capital-related companies will be more active in the capital market. Under the influence of mainstream directions and successful practices, central and state-owned enterprises will further carry out M&As in their own traditional fields and strategic emerging industries in 2024 to complete the optimization of the layout and structure of state-owned capital.

Source: **2023年中国并购交易市场洞察及2024展望**

If you plan to pursue M&A and joint venture (JV) opportunities, what best describes your company's top two M&A strategies? (N=98*)



**98 (79%) of total respondents across eight industries answered. Percentages do not add up to 100% because respondents could select more than one option.

Source: 4Q 2023 *CFO Signals* Survey, US CFO Program, Deloitte LLP.

Talent & Culture

Current labor shortages—particularly shortages of workers with AI skills—seem to have generated a great deal of media coverage of late. Articles often address hypotheticals about the talent models of the future. For CFOs, however, the skills shortage is likely to be of immediate concern.

Many workers want flexible work arrangements—read hybrid—and more work autonomy. But executives at some companies seem to have different ideas on the subject. Indeed, the concept of workers doing their work in their offices has staged something of a comeback.

Nevertheless, hybrid work arrangements appear to have made a place for themselves. In Deloitte's 4Q 2023 CFO Signals™ survey, 65% of the 124 respondents said they planned to offer a hybrid option this year. Employers who don't offer a hybrid option could find themselves at a disadvantage. Lack of options might lead to desirable candidates turning down job offers. In fact, in a Deloitte survey ("It's not a stretch: Gen Z and millennials want flexibility and balance," June 6, 2023), 17% of Gen Z respondents said they preferred to work fully remotely. Another 26% of Gen Zers indicated they preferred to be able to choose any combination of working onsite and remotely.

Hybrid work raises many questions for CFOs and their C-suite peers. With employees taking greater ownership over how to perform their jobs, managers will likely want to shift their focus to taking responsibility for outcomes and measuring a team's progress. In the absence of face-to-face interaction, finance leaders may need to be resourceful in finding ways to assess productivity. Using technology to collect and analyze employee-generated data like email interactions can help, as can trying to formulate useful metrics. But it will be incumbent on leaders to outline the scope and purpose behind what is being gathered—and to get worker approval. Providing employees with details on how monitoring could be helpful (in improving on-the-job safety, for example) could be useful in earning their trust.

Management might also consider the benefits that offline interactions, which can sometimes include mentoring and learning, can offer.

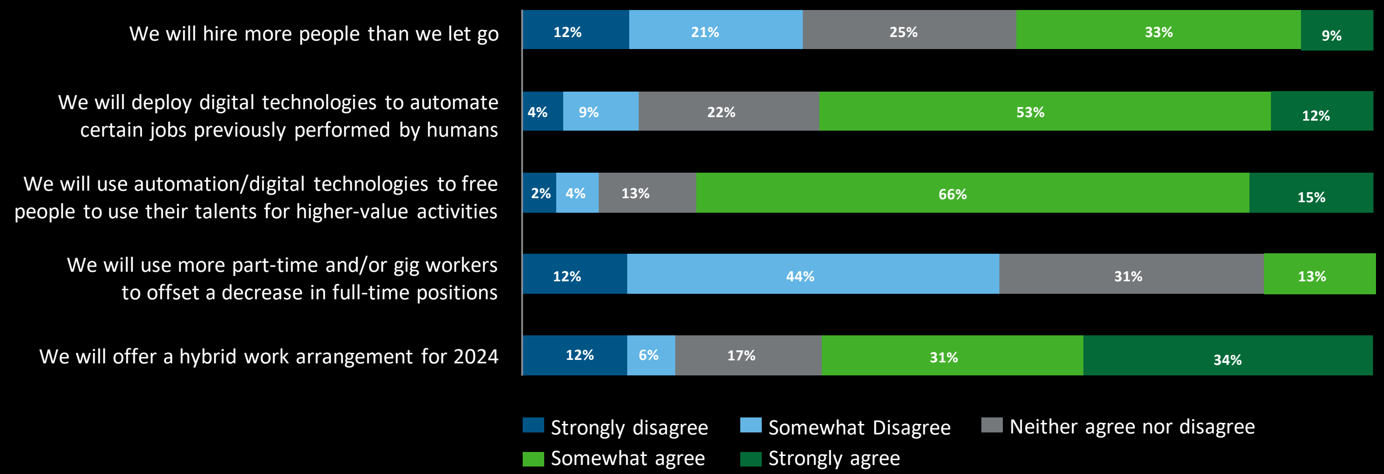
Learning, in fact, may play a key role in fortifying a company's resilience. In an ever-changing environment, any job description could be outdated as soon as it's posted. That's why finance leaders may want to focus on hiring or upskilling employees who have demonstrated an ability to quickly adapt to changing needs. CFOs will need those traits, too. In an era of new and powerful technologies such as AI, a helpful response is neither to be paralyzed by fear nor to run headlong into the risks.

Talent & Culture

In 2024, with the continuous deepening of digital transformation, more than 80% of CFOs expect digital technology to automate part of the manual work, and more than 80% of surveyed CFOs believe that digital transformation will also free up employees to focus more on value creation. 65% of the respondents anticipate that their organization will implement a hybrid work arrangement by 2024, and 42% expect that their organization will hire more employees than they let go in 2024.

Employees' attitudes and expectations towards employers are also changing. Both Gen Z and millennials place a high value on maintaining a work-life balance. In addition, the debate over "returning to the office" is intense, with some employers hoping to bring employees back to the workplace, while employees are striving to maintain the flexibility of remote work acquired during the pandemic.

What are your expectations for your organization in 2024? (N=123*)



*123 (99%) of respondents across eight industries answered. Note: Some respondents didn't answer every part of the question.
Source: 4Q 2023 *CFO Signals* Survey, US CFO Program, Deloitte LLP.

Top Reasons Gen Zs and millennials choose their organization (22,841 respondents globally)

Source: Deloitte 2024 Gen Z and Millennial Survey

AI & Digital Transformation

A consensus seems to be emerging that GenAI is the next wave of transformational technology. Leaders managing any aspect of any company will likely need to integrate it into their business's strategy and operations. The key: Start asking the hard questions and look ahead to how GenAI can be gradually deployed in both finance and the enterprise.

Why now? The simple answer could be that not adopting GenAI could put companies at a competitive disadvantage, given its capacity for unlocking new business models, identifying new growth opportunities, and accelerating innovation in products or services. But harnessing GenAI's capacity for amassing and analyzing massive quantities of data is hardly simple—or inexpensive. The challenge for CFOs is identifying opportunities for incremental improvement. It's a lengthy menu, from streamlining financial planning and analysis (FP&A) to improving forecast accuracy—areas where GenAI can demonstrate a tangible impact on the bottom line. Accumulated GenAI "dividends" can then be reinvested in higher-value strategic opportunities, where ROI may take longer to achieve.

It's difficult to leverage the full power of GenAI without getting the underlying data in order. For some companies, that may mean creating a centralized repository for the aggregated data from each business unit. GenAI's nearly insatiable appetite for data can only be fed once standardized data is also consistent, accurate, and complete. Governance issues over handling the data also need to be in place.

Many CFOs have already begun exploring GenAI. In Deloitte's 3Q 2023 CFO Signals survey, 42% of the 116 respondents said that their companies were experimenting with GenAI. Implementing GenAI tools for repetitive and manual tasks in areas like reporting can free up finance teams to turn their attention to higher-value tasks.

But before companies can unlock GenAI's full potential, they will likely have to address issues related to talent, governance, and risk. In the 1Q 2024 CFO Signals survey, 93% of the 116 respondents said that bringing talent with GenAI skills into finance is important over the next two years.

Finance leaders will likely face a host of investment decisions over that same time period, including whether to consider building their own GenAI tool or to customize a vendor-supplied model.

Either way, the risks associated with GenAI—including data privacy, intellectual property issues, and model bias—will need to be managed. "Hallucinations," wherein GenAI produces inaccurate or nonsensical data, also will require monitoring. Combining AI's capabilities with human knowledge may be the recipe for faster and more accurate decision-making.

AI & Digital Transformation

Generative AI is data-driven, and the finance sector relies on massive amounts of data, so generative AI empowering finance is the most appropriate option.

When asked for the most promising uses of GenAI for the finance function, surveyed CFOs most frequently mention improvements in planning, forecasting, and analysis activities, as well as automation of routine and transactional processes. While some CFOs note that it is too early to tell what the most promising uses of GenAI for finance will be, there is a desire for improved decision-making, higher-value insights, increased efficiencies, and reduced costs.

In your opinion, what are the most promising potential uses of GenAI for the finance function (N=106*)
Most frequently cited comments by category (number of CFOs citing each category)**

**106 (91% of total respondents). Total number of comments is more than the total number of respondents to this question because some CFOs cited multiple actions.
**Note: These categories were developed based on responses to open-ended text questions.
Source: 3Q 2023 *CFO Signals* Survey, US CFO Program, Deloitte LLP.

Operational Efficiency & Resiliency

If lack of talent remains a constant challenge for many functional leaders, the shortfall may be most acute in technology. The gap appears to be particularly true for machine learning and GenAI.

Finance is not immune from this deficit. In our North American CFO Signals 1Q 2024 survey, we asked finance chiefs to name their three biggest concerns about enabling the use of GenAI in finance. GenAI technical skills were cited by 65% of respondents. Another 53% named GenAI fluency. A shortage in GenAI expertise could hamstring efforts to streamline operations and boost productivity.

Even at this early stage, the technology seems to be gradually finding its place in finance. Fully harnessing the potential of GenAI will likely take time, though. Meanwhile, investing in other transformational initiatives could help boost the efficiencies CFOs seek. Allocating capital to process transformation—redesigning AP/AR, connecting siloed data systems, and the like—can increase productivity for finance and reduce costs for the enterprise.

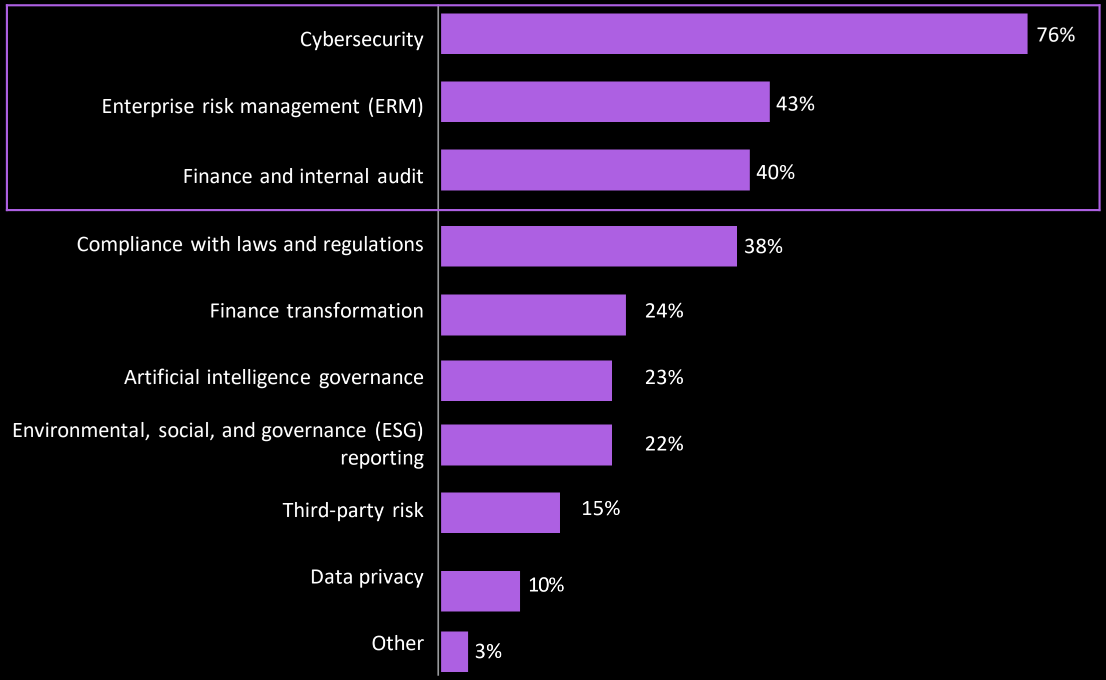
At the same time, finance chiefs should work closely with procurement officers and functional leaders to help ensure that supply chains are both efficient and resilient. In addition, building out a more agile finance function may help many companies cope with unforeseen risks. Responding to disruption tends to require a finance function that's firing on all cylinders, swiftly analyzing the threats, modeling potential impacts, and working with C-suite leaders to launch a response.

Cybersecurity is another threat to a company's daily operations. Certainly, audit committees seem to think so. When CFOs were asked in our 4Q 2023 CFO Signals survey to cite the top three priorities of their audit committees for the next 12 months, cybersecurity topped the list (76%).

For CFOs, cybersecurity responsibilities go beyond reporting material events to the Securities and Exchange Commission. Many finance chiefs and other C-suite executives will likely want to work directly with chief information security officers to get a handle on risks. CFOs might consider sitting on committees that address business continuity plans. One question to consider: How well can you operate during a disruption?

Operational Efficiency & Resiliency

Given the current risk environment, what are the top three priority areas (beyond financial reporting and internal controls) for the audit committee in the next 12 months? (N=117*)



*117 (94%) of respondents across eight industries answered. The percentages do not add up to 100% because respondents could select more than one option.
Source: 4Q 2023 *CFO Signals* Survey, US CFO Program, Deloitte LLP.

Climate & Sustainability

When C-suite leaders and boards look to build resilient operations, the focus often tends to be on more immediate concerns. Supply chains. Liquidity. Cybersecurity. But resilience can also require an aerial view, one that captures a longer horizon. For their part, CFOs should also address a vital question: Will the company be a viable business in years to come?

Climate change—or more accurately, how companies prepare for climate change—will probably be part of the answer. To plan for future sustainability, though, C-suite executives may have to make important decisions right now. For one, they might have to reconfigure operations to compete in a low-carbon environment. In addition, plans may need to be drawn up to make sure facilities can ride out severe weather events.

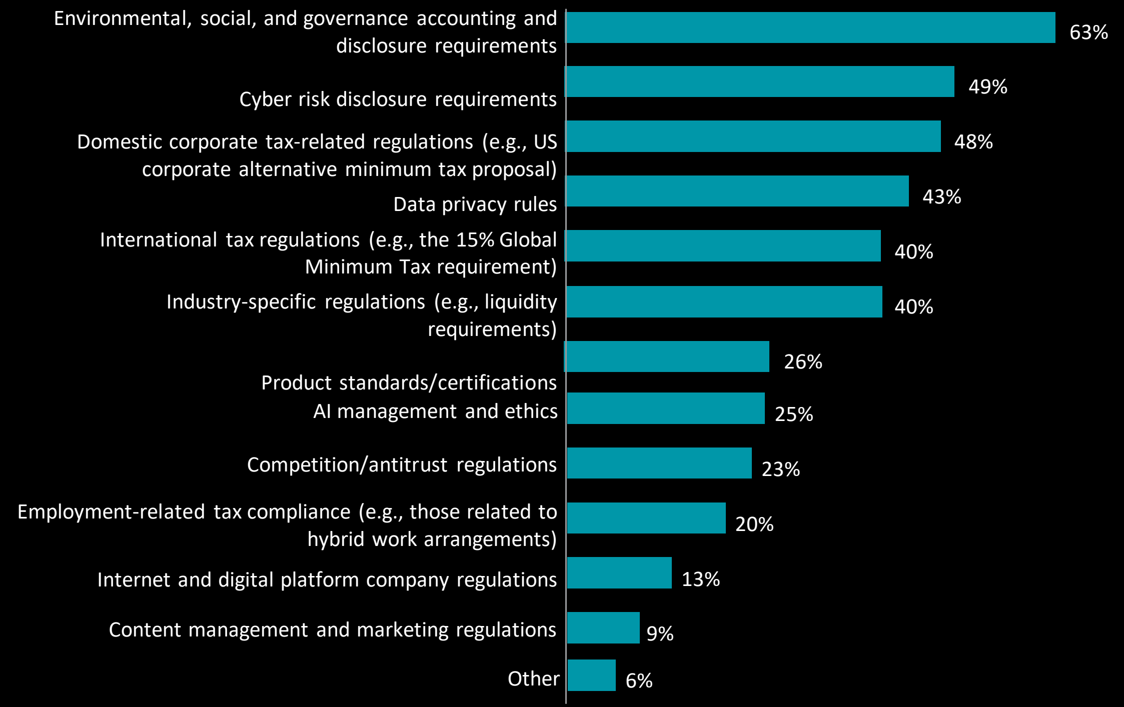
CFOs will almost certainly be involved in any climate-related discussions. Finance chiefs will need to consider the potential impact of climate and sustainability without losing focus on growth. Some CFOs will also be tasked with addressing a welter of global ESG reporting rules. For example, in the United States, larger filers will be required to disclose material scope 1 and scope 2 climate-related risks.[5] In Europe, the European Union continues to move toward full adoption of its Corporate Sustainability Reporting Directive.[6] Finding the appropriate tools to measure and report on greenhouse gas (GHG) emissions may help with these regulatory obligations. In a Deloitte Global survey of business leaders, including CFOs, 63% of respondents said they always or often consider sustainability and/or climate in capital allocation decisions.

These efforts may help companies reduce their impacts on the environment— and help build trust with stakeholders. But reaching net-zero will be challenging. To get there, some businesses have started assessing and reducing direct GHG emissions. Others have turned to carbon credits. These financial instruments can help a company meet reduction targets.

Climate & Sustainability

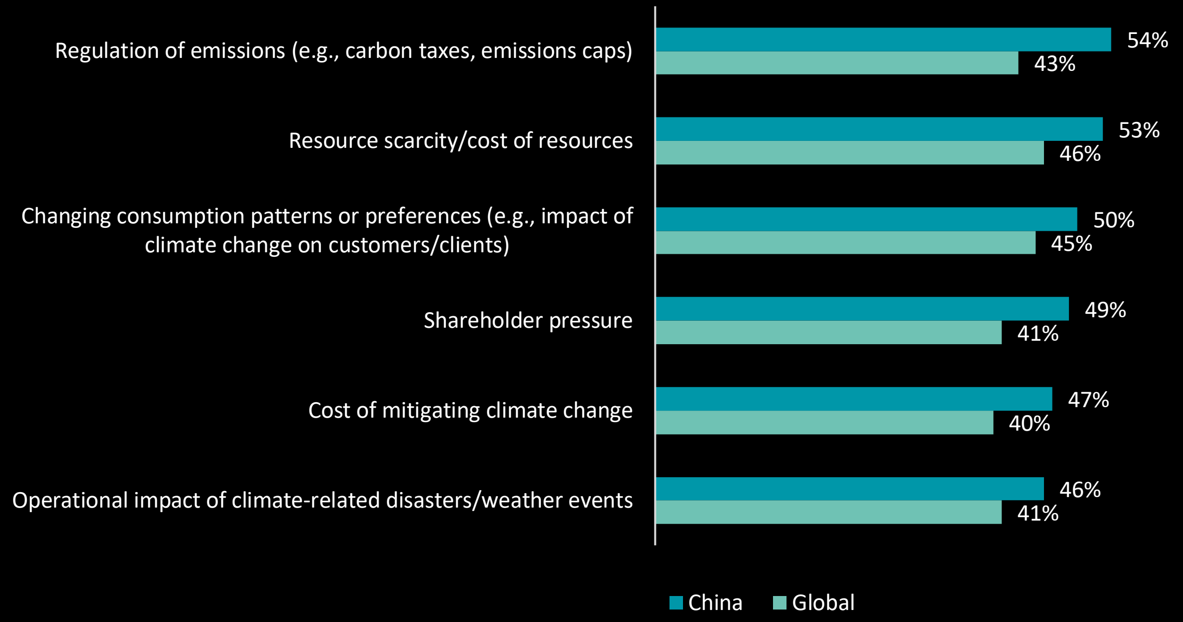
Regulations on climate change and sustainability are constantly being introduced and updated, prompting CFOs to make ESG accounting and disclosure requirements a top compliance concern. Comparing with the rest of the world, businesses in China are more susceptible to the negative impacts of climate change: emissions controls, resource scarcity, changing consumption patterns, shareholder pressures, and the potential costs of climate change mitigation.

Which proposed rules or regulations are of most interest to your organization due to their impact on your ability to comply or other factors? (N=120*)



*120 (98%) of respondents across eight industries answered.
Source: 2Q 2023 *CFO Signals* Survey, US CFO Program, Deloitte LLP.

Top climate issues already impacting companies (N=125)
(select all that apply)



Source: Deloitte 2023 CxO Sustainability Report

Enterprise Security & Risk

Not that long ago, it was possible for CFOs to believe that geopolitics was no match for the economic opportunity known as globalization. The kinds of events that affected corporate performance tended to be isolated, like sovereign debt crises or credit risk issues within specific markets. But CFOs increasingly need to be cognizant of the geopolitical dimensions of their decision-making.

Events halfway around the globe can expose companies to a web of risks: strategic, operational, reputational. Given the many interlocking pieces, the full scope of risks can be time-consuming to discern. Embargoes related to such conflicts can lead to pricing uncertainties, a particular concern for companies that use commodities in their manufacturing processes.

Some forms of instability may elude visibility. No sooner had supply chain stresses begun to calm, then major trade lanes in the Red Sea were disrupted earlier this year.[7] Political uncertainty—especially relevant this year, when more than 60 countries will hold elections—could affect capital flows and cross-border dealmaking.

For CFOs and their boards to fulfill their responsibilities regarding risk oversight, it's incumbent on both to stay on top of changes in regulations and compliance reporting. This year has already brought an array of new or updated disclosure rules on issues like cybersecurity.[8] CFOs of US multinationals need to prepare for Pillar Two, the global minimum tax regime (agreed to by over 140 countries under the OECD/G20 Inclusive Framework), implementation of which has already begun in many jurisdictions. Phase-in of the rules will continue into 2026, with exact implementation dates varying depending on the jurisdiction.

An effective risk framework can bring more structure to mitigating such issues, effectively integrating geopolitical factors into ongoing risk-management activity. For CFOs, that may mean directing resources toward analytical tools that can provide a picture of how external issues might have an impact on the organization.

With the growth of increasingly sophisticated AI tools, companies should also be cognizant of the risks associated with the information that the technology relies on to inform decisions. That means establishing guardrails even as companies uncover the technology's emerging capabilities and risks. At the same time, that also means making accuracy and consistency an even greater priority.

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Enterprise Security & Risk

As CFO, what are your three greatest challenges related to managing enterprise risk and regulatory compliance (N=96*)

Most frequently cited comments by category (number of CFOs citing each category)**

*96 (79%) of respondents across eight industries answered.
**Note: These categories were developed based on responses to open-ended text questions.
Source: 2Q 2023 *CFO Signals* Survey, US CFO Program, Deloitte LLP.

About Deloitte China's CFO Program

China CFO Program brings together a multidisciplinary team of Deloitte leader and experience professionals to help CFOs stay ahead in the face of growing challenges and demands. The Program harnesses our organization's broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO's career – helping CFOs manage the complexities of their roles, tackle their company's most compelling challenges, and adapt to strategic sifts in the market.

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https://www2.deloitte.com/cn/en/pages/finance/topics/china-cfo-program.html

Endnotes

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