
A marketplace without boundaries?

Enhancing competitiveness in an ever-changing market



The responses to megatrends:
A comparison between CEOs
in Japan and across the world

Foreword



Although the Japanese economy saw a temporary slump following an increase in consumption tax in April 2014, additional monetary easing measures implemented by the Bank of Japan led to a depreciation of the yen and a rise in stock prices. These advantages, coupled with others such as a drop in oil prices, resulted in the economy once again returning to expansion from the October-December quarter of that year. In addition, backed by strong earnings, corporations have been taking action to achieve growth in the future, for example, stepping up

overseas expansion and boosting capital expenditures. Going forward, base salaries are likely to be increased and the employment environment is set to improve, and the economy is expected to enter a positive growth cycle.

Every year at Davos, PwC presents an analysis and investigation of the visions and business decisions of the world's CEOs in the form of its Global CEO Survey. And since the 16th survey, which was conducted in 2013, PwC Japan put together this report featuring a comparative analysis of the visions of Japan's CEOs with CEOs in other parts of the world. I hope that this report gives you some insight into your daily business operations. This is the third time for us to do this, and we hope that this report will be of use to you in your daily work.

One characteristic of this year's survey is that CEOs worldwide see "technology," "partnerships," and "diversity" as the keys to surviving and thriving amid global competition. Technology refers to how to exploit mobile and other forms of digital technology to make one's company more competitive, while partnerships refer to the kind of partners one's company needs to link with beyond its industry. Diversity, meanwhile, refers to securing a diverse pool of human resources in order to get ahead of the competition in an increasingly globalised market and respond flexibly to increasingly complex threats such as cyberattacks and geopolitical risk. Combining these interrelated elements leads to innovation, which ultimately makes a company more capable of

achieving growth over the medium to long term. With regard to this point, the questionnaire results suggest that among global CEOs, those in the US are one step ahead, and I think that this be one of the reasons for the resilient nature of the US economy in recent years.

Japan's CEOs, on the other hand, tended to place importance on achieving competitiveness in the technical arena, which is in line with Japan's identity as a manufacturing nation. Another characteristic was the sectors that they wish to enter. These include agriculture, which it is hoped will become a "sixth industry," and the healthcare and medical sectors, which are likely to grow as the population ages. However, in terms of technology utilisation and the promotion of diversity, they demonstrated weakness in some areas compared with CEOs from other countries. If Japanese companies are to be able to compete with those from elsewhere in the world, it will probably be important for them to couple their advanced technical capabilities, which have long been their strength, with a stronger focus on technology and diversity, and to develop their transform capabilities and increase diversity.

With the Tokyo Olympics coming up in 2020, it is possible to set goals in various ways. If innovation capabilities can be improved through the public and private sectors working together to rejuvenate the economy by investing in growth fields, the Japanese economy should be able to get on to a new growth path, which should also contribute to the development of the world economy.

PwC boasts a global network comprising a staff of more than 195,000 people in 157 countries around the world, and has experience of providing advice to global companies in various parts of the world. We believe that by leveraging our broad knowledge, we can be a useful resource for you.

Finally, this survey was only possible because numerous CEOs completed the questionnaires and mailed them back to us. I would also like to express my gratitude once again to Mr. Atsushi Saito, Group CEO of Japan Exchange Group, Inc. for giving us a face-to-face interview. Despite the fact that he was very busy, he provided insightful comments on the economic and financial outlook in both Japan and overseas.

A handwritten signature in black ink, appearing to read 'Hiroyuki Suzuki'.

Hiroyuki Suzuki
Territory Senior Partner, PwC Japan

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Three keywords:

Technology, partnerships, diversity

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Introduction

PwC (PricewaterhouseCoopers), the world's largest professional services firm, announced the results of the 18th Annual Global CEO Survey at the World Economic Forum Annual Meeting (Davos Forum) held on January 20 this year. The survey was conducted in the fourth quarter of 2014, and targeted 1,322 chief executive officers (CEOs) from leading companies in 77 countries. We compared the responses from the 162 Japan CEOs that took part in the survey with the survey results from the world as a whole and individual regions, and put our findings together in the form of this Japan-edition report. The comments from Mr. Atsushi Saito, Group CEO of Japan Exchange Group, Inc., who we interviewed face-to-face are available on the following website:
www.pwc.com/jp/ceosurvey

Key characteristics of the responses from Japan's CEOs

- ▶ According to the results of the survey, 79% of Japan's CEOs said that they feel confident about the outlook for their company's performance over the next year. This figure is five points down on that from the previous survey (84%), and one reason for this decline may be that when the survey was conducted, Japan had experienced two straight quarters of poor economic growth, which was due to the reaction to the consumption tax hike and bad weather during the summer. Later, economic indicators painting a more positive picture of the economy were published, so there is probably little need to view this result pessimistically.
- ▶ When asked which countries and regions their companies would be focusing on to achieve growth in the future, 57% of the CEOs mentioned China, which maintained the top

spot from the previous survey. However, there was also a big increase, from 39% to 52%, in the proportion mentioning the US. Nevertheless, the strong overall focus on Asia remains unchanged.

- ▶ 78% of the CEOs see more opportunities for growth now than three years ago, while 72% said that they perceived greater threats. While expectations for growth are increasing as the economy recovers and globalises, concerns are also rising about securing human resources, cybersecurity, and so on.
- ▶ Regarding fields in which digital technology can be utilised, the CEOs are focusing on cybersecurity (selected by 85% of CEOs), mobile technologies for customer engagement (83%), data mining and analysis (76%), battery and power technologies (60%), robotics (51%), and 3D printing (47%). This reflects an emphasis on technology for Japan as a manufacturing nation.

- ▶ As for other industries that their companies have already entered or are considering entering, a relatively high proportion of CEOs picked health care, medicine, and life science (26%) and agriculture, forestry, and fishing (14%). These results reflect the expectation that these will become growth sectors as the population ages and the government implements its Japan Revitalisation Strategy.

- ▶ A relatively large proportion of CEOs (53%) say that they are implementing strategies to promote diversity and inclusion. Securing human resources will be the key to this, and human resources strategy will need to be given a more important position.

The key to beating the competition going forward will be to achieve a high level of integration of technology, partnerships, and diversity and to translate this into innovation.

Survey method

For the 18th Global CEO Survey, PwC interviewed 1,322 business leaders in 77 countries during the fourth quarter of 2014 (September to early December). By region, these comprised 459 CEOs from the Asia-Pacific region (which includes Japan), 330 from Western Europe, 147 from North America, 167 from South and Central America, 125 from Central and Eastern Europe, and 94 from the Middle East and Africa.

In Japan, we received responses to our postal survey from 162 CEOs (survey period: October-November 2014), and the analysis of the Japan responses contained in this report is based on these 162 responses. When the global results (1,322) were compiled, adjustments for relative size of GDP resulted in the 80 companies with the highest sales out of these 162 companies being included.

In this report, unless stated otherwise figures for the Asia-Pacific region are based on the 379 responses that do not include the aforementioned 80 responses from Japan (note that these were included in the previous (17th) Japan Analysis Edition Report). On the other hand, China and Hong Kong are still included (139 of the total of 175 are included in the Asia-Pacific region.)

At the time of the survey was conducted, the yen-dollar exchange rate was ¥116.21 (average during November 2014) and the Nikkei Stock Average was ¥17,179.03 (average during November 2014). At the time of the previous survey, the respective figures were ¥100.02 (November 2013) and ¥14,931.74 (November 2013).

Confidence among Japan's CEOs falls slightly

79% of Japan's CEOs responded that they are confident that their company will grow during the next year, slightly down on the figure of 84% in the previous survey. The global figure only dropped 1% to 84%, so the extent of the drop in Japan was relatively large. One of the probable reasons for this was that at the time of the survey GDP growth was negative for two straight quarters: April-June and July-September. This negative growth occurred due to weak personal consumption because the recovery in demand after consumers had frontloaded purchases ahead of the hike in consumption tax was slow and

because the weather during the summer was unusually poor.

In addition, as can be seen from the fact that the figure for China and Hong Kong dropped from 96% in the previous survey to 85%, the economic slowdown in those regions probably also had an impact. More recently, on the other hand, economic growth turned positive in the October-December quarter, and corporate earnings have been favourable, so the overall economic outlook can be expected to improve.



Figure 1 Confidence in growth (regional comparison)

How confident are you about your company's prospects for revenue growth over the next 12 months?

Totals for "very confident" and "somewhat confident"

79%
of CEOs are confident of growth

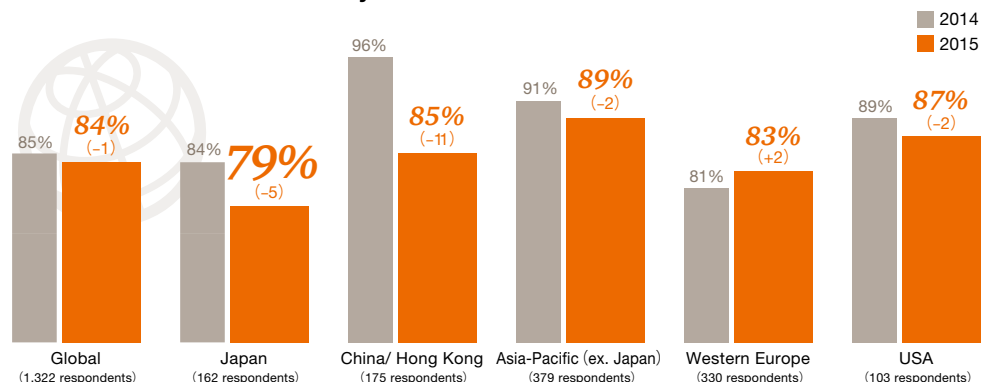
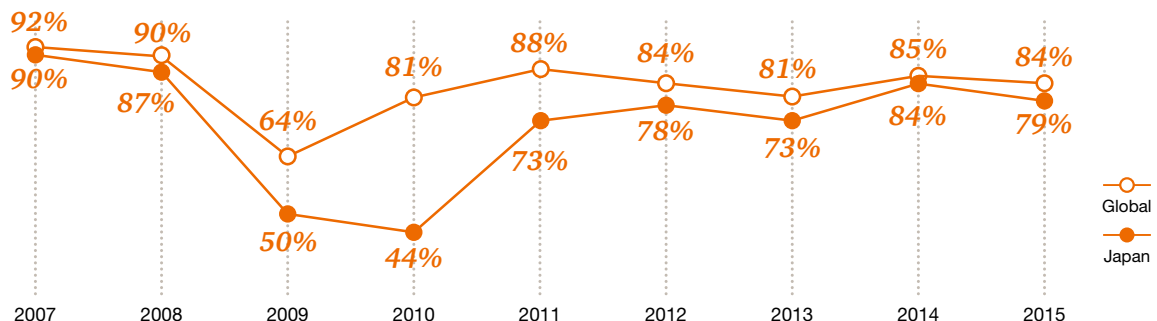


Figure 2 Confidence in growth (past trend)

How confident are you about your company's prospects for revenue growth over the next 12 months?

Totals for "very confident" and "somewhat confident"



Base: All respondents

Global: 2015=1,322, 2014=1,344, 2013=1,330, 2012=1,258, 2011=1,201, 2010=1,198, 2009=1,124, 2008=1,150, 2007=1,084
Japan: 2015=162, 2014=127, 2013=162, 2012=169, 2011=196, 2010=218, 2009=68, 2008=75, 2007=84

Action to deliver growth

Regarding restructuring activities that company is planning to initiate in the coming twelve months, the top answer, just as it was in other regions, was “implement a cost-reduction” initiative (see Figure 3). On the other hand, compared with their US counterparts, a relatively high proportion, 59%, of Japan’s CEOs (US: 44%), say that they will “enter into a new strategic

alliance or joint venture,” but only 33% say that they will “complete a domestic M&A” (US: 54%) and just 22% say that they will “complete a cross-border M&A” (US: 39%). This reflects a tendency among Japan’s CEOs to favour alliances over M&A, a trend that has existed for some time. In addition, the proportions of Japan’s CEOs who say that they will “sell majority interest in a business or exit a significant market” (5%) or “end an existing strategic alliance or joint venture” (4%) are relatively low compared with other regions, which indicates a negative tendency toward downsizing and withdrawal rather than launching new businesses.



Complete a cross-border M&A

Japan

22%

USA

39%

Figure 3 Restructuring plans

Which, if any, of the following restructuring activities do you plan to initiate in the coming 12 months?

	Global (1,322 respondents)	Japan (162 respondents)	USA (103 respondents)	Asia-Pacific (ex. Japan) (379 respondents)	China/ Hong Kong (175 respondents)	Western Europe (330 respondents)
Implement a cost-reduction initiative	71%	65%	65%	64%	58%	75%
Enter into a new strategic alliance or joint venture	51%	59%	44%	59%	56%	49%
Outsource a business process or function	31%	25%	30%	32%	29%	35%
Complete a domestic M&A	29%	33%	54%	30%	25%	23%
Complete a cross-border M&A	27%	22%	39%	21%	16%	34%
“Insource” a previously outsourced business process or function	14%	17%	15%	14%	13%	14%
Sell majority interest in a business or exit a significant market	13%	5%	23%	10%	8%	18%
End an existing strategic alliance or joint venture	8%	4%	10%	9%	8%	7%

Next, regarding the countries and regions that companies perceive as important for growth, the global survey placed the US (38%) first, followed by China (34%) and Germany (19%). Japan ranked seventh with 8% of respondents mentioning it (see Figure 4). This is the first time for the US to overtake China and place number one since the CEOs were first posed this question five years ago, and the reason this is happened is probably that while China's economic growth has stalled, the US economy is continuing to expand.

On the other hand, a look at the responses from Japan's CEOs over time reveals that although China remains in first place with 57%, the proportion of respondents selecting the US has jumped from 39% in last year's survey to 52%, so the trend in Japan is the same as that in the rest of the world (see Figure 5). In Asia, Vietnam is attracting increasing attention, being chosen by 20% of respondents, while the proportion of respondents selecting Thailand, Indonesia, and India fell slightly. Overall, seven of the top ten countries are in Asia, which indicates that while interest in the US has risen, the tendency to focus on Asia is continuing.

Figure 4 Important countries and regions for future growth (excluding home country)

Please rank the three countries, excluding the country in which you are based, that you consider most important for your organisation's overall growth prospects over the next 12 months.

	Global (1,322 respondents)	Japan (162 respondents)	China/Hong Kong (175 respondents)	Asia-Pacific (379 respondents)	Western Europe (330 respondents)	USA (103 respondents)
1	USA (38)	China (57)	USA (43)	USA (46)	USA (40)	China (55)
2	China (34)	USA (52)	China (20)	China (40)	China (29)	Germany (30)
3	Germany (19)	Thailand (28)	Germany (17)	Japan (18)	Germany (28)	UK (29)
4	UK (11)	Vietnam (20)	Japan (16)	Indonesia (13)	UK (12)	Canada (16)
5	Brazil (10)	Indonesia (19)	India (14)	India (12)	France (12)	Mexico (16)
6	India (9)	India (14)	Taiwan (11)	Australia (11)	Brazil (12)	Japan (15)
7	Japan (8)	Germany (10)	South Korea (10)	Singapore (10)	Russia (10)	Brazil (15)
8	Russia (6)	Singapore (9)	Australia (10)	Germany (10)	Spain (6)	Australia (12)
9	Indonesia (6)	South Korea (7)	Singapore (9)	UK (9)	India (6)	India (11)
10	Australia (6)	UK (6)	UK (9)	South Korea (6)	Italy/ Poland (6)	South Korea (7)

* Japan is excluded from the figures for the Asia-Pacific region. China and Hong Kong, however, are included. Figures in parentheses are the percentages of respondents who selected the country concerned.

**No. 1
China**

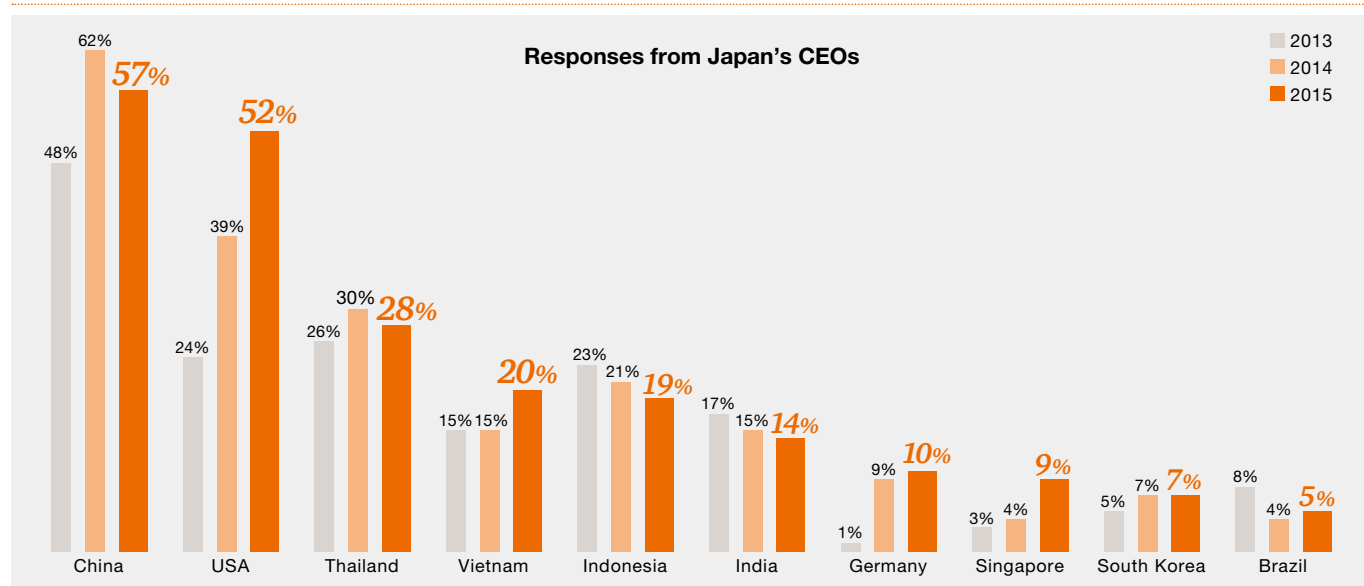
**No. 2
USA**

**No. 3
Thailand**

There was a big increase in the proportion of CEOs emphasising the **USA**.

Figure 5 Important countries and regions for future growth (excluding home country) - comparison with 2013, 2014, and 2015 survey result

Please rank the three countries, excluding the country in which you are based, that you consider most important for your organisation's overall growth prospects over the next 12 months.



Growth opportunities and threats

Next, let us look at what Japan's CEOs perceive as growth opportunities and threats given the future outlook for the world economy. Comparing the current situation with that of three years ago, in Japan a higher proportion of CEOs than in the global survey and in other regions say that "there are more threats to the growth of my company today than there were 3 years ago" and at the same time "there are more growth opportunities for my company today than there were 3 years ago" (see Figure 6).

These results seem to indicate that while Japan's CEOs are positive about the future due to factors such as the expansion of the economy and the impact of Abenomics, they are more exposed to the impact of the political and economic situation in other regions as a result of an increasingly globalised economic structure.

Figure 6 Growth opportunities and threats – comparison with three years ago

To what extent do you agree or disagree with the following statements about threats and opportunities facing your business?

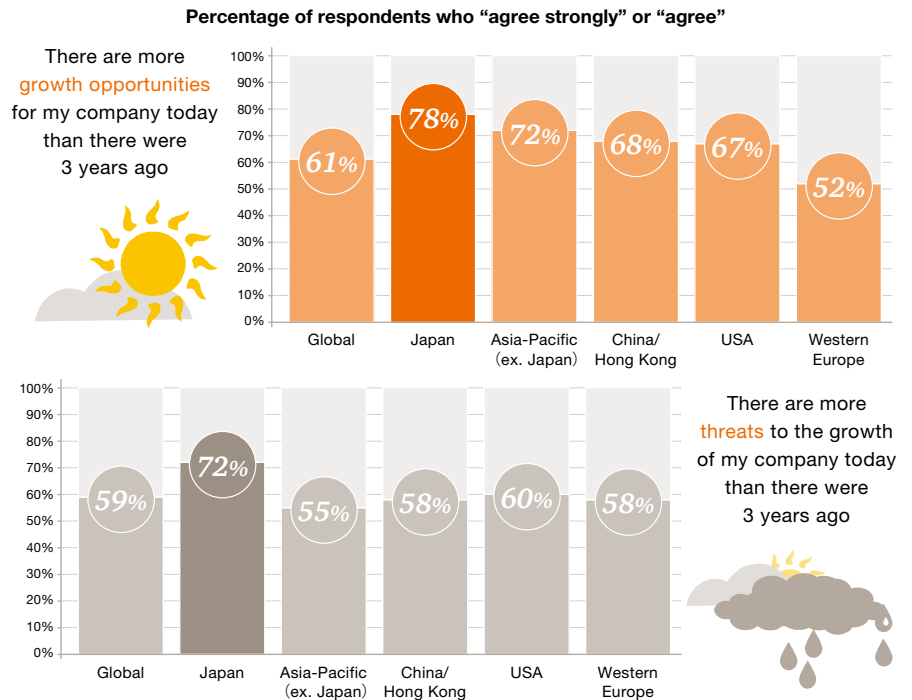
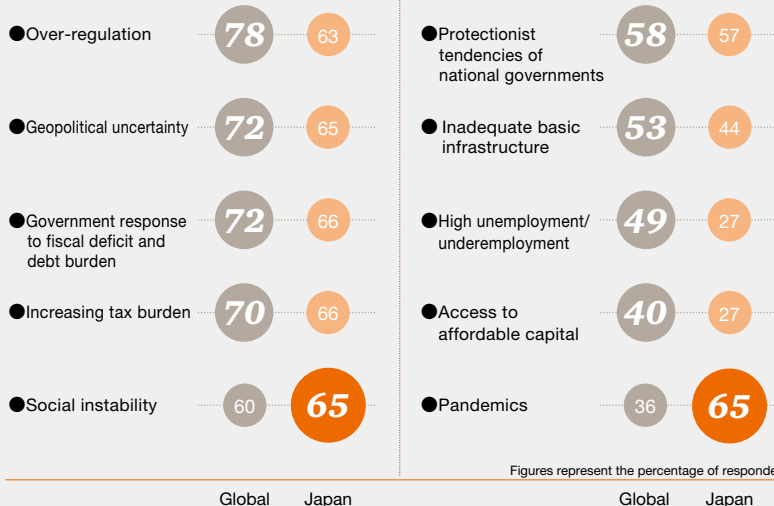


Figure 7 Growth opportunities and threats (economic, policy, social)

Please find below a list of potential economic, policy and social threats to your organisation's growth prospects. How concerned are you, if at all, about each of these?

Percentage of respondents who are "extremely concerned" or "somewhat concerned"



Among the economic, policy, and social threats to growth, compared with global figures, the proportions of Japan's CEOs who are conscious of threats and concerns in areas such as "over-regulation" (63%), "geopolitical uncertainty" (65%), "inadequate basic infrastructure" (44%), "high unemployment / underemployment" (27%), and "access to affordable capital" (27%) were relatively low. The proportion recognizing "government response to fiscal deficit and debt burden" (66%) as a threat was also lower than the global figure.

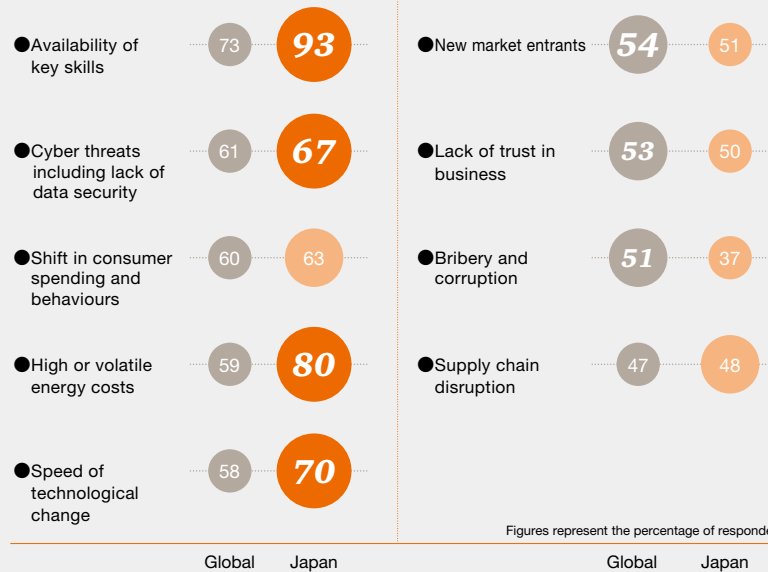
93%

of CEOs are concerned about securing the human resources they need

Figure 8 Threats to growth (business aspects)

Please find below a list of potential business threats to your organisation's growth prospects. How concerned are you, if at all, about each of these?

Percentage of respondents who are "extremely concerned" or "somewhat concerned"



On the other hand, the proportions selecting "social instability" (65%) and "pandemics" (65%) were high, and influences on this were probably that in Japan there are concerns about income disparities widening in the future and that around the time of the survey the media was reporting on outbreaks of Ebola, Dengue Fever, and so on.

Next, the top business threat cited by Japan's CEOs was "availability of key skills," with 93% of them selecting it. This was followed by "high or volatile energy costs" (80%), "speed of technological change" (70%), and "cyber threats including lack of data security" (67%) (see Figure 8). The proportions choosing these factors were relatively high compared with the global figures.

As for the second question, Japan's CEOs tend to view business threats as being

more serious than economic, policy, and social ones. This result was probably affected by a variety of factors, such as a shortage of human resources to develop new businesses and drive globalisation, an increasing dependence on overseas natural resources due to the suspension of operations at nuclear power plants, and the accelerating pace of innovation (technological innovation in particular), and the increasing social impact of incidents such as information leaks.

In particular, with regard to threats relating to cybersecurity, 86% of US CEOs selected them, making them the top business threat as perceived by US business leaders. It is therefore likely that interest in cybersecurity, particular in the US, will increase significantly in the future.



Industry disruptions and their impact

When they look ahead toward the next five years, i.e. adopt a medium-to long-term outlook, what kinds of factors do CEOs think will have a disruptive impact on their performance? As can be seen from Figure 9, when we asked them about five factors, including industry regulation, customer behaviour, and competitors, we found that the top answer in the global survey was “changes in industry regulation,” with 66% of CEOs selecting it. Among the Japan’s CEOs, however, only 46% chose it. Under the third arrow of Abenomics (the implementation of a growth strategy designed to stimulate private-sector investment), deregulation is expected to occur in various industries in Japan, but it is possible that Japan’s CEOs do not yet believe that this will lead to “disruptive” changes in their industries.

In the US, on the other hand, not only did 75% CEOs select “changes in industry

regulation,” 70%, a relatively high proportion compared with other regions, chose “changes in core technologies of production or service provision.” This indicates an awareness that innovation, particularly in IT, coupled with regulatory changes is going to transform business, and it could perhaps be said that this dynamism is contributing to the US’s high level of economic growth.

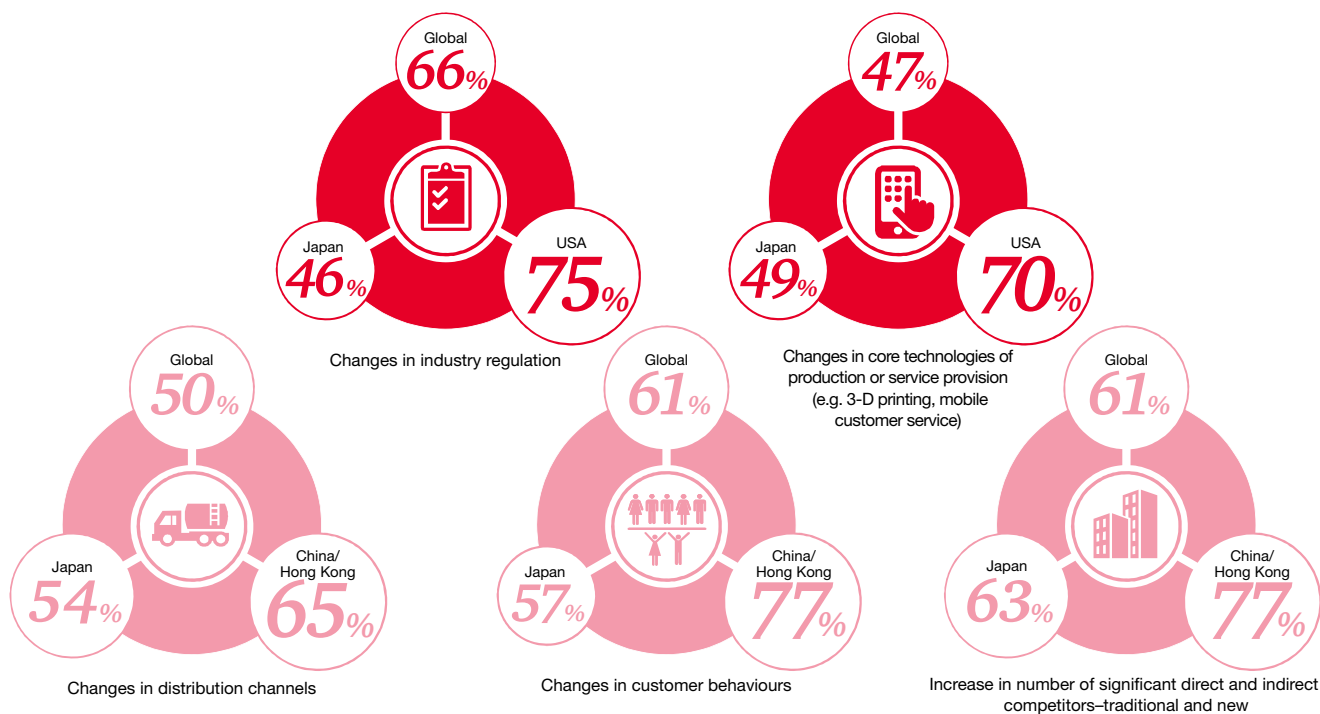
In contrast, in China and Hong Kong, large proportions of CEOs selected “changes in customer behaviours” (77%), “increase in number of significant direct and indirect competitors” (77%), and “changes in distribution channels” (65%). These results probably reflect an awareness that customer behaviours are changing as incomes rise and that competition in the area of distribution of products and services is expanding.



Figure 9 Factors that could cause major disruptions to industries

How disruptive do you think the following trends will be for your industry over the next five years?

Percentage of respondents who answered “very disruptive” or “somewhat disruptive”



Entry of competitors from other industries

Figure 10 Emergence of competitors from other industries

From which industry or industries outside of your own, if any, do you think a significant competitor is emerging or could emerge?

	Global	Japan	USA	Western Europe
Technology	32%	30%	50%	32%
Retail and Wholesale Distribution	19%	25%	15%	20%
Communications, Entertainment & Media	16%	20%	14%	18%
Financial Services, including Real Estate	13%	9%	8%	9%
Professional and Business Services	13%	17%	20%	9%
Energy, Utilities and Mining	11%	11%	14%	8%
Transport & Logistics	11%	12%	7%	11%
Manufacturing – Industrial Products	11%	19%	11%	11%
Manufacturing – Consumer Products	10%	10%	7%	9%
Healthcare, Pharma & Life Sciences	9%	17%	9%	6%
Government and Public Services	8%	7%	6%	6%
Manufacturing – Automotive	7%	10%	4%	8%
Construction	6%	7%	2%	5%
Hospitality & Leisure	5%	5%	5%	4%
Agriculture, Forestry, Fishing and Hunting	5%	4%	2%	4%
I don't think a significant competitor from other industries is emerging	21%	15%	15%	26%

Next, when we asked what other industries competitors were likely to emerge from, we found that for Japan's CEOs the top three industries were "Technology" (30%), "Retail and Wholesale Distribution" (25%), and "Communications, Entertainment & Media" (20%). The top three were therefore the same as in the global survey (see Figure 10). One characteristic of Japan, however, was the proportions of respondents selecting for "Manufacturing – Industrial Products" (19%) and "Healthcare, Pharma & Life Sciences" (17%), which were higher than those for other regions. The background to this is probably the tendency in Japan to emphasise manufacturing, as well as the predicted expansion in medical-related industries as the population ages. In the US, meanwhile, 50% of CEOs,

an extremely high proportion, chose "Technology." As we mentioned earlier, US CEOs recognise that changes in core technologies is going to have a big impact on their industry, and companies in the technology sector are probably be utilising such technological changes to stimulate competition.

Conversely, when asked about the likelihood of companies entering and competing in sectors other than their own, 69% of Japan's CEOs say that it is "very likely" or "quite likely." This exceeds the global proportion of 56%, and indicates that Japan's business leaders expect cross-sector competition to intensify in the future (see Figure 11).

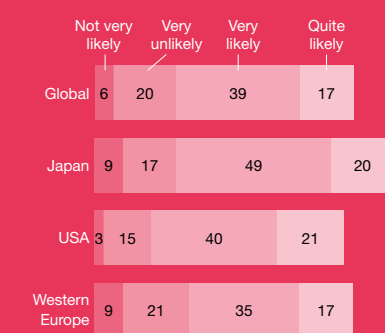
Looking at the top two countries in terms of GDP, while the US economy is steadily

expanding, one of the factors behind this is probably the dynamism of companies that are working to deliver abundant technology based innovations. China, on the other hand, is leveraging its population of 1.3 billion people to rapidly expand the size of its economy. So which course should Japan, the world's third largest economy, endeavour to take in the future? Japan must obviously maintain its competitive edge in the fields in which it is strongest and take full advantage of its location in Asia, but it will also be important for it to stimulate innovation, and with global competition becoming increasingly fierce, to secure superiority in both tangible and intangible competitiveness.

For this survey, we put forward a number of important elements that are keys to moving forward in that direction from now on: utilising of digital technology, selecting partners to drive business expansion, and focusing on diversity to secure human resources. From here on, we will be taking a more detailed look at these three elements.

Figure 11 Is competition going to increase in sectors that companies from other industries have entered?

How likely do you think it will be that organisations will increasingly compete in sectors other than their own, over the next three years?



Note: Figures are the percentages of respondents who selected that response. Those that chose "neither/nor" or didn't respond are not included.

Three keywords: Technology, partnerships, diversity

Leveraging technology to drive competitive advantage in the digital age

To compete globally going forward, the utilisation of digital technology will be a key factor. When we asked about strategically important technology, the top three answers both in Japan and worldwide were “mobile technologies” (Japan 83%, global 81%), “data mining and analysis” (Japan 76%, global 80%), and “cybersecurity” (Japan 85%, global 78%) (see Figure 12).

On the other hand, what set Japan apart was the high proportions of respondents

choosing “battery and power technologies” (60%), “robotics” (51%), and “3D printing” (47%). These results are in line with Japan’s focus on manufacturing. But to what extent are digital technologies creating value within companies? We asked the respondents about specific areas, and among Japan’s CEOs the top two answers were “operational efficiency” (85%) and “data and data analytics” (81%). These are more or less the same as the global figures, which were 88% and 84%,

respectively (see Figure 13).

On the other hand, compared with the global figures, relatively few of Japan’s CEOs chose aspects of value related to business strategy, such as “risk-taking decisions” (38%) and “innovation capacity” (59%), or customer-related aspects of value such as “customer experience” (51%) and “brand and reputation” (51%).

Figure 12 Strategically important digital technologies

How strategically important are the following digital technologies for your organisation?

Percentage of respondents who said “very high value” or “quite high value”

	Global	Japan	USA	Western Europe
Mobile technologies for customer engagement	81%	83%	80%	82%
Data mining and analysis	80%	76%	88%	77%
Cybersecurity	78%	85%	89%	74%
Internet of Things (IoT)	65%	54%	58%	61%
Socially enabled business processes	61%	58%	63%	56%
Cloud computing	60%	73%	79%	52%
Battery and power technologies	47%	60%	45%	47%
Robotics	37%	51%	32%	38%
Wearable computing	33%	35%	28%	28%
Other	32%	0%	40%	38%
3D printing	27%	47%	28%	26%

In addition to mobile technologies and cybersecurity, Japan’s CEOs also emphasise battery and power technologies, robotics, and 3D printing.

Globally, and particularly in the US, the use of digital technology tends to be widespread, but Japan may be lagging a little in this area. Of particular note is that 85% of US CEOs mention the “customer experience.” This is probably testament to the fact that US companies are already employing digital technology in advanced ways, such as to examine customers’ purchase history and offer them products that match their tastes.

So what is important for better utilising digital technology? Although Japan’s CEOs are emphasising the five factors shown in Figure 14, one of which is “you as CEO champion of the use of digital technologies,” there was a big gap in their recognition of each of them compared with the rest of the world, particularly the US. To survive global competition, they will probably need to make efforts in the area of digital technology a more important part of their business strategies.

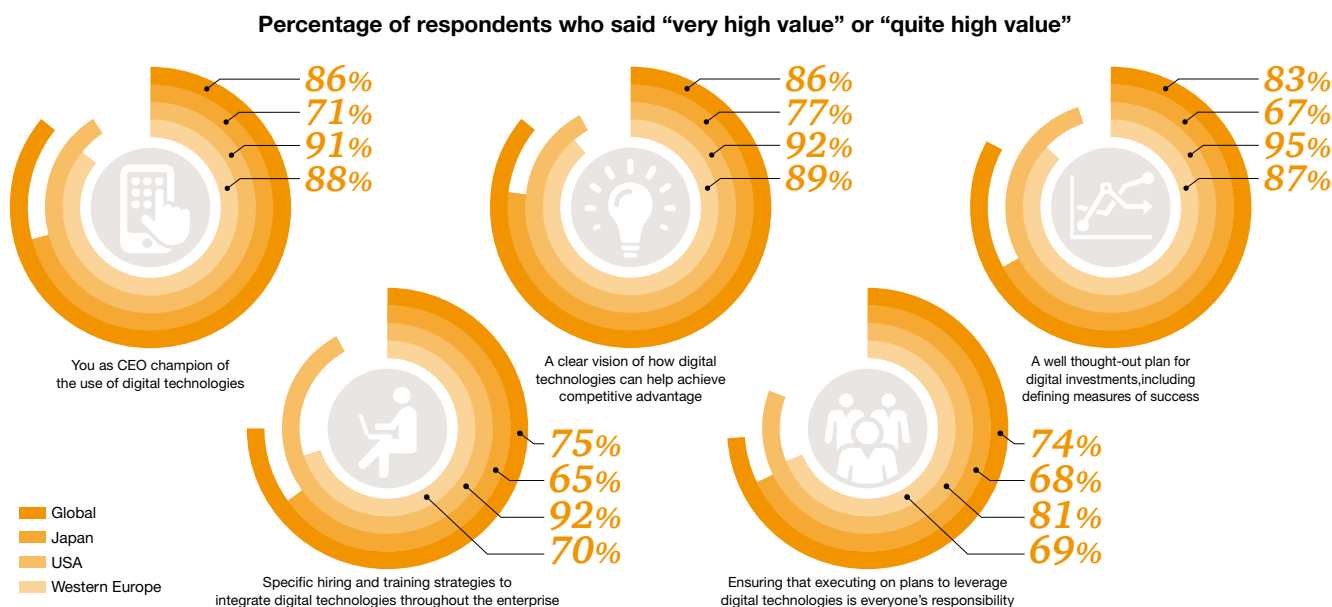
Figure 13 Value conferred by digital technology

To what extent are digital technologies creating value for your organisation in the following areas?

	Percentage of respondents who said “very high value” or “quite high value”			
	Global	Japan	USA	Western Europe
Operational efficiency	88%	85%	84%	89%
Data and data analytics	84%	81%	89%	84%
Customer experience	77%	51%	85%	79%
Internal/external collaboration	77%	63%	74%	78%
Digital trust including cybersecurity	72%	75%	80%	71%
Innovation capacity	71%	59%	76%	76%
Brand and reputation	71%	51%	83%	69%
Distribution capabilities	66%	59%	70%	64%
Sourcing and supply chain management	66%	64%	61%	66%
Strategic decision-making	63%	50%	63%	52%
Finding, developing and retaining talent	58%	49%	66%	55%
Risk-taking decisions	56%	38%	54%	46%

Figure 14 Essential factors for delivering results from digital technology

How important are the following factors in helping your organisation get the most out of its digital investments?



Who to partner with and which industries to enter

With competition intensifying across sectors, what kinds of actions are companies taking? When we asked the CEOs whether they had entered or considered entering new industries within the past three years, 34% of Japan's CEOs said that they had done so and 23% said that they had considered doing so. These percentages were more or less the same as the results from the global survey (see Figure 15).

When the CEOs who responded to the previous question by saying that they had entered a new industry or considered doing so (92 companies) were asked about the kinds of industries they had targeted, a different trend from the global one was observed. Specifically, a characteristic of the Japan's CEOs was the relatively high proportion that responded with "Healthcare, Pharma, & Lifesciences" (26%), "Agriculture, Forestry, Fishing" (14%), and "Retail and Wholesale Distribution" (see Figure 16).

The reasons for these results may include the fact that in Japan new businesses such as the nursing-care business are expected to expand as the population ages, and the fact the agricultural sector is expected to undergo change, by promoting primary producers' diversification into processing and distribution (sixth sector industrialisation), for example.

In the US, on the other hand, "Technology" and "Professional and Business Services" accounted for a large proportion of the responses, which demonstrates that US companies are increasingly focusing on fields that they are good at.

14%

have entered the agricultural sector or considered entering it

Figure 15 Entry into new industries

Has your organisation entered a new industry or industries, or considered doing so, within the past three years?

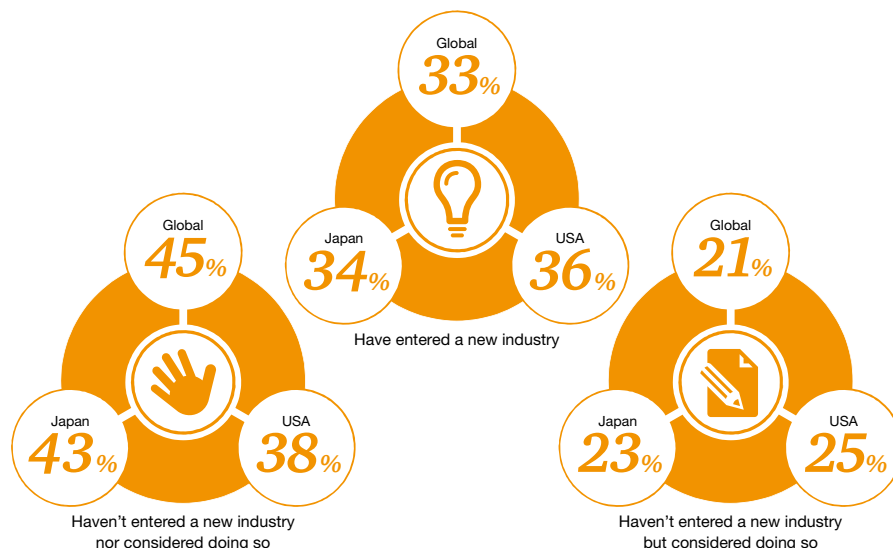


Figure 16 Which industries have you entered or considered entering?

Which industries has your organisation entered within the past three years or considered entering?

	Global	Japan	USA	China/ Hong Kong	Western Europe
Technology	15%	10%	24%	13%	15%
Healthcare, Pharma & Life Sciences	15%	26%	17%	20%	15%
Professional and Business Services	14%	15%	19%	15%	13%
Energy, Utilities and Mining	13%	15%	10%	7%	14%
Financial Services, including Real Estate	11%	4%	3%	23%	9%
Manufacturing – Industrial Products	11%	12%	13%	11%	10%
Transport & Logistics	10%	8%	11%	7%	7%
Retail and Wholesale Distribution	10%	13%	10%	10%	12%
Communications, Entertainment & Media	9%	3%	13%	7%	9%
Manufacturing – Consumer Products	9%	8%	3%	11%	5%
Agriculture, Forestry, Fishing and Hunting	7%	14%	5%	4%	2%
Hospitality & Leisure	5%	3%	2%	4%	4%
Construction	4%	1%	3%	0%	2%
Government and Public Services	3%	3%	5%	2%	4%
Manufacturing – Automotive	2%	3%	0%	4%	2%

Note: The number of respondents was 710 globally, 92 in Japan, 63 in the US, and 164 in China and Hong Kong. The question was asked to those CEOs who said that they had entered a new industry or considered doing so.

Next, when we asked the CEOs about who had chosen or would choose to be partners in joint ventures, strategic alliances or informal collaborations in order to leverage their competitive strengths, the top answers among Japan's CEOs were "competitors" (38%) and "business networks, clusters or trade organisations" (34%). The picture is quite different globally and in the US, where the top answers were "customers" and "suppliers" (See Figure 17).

Whereas the worldwide focus is on upstream-to-downstream vertical relationships, in Japan there seems to be more of a tendency to make use of horizontal connections.

Regarding what they expect to gain from collaborative or cooperative partnerships, the proportions of Japan's CEOs selecting "access to new/emerging technologies" (54%) and "access to new customers" (51%) were higher than in the global survey, while the percentages choosing "ability to strengthen our innovation capabilities" (35%) and "access to new geographic markets" (30%) were lower (see Figure 18). The gap between Japanese and US CEOs was particularly large for these two choices. It therefore seems that for US companies, sources of strength comes from collaboration with customers and suppliers in promoting innovation and gaining access to new markets.



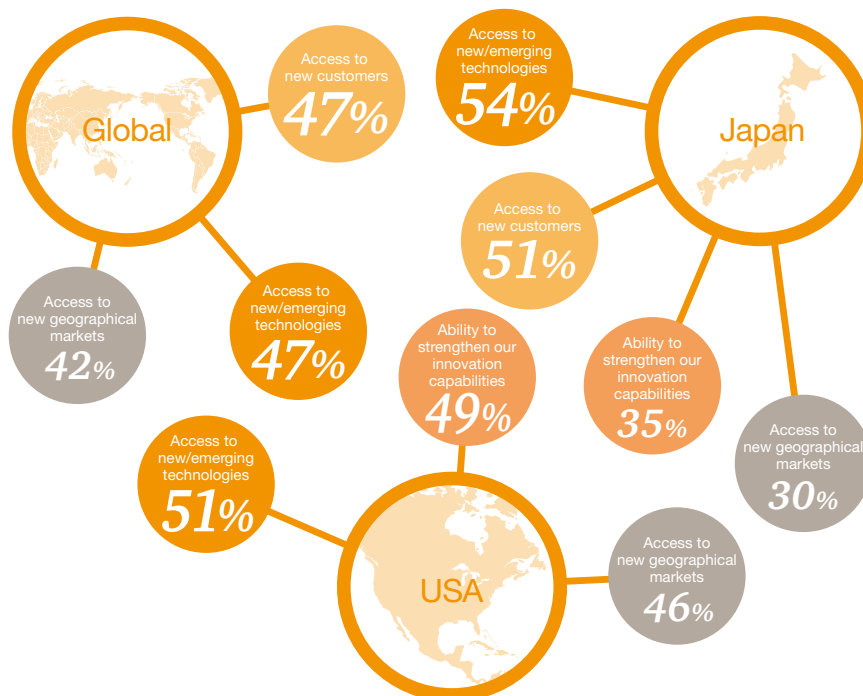
Figure 17 Who do you choose as partners?

Are you currently engaged with or considering engaging with, any of following types of partners through joint ventures, strategic alliances or informal collaborations?

Respondents who are engaged in partnerships			
	Global	Japan	USA
Customers	41%	24%	46%
Suppliers	41%	31%	39%
Academia	32%	25%	27%
Business networks, clusters or trade organisations	29%	34%	34%
Competitors	27%	38%	23%
Firms from other industries	26%	30%	24%
Government	23%	15%	17%
Non-governmental organisations	20%	10%	16%
Start-ups	19%	12%	26%

Figure 18 Reasons for choosing partners

From the following list please rank your top three reasons, if any, for collaborating in joint ventures, strategic alliances or informal collaborations.



Note: The figures shows the top answers from "access to new customers," "access to new/emerging technologies," "access to new geographical markets," "ability to strengthen our innovation capabilities," "ability to strengthen brand or reputation," "sharing of risks," "access to talent," and "access to new industries."

Leveraging talent diversity and adaptability to drive success

With the world economy expanding overall, CEOs expect to increase their headcounts. 46% of Japan's CEOs say that they intend to increase personnel during the next year (see Figure 19). The proportion in Western Europe, where the economy is sluggish, is low, at 39%, but the US (59%) and Asia-Pacific region (60%) are both actively looking to boost headcount.

The responses to an earlier question showed that securing the human resources they need is a cause for concern among Japan's CEOs, so let us take a look at what Japan's CEOs are doing to promote diversity and inclusion in order to secure the personnel they require. To begin with, when we asked whether their company has a strategy to promote talent diversity, the proportion of Japan's CEOs answering "yes" was 53%, which is a lower level than in the US (74%) and Western Europe (66%) (see Figure 20).

Next, when they were asked what they had gained from implementing a strategy to promote diversity and inclusion, the top answers from Japan's CEOs were "attract talent" (86%), "serve new and evolving customer needs" (80%), and "collaborate internally/externally" (79%). These percentages were similar to those from the global survey (see Figure 21). On the other hand, the proportions of Japan's CEOs selecting "enhance business performance" (76%), "strengthen our brand and reputation" (67%), "innovate" (65%), and "leverage technology" (33%) were lower than in the global survey. These results indicate that at Japanese companies the coordination between human resources strategy and overall corporate strategy—which encompasses operating performance, branding, innovation, and IT—is relatively weak.

Figure 19 Expectations for increasing headcount

Do you expect headcount at your company to increase, decrease or stay the same over the next 12 months?

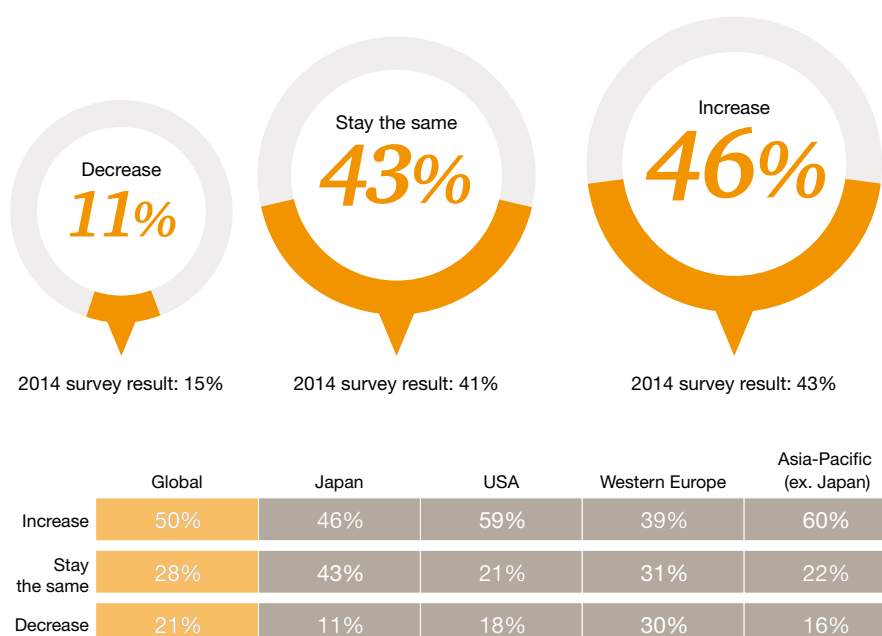
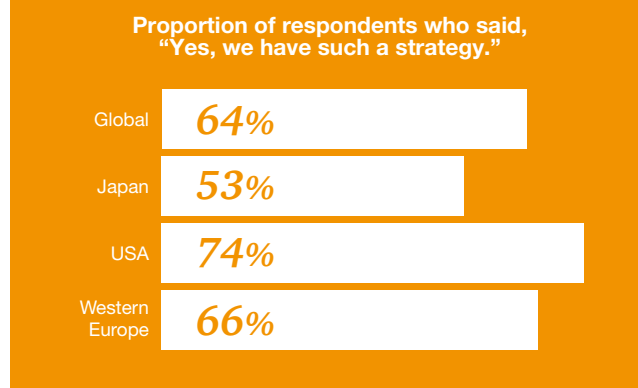


Figure 20 Do you have a strategy for human resources?

Does your organisation have a strategy to promote talent diversity and inclusiveness or have plans to adopt one?



Finally, we asked the CEOs about their assessment of their human resources strategy, and as can be seen from Figure 22, the proportions of Japan's CEOs who say that they "agree strongly" or "agree" was low for most of the activities. The gap with the rest of the world was particularly wide for "We always equip employees with new skills through continuous learning or

mobility programmes" (61%), "We always use multiple channels to find talent, including online platforms and social networks" (49%), and "We always use data analytics to provide better insight into how effectively skills are being deployed within our organisation" (25%). In recent years, many Japanese companies, even smaller companies, have been expanding

overseas in search of new markets, and to continue adapting to an increasingly global market, they will probably need to give their human resources strategies a more prominent position.

Figure 21 Value obtained from strategy to promote diversity and inclusion

To what extent, regarding following benefits, has your organisation obtained from its strategy to promote talent diversity and inclusiveness?

Percentage of respondents who "agree" or "agree strongly" (that they have derived such benefits)

	Global	Japan	USA	Western Europe
Attract talent	91%	86%	97%	89%
Enhance business performance	85%	76%	87%	80%
Strengthen our brand and reputation	83%	67%	86%	80%
Collaborate internally/externally	78%	79%	79%	69%
Innovate	78%	65%	72%	74%
Enhance customer satisfaction	77%	73%	76%	68%
Serve new and evolving customer needs	76%	80%	68%	69%
Leverage technology	63%	33%	53%	59%
Compete in new industries/geographies	56%	58%	47%	47%

Note: The question was asked to those who answered "yes" to the question in Figure 20. There were 843 such respondents globally, 86 in Japan, 76 in the US, and 218 in Western Europe.

Figure 22 Assessment of strategy to promote diversity and inclusion

To what extent do you agree or disagree with the following statements about your organisations talent activities?

Percentage of respondents who "agree" or "agree strongly"

	Global	Japan	USA	Western Europe
We look for a much broader range of skills when hiring than we did in the past	81%	69%	81%	80%
We always equip employees with new skills through continuous learning or mobility programmes	81%	61%	78%	82%
We always use multiple channels to find talent, including online platforms and social networks	78%	49%	92%	73%
We actively search for talent in different geographies, industries and/or demographic segments	71%	62%	85%	68%
We always use data analytics to provide better insight into how effectively skills are being deployed within our organisation	46%	25%	40%	39%
We always collaborate with a wide range of external organisations to fulfil talent needs, including sharing of talent with other organisations	40%	45%	41%	34%
We have greatly increased our reliance on contractors, part-time workers, outsourced functions or service agreements	33%	22%	37%	31%

86%

say that a benefit they have obtained from their strategy to promote diversity and inclusion is an ability to "attract talent"



Leveraging transform capabilities and diversity to get ahead of the competition

This year's survey provided some insights into what the world's CEOs are focusing on in their strategies to survive amid global competition. What Japan's CEOs need to do is incorporate the keywords for this survey, namely "technology," "partnerships," and "diversity" into their corporate growth strategies, pursue innovation, formulate a vision for the future, and enhance their growth potential through dialog with stakeholders.

Sustainable innovation

The world's CEOs are continuing to pursue growth despite uncertainty about the economic outlook and the rise of threats such as those relating to cybersecurity and geopolitical risk.

This survey has shown that the keywords of "technology," "partnerships," and "diversity" are important for maintaining growth over the medium-to long-term and securing a competitive advantage. The interaction of these factors increases the company's transform capabilities and its diversity, which stimulates innovation and makes the company more competitive. We examined the characteristics of Japanese companies with respect to these three

words, and with regard to "partnerships," we found that while Japan's CEOs are enthusiastic about forging business alliances, their stance on M&A is more conservative than that seen in the global responses. In addition, regarding technology (i.e. the utilisation of digital technologies) and diversity (human resources strategy), compared with the global responses, their responses tended to indicate that these factors are not being fully positioned as key elements in the management of companies. On the other hand, the survey results suggested that in the US in particular a trend is underway to integrate these factors and translate them

into enhanced competitiveness.

Although Japanese companies benefit from proximity to the rest of Asia, where economic growth remains rapid and demand continues to expand, if they are to differentiate themselves and continue to grow over the long term as the Asian economy matures, they will probably need to formulate strategies that are more innovation focused.

Formulating medium-to long-term strategy with focus on technology and human resources strategy

For Japanese companies to survive and thrive amid global competition, they will need to shift away from regarding, for example, technology as the purview of the systems department and human resources as the purview of the personnel department. Instead, people in the upper echelons of the company will need to put together long-range management strategies that integrate these elements. In addition, with the world economy exposed to various uncertainties and the speed of technological progress increasing, the business environment could change to a greater extent than expected. It will therefore also be essential to spot signs of change at an early stage and establish a management system that is capable of responding in an ad-hoc fashion.

The utilisation of technology and the promotion of diversity will also be useful for enhancing the ability to adapt to such changes in the business environment. Although Japan's CEOs are cognizant of and taking responsibility for addressing of these management issues, the world economy is becoming increasingly globalised and competition is further intensifying, so they when devising their strategies they will need to keep an eye on what global companies that are spearheading change are doing.



Expanding dialog with stake holders

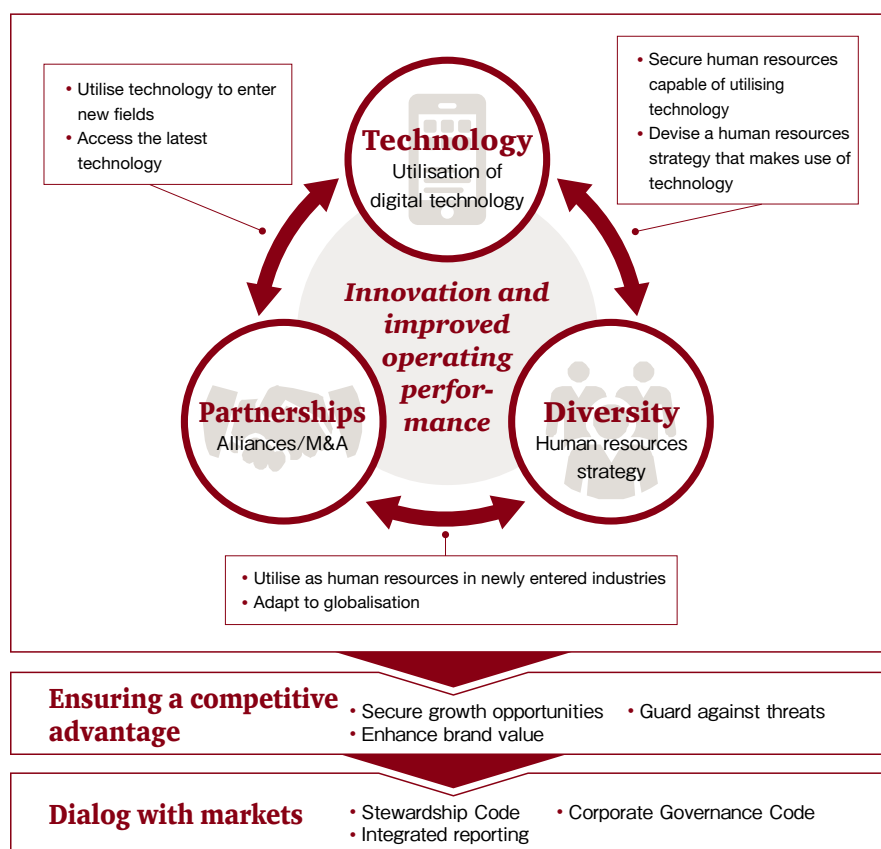
Once the medium-to long-term strategies are formulated, they will need to be made visible to internal and external stakeholders such as employees and investors.

In February 2014, the Japanese government produced Japan's Stewardship Code, which serves as a code of conduct for institutional investors, while at the end of the same year a draft for a Corporate Governance Code, which is designed to help restore Japan's "earning ability," was published, with the code expected to be implemented from June 2015. Furthermore, integrated reporting framework are ready to be used. With these development, a framework is being put in place for promoting dialog between companies and investors with the aim of delivering long-term increases in enterprise value.

The utilisation of such frameworks will raise enterprise value and allow a virtuous cycle of sustainable growth to be created.

Although Japan has now been overtaken by China in terms of size of GDP, for the time being Japan will still remain an economic giant with 130 million people and status as the world's third largest economy. If the Japan Revitalisation Strategy is steadily implemented, the transform capabilities and diversity of companies are enhanced, and innovations occur, the Japanese economy should be able to get on a new growth path.

Figure 23 Leveraging transform capabilities and diversity to get ahead of the competition



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