

16th Annual Global CEO Survey
Japan Analysis

A more resilient response to uncertainty

The future of Japanese companies:
A comparison between CEOs in Japan and across the world

*Resilience:
The ability to
make a quick
and agile
recovery*



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Leader's message



Japan's economy is finally moving out of its "lost 20 years" through joint efforts by the government and the private sector under the policies of "Abenomics." With the rise of China and other emerging countries coupled with advances in information technology, economic globalization has dramatically picked up speed since the mid-90s.

Every year, PwC publishes a "Global CEO Survey" report to offer its observations and analyses of the visions and business outlooks of CEOs across the world. Believing that 2013 will be a milestone occasion for the Japanese economy, in our 16th survey this year we have featured a comparative analysis of the visions of Japanese CEOs with CEOs across the world. I hope that this report gives you some ideas on how you could enhance the global competitiveness of your business by leveraging its current strengths and advantages.

The responses we received from 162 CEOs in Japan in this year's survey suggest that about 70% of CEOs are confident about the future performance of their businesses. On the other hand, as information technology continues to advance and economic globalization progresses, they fear that a disruptive event somewhere in the world could become an unexpected threat to their operational ability. For Japanese companies aiming to grow by taking advantage of the economic growth in Asia, it is all the more important to establish a resilient organization (capable of a quick and agile recovery) that can

respond to the disasters or sudden market fluctuations that can arise anywhere in the world.

The use of newly advanced social media to influence people will also become a key factor supporting future business expansion for Japanese companies, as well as stimulating businesses' "metabolism" by reallocating resources to businesses with higher value added and making good use of the abilities of female workers.

With its network extending across 158 countries, PwC has ample experience in handling risk events that occur in various area across the world. We will strengthen our support for Japanese companies in their pursuit of globalization and sustainable growth.

Let me take this opportunity to express my gratitude to the many CEOs who cooperated and took part in our survey. I would like also to thank Mr. Yasuchika Hasegawa, President and CEO, Takeda Pharmaceutical Company Limited who took time out of his busy schedule to be interviewed and provided valuable comments. Please visit PwC Japan's corporate website to read his interview.

A handwritten signature in black ink, appearing to read "Hiroyuki Suzuki", written in a cursive style.

Territory Senior Partner, PwC Japan
Hiroyuki Suzuki

Contents

Introduction	3
.....	
Survey results	
.....	
Actions for future growth	4
.....	
Awareness of threats	7
.....	
Approach to organizational management	9
.....	
Relationships with stakeholders	13
.....	
What do we expect?	15
.....	
Conclusions	17
.....	

Introduction

PwC, one of the largest professional services networks in the world, published the results of its 16th Annual Global CEO Survey on January 22, 2013 in time for the annual convention of the World Economic Forum (Davos Forum). The survey was conducted in the fourth quarter of 2012, interviewing over 1,330 CEOs from 68 countries. PwC Japan compiled a special Japan edition of the report, based on responses from the 162 Japanese CEOs who participated in the survey.

In this survey, 73% of Japanese CEOs said they were confident about the prospects for their revenue growth over the next 12 months. This is 5% lower than in last year's survey (78%), and the same level as the year before.

Compared with the global average, Japanese CEOs place greater emphasis on the internal growth of their own business in and outside Japan (60%); in the international market, they place more emphasis on China (48%), Thailand (26%), Indonesia (23%) and other Asian countries. They are also more concerned about exchange rate volatility (74%).

In the area of organizational management, Japanese CEOs give more weight to the diversification of their supply chains (66%) and recovering from the consequences of disruptive events (57%). On the other hand, although they see personnel strategies as important, fewer Japanese CEOs said that they would implement succession plans (34%) than the global average.

The proportion of Japanese CEOs who value customers as their most important stakeholders is very high (97%), much like other CEOs across the world. On the other hand, the survey results indicate that Japanese CEOs see more value in relationships with employees (90%), partners in their supply chains (84%) and the local communities (70%) than the global average. Japanese CEOs see use of social media and relationships with non-government organizations (NGOs) as less important than the global average.

Survey Method

In the PwC 16th Annual Global CEO Survey, we interviewed 1,330 CEOs from 68 countries in the fourth quarter of 2012 (September to mid-December). By region, these comprised 449 CEOs from the Asia Pacific region, 312 from Western Europe, 227 from North America, 165 from Latin America, 95 from Central and Eastern Europe, 50 from Africa and 32 from the Middle East.

In Japan, we received responses to our postal survey from 162 CEOs (survey period: October to November 2012). Analyses related to Japan in this report are based on these 162 responses. In compiling and analysing the responses from CEOs in all countries, out of these 162 Japanese companies we used responses from the top 96 Japanese companies in terms of sales volumes (converted based on their shares of gross domestic product).

The 449 responses from the Asia/Pacific region include these 96 responses from Japan as well as 132 responses from China/Hong Kong.

At the time the survey was conducted, the exchange rate was ¥80.89 to the US dollar and the Nikkei Stock Average was ¥9,059.86 (both are averages for November 2012).

Survey results

Actions for future growth

Japanese CEOs' confidence in growth down from the previous year

73% of Japanese CEOs responded that they were confident about their business growth for the next 12 months, lower than the global average (81%). By region, 89% of CEOs in China/Hong Kong are confident, 81% in the US and 68% in Western Europe. The proportion is low in Japan partly because Japanese companies tend in general to be more conservative about their "confidence in the future" and at the time of the survey the steep appreciation in the value of the yen was still an ongoing issue.

This marks a 5% drop compared to the results in last year's survey (78%). The global proportion also declined by 3% from 84%. In addition to the Yen's appreciation during the time of the survey, we also believe that Japanese CEOs' confidence was low because they were uncertain about their future performance under weak national economic conditions, with GDP registering negative growth for two consecutive quarters (April to June, and July to September).

Figure 1: Confidence in company growth in the next 12 months

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

Figures in parentheses are numbers of responses.

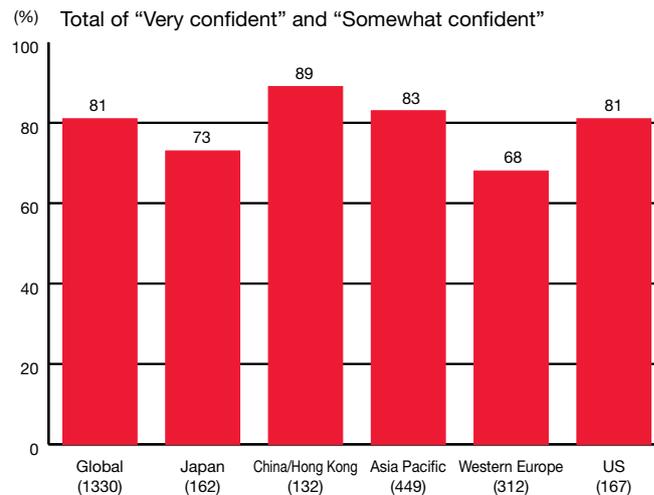
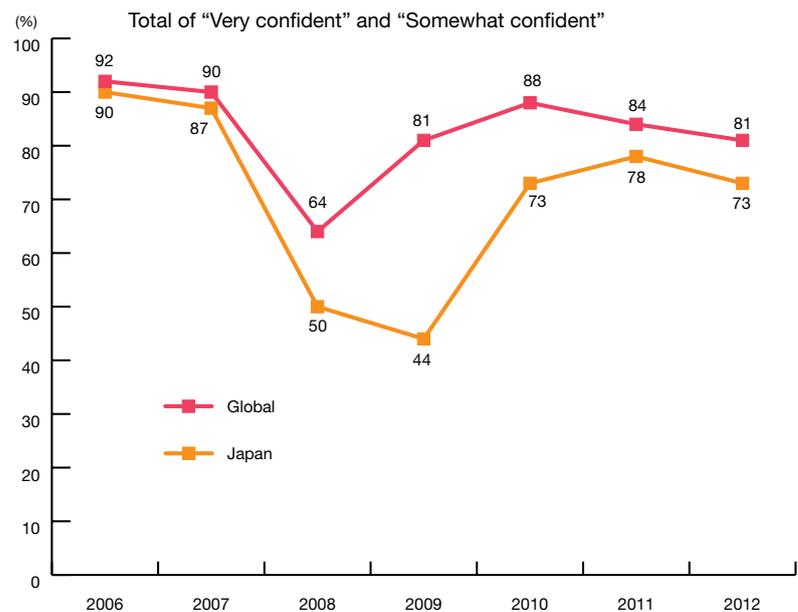


Figure 2: Confidence in company growth in the next 12 months (year by year)

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



Base: All Respondents (Global average: 2012=1,330; 2011=1,258; 2010=1,201; 2009=1,198; 2008=1,124; 2007=1,150; 2006=1,084)
(Japan: 2012=162; 2011=169; 2010=196; 2009=218; 2008=68; 2007=75; 2006=84)

Greater emphasis on internal growth

60% of Japanese CEOs see “internal growth” of their own businesses within and without of Japan as an important factor driving business growth, which is higher than the 49% global average. On the other hand, only 9% of Japanese CEOs see “new M&A/ joint ventures/ strategic alliances” as a driving factor, which is lower than the 17% global average. Companies throughout the world generally emphasize internal growth, but such a trend is stronger in Japan.

Figure 3: Business growth opportunities in the next 12 months

Question: Of these potential opportunities for growth, which one is the main opportunity in the next 12 months?

Percentage of respondents who chose each opportunity (%)
Figures in parentheses are numbers of responses.

	Global (1330)	Japan (162)	China/ Hong Kong (132)	Asia Pacific (449)	Western Europe (312)	US (167)
Organic growth in existing domestic market	32	40	33	30	22	41
Organic growth in existing foreign market	17	20	8	18	25	16
(Total)	49	60	41	48	47	57
New product or service development	25	24	33	28	25	17
New M&A/ joint ventures/ strategic alliances	17	9	19	15	19	22
New operation(s) in foreign markets	8	6	4	8	8	4

International business - Greater Weight on Asia

Japanese CEOs expect non-domestic growth to be found primarily in China (48%), Thailand (26%), the US (24%), Indonesia (23%) and India (17%). Out of the top 10 countries, 8 are Asian countries, indicating an emphasis on Asian businesses.

Figure 4: Countries with the largest prospects for business growth in the next 12 months (excluding home country)

Question: Which three countries, excluding the country in which you are based, do you consider most important for your overall growth prospects over the next 12 months?

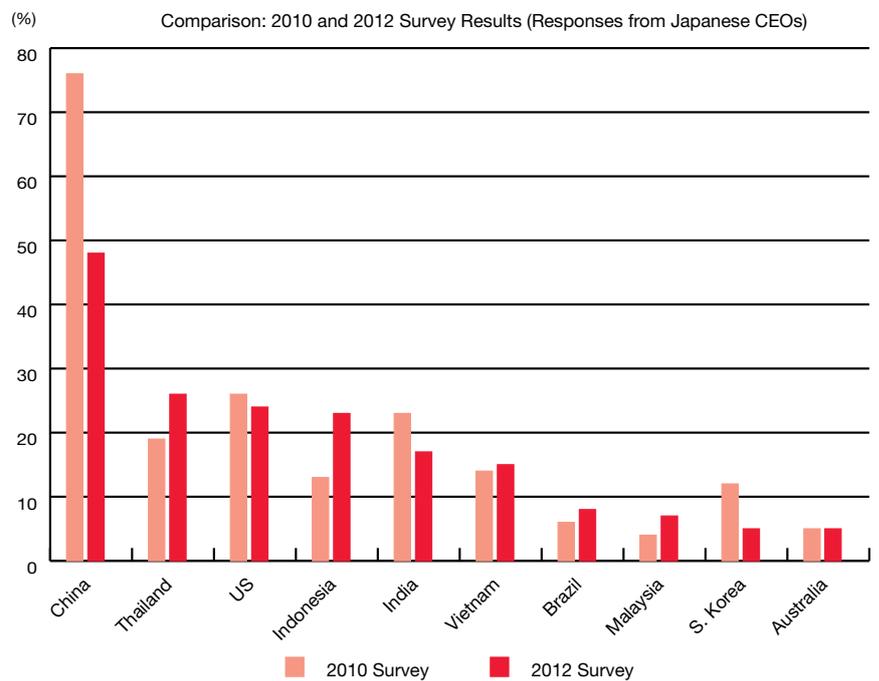
Figures in parentheses at the top are numbers of responses.
Figures in parentheses in the table are numbers of respondents who chose that country (%).

Global (1330)	Japan (162)	China/ Hong Kong (132)	Asia Pacific (449)	Western Europe (312)	US (167)
China(31)	China(48)	US(29)	China(38)	China(27)	China(41)
US(23)	Thailand(26)	China(15)	US(33)	US(26)	Brazil(21)
Brazil(15)	US(24)	India(14)	Indonesia(17)	Brazil(19)	Germany(21)
Germany(12)	Indonesia(23)	Japan(12)	India(14)	Germany(17)	Canada(20)
India(10)	India(17)	Germany(8)	Thailand(12)	Russia(16)	UK(15)
Russia(8)	Vietnam(15)	Singapore(8)	Japan(10)	France(9)	Mexico(13)
Indonesia(7)	Brazil(8)	Australia(8)	Vietnam(9)	UK(8)	India(13)
UK(6)	Malaysia(7)	Brazil(8)	Brazil(9)	India(7)	Japan(7)
Canada(5)	S. Korea(5)	Thailand(7)	Singapore(6)	Poland(7)	Russia(7)
Japan(5)	Australia(5)	Indonesia(7)	Australia(6)	Turkey(5)	Australia(6)

A comparison with the survey results from two years ago demonstrates that there is a less overwhelming emphasis on China than before. Indeed, the importance of China and India has seen a relative decline. On the other hand, the importance of Thailand, Indonesia and Vietnam has increased. These results tie in with the growing “China plus one” movement where firms are increasingly moving into alternative Asian economies to find suppliers, producers or distributors.

Figure 5: Countries with the best potential for business growth in the next 12 months (excluding home country): Comparison of 2010 and 2012

Question: Which countries, excluding the country in which you are based, do you consider most important for your overall growth prospects over the next 12 months?
 (Notes: Multiple answers allowed for up to three countries. In the 2010 question, the phrase “for the next three years” was included.)



Base: All Respondents (Japan:2012=162; 2010=196)
 Proportions of respondents who chose the country (%)



Survey Results

Awareness of threats

Economic threats - Concern about exchange rate volatility

CEOs in Japan are generally more concerned than the global average about economic and political threats such as the uncertain business climate, the financial deficit and increasing regulations. In particular, 74% of Japanese CEOs are concerned about exchange rate volatility, a figure far higher than the global average of 54%.

CEOs in Japan have always placed a particular emphasis on the impact of exchange rate volatility. But this year's survey results were also influenced by the Yen's dramatic rise during the survey period.

Business threats - Concerns about energy costs and supply chain disruption

Many Japanese CEOs state that "energy and raw material costs" (78% of Japanese CEOs, compared to the global average of 52%) and "supply chain disruption" (55% and 35%, respectively) are the main threats to their business. The damage and confusion they experienced after the Great East Japan Earthquake and the great flood in Thailand seems to have influenced their responses.

However, CEOs in Japan are less concerned about the "availability of key skills" (48% compared to 58% globally) or "inability to finance growth" (19% and 39% respectively). Potential reasons for this could be that they find these issues comparatively minor, that Japan's economic growth is slower than in emerging countries, that they have a well-balanced labour market, or because Japan has not suffered a home-grown financial crisis.

Figure 6: Economic and political threats to growth

Question: How concerned are you about the following potential economic and policy threats to your business growth prospects?

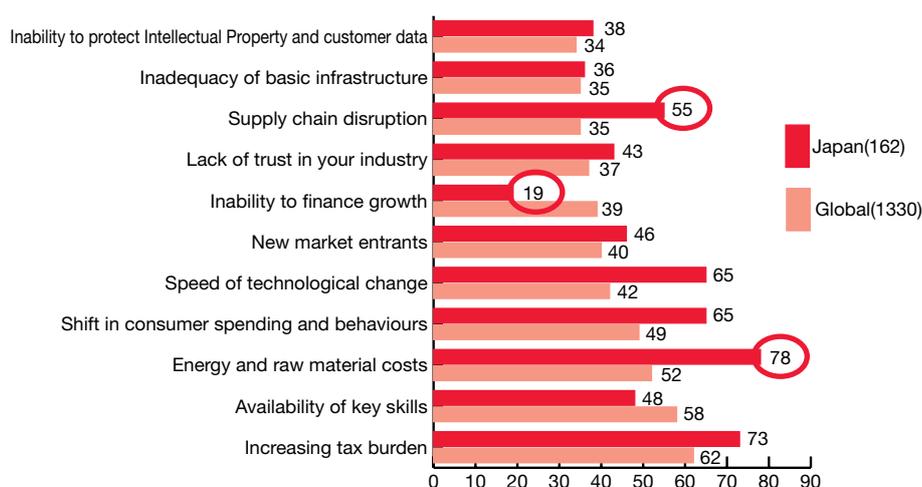
Respondents who stated "extremely concerned" or "somewhat concerned" (%)
Figures in parentheses are numbers of respondents

	Global (1330)	Japan (162)	China/ Hong Kong (132)	Western Europe (312)	US (167)
Uncertain or volatile economic growth	81 ¹	90 ¹	86 ¹	84 ¹	90 ²
Government response to fiscal deficit and debt burden	71 ²	77 ²	44	77 ²	93 ²
Over-regulation	69 ³	73	62	65 ³	77 ³
Lack of stability in capital markets	61	67	60	62	62
Exchange rate volatility	54	74 ³	56	39	41
Protectionist tendencies of national governments	51	61	64 ³	40	47
Inflation	43	31	73 ²	29	37
Bribery and corruption	41	17	60	23	24

Figure 7: Business threats to growth

Question: How concerned are you about the following potential business threats to your growth prospects?

Respondents who stated "extremely concerned" or "somewhat concerned" (%)
Figures in parentheses are numbers of responses.



CEOs are aware of various potential threats around the world

We presented a number of potential threat scenarios such as a slowdown in economic growth in China, a recession in the United States and natural disasters. CEOs in Japan are generally more concerned than the global average about the probability of these threats. Compared with the global average, many Japanese CEOs are much more concerned about the probability of “China's GDP growth falling below 7.5% per annum” and “a natural disaster disrupting a major trading/manufacturing hub.” (Note: In the survey, the question in Japanese used a word which literally translates as “probability” in English. On the other

hand, the question in English used the phrase “likely to occur.” Accordingly, the nuance in the two languages may have had some effect on the responses.)

What’s more, a majority of CEOs in Japan state that their businesses would be “seriously affected” if any of those scenarios, excluding the “breakup of the Eurozone”, were to occur in the next 12 months. Compared with the global average, the proportion of CEOs who state that their business would be seriously affected by “military or trade tensions affecting access to natural resources” and “a natural disaster disrupting a major trading/manufacturing hub” is notably higher in Japan.

Figure 8: Likelihood of threat scenarios and their impact

Question: How likely are the following scenarios to occur?
How would your organization cope with the following scenarios, if they happened within the next 12 months?
Respondents who stated ‘likely to occur’ and “would have great impact” (%)
Figures in parentheses are numbers of responses.

“Scenario”	“Likely to occur”		“Will have great impact on the business if the scenario happens within 12 months”	
	Global (1330)	Japan (162)	Global (1330)	Japan (162)
China’s GDP growth falling below 7.5% per annum	45	89	51	52
Recession in the US	32	64	67	60
Military or trade tensions affecting access to natural resources	25	59	53	64
Cyber-attack or major disruption of internet	20	49	63	66
Major social unrest in the country in which you are based	17	23	75	81
A break-up of the Eurozone	16	36	53	46
A natural disaster disrupting a major trading/manufacturing hub	15	50	56	86
Health crisis (e.g. Viral pandemic, food/water safety crisis)	13	37	52	65

Survey results

Approach to organizational management

An emphasis on diversification of the supply chain and recovery from risk events

Many CEOs in Japan stated that they had altered their approaches to management in accordance with the change business environment by diversifying their supply chain, increasing emphasis on recovering from risk events rather than predicting risk events and decentralizing accountability for risk management. While 43% of CEOs throughout the world replied that they would “increase the concentration” of their supply chains, only 33% of Japanese CEOs replied that they would choose this approach. On the other hand, 66% of Japanese CEOs said they would “diversify” their supply chains, compared to the 50% global average.

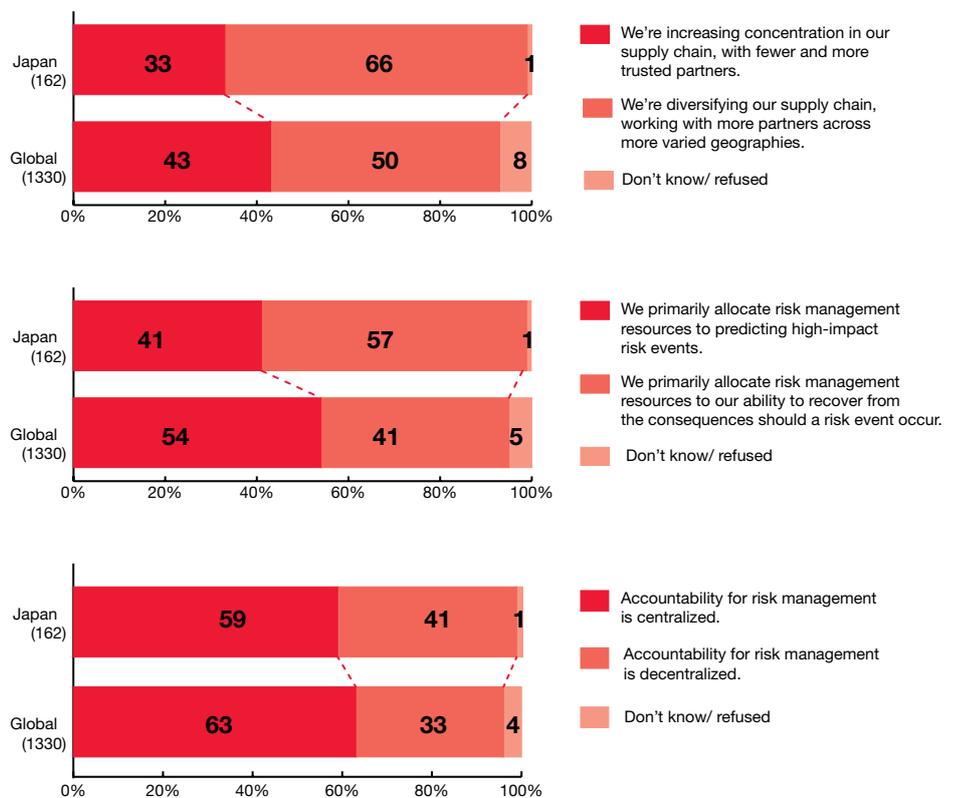
As for measures against risk events, 41% of Japanese CEOs stated that they “allocate risk management resources to predicting high-impact risk events” compared with the 54% global average. Furthermore, 57% of Japanese CEOs replied that they would “allocate risk management resources to recovery from risk events” compared to the 41% global average. These results could be a reflection of the fact that many Japanese companies were affected by the Great East Japan Earthquake and the 2011 Thailand floods.

Furthermore, Japanese CEOs are slightly more likely to decentralize accountability for risk management (41% of Japanese CEOs, compared to the 33% global average).

Figure 9: Concentration/distribution of risk management authority, concentration/distribution of supply chain and allocation of risk management resources

Question: Which of the following statements most accurately describes the approach you to managing your organization?

Figures in parentheses are numbers of responses.



Emphasis on customers, personnel strategy and organizational reform

The top three areas Japanese CEOs emphasised as areas where they anticipate changes were “customer growth/ retention/ loyalty strategies,” “strategies for managing talent” and “organizational structure.” These results are not very different from the global averages. However, the 74% of Japanese CEOs who answered that they “anticipated changes in the approach to managing risk”, is quite a bit higher than the 62% global average.

Relatively fewer Japanese CEOs use M&A as a restructuring strategy

Both Japanese CEOs and CEOs across the world fully agree that cost reduction is their most common restructuring activity. However, the proportion of Japanese CEOs who actively pursue M&A activity is relatively low, demonstrating that there is still a tendency towards conservative management as the global economic outlook remains unclear. Taking a closer look at M&A activity, Japanese CEOs answered less positively than CEOs worldwide with only 19% of Japanese CEOs saying that they would “complete a domestic M&A” compared to the 28% global average and with only 20% of Japanese CEOs planning to “complete a cross-border M&A” compared to the 26% global average.

Figure 10: Future organizational restructuring

Question: To what extent do you anticipate changes at your company in the following areas over the next 12 months?

Respondents who anticipate “some change” or “a major change” (%)
Figures in parentheses are numbers of responses.

	Global (1330)	Japan (162)
Customer growth/retention/ loyalty strategies	82	80
Strategies for managing talent	77	80
Organizational structure	74	83
Increase in technology investments	74	69
Increase in R&D and innovation capacity	67	69
Approach to managing risk	62	74
M&A, joint venture or strategic alliance	61	61
Increase in capital investment	64	73
Investment in managing corporate reputation	53	41
Divestiture plans	29	17

Figure 11: Plan for Organizational Restructuring in the Next 12 Months

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

Respondents who chose the activity (%)
Figures in parentheses are numbers of responses.

	Global (1330)	Japan (162)	China/ Hong Kong (132)	Asia Pacific (449)	Western Europe (312)	US (167)
Implement a cost-reduction initiative	70	74	49	61	83	71
Enter into a new strategic alliance or joint venture	47	46	37	42	50	57
Outsource a business process or function	31	24	28	29	40	29
Complete a domestic M&A	28	19	30	24	27	42
Complete a cross-border M&A	26	20	17	23	32	28
Divest majority interest in a business or exit a significant market	15	12	8	13	20	22
“Insource” a previously outsourced business process or function	16	17	8	15	18	17
End an existing strategic alliance or joint venture	11	11	13	12	16	8

Cross-border M&A – emphasis on Asia

Among Japanese CEOs planning cross-border M&A, 53% are planning M&A activity in South East Asia, 34% in East Asia and 19% in South Asia. This is consistent with the regions Japanese CEOs recognized as important in the “Actions for Growth” section.

In comparison, 48% of CEOs in the US plan on carrying out M&A in North America and 43% in Western Europe, while 41% of CEOs in Western Europe plan on carrying out M&A within their region and 35% in Central and Eastern Europe/ Central Asia. Each country has a tendency to choose close region as their targeted market.

Many CEOs say their headcount will remain the same or increase slightly

As for human resources and developing talent, “strategies for managing talent” was ranked the third most important area CEOs anticipated to see change in the previous question. However, 40% of Japanese CEOs replied that they expected their headcount to stay the same in the next 12 months, which is higher than the 28% global average. Compared with other countries, Japanese companies don’t seem particularly enthusiastic about either significantly increasing or reducing their headcounts. Japanese companies typically cope with changes in the business environment by employing groups of new graduates once a year or transferring existing employees to other sites instead of drastically reducing headcounts or hiring new employees on a rolling basis as the need arises. As we will discuss later, one important reason for this may be that Japanese companies see their employees as important stakeholders.

Figure 12: Future regional M&A plans in the next 12 months

Question: In which regions are you planning to carry out an M&A, joint venture or strategic alliance?

Respondents who selected the region (%)

Figures in parentheses are numbers of responses.

	Global (341)	Japan (32)	China/ Hong Kong (23)	Asia Pacific (105)	Western Europe (99)	US (46)
Western Europe	30	16	52	23	41 ¹	43 ²
North America (US and Canada)	30	25 ³	30	32	23	48 ¹
Middle East	9	6	4	9	10	0
Latin America	25	16	13	12	32 ³	28 ³
Central and Eastern Europe/ Central Asia	21	9	13	13	35 ²	13
Australasia	9	6	4	14	8	9
South Asia	11	19	4	18	11	13
Southeast Asia	23	53 ¹	30	39	19	20
East Asia	22	34 ²	39	28	23	26
Africa	13	0	4	5	14	4

Note: Included are responses by CEOs who chose “Complete a cross-border M&A in the next 12 months” in Figure 11 above.

Figure 13: Employee Plan in the Next 12 Months

Question: What do you expect to happen to headcount in your company globally over the next 12 months?

Respondents who chose the activity (%)

Figures in parentheses are numbers of responses.

	Global (1330)	Japan (162)	China/Hong Kong (132)	Western Europe (312)	US (167)
Decrease by more than 8%	4	1	5	7	2
Decrease by 5-8%	5	1	3	10	7
Decrease by less than 5%	14	11	5	23	14
Stay the same	28	40	25	27	32
Increase by less than 5%	22	31	16	20	24
Increase by 5-8%	12	6	17	7	10
Increase by more than 8%	11	4	16	3	12

Few companies are implementing succession plans

When it comes to developing new business leaders, only 34% of Japanese CEOs responded that they had “active succession planning including identifying multiple successors,” which is much lower than the 71% global average. This may be partly because lifetime employment is more common in Japan than in Western countries and it is unlikely that an executive would suddenly quit their company for another job.

Figure 14: Leadership pipeline plan

Question: Do you deploy any of the following plans to develop your leadership pipeline?
 Respondents who stated ‘yes’ (%)
 Figures in parentheses are numbers of responses.

	Global (1330)	Japan (162)
Involving managers below board level in strategic decision-making	79	75
Active succession planning including identifying multiple successors	71	34
Dedicated executive development programme	69	52
Rotations to different functions/ challenges	62	54
Encouraging global mobility and international experience	61	54
Programmes to encourage diversity amongst business leaders	58	49
Shadowing senior executives	37	13



Survey results

Relationships with stakeholders

Employees, supply chain partners and local communities are important

In terms of relationships with stakeholders, 97% of Japanese CEOs think that their customers have the most influence on their business strategy, which is no different from the 97% global average. On the other hand, the proportion of CEOs who see “employees,” “supply chain partners” and “local communities” as influential stakeholders is higher in Japan (90%, 84% and 70% respectively). Japanese CEOs place more value on these stakeholders than CEOs in other countries.

Figure 15: Stakeholders' influence on business strategy

Question: How much influence do the following stakeholders have on your business strategy?

Respondents who stated 'have some influence' or 'have significant influence' (%)
Figures in parentheses are numbers of responses.

	Global (1330)	Japan (162)	China/ Hong Kong (132)	Asia Pacific (449)	Western Europe (312)	US (167)
Customers and clients	97	97	94	95	97	99
Industry competitors and peers	90	94	89	90	89	89
Government and regulators	85	79	86	86	86	78
Employees (including trade unions and work councils)	83	90	77	83	85	80
Your supply chain partners	76	84	67	74	76	69
Providers of capital (e.g. creditors and investors)	75	83	77	79	73	75
Local communities	61	70	46	60	55	57
Users of social media	50	46	46	48	52	53
The media	53	60	56	62	47	32
Non-Governmental Organizations (NGOs)	32	15	28	29	34	36



Differences in strengthening relationships with social media and NGOs

Looking at changes in relationships with stakeholders, the proportions of Japanese CEOs who responded that they “strengthened relationship with customers” and that they “strengthened relationship with suppliers” were 89% and 79% respectively, which is very similar to global averages.

However, there is a significant gap between the number of CEOs who say they have strengthened their relations with the government and regulators in Japan (46%) and in the rest of the world (67%). There are also significant differences between how other stakeholders are recognized in Japan and in other countries: at 37%, the proportion of Japanese CEOs who responded that they “strengthened the relationship with social media users” was much lower than the 78% global average and the 21% of Japanese CEOs who responded that they “strengthened their relationship with non-governmental organizations (NGOs)” was similarly low compared with the 51% global average. The survey reveals that while a change in the relationship with the government, social media and NGOs is an important trend world-wide, Japanese CEOs have a slightly different outlook.

Figure 16: Stronger stakeholder engagement

Question: For those stakeholders with some or significant influence, to what extent are you strengthening your engagement programme?

Respondents who stated ‘Some change’ or ‘Major change’(%)
Figures in parentheses are numbers of responses.

	Global (420-1285)	Japan (24-157)	China/ Hong Kong (37-124)	Asia Pacific (129-427)	Western Europe (106-302)	US (54-166)
Customers and clients	89	89	89	89	87	90
Industry competitors and peers	63	49	74	67	55	59
Government and regulators	67	46	68	67	67	62
Employees (including trade unions and work councils)	77	71	82	80	70	80
Your supply chain partners	78	79	84	82	75	76
Providers of capital (e.g. creditors and investors)	68	62	79	76	60	61
Local communities	65	54	67	66	59	58
Users of social media	78	37	77	70	79	82
The media	64	65	72	70	54	52
Non-Governmental Organizations (NGOs)	51	21	65	52	48	52



What do we expect?

Rapid and Drastic Changes in the Environment for Business Management

The business world has undergone a series of increasingly dramatic changes since the Lehman Brothers' collapse. On one hand, the rise of emerging countries has been remarkable with the centre of global economic growth gradually shifting "from the West to the East." As emerging countries are growing, the costs of natural resources and food have started to increase again. We've grown more painfully aware of the finiteness of our planet's natural environment and its resources. At the same time, for many advanced countries and increasingly some emerging countries, the problem of rapidly ageing populations and decreasing birth rates is becoming more serious.

On top of these macroeconomic conditions, the "dog-ear" advance in information technology makes it easier to start up a new business, while barriers to entry between businesses are disappearing. Moreover, the spread of online networks and the rapid expansion of SNS have led to a "flood of information". In addition, the competition to acquire sufficient financial resources needed for growth has moved to a global level as financial markets become increasingly uniform. Because of this, regulations for monitoring financial capital markets are also being tightened in order to prevent another financial crisis.

These drastic changes in the business environment make it even harder for companies to survive ever fiercer competition. Even companies with excellent intellectual capital run the risk of being challenged by global competitors in the short term and their capital soon becoming outdated.

Growth strategy

Based on the results of this survey, what should Japanese CEOs do under these circumstances?

On the topic of growth strategies, we'd like to make three observations on the recovery of confidence in future business performance, more rapid organizational reform and further contribution to the expansion of the Asian economic bloc.

Recovery of confidence in business performance

In the survey this year, the proportion of Japanese CEOs who responded that they were "confident" about their future revenue growth was lower than the global average. This is partly because the Yen was still appreciating rapidly at the time of the survey.

Taking into account the fact that the exchange rate, which was about ¥80 to the dollar at the time of the survey, has now settled to around ¥95, and that the Nikkei Stock Average has improved from about ¥9,000 to its current average at about ¥12,000, we believe that the confidence of Japanese CEOs about the future is now starting to improve. The results of the Business Outlook Survey for the Jan-March period published by the Cabinet Office and the Ministry of Finance also showed that the business sentiment index of large companies improved after declining for two consecutive quarters.

If the government continues to follow the three pillars of "Abenomics" (bold monetary easing, flexible fiscal policy and a growth strategy) on top of general improvements in the business climate, Japanese CEOs could well regain their confidence in the economy and hopefully adopt a more assertive approach to business management.

Organizational reform with a stronger sense of urgency

Though companies are developing a much stronger environment for business improvement, external environments, on the other hand, are changing faster than ever. Companies need to start conducting business with a stronger sense of urgency. According to the survey results, a much smaller portion of Japanese companies plan on using M&A to expand their businesses than Western companies. Japanese companies should seek out M&A opportunities more assertively to restructure faster and better stand up to global competition.

Since companies in emerging countries are rapidly expanding their businesses, it is also necessary for Japanese companies to leverage assertively their past innovations and shift from outdated business areas to high value-added business areas in order to continue creating new value. Combined with new growth strategies including government deregulation, actions such as these would increase domestic economic growth while strengthening employment and encouraging reform of outdated industrial structures in local communities, thus increasing the size of the pie as a whole.

As for human resources, the survey results indicate that many Japanese CEOs plan on maintaining their present headcounts while few executives said that they had succession plans. To overcome rapidly evolving global competition while still placing value on employees, companies must on one hand recruit new workers to cope with the changing business environment and, on the other hand, recognize that it is now more important than ever to invest in helping existing employees to reconsider their preconceptions and gain new skills.

Executives must find new value drivers for the future that go beyond the mere simple management of their own business while keeping a sharp eye on macroeconomic movements and technological trends. It's also important to develop and strengthen talent capable of overseeing the entire company from the perspective of top-tier business portfolio management.

Contribution to the Asian economic bloc

The survey results show that Japanese companies view China, South East Asia and other Asian countries as their main target countries for international business expansion. Asia is also seen as an important destination for cross-border M&A opportunities.

Many CEOs in the US responded that they seek M&A opportunities in North America while CEOs in Europe seek M&A opportunities in Western Europe, demonstrating a clear trend for companies to seek stronger economic ties with neighbouring countries.

It's now more important than ever for Japanese companies to promote better economic cooperation with Asian countries currently at the centre of world economic growth and, in doing so, growing their own businesses while contributing to the development of the region as a whole. It's also important that Japanese companies do more than gain a presence in these Asian markets; by providing services like tourism and healthcare they should create mutually beneficial relationships for both Japan and other Asian nations.

Risk management and organizational management

Establishing a resilient organizational structure (for quick and agile recovery)

Many Japanese CEOs responded that they placed more emphasis on recovering from the consequences of risk events than diversifying the supply chain or predicting risk events. The impact of the Great East Japan Earthquake and the 2011 Thailand flood, still fresh in many people's memories, has probably contributed to these views.

Various risks can have unexpected impacts on business management, such as the continuing debt crisis in Europe, the seemingly increasingly frequent natural disasters and potential disputes between countries. One of the greatest changes in the last decade is that information on these risks now spreads instantly throughout the world and, as businesses become ever more globalized, a disruptive event somewhere where a company might not even have any direct business involvements can potentially have a serious and unforeseen impact on its operations. Everyone will clearly remember how seriously supply chains in certain countries were affected by the Great East Japan Earthquake when quake-stricken Japanese parts manufacturers could no longer ship their products abroad.

This shows a negative side of increasing global economic integration: with more types of risks than ever before, it's becoming increasingly difficult to prepare for all possible scenarios. As uncertainties increase, it's crucial to always have an ear to the ground for new information and to make arrangements well in advance in order to be able to recover suspended or weakened operations and return to normal value

creation as soon as possible in the aftermath of disruptive events.

This is called "resilience," and it describes the ability of an organization to recover quickly and effectively from a crisis. Globally, executives in Western companies started to use this term after the Lehman collapse. The current consensus is that firms should focus on strengthening resilience when considering how they manage risks and operations.

Even if they don't use that exact word, Japanese companies are well aware of the importance of resilience in their organizations, especially in supply chain management, in light of their experiences after the Great East Japan Earthquake and all the other natural disasters Japan has fallen victim to. Consequently, Japanese companies are actually one step ahead of foreign companies in establishing resilient organizations.

However, major disruptions are not limited to natural disasters. For example, an IT system that connects business locations scattered across the world may come under attack from an external threat and companies must reflect on how they respond to threats coming from all directions like this. They should find the best way to create resilient organizations, keeping an appropriate balance between the pursuit of short-term profits and the mid- to long-term continuous creation of value, as well as taking into account the expectations of society.

Relationships with stakeholders

Reviewing relationships with social media and NGOs

As indicated by the survey results, Japanese companies consider relationships with employees and local communities more valuable than those with foreign companies. This is one of the defining characteristics of Japanese businesses and companies will need to fully leverage the strength of this from now on.

On the other hand, the survey results this year reveal other weaker areas: not many Japanese CEOs plan on strengthening their relationship with the government, social media users and NGOs, whereas CEOs in other countries all responded that they are strengthening these relationships.

PwC published "Project Blue,"¹ a report on many important changes expected to have an influence on the future of business such as the role of social media in changing the social structure and the rise of national capitalism amid economic growth in emerging countries. Japanese companies should keep a sharper eye on global social movements and respond more quickly to the changing business environment driven by these new trends.

Conclusion

The business environment for Japanese companies is rapidly changing as economic globalization and advances in IT accelerate. This trend will continue into the future. Under these circumstances, Japanese companies must find ways to beat the strong competition and continue creating value.

Although the population is ageing and birth rate is declining increasingly quickly, according to the latest edition of "World in 2050,"² the long-term global economic growth projection published by PwC in January 2013, Japan is expected to stay the fifth largest economy in terms of GDP up to 2050. It is also an advantage that Japan is in Asia, the growth centre of the global economy, an advantage it has over Western countries. In the long-term, business models designed for an aging society with fewer children present business opportunities, since they can be introduced to China and other Asian countries in the near future when the challenges of an aging the population become an issue for them as well.

All considered, a moderately bright picture can be drawn for the Japanese economy and Japanese companies. Company executives should show proper leadership and properly recognize changes; they should see the quickly changing environment as a business opportunity and encourage innovation to stimulate the economy. We expect Japan to play an important role as a global leader.

¹ PwC "Project Blue" <http://www.pwc.com/jp/ja/japan-knowledge/archive/project-blue1201.jhtml>

² PwC "World in 2050" <http://www.pwc.com/jp/ja/japan-knowledge/archive/world-in-2050.jhtml>

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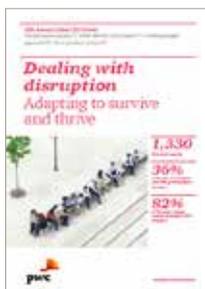
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