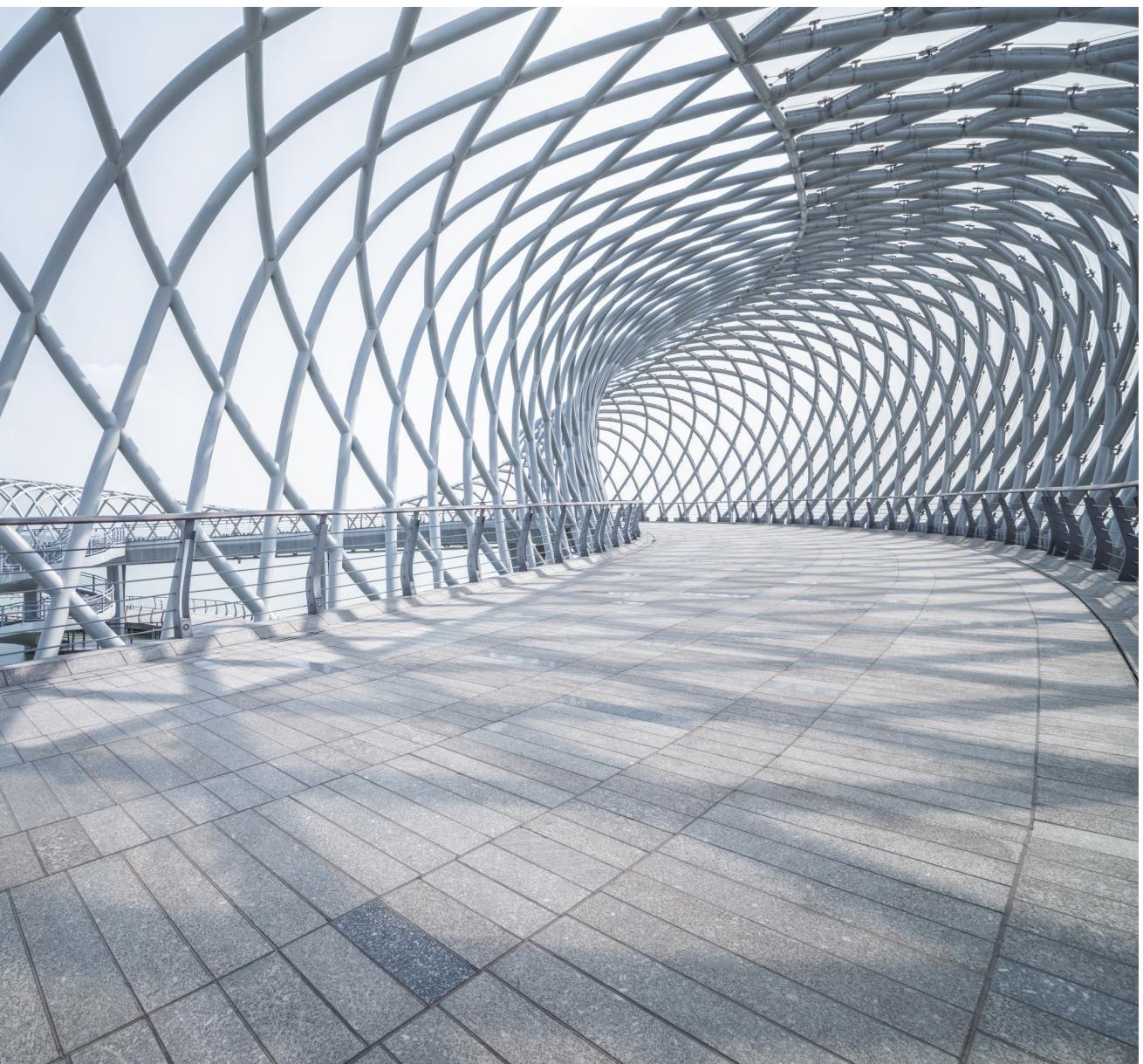


Survey on trends in global strategies of Japanese companies

2023-2024



Introduction

We began 2023 with the announcement that the COVID-19 crisis, which had lasted for more than three years worldwide, had finally subsided, with the disease being downgraded to Class 5 in Japan. People in many countries around the world have returned to their daily lives as they were before the COVID-19 crisis, but the world's economic and social situation is not the same as before. Instead, a 'new normal', consisting of new social norms and structures for the post-COVID-19 era, is gradually being established.

One year has also passed since the inception of the Russian invasion of Ukraine, but there is no sign of an end to the conflict, and many companies have been forced to withdraw from Russia. In addition, the impact of the invasion has spread beyond Russia and Ukraine. Such impact includes the intensification of a 'new cold war', tight energy supply and demand, and constraints on the free movement of people, goods and money. Some also believe that the macroeconomic environment in the US is deteriorating rapidly as prices continue to increase. Similar signs are apparent in China, which, in its battle for hegemony, has had an significant impact on global companies as tensions rise between the United States and China.

How should companies confront this rapidly changing and uncertain business environment? Following from last year, the PwC Japan Group has conducted a survey on the global strategies of Japanese companies and the way they are implementing them. This report provides an overview of critical management issues highlighted in the survey. In addition, this year's report covers for the first time issues related to the implementation of global technology.



Susumu Adachi

Global Japanese Business Network Leader and Financial Service Industry Leader, PwC Japan Group; Vice Chairman, PwC Consulting LLC; PwC Global Board Member; PwC Foundation Board of Trustees

Table of contents

Introduction	2
Overview of the survey	4
1. Analysis and outlook for global business	5
2. Management issues in global business	9
3. System implementation, digital transformation and management issues	12
4. In conclusion	19
Contact us	21

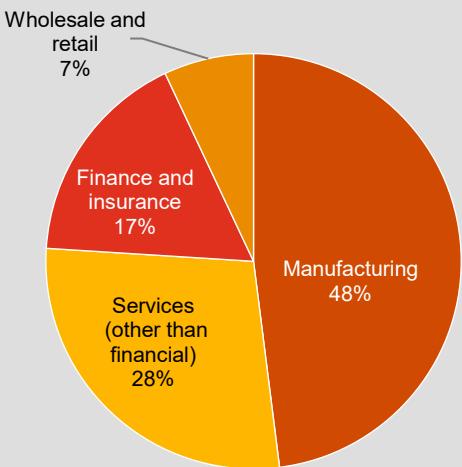
Overview of the survey

Survey method

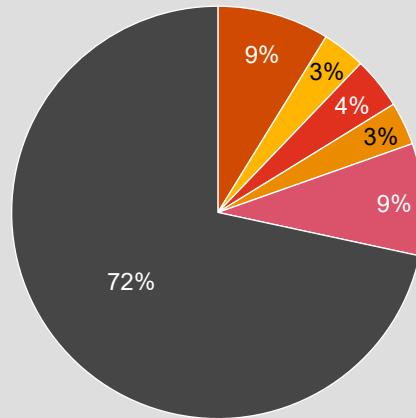
Title	Survey on trends in global strategies of Japanese companies 2023-2024
Date conducted	June 2023
Method	Online panel survey
Target respondents	<ul style="list-style-type: none">Employees at the manager level or higher engaged in corporate planning, business planning, risk management and global businessJapanese companies with annual sales of ¥500 billion or more and 500 employees or more, all industries
Sample count	296
Respondent demographics	See below

Respondent demographics

By industry



By annual sales



■ 500 billion yen to 600 billion yen ■ 800 billion yen to 900 billion yen
■ 600 billion yen to 700 billion yen ■ 900 billion yen to 1 trillion yen
■ 700 billion yen to 800 billion yen ■ 1 trillion yen or more

Note 1: The sum of all figures may not equal 100%.

Note 2: Since this survey was conducted anonymously, there may be overlap in the companies to which respondents belong.

Note 3: Figures are rounded to the nearest whole number.

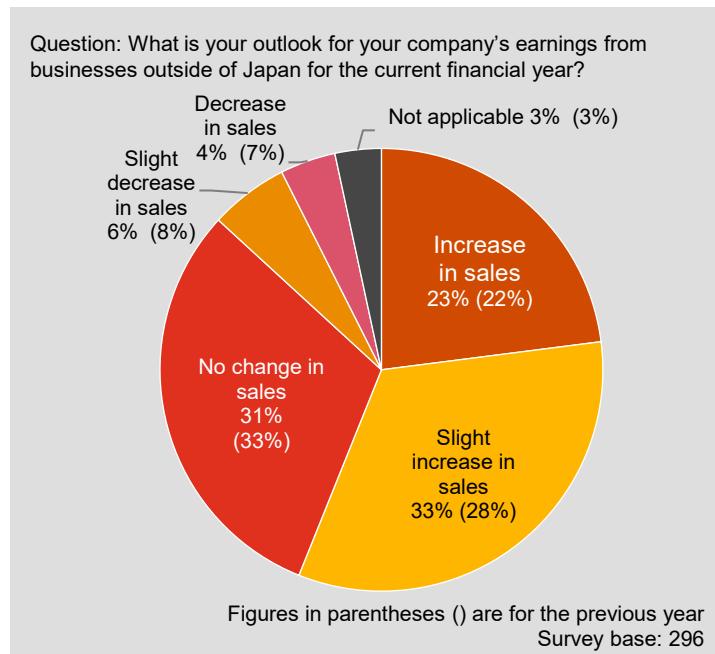
1

Analysis and outlook for global business

Global business earnings are forecast to grow in the near and medium-term future

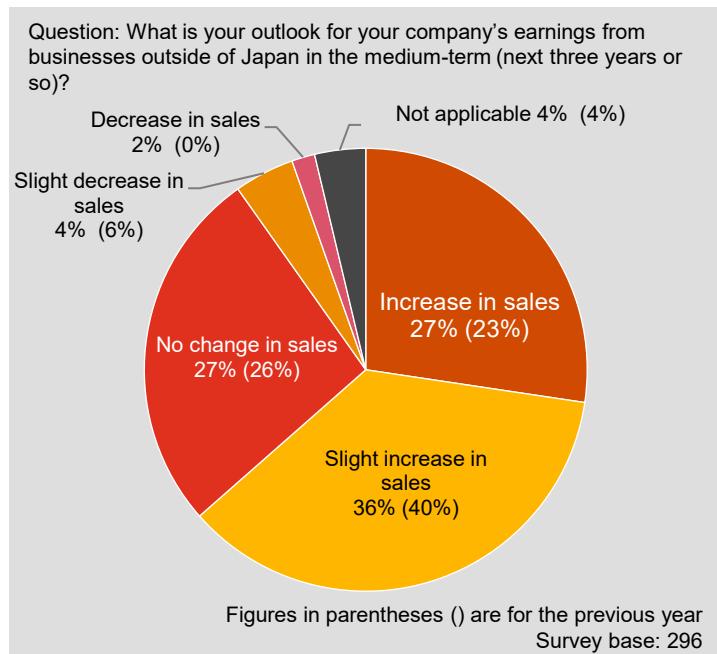
When we asked companies about their current fiscal year earnings forecast for global business outside of Japan, 33% of respondents said that they expected a 'slight increase in sales', which was 5 percentage points higher than last year's survey. Those expecting an 'increase in sales' rose by 1 percentage point to 23%, and the sum of those expecting either a 'slight increase' or an 'increase' in sales was 56%, showing a strong trend of anticipated recovery and higher revenue (Figure 1). The total of those who reported expecting a 'decrease in sales', a 'slight decrease in sales' or 'no change' was 41%, down 7 percentage points year on year. This suggests that there has been a decrease in conservative forecasts following the recovery of companies from the impact of the COVID-19 pandemic.

Figure 1



Next, we asked companies about their medium-term (approximately the next three years) earnings forecast (Figure 2). The most common response was a 'slight increase in sales' at 36%, down 4 percentage points from the previous year, followed by an 'increase in sales' at 27%, up 4 percentage points from the previous year. The total of those who answered 'slight increase in sales' or 'increase in sales' was 63%, the same as the previous year. This shows that many companies expect the growth of their global businesses to remain steady. However, 2% of companies reported expecting a 'decrease in sales' in the medium-term (compared to 0% last year), indicating that not all companies have a positive outlook on their global businesses.

Figure 2



Most companies continue to seek medium-term growth in the global market and intend to invest

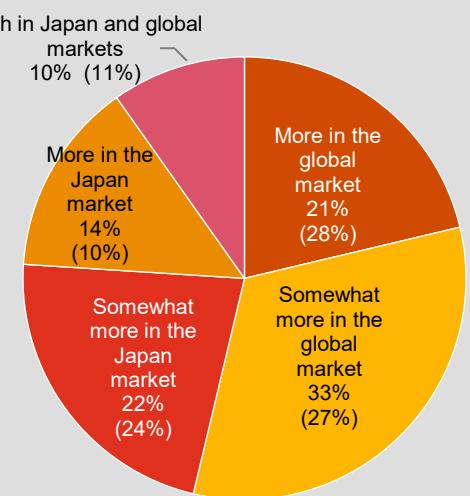
We then asked companies whether they see more medium-term growth potential in the Japan market or the global market outside of Japan. The total percentage of respondents who replied either 'somewhat more in the global market' or 'more in the global market' was 54% (down 1 percentage point from the previous year), indicating that most companies see growth potential in the global market (Figure 3). However, on its own, 'more in the global market' only accounted for 21% of the responses, down 7% from the previous year. In addition, the total of those who responded 'somewhat more in the Japan market' and 'more in the Japan market' was 36%, an increase of 2 percentage points from the previous year, indicating that not all companies are necessarily

focusing on the global market.

Next, we asked companies about their plans for investing in global business outside of Japan (Figure 4). The percentage of those who responded 'strengthen and expand' was 61%, up 6 percentage points from the previous year's survey, with 'maintain the current status' at 36%, down 7 percentage points from the previous year. Combined with the responses to the previous question, these results suggest that many companies see growth potential in the global market but believe that they can increase sales only if they strengthen their investment.

Figure 3

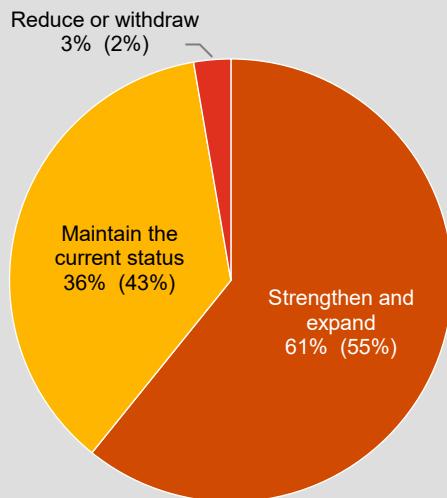
Question: Do you see more growth potential in the Japan market or global market outside of Japan in the medium-term (next three years or so)?



Figures in parentheses () are for the previous year
Survey base: 296

Figure 4

Question: What is your plan for investing in global business outside of Japan in the medium-term (next three years or so)?



Figures in parentheses () are for the previous year
Survey base: 296

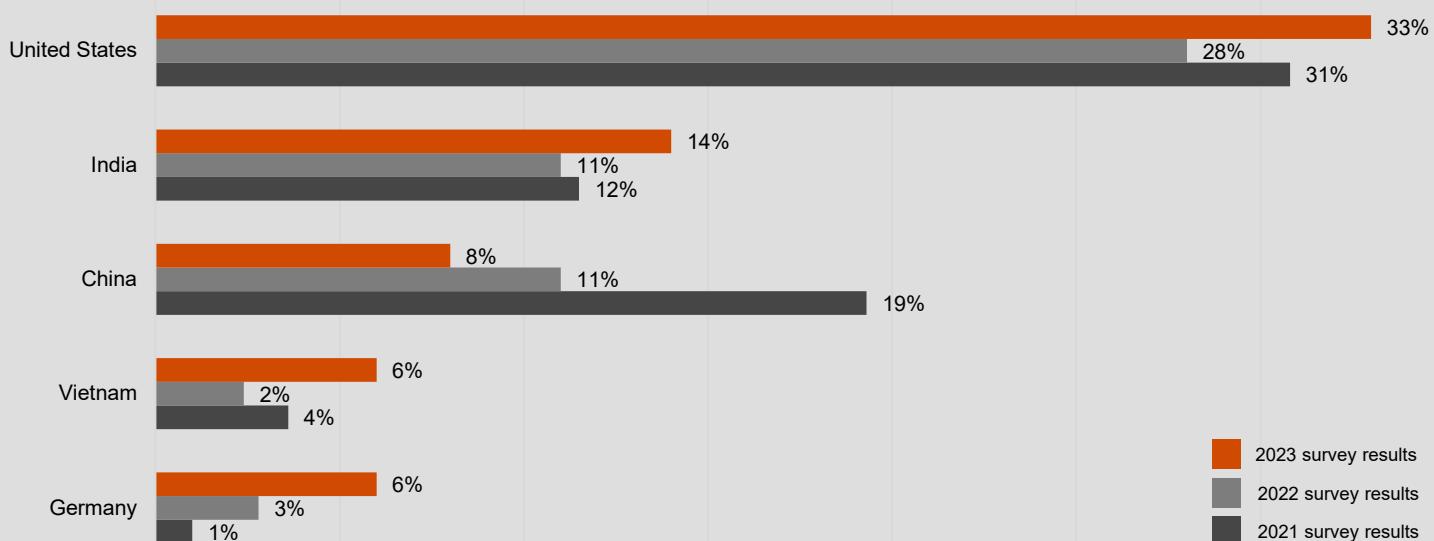
The US continues to be the number one global business destination for Japanese companies, but interest in China has declined, allowing India to overtake China as second place

When we asked companies which countries they considered to be promising future business destinations, the top response was the US, followed by India, which overtook China this year to claim second place. Overall, the number of respondents who selected the US and India remains unchanged, but the number of respondents who chose China continues to decline from the previous year. As mentioned in last year's report, we expect that rising tensions between China and Taiwan may be contributing to this.

On the other hand, companies continue to view India as an attractive market, especially since it now has the largest population in the world. The government of India has been proactive in attracting investment, as evidenced by recent events such as a seminar on investment in India hosted by the Embassy of India in Japan in July 2023.

Figure 5

Question: Please select the top three countries you consider as promising business destinations in the medium-term (next three years or so) and are considering entering, strengthening, or making additional investments in. (Multiple responses allowed)



Survey base: 249 (excluding respondents who did not select any target countries)

Next, when we asked companies why they chose the countries they did in the previous question, we found that the most popular response, 'future growth potential of local market', and the second most popular response, 'current local market size', were reversed in rank when compared to from the previous year, albeit just by a small percentage difference (Figure 6). While the overall percentages of these responses are lower than the previous year, this indicates that Japanese companies are once again placing importance in future growth and accelerating their global investment. Meanwhile, the third most popular response was 'stable political foundation'. With emerging geopolitical risks in Europe, Russia and China shaking up the foundations of free trade, this suggests that companies are taking an investment stance that emphasises the balance between the current state of the market and its future prospects.

Figure 6

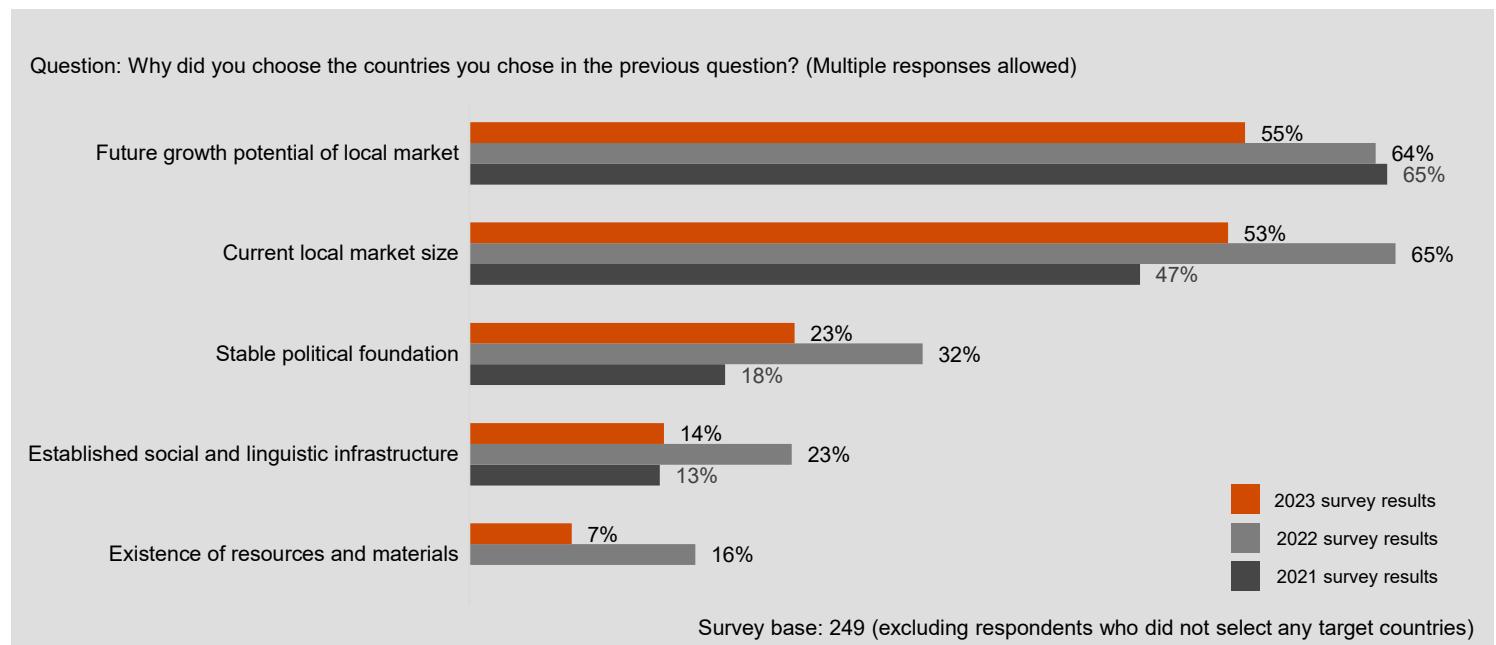
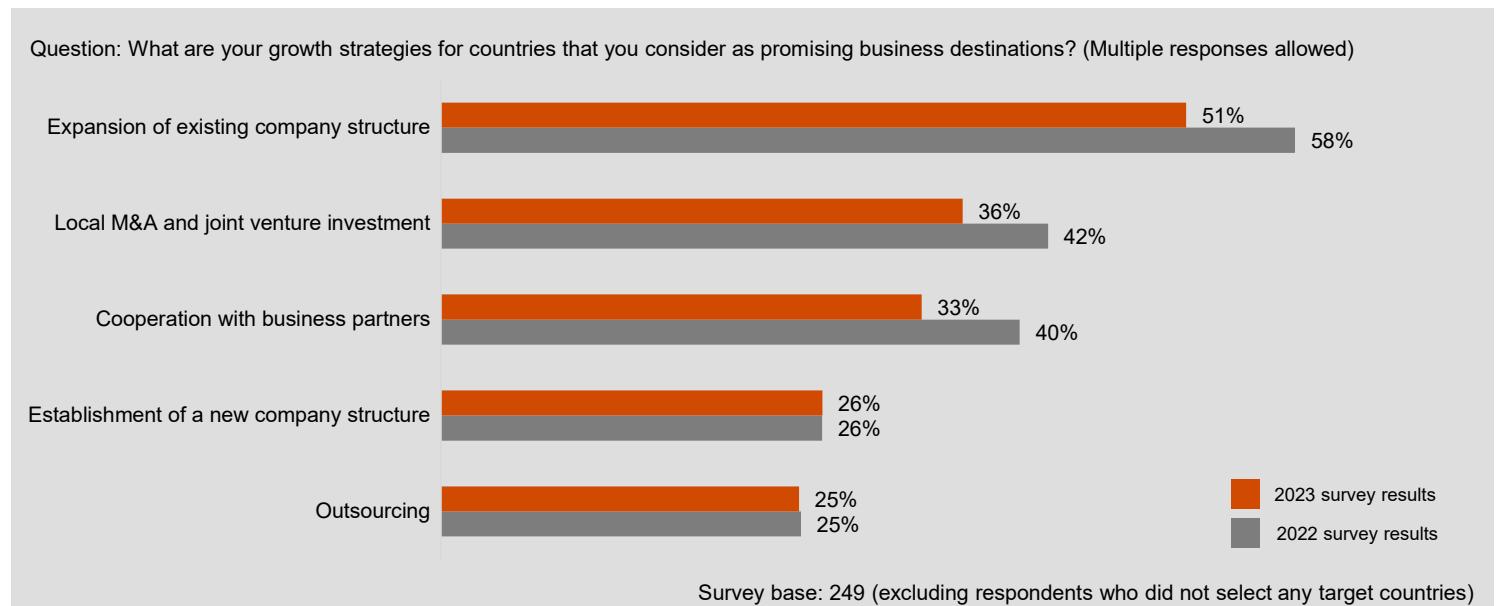


Figure 7



Following that, we asked companies about their growth strategies for the countries that they selected as promising business destinations in the previous question (Figure 7). Looking at the results, we can see that the rankings remain unchanged from the previous year's survey. The most popular response was 'expansion of existing company structure', the second most popular response was 'local M&A and joint venture investment', and the third was 'cooperation with business partners'. On the other hand, only 26% responded with the 'establishment of a new company structure'. As the business environment continues to drastically change, it seems that most companies are utilising the immediate capabilities of external resources and aiming for inorganic growth, rather than establishing new internal resources from scratch.

Are companies done scaling back, relocating, and withdrawing their businesses from Russia?

When we asked what countries companies are planning on scaling back, relocating, or withdrawing their business from in the medium-term (Figure 8), Russia made up an overwhelming share of the responses, despite a 18 percentage point decline from last year's survey. This shows that while many Japanese companies have completed the scaling back, relocating, and withdrawing of their businesses from Russia, there are still a number of companies newly considering such activities. China came after Russia as the second most popular response at 16%.

Regarding the reasons why respondents chose the countries mentioned above, 'local political and economic instability' was the most popular response, followed by 'social unrest' as the second most popular and 'shrinkage of local market' as the third (Figure 9). Compared with last year, this year's survey results are characterised by the fact that local social and economic instability is the main factor behind the scaling back, relocation, and withdrawal, rather than reasons related to economic rationality such as a shrinking market.

Figure 8

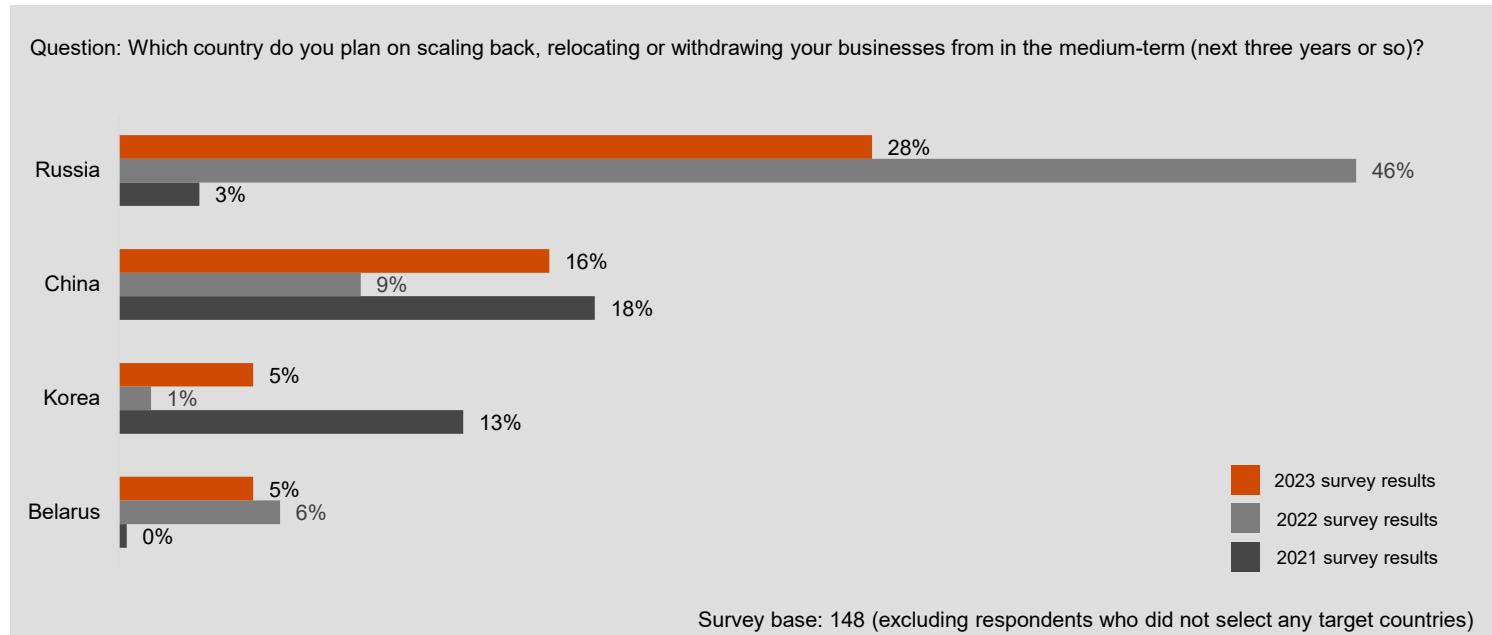
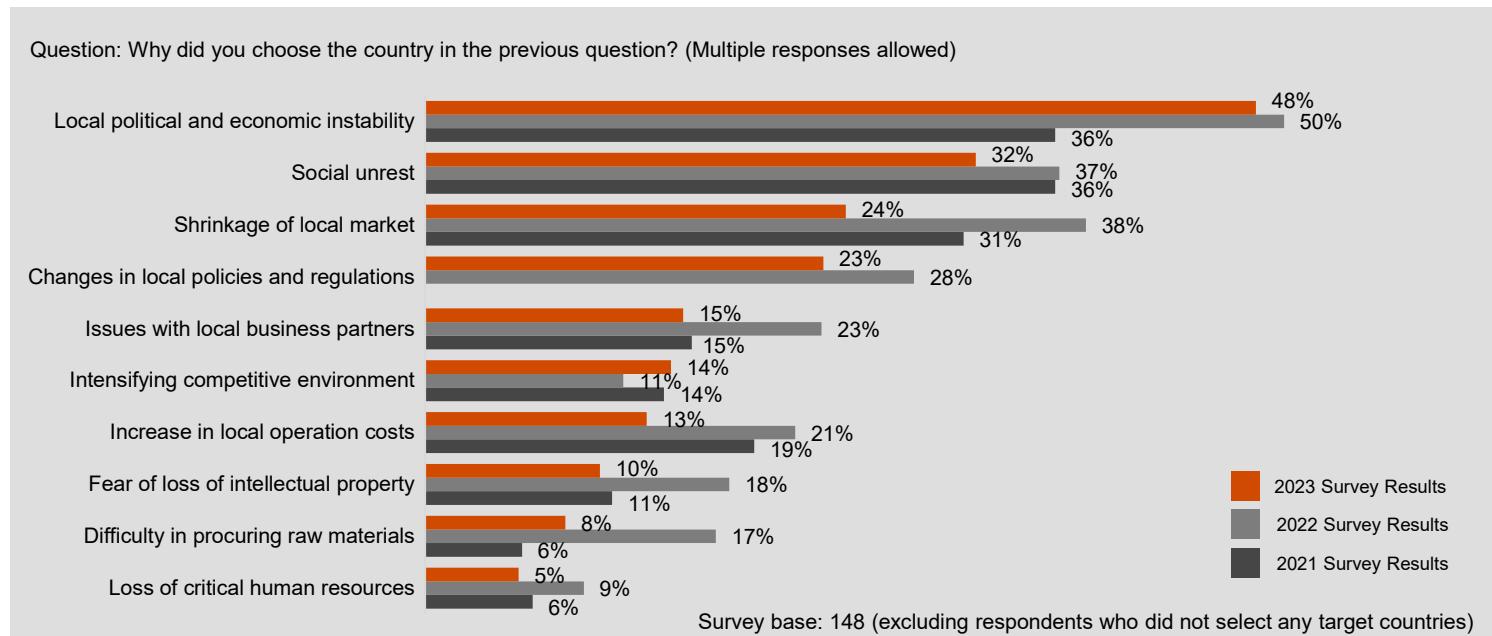


Figure 9



2

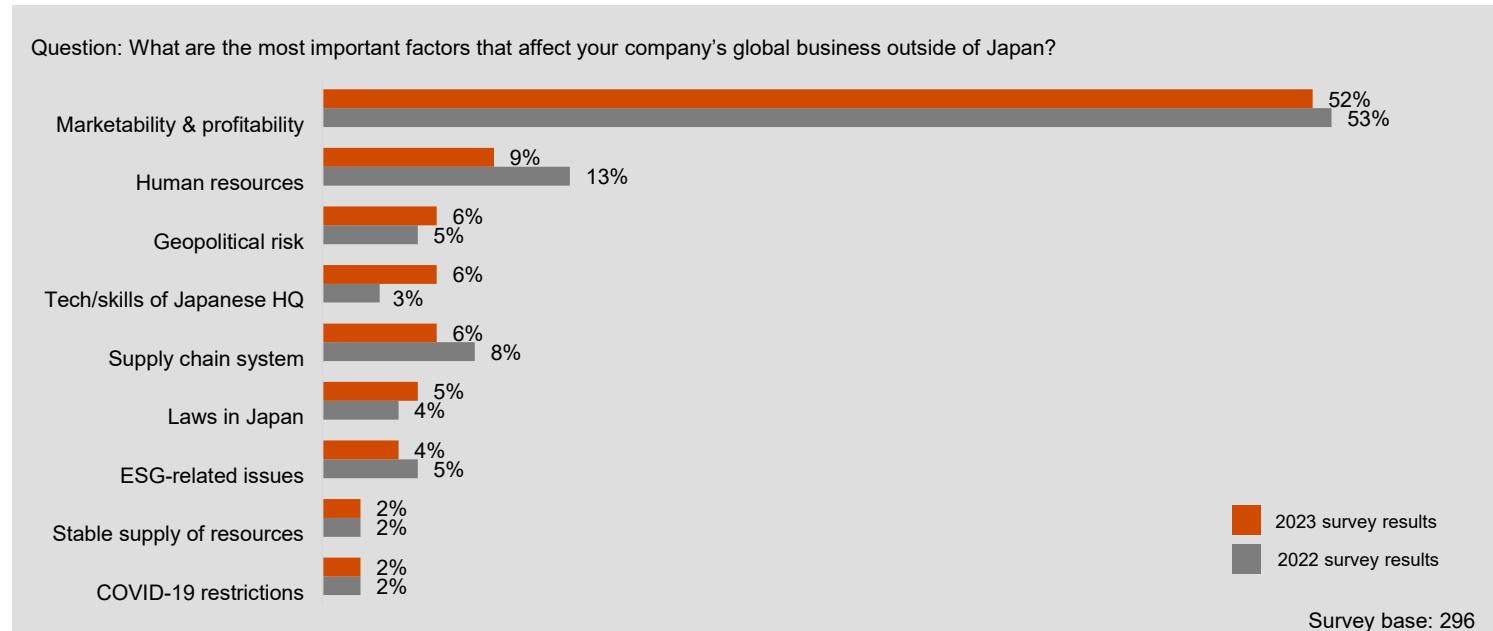
Management issues in global business

Market potential, human resources, and geopolitical risks are key factors in global business

Next, we took a look at management issues in global business. When we asked companies about the most important factors that affect their global business outside of Japan, the response 'marketability & profitability' came in first at 52% (Figure 10). The second place response was 'human resources', with 'geopolitical risk' ranking third. The importance of market potential remains

unchanged from last year, but it seems that there is also a growing emphasis on geopolitical risk. In addition, the importance of 'tech/skills of Japanese HQ' has also grown, suggesting that companies are focusing on markets where they can leverage their people and technological capabilities.

Figure 10

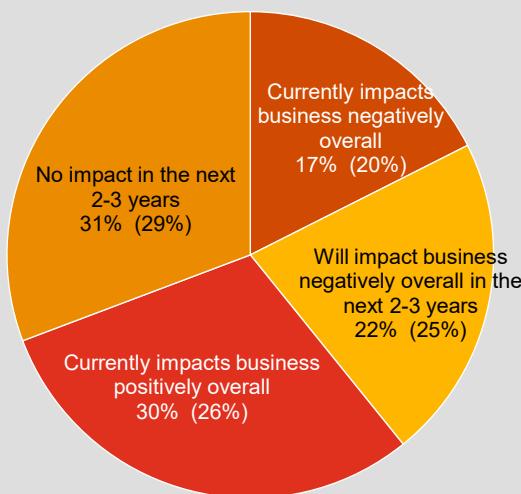


We also asked companies whether the above factors affect their businesses positively or negatively (Figure 11). 30% responded that the factors 'currently impact business positively overall', but a total of 39% of companies responded that they 'currently impact business negatively overall' or 'will impact business negatively overall in the next 2-3 years'. This implies that the factors regarded as most important in global business are impacting many Japanese companies negatively.

Next, we also asked companies about specific management issues they face. The results on a global level were similar to last year's, with 'market intelligence', 'the capacity to adapt to new regulations in the US, China, and the EU', and 'building production and supply systems in a drastically changing geopolitical environment' cited as important global issues (Figure 12).

Figure 11

Question: How do the factors selected in the previous question affect your business?



Figures in parentheses () are for the previous year
Survey base: 296

Figure 12

Question: What management issues do you recognize as important in your global business outside of Japan? Select up to five of the most important issues.

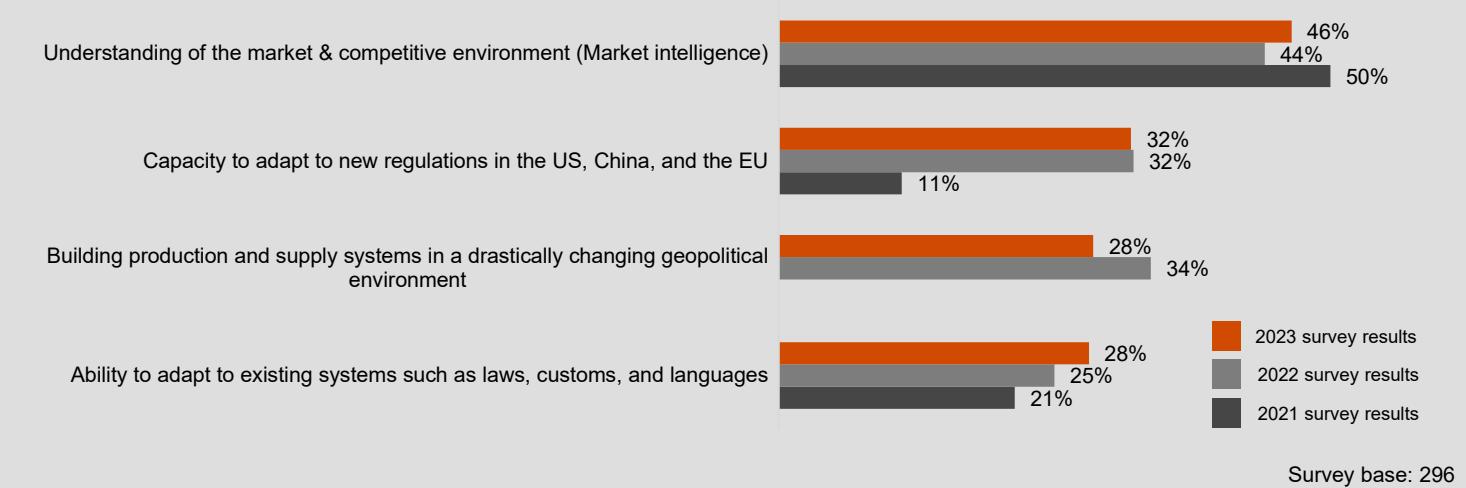
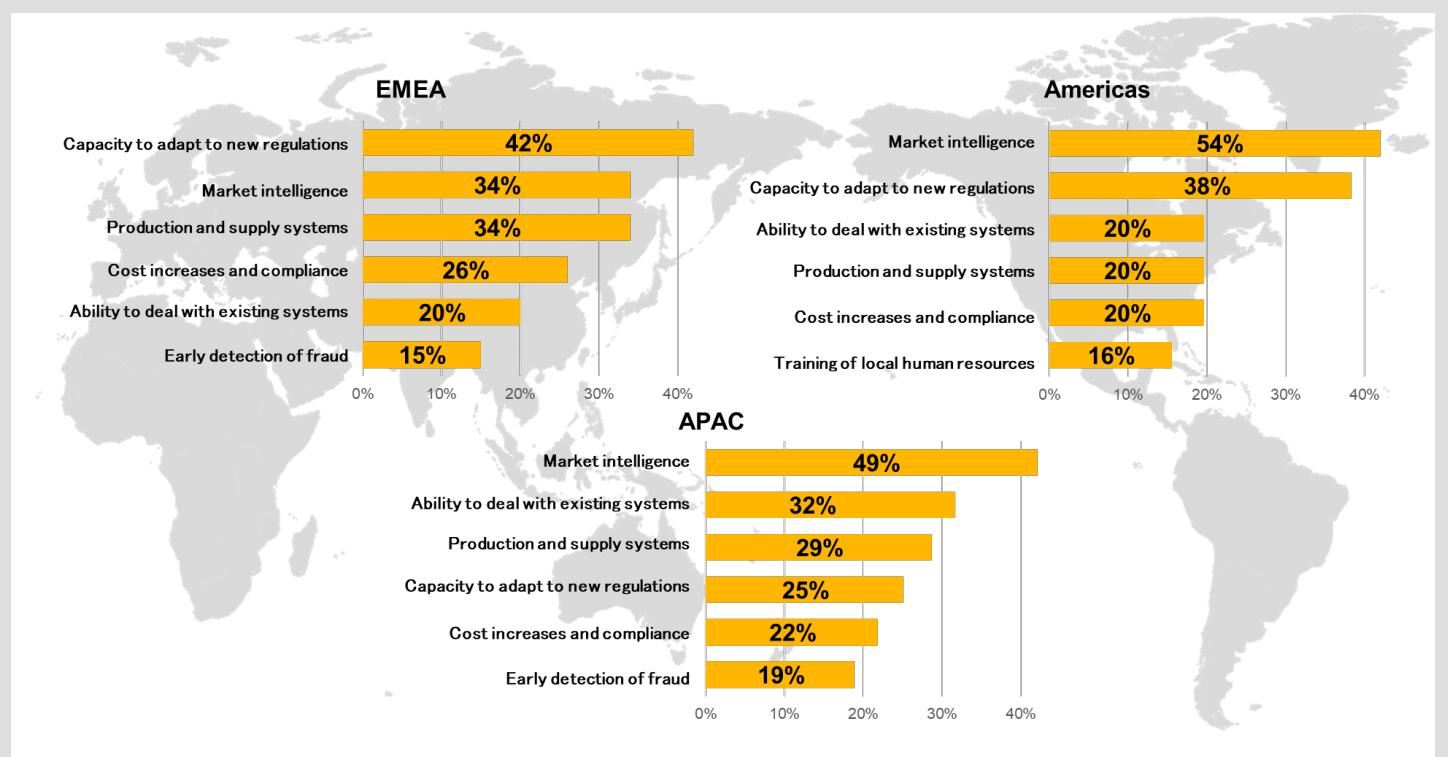


Figure 13

Question: What management issues do you recognize as important in your global business outside of Japan? Select up to five of the most important issues.



Survey base: 296

Note: The EMEA region comprises Europe, the Middle East, and Africa; APAC China, ASEAN, Oceania, India, Pakistan, and the Americas North America and South America.

Market intelligence, compliance with new and existing regulations, and the establishment of production and supply systems are key management issues

Breaking down management issues by region, we can see that 'market intelligence' is extremely important in all regions, which is similar to what we observed in the previous fiscal year (Figure 13). At the same time, in EMEA and the Americas, the importance of the 'capacity to adapt to new regulations' is increasing. We believe this is due to ongoing legislation in the EU and the US, such as sustainability-related regulations and rules, as well as changes in the tax system, such as Pillar 2. In EMEA and APAC, this year's survey is characterised by the relatively high importance of 'production and supply systems'. In these regions, where geopolitical risks are high, strengthening supply chains continues to

be a critical management issue.

To resolve these management issues, companies must develop global databases on a company-wide basis. By doing so, they will be able to utilise the accumulated data for market intelligence, in addition to utilising financial and non-financial information to comply with Corporate Sustainability Reporting Directive (CSRD) reporting requirements in Europe. Data is also essential for optimising and strengthening the supply chain. To resolve such important management issues, it is fair to say that data is a valuable part of a company's assets and infrastructure.

3

System implementation, digital transformation and management issues

ERP and CRM systems are integral for many companies

In this chapter, we examine system implementation and digital transformation, which form the foundation of the data utilisation we explored in the previous chapter, in addition to related management issues that come with that. First, we asked companies which systems they are currently implementing, are considering implementing, or have already implemented within the past five years. Enterprise resource planning (ERP), customer relationship

management (CRM), and cloud systems took the top positions (Figure 14). A certain number of companies indicated that they are implementing or considering implementing generative AI as well. ERP and CRM systems also accounted for the largest share of implementation costs (Figure 15), showing that companies are willing to take on high costs for essential systems.

Figure 14

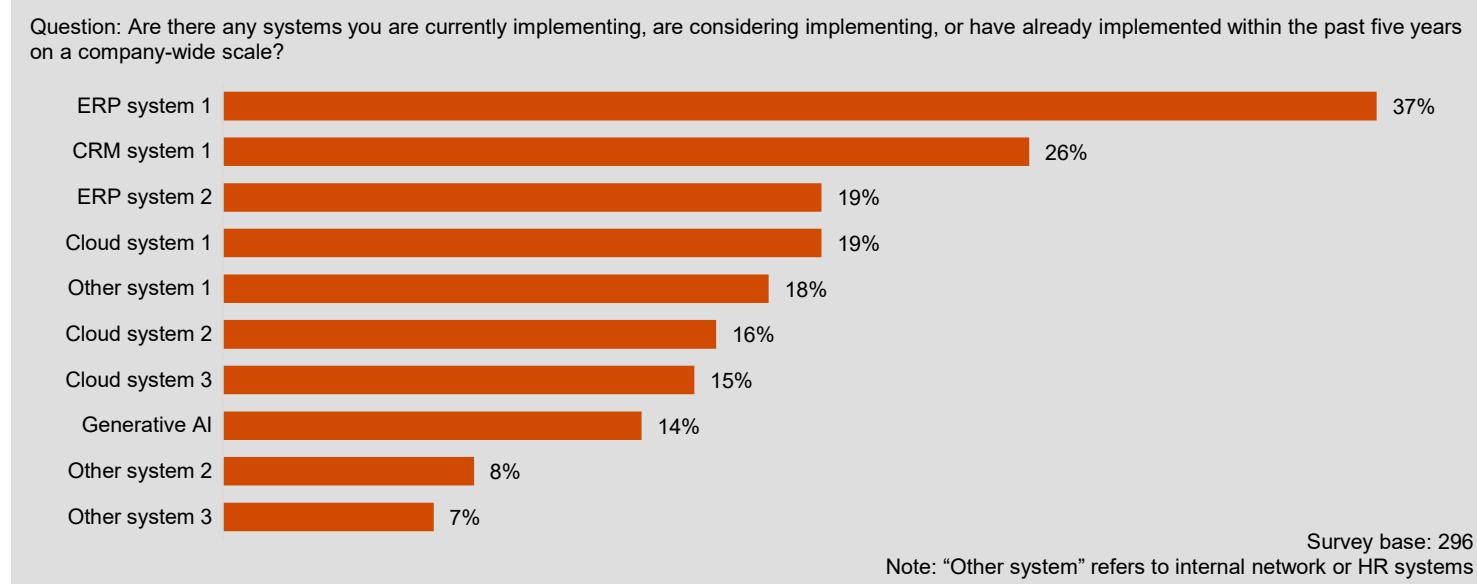
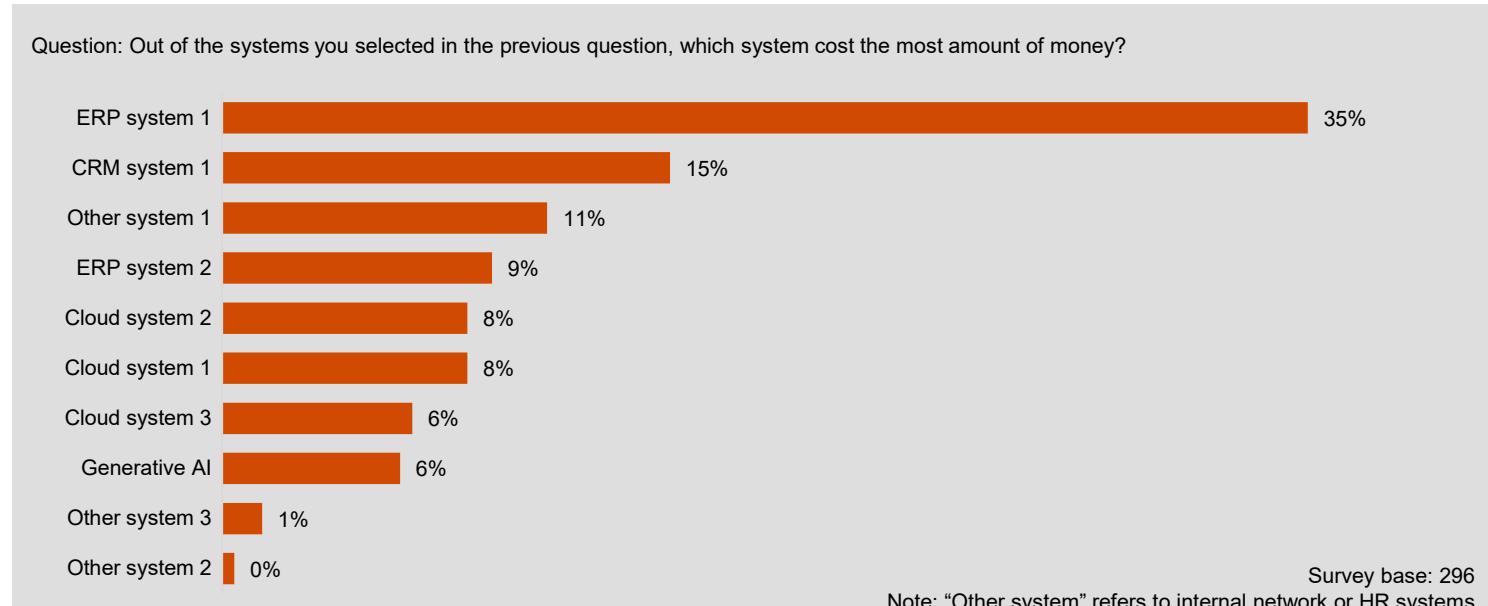


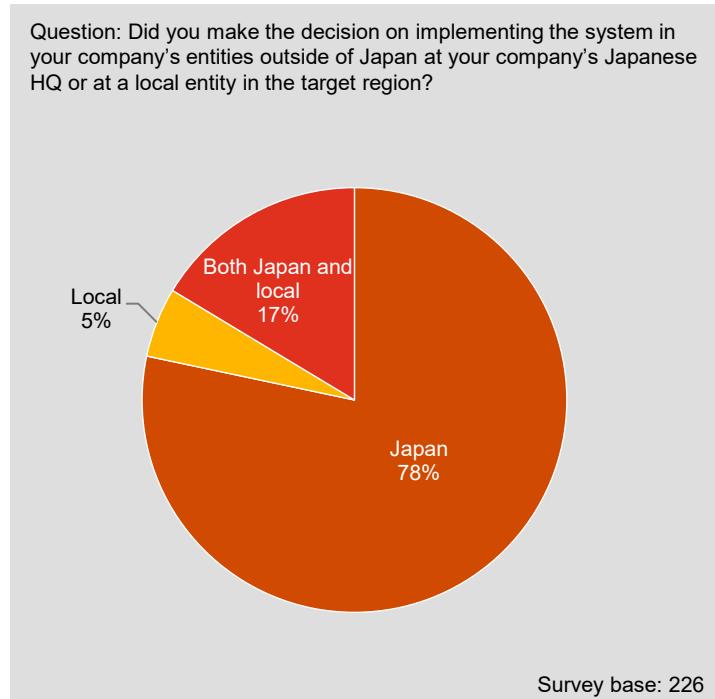
Figure 15



Companies are leading system implementation projects from their Japanese HQ while making use of external vendors

For company-wide system integration, the majority of companies reported that they made core decisions at their Japanese HQ, including decisions for their overseas offices (Figure 16). In addition, many companies reported that they led system implementation projects from their Japanese HQ as well, possibly due to these systems being essential for corporate management at the highest level (Figure 17).

Figure 16



On the other hand, the majority of companies also reported using some type of paid external service to help them with system implementation (Figure 18). In particular, more than half (56%) of the companies used consulting services from system and package vendors. This reflects the high level of difficulty in implementing these systems.

Figure 17

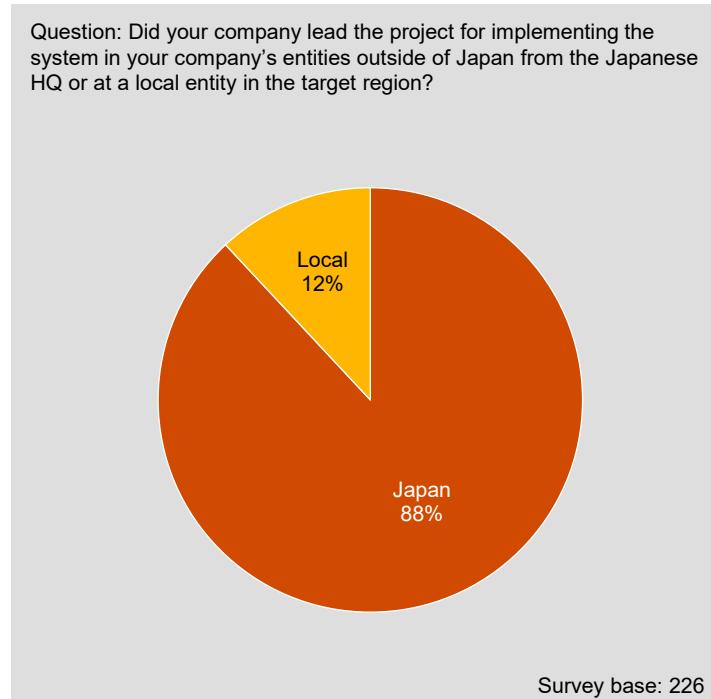
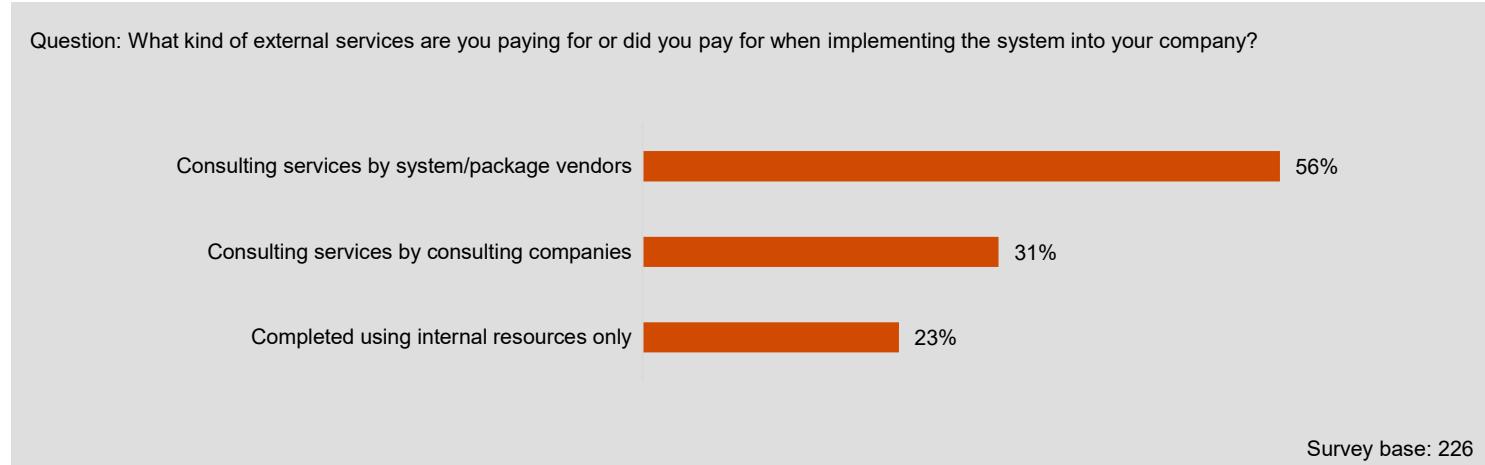


Figure 18



Companies are driving digital transformation through centralisation

Next, we asked companies which departments led the decision-making and implementation of their systems (Figure 19). We found that 76% of companies used one single department, such as their systems and IT department, to lead system implementation for the

entire company. In addition, the most common reason companies gave for selecting this method was to drive digital transformation (57%), indicating the importance that many companies are placing on digital transformation (Figure 20).

Figure 19

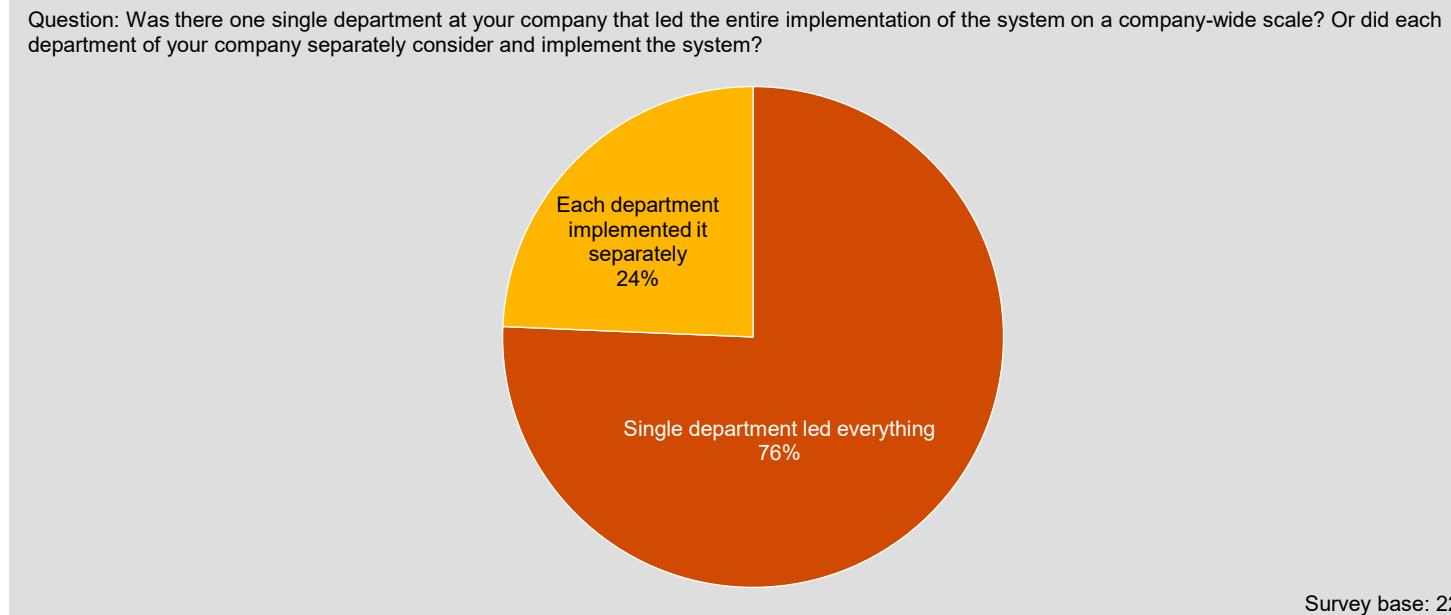
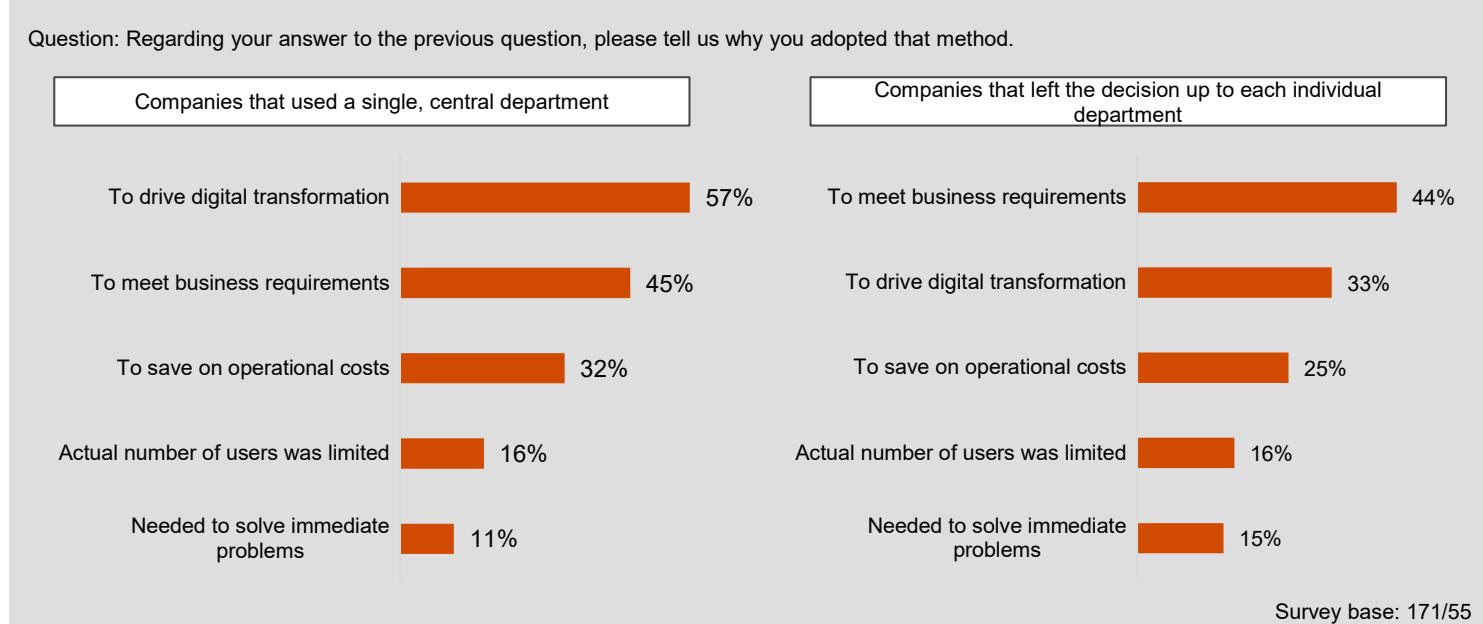


Figure 20

Figure 21



Companies are not linking system implementation closely enough to their management issues

After that, we asked companies about the reason they considered and implemented the system they selected (Figure 22). The most popular reasons were 'system age' (42%), 'user dissatisfaction with current system' (24%), and the 'strengthening of laws and regulations' (21%). However, fewer than 20% of respondents answered 'updates in management issues', indicating that few companies are pursuing more aggressive change.

Additionally, we asked companies about issues they thought they could solve in the short-term by implementing the system they selected (Figure 23). Top responses were 'inconsistent company systems' (31%), 'user dissatisfaction' (26%), and 'license expiration' (25%), implying that in the short-term, many companies are aiming to solve problems with the system itself rather than management issues.

Furthermore, we can see that companies are concerned about many issues revolving around information governance and security (Figure 23). In other words, in the short-term at least, it seems that

there are many companies just focusing on developing their base infrastructure when implementing new systems rather than trying to drive true transformation.

Figure 22

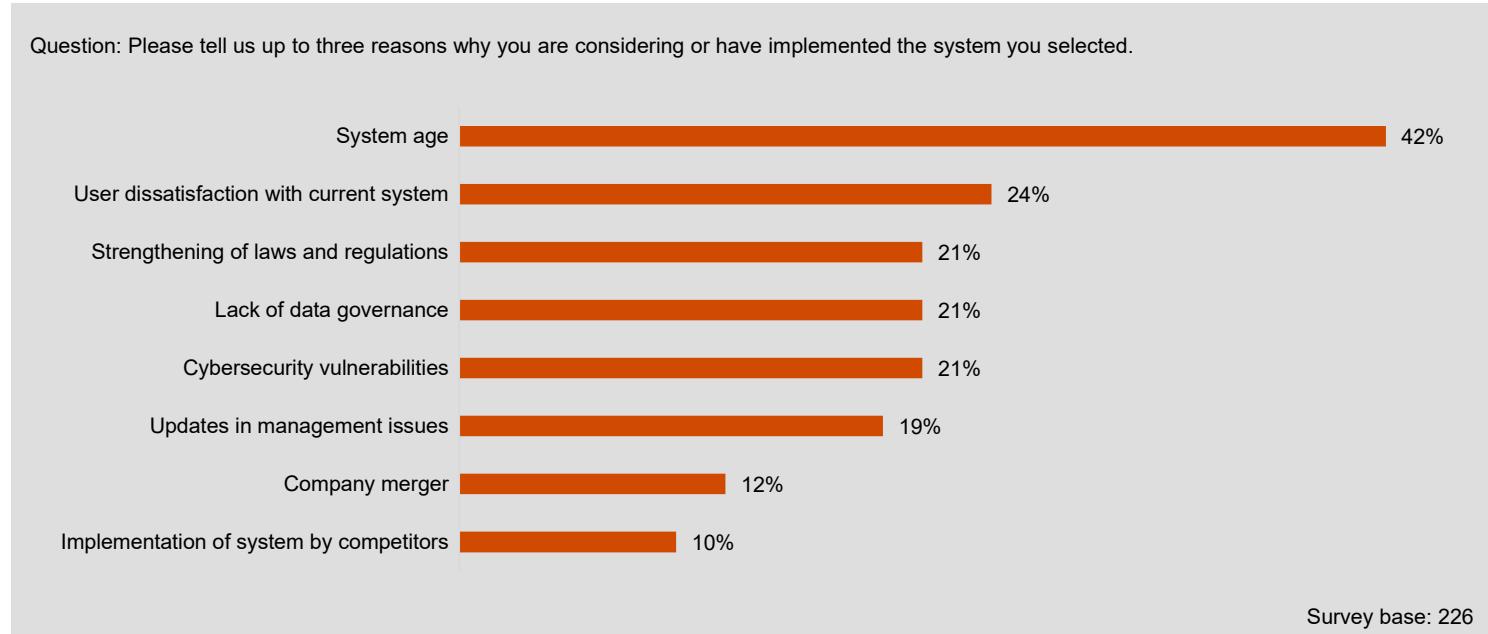
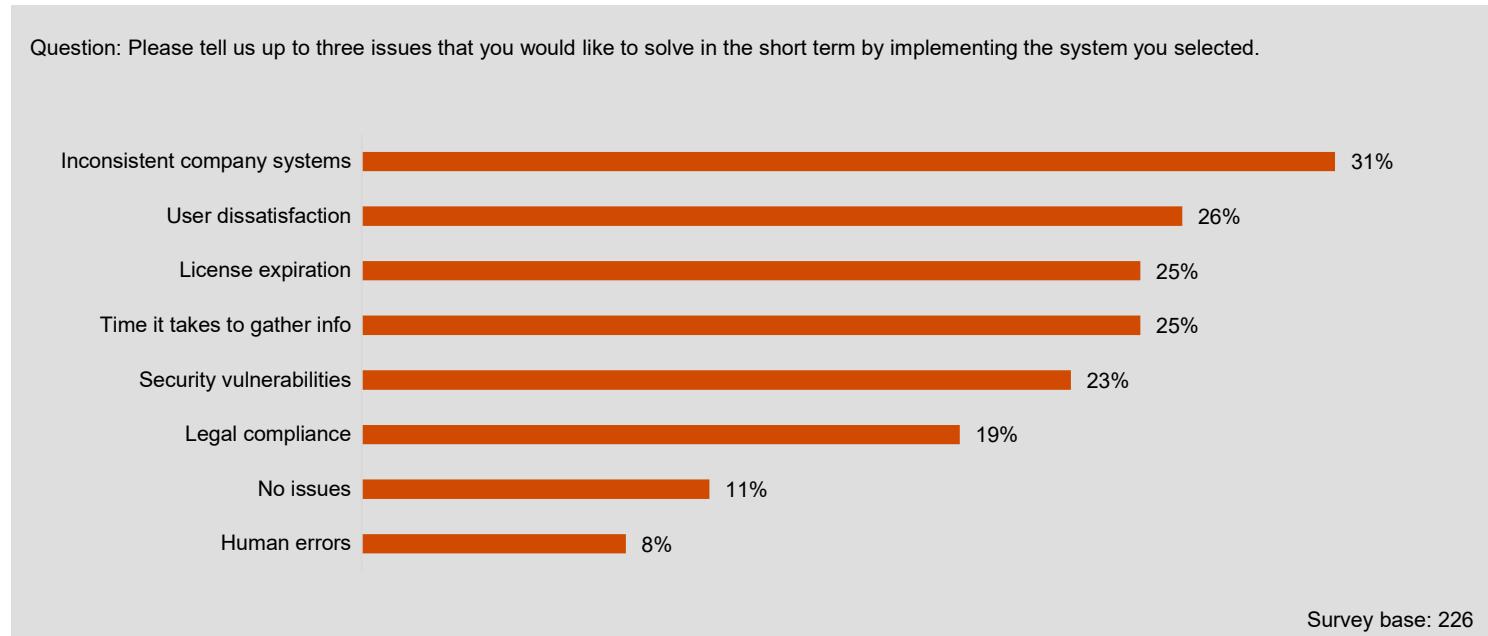


Figure 23



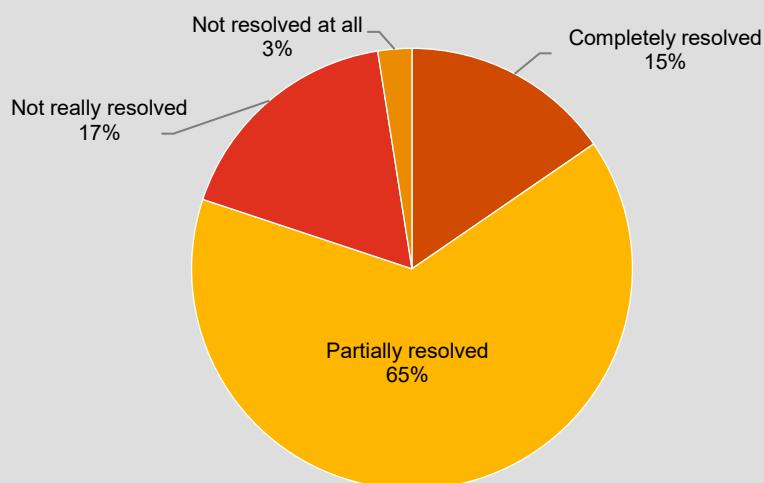
Many companies are unable to fully solve their problems through system integration

Next, we asked companies whether they were actually able to solve the issues they selected after implementing their new systems (Figure 24). Only 15% responded that their issues were 'completely resolved', while 65% responded that their issues were 'partially

resolved', indicating that many companies actually still have unresolved issues. This suggests that the integration methods many companies are using may not be enough to tackle the various system-related problems they have.

Figure 24

Question: Were the issues you selected in the previous question resolved by implementing the system?



Survey base: 226

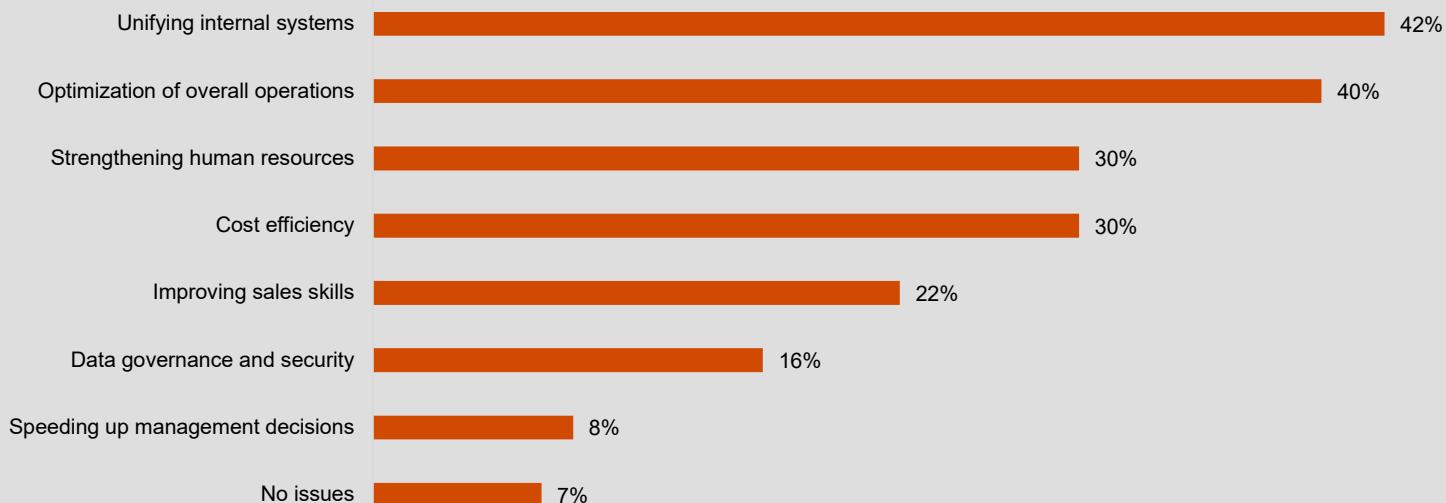
Solving more fundamental management issues over the medium to long-term

We then asked companies about issues they would like to resolve in the medium- to long-term by implementing the system they selected (Figure 25). The most common response was 'unifying internal systems' (42%), but many companies also responded with

issues that were consistent with the core objectives of digital transformation, such as 'optimisation of overall operations' (40%) and 'strengthening human resources' (30%).

Figure 25

Question: Please tell us up to three issues that you would like to solve in the medium to long-run by implementing the system you selected.



Survey base: 226

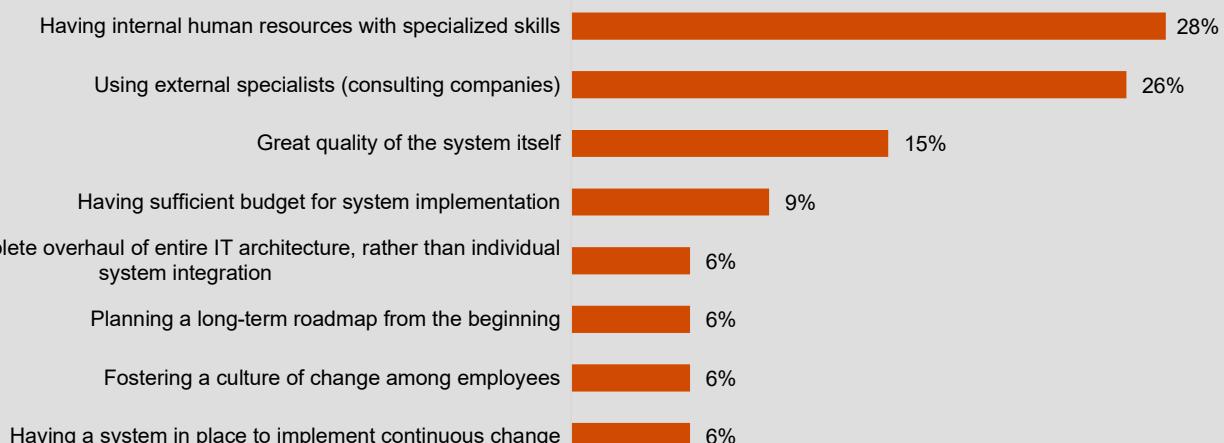
Leveraging internal and external human resources with specialised knowledge

What factors led to success for the relatively small number of companies that were actually able to fully resolve their medium to long-term issues? Many respondents cited 'having internal human resources with specialised skills' (28%) and 'using external

specialists (consulting companies)' (26%), suggesting that the ability to effectively use internal and external human resources with highly specialised skills is one of the keys to solving problems that arise during system integration (Figure 26).

Figure 26

Question: If you answered that your 'issues were completely resolved' in the previous question, please select up to three factors that helped you to resolve the issues.



Survey base: 31

Struggles with system integration and digital transformation

We also asked companies that were not able to resolve their issues specifically what kind of problems arose during the process (Figure 27). Many companies responded that 'it was difficult to integrate [their] internal systems together' (58%) and that the 'system helped

[them] acquire data, but this did not help [them] fix [their] specific issues' (45%). This indicates that companies are struggling to move past the data acquisition phase to achieve true digital transformation, and that many system-related issues remain.

Figure 27

Question: If you answered that your 'issues were not really resolved' or 'issues were not resolved at all' in the previous question, please tell us up to three problems that arose.

It was difficult to integrate our internal systems together 58%

The system helped us acquire data, but this did not help us fix our specific issues 45%

Not many people actually started using the system after implementing it 24%

Company-wide costs did not go down 15%

The system did not help us make faster management decisions 9%

There are still issues with data governance, security, and compliance 0%

Survey base: 33

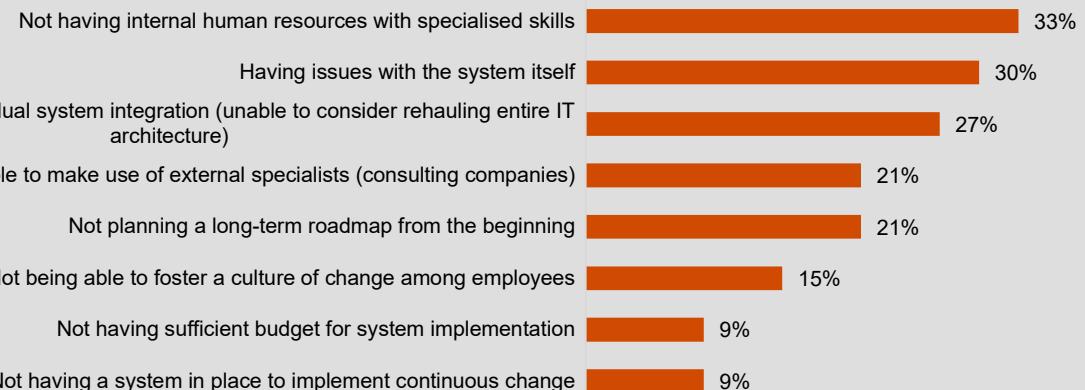
Reasons for failure include talent shortages, system issues, and a disconnect from the management vision

Following that, we asked companies about the reason they were not able to resolve their issues (Figure 28). They responded with reasons such as 'not having internal human resources with specialised skills' (33%), 'having issues with the system itself' (30%) and 'not planning a long-term roadmap from the beginning' (21%).

This implies that, while factors such as a shortage of human resources and system issues have a large impact, without a solid plan from the conceptual stage of how to connect system implementation to digital transformation and resolve management issues, companies cannot achieve true transformation.

Figure 28

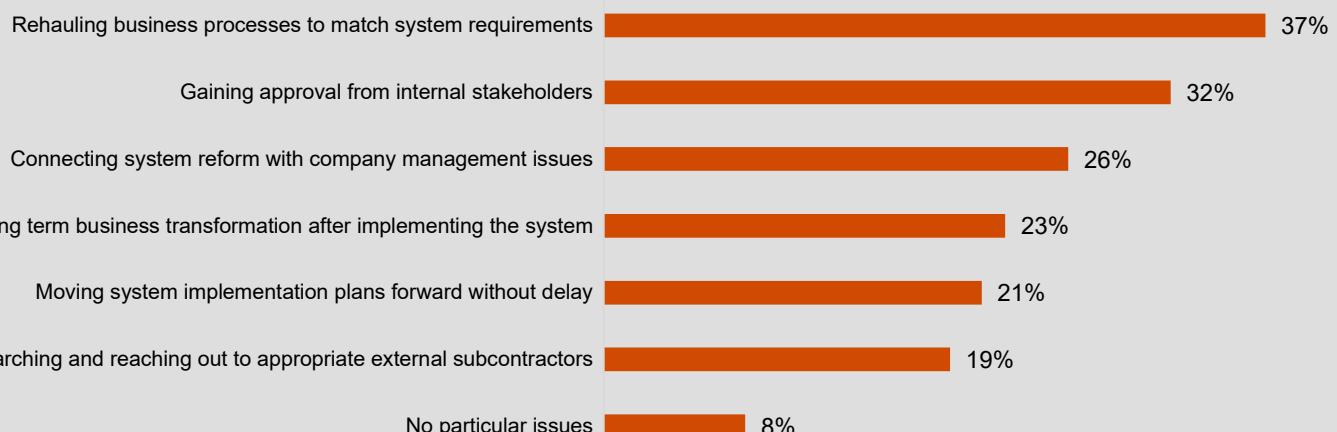
Question: If you answered that your 'issues were not really resolved' or 'issues were not resolved at all' in the previous question, please tell us up to three reasons for this.



Survey base: 33

Figure 29

Question: Please tell us up to three things during system implementation that you found difficult to handle with your own human resources alone, or that you found difficult to handle without using external human resources.



Survey base: 226

System implementation is not the goal, but rather a tool for transformation

Many Japanese companies are simply implementing new systems and ending things there. However, in order to achieve true digital transformation, system implementation should not be the goal, but a tool for transformation.

In addition, companies need to carefully consider from the very

beginning what management issues they can solve through system implementation, along with how they can connect system implementation to digital transformation, in order to more effectively achieve success in transformation.

4

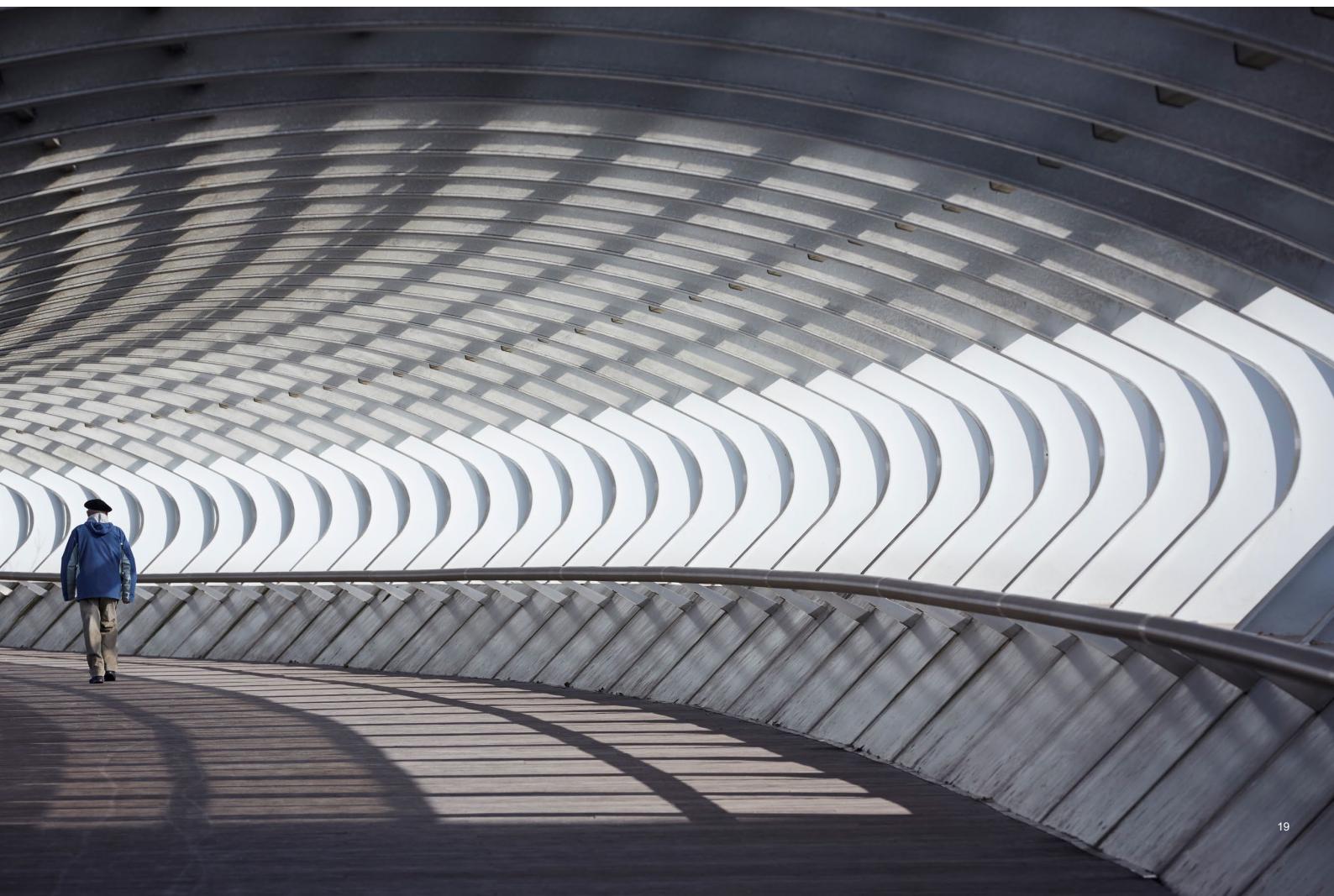
In conclusion

Throughout this report, we have examined the various global management issues that Japanese companies face in each region and compared the results to previous years. As an overall trend, it seems that although companies are optimistic about the future of the global market, there are still various management issues that they must solve in order to grow their businesses. In addition, for many companies the importance of each management issue varies per region.

Side notes

We plan on conducting another survey to dig deeper into the various system implementation and digital transformation issues we explored throughout this report. The results will be published around early 2024.

Additionally, we have explored the different issues that companies face with system implementation and digital transformation. In general, many Japanese companies tend to struggle with digital transformation, and the results of this year's survey reflect that. On top of that, it seems that the human resources required for system implementation and digital transformation are limited at many companies' Japanese headquarters, making it even harder for these companies to expand this transformation to their overseas subsidiaries.





Contact us

PwC Japan Group
<https://www.pwc.com/jp/en/contact.html>



Susumu Adachi

Global JBN Leader and Financial Service Industry Leader, PwC Japan Group; Vice Chairman, PwC Consulting LLC; PwC Global Board Member; PwC Foundation Board of Trustees



Wei Ku

Partner, PricewaterhouseCoopers Aarata LLC; JBN Americas Region Leader



Makoto Hattori

Partner, PwC Consulting LLC; Strategy& Leader, JBN Consulting Leader



Kohei Yasuda

Senior Manager, PwC Japan LLC

<https://www.pwc.com/jp/en.html>

The PwC Japan Group is a collective name for the member firms of the PwC global network in Japan and their affiliates (including PricewaterhouseCoopers Aarata LLC, PricewaterhouseCoopers Kyoto, PwC Consulting LLC, PwC Advisory LLC, PwC Tax Japan, and PwC Legal Japan). Each firm within the PwC Japan Group conducts its business as a separate, independent business entity. In response to our clients' increasingly complex and diverse corporate management issues, the PwC Japan Group has put in place a system that consolidates our knowledge in the fields of auditing and assurance, consulting, deal advisory, tax and legal services, and encourages organic collaboration among our professionals in each field. As a professional services network with approximately 11,500 certified public accountants, tax accountants, lawyers and other professional staff, we strive to provide services that more accurately address our clients' needs.

The purpose of PwC is building trust in society and solving important problems. With offices in 152 countries and almost 328,000 people, we are among the leading professional services networks in the world. We help organisations and individuals create the value they are looking for, by delivering quality in assurance, tax and advisory services. See www.pwc.com for more information.

Published: September 2023 Manual Number: I202308-04

©2023 PwC. All rights reserved.

PwC refers to the PwC network member firms and/or their specified subsidiaries in Japan, and may sometimes refer to the PwC network. Each of such firms and subsidiaries is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.