17th Annual Global CEO Survey
Japan Analysis

Fit for the future

Exploring growth strategies for Japanese companies in mega trends

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

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Leader's message

Japan's economy has shifted towards sustainable growth through the positive effects of monetary easing and economic measures, under the policies of "Abenomics" among other factors. This is expected to lead to an increase in wage income and an end to deflation in the future.

Every year at the Davos Forum, PwC presents its "Global CEO Survey" report offering observations and analyses of the visions and business outlooks of CEOs around the world. As in the previous year, PwC Japan put together this report featuring a comparative analysis of the visions of Japanese CEOs with CEOs in other parts of the world. I hope that this report gives you some insight into your daily business operations.

According to the report by PwC Global, the confidence of CEOs worldwide has been recovering. As future steps, while capturing "technological advances," "demographic shifts" and "shift in global economic power" as three major trends that will impact corporate earnings, CEOs seem to be moving towards implementing organisational restructuring, investing in information technology and securing necessary talent in order to maximise business opportunities.

The responses that we received from 127 CEOs in Japan in this year's survey suggest that more than 80% of CEOs are confident about the future performance of their business, which significantly exceeds the results of the previous survey. In addition, the survey results confirm that Japanese CEOs place greater emphasis on the cultivation of new markets, centring on Asia as a growth driver. Meanwhile, we gained the impression that measures for investing in information technology and securing talent are weaker in Japan than in Western countries.

Reflecting back on the results of this survey, we noticed that CEOs around the world are once again taking a more aggressive approach after five years since Lehman Brothers' collapse. Although Japan benefits from its close location to growing emerging markets in Asia, it is expected to continue making innovative efforts and to lead the creation of new markets without any complacency about the current situation.

Moreover, it is important to always keep in mind that the eyes of the world are on Japan again as it has started to return to a growth path. Although there has been active movement targeting overseas markets behind the backdrop of a rapidly ageing population and decreasing birth rate in Japan, the depth of the domestic market should be reassessed and more efforts made to reinvigorate the market. With the Olympic Games to be held in Tokyo in 2020, setting targets has become easier for us in many ways. Painful structural reform may be necessary, but if we can successfully stimulate the "metabolism" of business and accelerate investment in growth fields and the movement of people through joint efforts by the government and private sector, employment and income will be boosted, thus realising a positive economic cycle.

With its network extending across 157 countries, PwC has ample experience in providing advisory services to global companies in various parts of the world. We would like to continue to serve Japanese companies by utilising our broad insights.

Let me take this opportunity to express my gratitude to the many CEOs who cooperated and took part in our survey. I would also like to thank Mr. Shigetaka Komori, Chairman and CEO, Fujifilm Holdings Corporation and Mr. Hiroo Unoura, President and CEO, Nippon Telegraph and Telephone Corporation, who took time out of their busy schedule to be interviewed and who provided valuable comments.

Territory Senior Partner, PwC Japan

Hiroyuki Suzuki

PwC Japan collectively refers to Japanese member firms of the PwC Global Network and their subsidiaries; all member firms operate their business as independent corporations, with the Territory Senior Partner of PwC Japan serving as coordinator.

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Introduction

PwC (PricewaterhouseCoopers), one of the largest professional services networks in the world, published the results of its 17th Annual Global CEO Survey on January 21, 2014, in time for the annual convention of the World Economic Forum (Davos Forum). The survey was conducted during the fourth quarter of 2013, interviewing 1,344 CEOs from 68 countries. PwC Japan compiled a special Japan edition of the report, based on the responses from 127 Japanese CEOs who participated in the survey, with a comparative analysis of survey results worldwide and in other countries.

In this survey, 84% of Japanese CEOs said they are confident about their prospects for revenue growth over the next 12 months. This result is 11% higher than in last year's survey (73%), showing a recovery to the level close to that of the survey in 2008 (87%).

Compared with the global average, Japanese CEOs place greater emphasis on "new geographic markets" and "product/service innovation" as opportunities for business growth. In the international markets, they place more emphasis on China (62%), Thailand (30%), Indonesia (21%) and other South-East Asian countries as well as the US (39%), reflecting its economic recovery.

While CEOs in Western countries selected "technological advances" as the main factor impacting their business from a long-term perspective (Western Europe: 79%; US: 86%), Japanese CEOs give more weight to the "shift in global economic power" (75%).

Meanwhile, as potential threats to business growth, Japanese CEOs are more concerned about overseas factors, including the slowdown of economic growth in emerging countries (87%) and exchange rate volatility (82%), as well as the growing cost burden such as increased energy costs (79%), rising labour costs in emerging markets (78%), higher raw materials prices (77%) and increasing tax burden (73%).In terms of necessary actions for organisational management in light of the changing operating environment and future growth outlook, Japanese CEOs also give more weightage to organisational restructuring and the review of corporate governance, similar to other CEOs around the world. By contrast, fewer Japanese CEOs selected "technology investments" and "talent strategies" compared to the global average, demonstrating differences in attitude towards information technology and human resources.

The results of this survey indicate improved business sentiment not only among Japanese companies but also among companies in other countries, especially in Western nations, suggesting a shift towards a more aggressive approach by CEOs. Amid intensifying competition on a global scale, Japanese CEOs should respond to the wide range of management challenges by focusing on innovation, strengthening their management system by securing talent and investing in IT, further utilising mergers and acquisitions, invigorating the domestic economy and implementing dialogues with stakeholders about corporate strategies.

Survey Method

In the PwC 17th Annual Global CEO Survey, we interviewed 1,344 CEOs from 68 countries during the fourth quarter of 2013 (September to mid-December). By region, these comprised 445 CEOs from the Asia Pacific region, 329 from Western Europe, 212 from North America, 165 from Latin America, 113 from Central and Eastern Europe, and 80 from Africa and the Middle East.

In Japan, we received responses to our postal survey from 127 CEOs (survey period: October to November 2013). Analyses related to Japan in this report are based on these 127 responses. In compiling and analysing the responses from CEOs in all countries, we used the responses from the top 80 of these 127 Japanese companies in terms of sales volume (converted based on their share of gross domestic product).

The 445 responses from the Asia/Pacific region include these 80 responses from Japan, as well as 110 responses from China/Hong Kong.

The survey year included in the main text and figures herein indicates the year in which the survey was published.

At the time the survey was conducted, the exchange rate was ¥100.02 to the US dollar and the Nikkei Stock Average was ¥14,931.74 (both are averages for November 2013). The exchange rate and the Nikkei Stock Average at the time of the last year's survey were ¥80.89 and ¥9,059.86, respectively (both are averages for November 2012).

Japanese CEOs regain confidence

84% of Japanese CEOs responded that they were confident about their business growth for the next 12 months, which is a significantly higher percentage compared to that in last year's survey (78%), and is almost at the same level as the global average (85%). By region, 81% of CEOs in Western Europe are confident, a jump of 13% year on year. The confidence of the CEOs also improved in China/Hong Kong (96%) and the US (89%).

Japanese CEOs' confidence saw a significant boost after the correction of the appreciation of the Yen on the back of "Abenomics", and a subsequent rise in stock prices reflecting the improved corporate earnings among other factors. The confidence of CEOs in Europe also improved remarkably, mainly because the region regained stability following a series of financial turmoil triggered by the fiscal problems in Greece, and the economic downturn came to an end.

84% of CEOs responded that they were confident about company growth, a significantly higher percentage than in last year's survey. This suggests that the confidence of the CEOs of Japan is rapidly recovering.

Figure 1 : Confidence in growth (regional comparison)

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

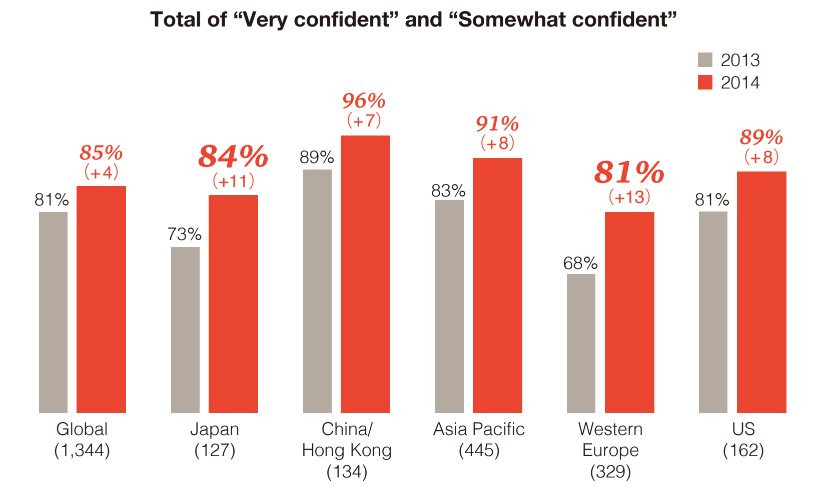
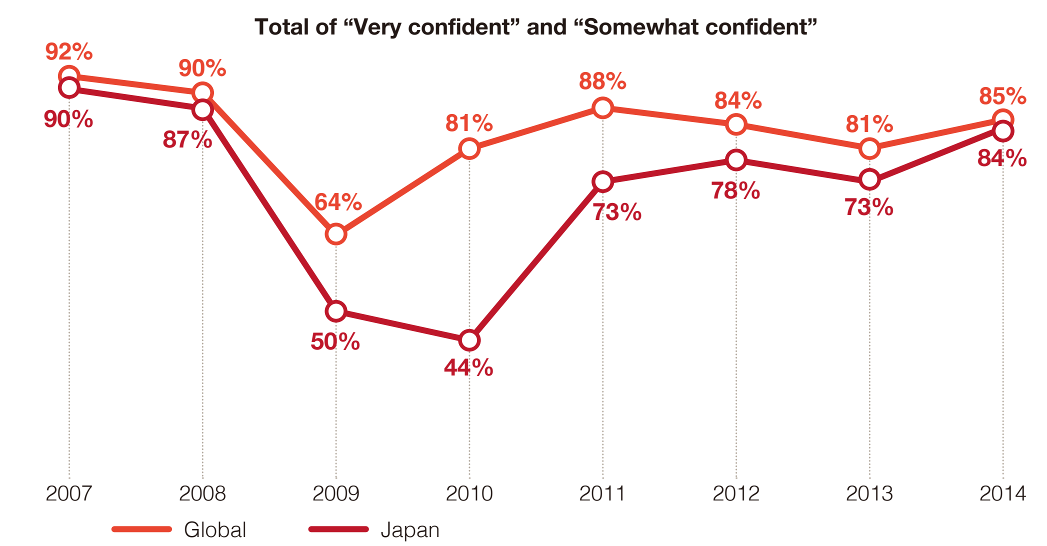


Figure 2 : Confidence in growth (past trend)

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



Base: All respondents
(Global: 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: 2014=127, 2013=162, 2012=169, 2011=196, 2010=218, 2009=68, 2008=75, 2007=84)

Although a lower level of confidence had been evident particularly among Japanese CEOs after the collapse of Lehman Brothers, the level in 2014 recovered to that in 2008.

Japanese CEOs look toward "new markets"

CEOs throughout the world, ranging from 30% to 40% in each region, stated that "product/service innovation" is an important factor driving business growth. Meanwhile, 24% of Japanese CEOs see "new geographic markets" as a driving factor, which is a significantly higher percentage compared to CEOs in other countries.

This result matches Japanese companies' aggressive overseas expansion, particularly in Asia, regardless of the business field such as manufacturing and the service industry. By contrast, CEOs in the US, where the domestic economy has picked up, tend to place more emphasis on the "increased share in existing markets" rather than "new geographic markets."

24%

of Japanese CEOs place greater emphasis on new geographic markets. One of the factors behind this is the rapidly ageing population and decreasing birth rate in Japan.

Figure 3 : Major factors behind growth

Question: Which one out of the following list of potential opportunities for business growth do you see as the main opportunity to grow your business in the next 12 months? (PLEASE SELECT ONE RESPONSE ONLY)

	Global (1,344)	Japan (127)	China/ Hong Kong (134)	Asia Pacific (445)	Western Europe (329)	US (162)
Product/service innovation	35	35	43	37	33	36
Increased share in existing markets	30	24	22	27	29	37
New geographic markets	14	24	13	17	13	10
Mergers & acquisitions	11	9	7	9	15	14
New joint ventures and/or strategic alliances	9	6	13	9	8	3
Not sure/ No response	1	3	1	1	2	0

Figures in the table indicate the percentage of respondents (%).

Continued focus on Asia as an overseas expansion target

CEOs around the globe consider China (33%), US (30%) and Germany (17%) as the most important countries/regions for future growth. Meanwhile, 7% of global CEOs selected Japan along with India, Russia and Indonesia.

Looking at the responses from Japanese CEOs, while there is still a tendency to place greater emphasis on Asia, such as China, the results also reflect the changing economic conditions of each country from a chronological perspective. For example, 62% of CEOs emphasise China this time, demonstrating a recovery from last year's survey, which was conducted during a period of deteriorated Japan-China relations due to the Senkaku Islands issue. Meanwhile, the importance of the US where the economy has been recovering also increased to 39%. Among other countries, while there was a rise in percentage of CEOs who selected Thailand, the percentage remained flat for Indonesia and Vietnam. On the other hand, the percentage of CEOs who selected India and Brazil declined slightly due to the slowdown of economic growth in these countries.

Japanese CEOs put greater weight on

China (first place), **US** (second place) and **Thailand** (third place).

Out of the top 10 countries, 7 are Asian countries.

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

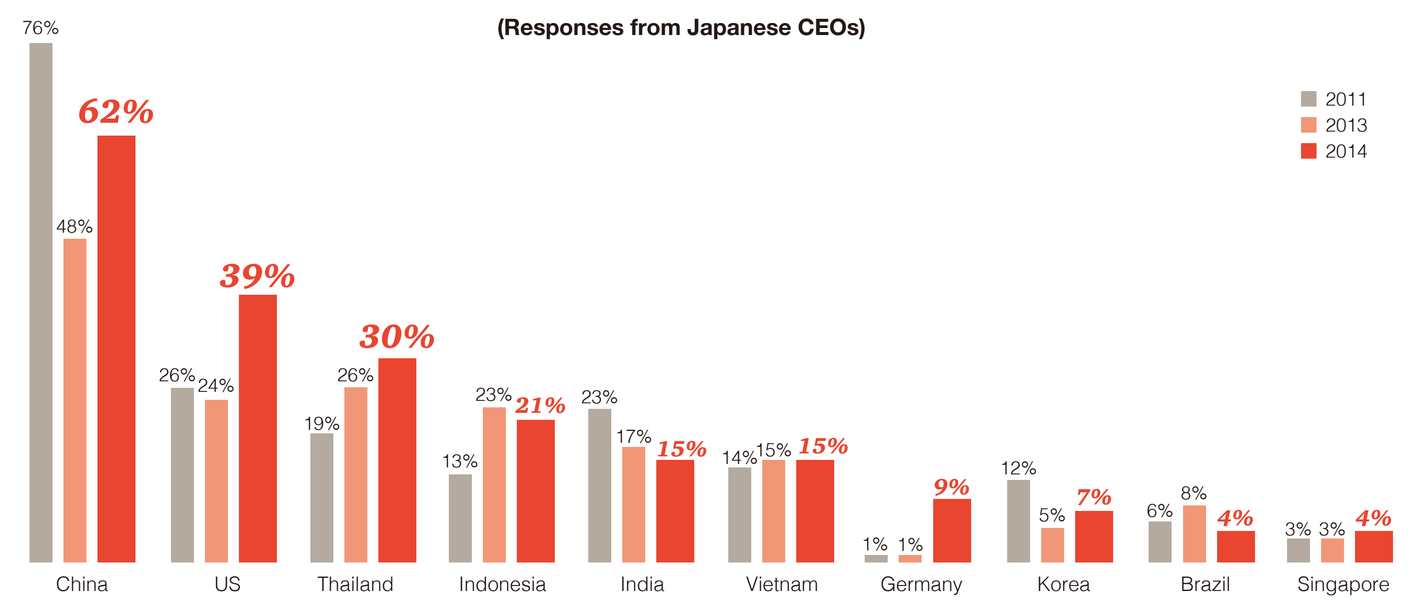
Question: Please rank the three countries, excluding the country in which you are based, that you consider most important for your overall growth prospects over the next 12 months.

	Global (1,331)	Japan (127)	China/Hong Kong (129)	Asia Pacific (440)	Western Europe (328)	US (161)
1	**China (33)**	**China (62)**	China (41)	China (45)	US (30)	China (42)
2	**US (30)**	**US (39)**	US (38)	US (38)	China (27)	Germany (24)
3	**Germany (17)**	**Thailand (30)**	Germany (14)	Indonesia (16)	Germany (26)	UK (24)
4	**Brazil (12)**	**Indonesia (21)**	Taiwan (12)	Japan (12)	Russia (14)	Brazil (22)
5	**UK (10)**	**Vietnam (15)**	Japan (13)	India (11)	Brazil (12)	Canada (19)
6	**India (7)**	**India (15)**	Indonesia (12)	Germany (10)	UK (8)	Mexico (11)
7	**Russia (7)**	**Germany (9)**	Korea (10)	Thailand (10)	Poland (6)	Japan (9)
8	**Japan (7)**	**Korea (7)**	Singapore (10)	Vietnam (8)	India (5)	Australia (9)
9	**Indonesia (7)**	**Singapore (4)**	UK (10)	Singapore (7)	Turkey (4)	India (8)
10	**Mexico (5)**	**Brazil (4)**	Malaysia (9)	UK (7)	Spain (4)	Russia (7)

Figures in parentheses in the table indicate the number of respondents selecting that country (%).

Figure 5 : Important countries/regions for future growth (excluding home country): Comparison with 2011 and 2013 survey results

Question: Please rank the three countries, excluding the country in which you are based, that you consider most important for your overall growth prospects over the next 12 months. (Note: In the 2011 survey question, the phrase "for the next three years" was included.)



In addition, as for the important regions for cross-border M&A, joint ventures or strategic alliances in overseas business expansion, many Japanese CEOs selected South-East Asia (38%) and East Asia (32%), reconfirming their emphasis on Asia, as in last year's survey.

38%

South-East Asia ranked first as a region where Japanese CEOs are planning to carry out M&A and joint ventures over the next 12 months. Combined with East Asia, which ranked second, Asia accounts for 70% of the results, demonstrating Japanese CEOs' emphasis on Asia.

Figure 6 : 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? (PLEASE SELECT ALL THAT APPLY)

	Global (725)	Japan (69)	China/ Hong Kong(68)	Asia Pacific (257)	Western Europe(188)	US (93)
North America (i.e., US/Canada/Mexico)	30	23	22	19	23	74
Western Europe	25	6	19	12	56	29
South-East Asia	23	**38**	38	42	12	30
East Asia	19	32	54	35	12	17
Latin America	17	7	4	7	14	19
Central and Eastern Europe/ Central Asia	15	6	12	7	21	17
South Asia	11	10	3	16	6	15
Africa	9	4	4	7	6	8
Australasia*	8	4	9	14	4	6
Middle East	8	4	4	6	4	11

Figures in the table indicate the percentage of respondents (%).

*1: Collectively referring to the South Pacific Region including Australia, New Zealand and New Guinea

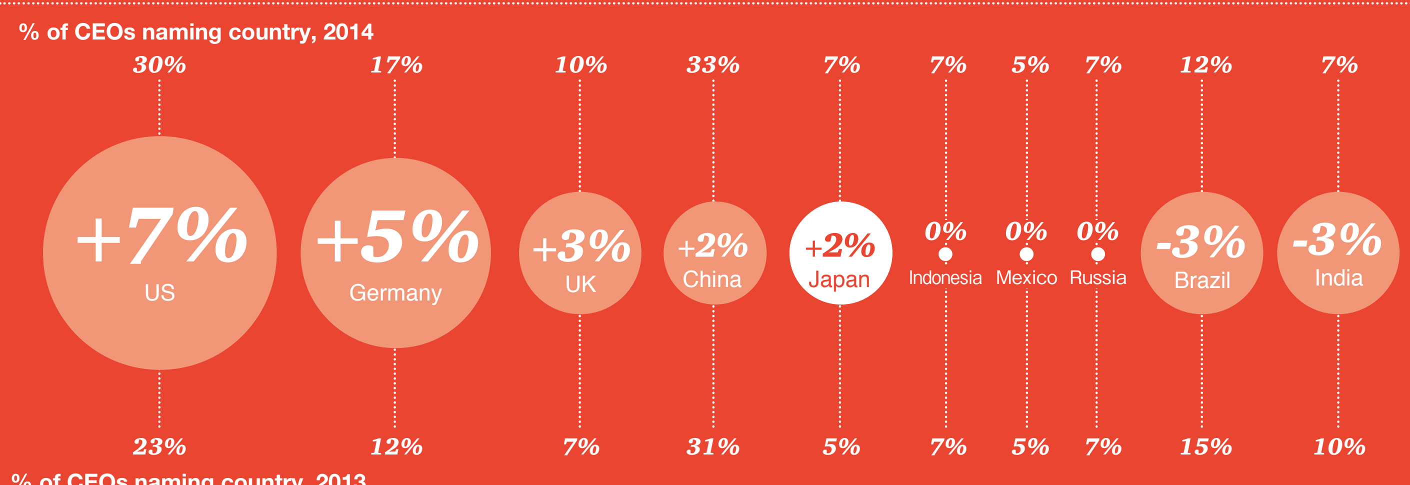
Included are responses by CEOs who selected "Completed/complete a cross-border M&A" or "Entered/enter into a new strategic alliance or joint venture" for the question "Which, if any, of the following restructuring activities do you plan to initiate in the coming twelve months?"

Increasing emphasis on Japan by CEOs around the world

Viewed from the opposite side, the rate of CEOs across the world who put greater weightage on Japan has increased from last year's survey. Looking at the changes from the results of last year's survey by country, the ratio of CEOs who place greater emphasis on the US, Germany, the UK and Japan has increased, while the ratio of CEOs who place greater emphasis on Brazil and India has declined, suggesting a rebalancing between developed countries and emerging countries. The fact that global CEOs' perception of Japan has improved in line with the rebound of the Japanese economy, is a positive sign in contemplating revitalisation of the Japanese market in the future.

CEOs are turning back to certain advanced economies for growth

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



Base : All respondents (2014 = 1,344; 2013 = 1,330)
Source : PwC "17th Annual Global CEO Survey"

Concerns about exchange rate volatility and growth slowdown over emerging economies

What are the issues that CEOs are concerned about as potential threats to their business growth? First of all, we should point out that CEOs in Japan are generally more concerned about issues compared to CEOs in other countries. Looking at the survey results, in comparison with the global average by taking this point into account, while CEOs across the world selected "over-regulation" and "government response to fiscal deficit and debt burden" as the biggest concerns, Japanese CEOs selected "slowdown in high-growth markets" and "exchange rate volatility" as their top two threats.

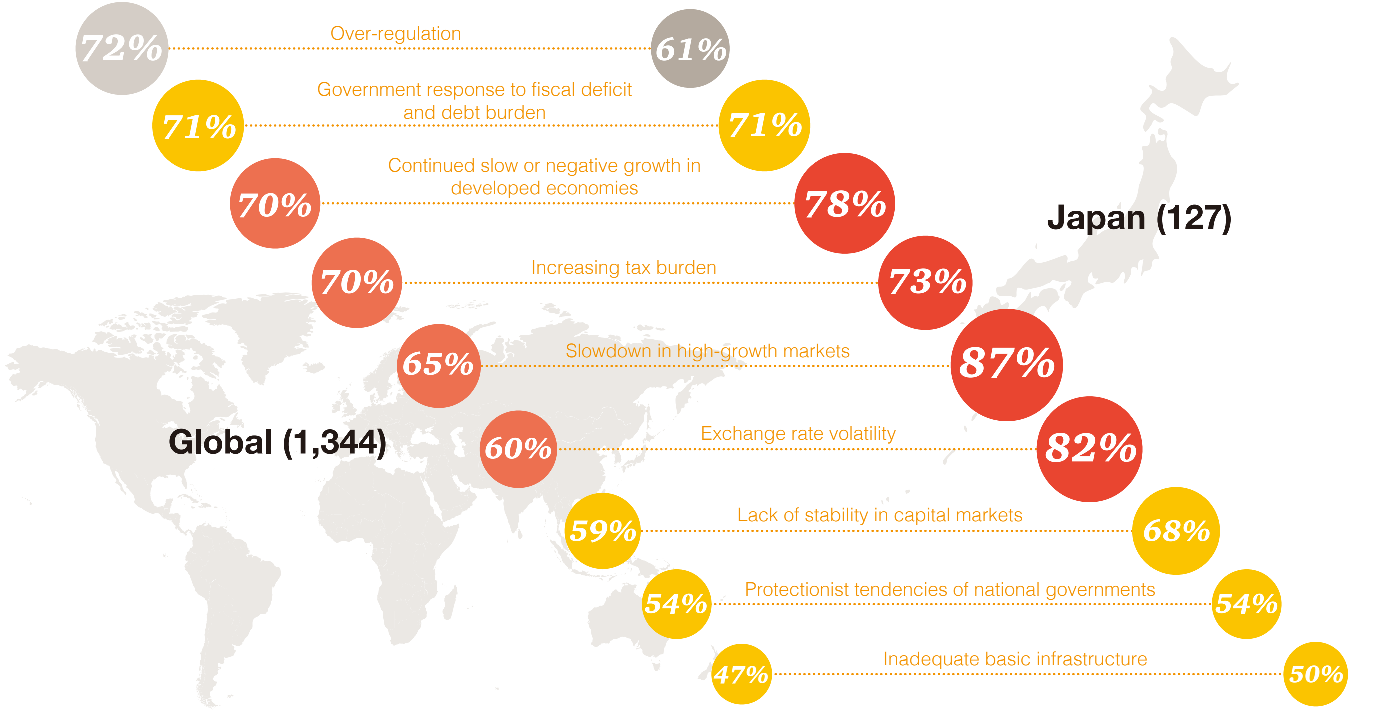
Japanese CEOs tend to be more concerned about exchange rate volatility and the outlook of economic growth. There was no change to this tendency in 2013, which coincided with the period during which the Yen's appreciation was corrected. Moreover, Japanese CEOs are more interested in the economic trend of high-growth markets. A potential reason for this could be that they place particular emphasis on the cultivation of new geographic markets as a growth factor, as mentioned earlier.

Meanwhile, this year's survey includes a question about the tax system. The results demonstrate that the proportion of Japanese CEOs, who are concerned about the "increasing tax burden", is high at 73%. This could be attributable primarily to a comparatively high corporate tax rate in Japan as well as the discussion on tax reforms as part of Japan's reconstruction strategies, which was being conducted at the time of the survey.

By contrast, CEOs in Japan are less concerned about "over-regulation" (61% compared to 72% globally), showing much lower results than other responses.

Figure 7 : Economic and political threats to growth

Question: The following list shows potential economic and policy threats to your organisation's growth prospects. How concerned you are, if at all, about each of these?



Respondents who selected "Somewhat concerned" or "Extremely concerned" (%)

Concerns over various factors that may lead to rising costs

The survey results on business threats indicate that CEOs in Japan are more concerned about various cost increase factors. Specifically, the top three factors raised as threats were “high or volatile energy costs,” “rising labour costs in high-growth markets” and “high and volatile raw materials prices.”

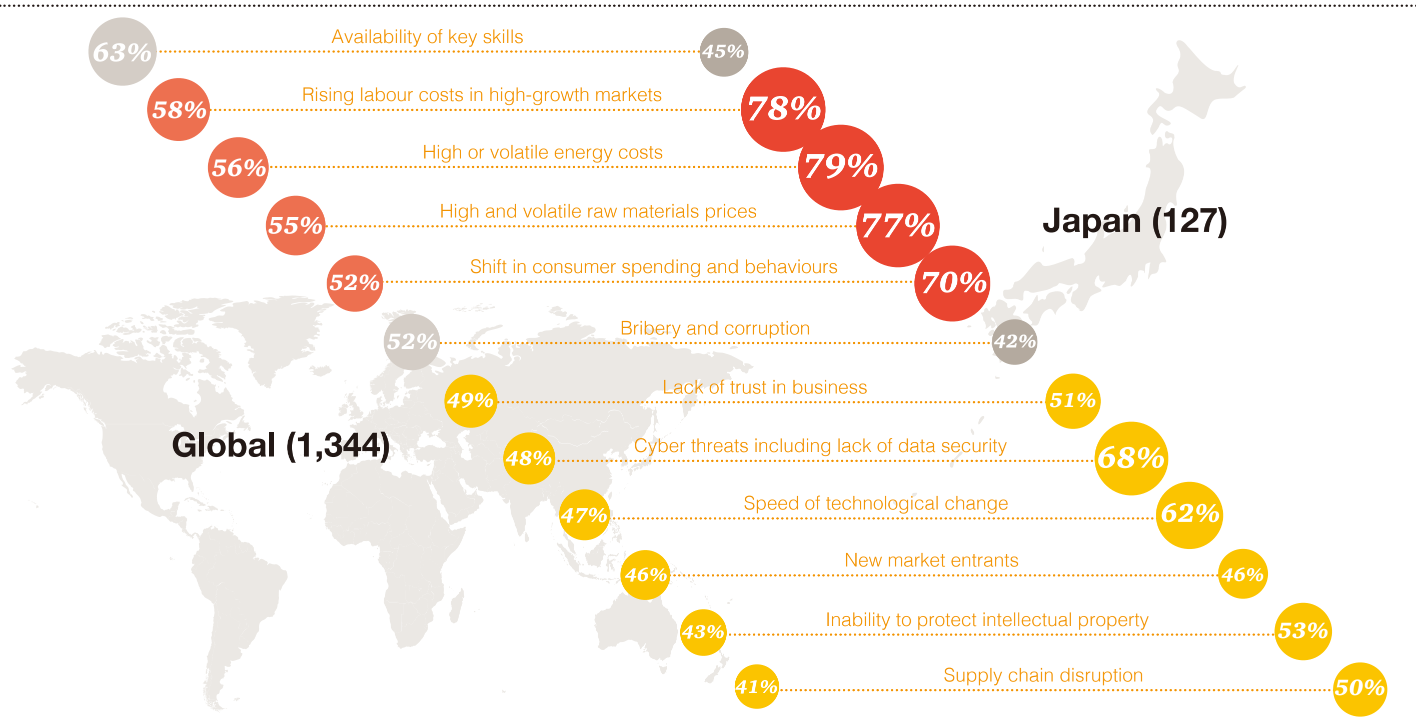
On the other hand, while 63% of CEOs worldwide replied that the “availability of key skills” could be the most significant threat, only 45% of Japanese CEOs selected the same response. Imminent challenges faced by Japan include a high dependency on overseas natural resources due to the current suspension of operations of nuclear power plants as well as the cost burden in overseas countries as a result of the relocation of production sites by companies. In light of the anticipated rapid decline in production labour force in Japan, it is necessary to recognise the securing of talent as an even more important management challenge in the future.

Meanwhile, the ratio of Japanese CEOs who are concerned about “supply chain disruption” (50%) is 9 points higher than the global average (41%). However, the ratio has declined from the results of last year’s survey, where Japanese CEOs response was 20 points higher than CEOs worldwide. This could be a reflection of the fact that two years have passed since the Great East Japan Earthquake at the time of the survey, and the responses by companies have progressed accordingly.

Another key finding is that the proportion of CEOs who are concerned about “high or volatile energy costs” is lower (41%) in the US, where the production of shale gas as a new energy source is expected to expand. We should remember that changes in the energy situation in the US could be a factor for transforming the geopolitical landscape in the Middle East, and potentially impacting Japan as well.

Figure 8 : Business threats to growth

Question: The following list shows potential business threats to your organisation’s growth prospects. How concerned you are, if at all, about each of these?



Respondents who selected “Somewhat concerned” or “Extremely concerned” (%)

More conservative approach towards M&A compared to Western countries

What kind of measures are taken by companies amid the anticipated growth and potential threats?

A comparison of restructuring activities initiated in the past twelve months, and restructuring activities scheduled to be initiated in the coming twelve months based on the responses from CEOs in Japan and Western countries, generally shows a similar tendency. CEOs in both groups stated that “cost reduction” is their most common restructuring activity. In a comparison between restructuring activities in the past twelve months and restructuring activities in the coming twelve months, however, the portion of CEOs who responded that they will “implement cost-reduction initiative” is lower, while the portion of CEOs who responded that they will “enter into a new strategic alliance or joint venture” is higher. Meanwhile, relatively fewer Japanese CEOs replied that they use M&A as a restructuring strategy in contrast to the responses mainly by CEOs in Western countries, who stated that they aggressively pursue M&A activity. Similar to the results of last year’s survey, more Japanese CEOs pursue strategic alliances and joint ventures rather than M&A activity, demonstrating a tendency towards a more conservative management approach.

Although the Japanese economy has been recovering due to “Abenomics” and other measures and the business sentiment is also picking up, it is important to realize that a similar phenomenon is seen in Western countries. As Western companies have been taking a more aggressive approach after overcoming the financial crisis, it is predicted that the competition with Japanese companies will intensify again in the future.

US **39%** Japan **15%**

The ratio of Japanese CEOs who are planning to implement M&A is less than half that of CEOs in the US.

Figure 9 : Business restructuring initiatives

	Question: Which, if any, of the following restructuring activities have you initiated in the past twelve months? (Please select all that apply)			Question: Which, if any, of the following restructuring activities do you plan to initiate in the coming twelve months? (Please select all that apply)		
	Japan (127)	Western Europe (329)	US (162)	Japan (127)	Western Europe (329)	US (162)
Implemented/implement a cost-reduction initiative	69	86	73	66	74	61
Entered/enter into a new strategic alliance or joint venture	38	33	34	49	41	42
Outsourced/outsource a business process or function	16	26	27	18	28	22
Completed/complete a domestic M&A	22	22	31	15	29	39
Completed/complete a cross-border M&A	18	24	23	17	30	28
“Insourced”/“insource” a previously outsourced business process or function	11	17	19	8	16	14
Sold/sell majority interest in a business or exited/exit a significant market	3	22	19	5	21	15
Ended/end an existing strategic alliance or joint venture	9	16	14	9	10	4

Figures in the table indicate the percentage of respondents (%).

Figures in the table indicate the percentage of respondents (%).

Increasing attention towards the shift of global economic power

So far in this report, we have looked at the CEOs' responses on growth strategies, threats and organisational strategies. In this section, we will focus on CEOs' awareness of trends from a longer-term perspective.

When asked to rank the top three global trends that CEOs believe will transform their business the most from among the following five global events: "technological advances," "demographic shifts," "shift in global economic power," "resource scarcity and climate change" and "urbanisation," the proportion of Japanese CEOs who selected "shift in global economic power" as the most significant event was very high. This contrasted with the results of CEOs in the US, Western Europe and China/Hong Kong, who ranked "technological advances" as first.

One reason behind this could be the fact that Asian countries, such as China, where high growth is anticipated in the future, are located closer to Japan from a geographical perspective. While Japanese companies are obviously focused on technological advances, they tend to see a major economic zone expected to further expand as a greater influence on their business, since a market exists so close to them.

75%

Significantly, more Japanese CEOs place greater emphasis on "shift in global economic power" than CEOs in other parts of the world.

Figure 10 : Global trends that may impact business operations

Question: Please rank the top three global trends from the following list, which you believe will transform your business the most.

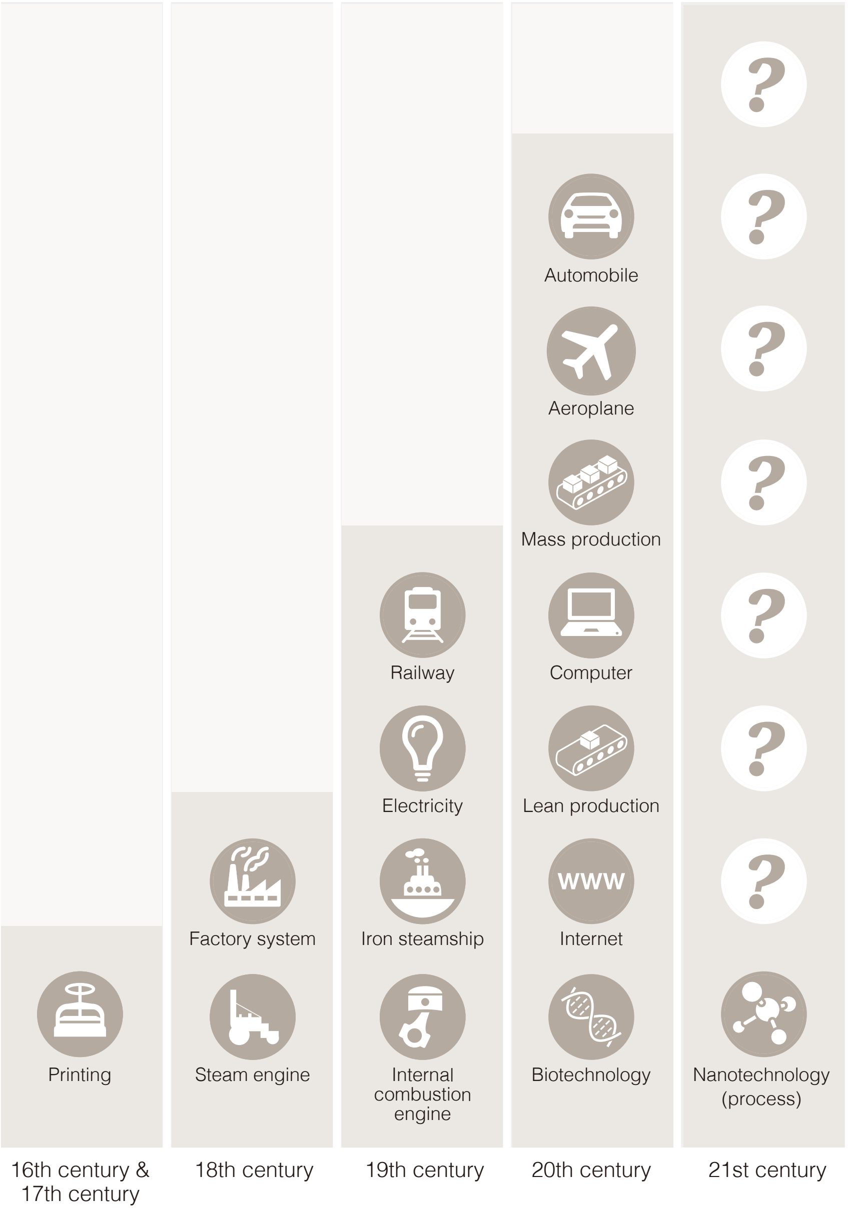
	Global (1,344)	Japan (127)	China/ Hong Kong (134)	Western Europe (329)	US (162)
Technological advances	81	65	83	79	86
Demographic shifts	60	59	47	59	69
Shift in global economic power	59	75	67	59	58
Resource scarcity and climate change	46	43	40	50	39
Urbanisation	40	39	55	36	28

Figures in the table indicate the percentage of respondents (%).

Meanwhile, as seen in the illustration of historical trends of technological advances on this page, the speed and extent of technological change have been accelerating. In particular, the recent technological innovation in general products, such as smartphones and tablet devices, has been exceptionally fast, to the benefit of consumers. Technological advances are indispensable in offering new products and services.

Accordingly, it is obvious that companies cannot afford to delay their efforts to incorporate technological advances. Instead, they are urged to accelerate such efforts, in order to compete globally. This seems to be the reason why CEOs across the world place particular emphasis on technological advances.

Figure 11 : Dramatic acceleration in the speed of innovation



Source: PwC "17th Annual Global CEO Survey"

Business planning period is generally 3 years

What is the time horizon that CEOs consider for their business planning?

Regarding this point, a similar tendency is seen between the responses from CEOs worldwide and CEOs in Japan. CEOs replied that although they would prefer to consider their plan over a period of around, 3 to 5 years, they are forced to formulate the plan for around 3 years in reality.

Planning time horizon (ideal and reality)

	Question: What is your current planning time horizon? Is it 1, 3, 5, or more than 5 years?		Question: Ideally where would you like your planning time horizon to be?	
	Global (1,344)	Japan (127)	Global (1,344)	Japan (127)
1 year	12%	13%	5%	5%
3 years	51%	64%	40%	50%
5 years	24%	13%	35%	28%
More than 5 years	9%	7%	13%	9%
Other	4%	2%	6%	5%

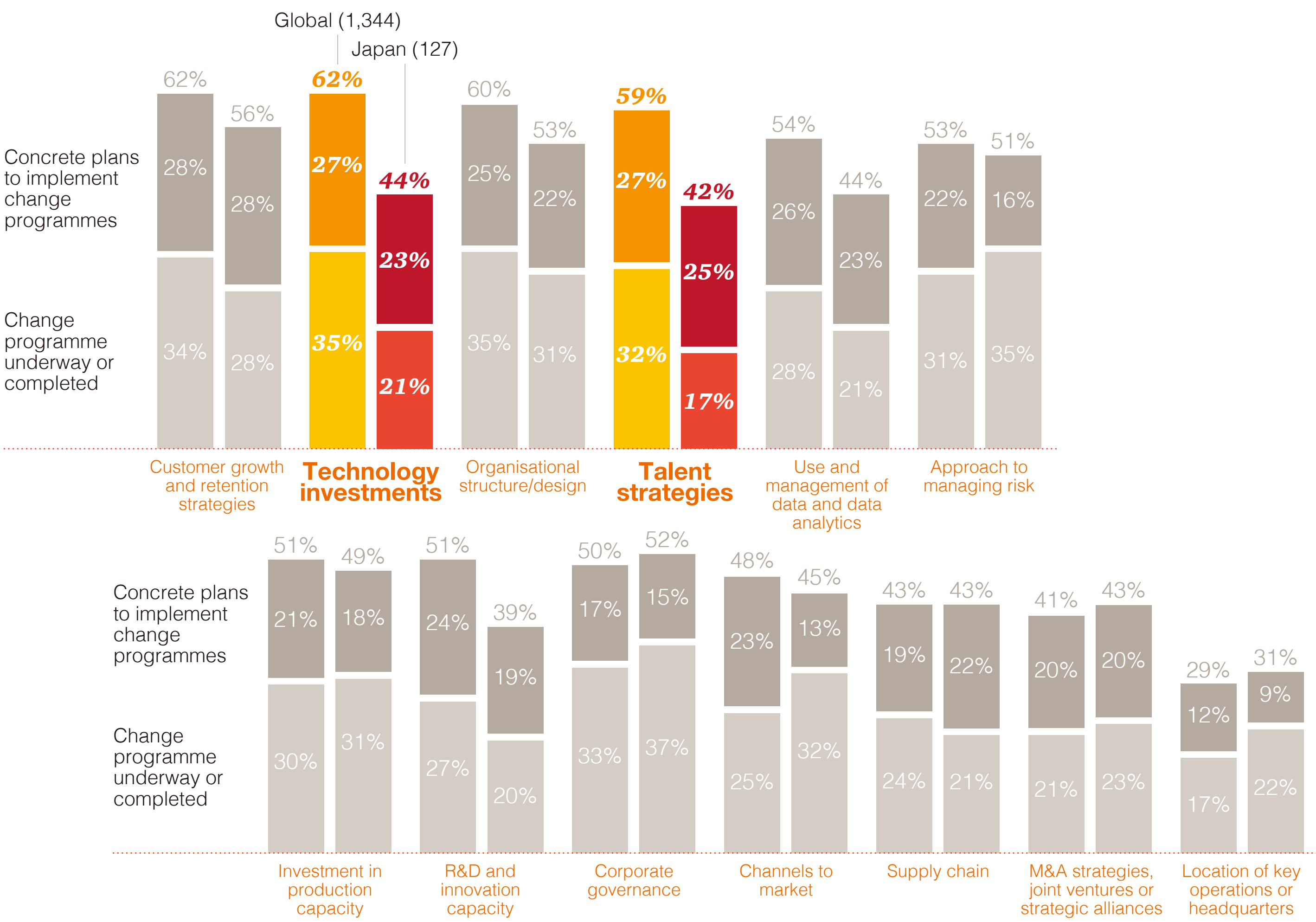
Different responses to technology investments and talent strategies

Next, what kind of changes are CEOs trying to make for their organisational operations, in order to capitalise on these trends and incorporate them into business growth?

CEOs have the responsibility of recognising the need to change, and formulating and implementing strategies to make such changes. In this year's survey, we asked CEOs at what stage their corporate activities currently stand with regard to various areas. Then, we compared the responses between Japanese CEOs and CEOs worldwide who stated that they "have concrete plans to implement change programmes" or "change programme underway or completed" with regard to necessary changes. The results indicated that a high proportion of Japanese CEOs have concrete plans or a change programme is underway or completed with regard to "customer growth and retention strategies" and "organisational structure/design," similar to the global average. On the other hand, looking at the total score for "technology investments" and "talent strategies", while these options ranked second and fourth, respectively, for the responses from CEOs worldwide, the ratio of Japanese CEOs who

Figure 12 : Adapting to future changes through organisational restructuring

Question: In order to capitalise on global trends, can you tell me to what extent you are currently making changes, if any, in the following areas?



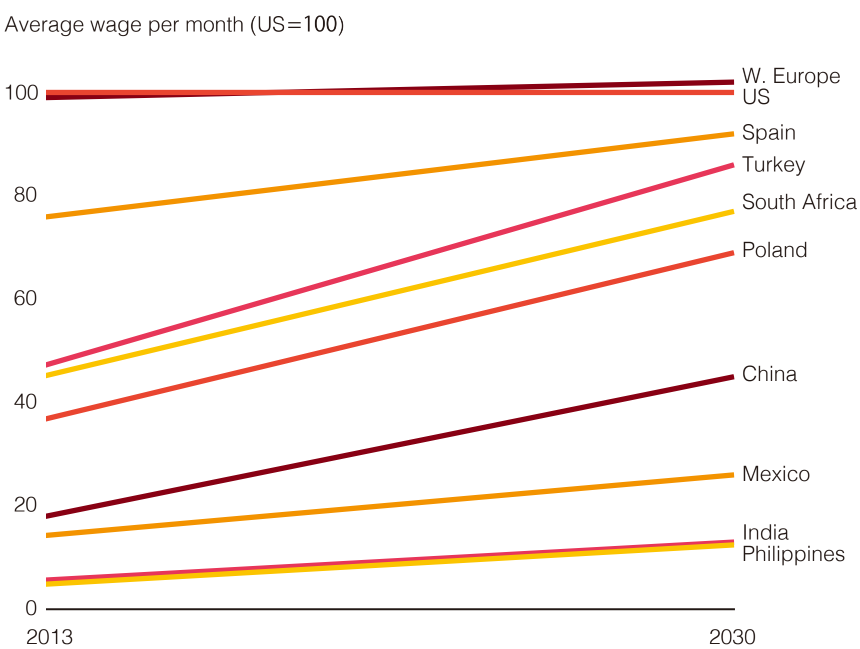
Respondents who selected "concrete plans to implement change programmes" or "change programme underway or completed" for each item from among the options including "recognise need to change", "developing strategy to change", "concrete plans to implement change programmes", "change programme underway or completed" and "no need to change" (%).

selected these options was low. Although some Japanese CEOs stated that they are currently developing a change strategy for “technology investments” (31%) and “talent strategies” (42%), fewer Japanese CEOs seem to have concrete plans or have already taken actions compared to the global average.

Amid the transformation of business models driven by the IT evolution, it is necessary to recognise that keeping up with the speed of changes is critically important in maintaining competitiveness. As mentioned earlier, a high proportion of Japanese CEOs place particular emphasis on the “shift in global economic power” as a major global trend. In order to incorporate the growing demand in Asia, it seems that Japanese CEOs tend to give more priority to organisational strategies by strengthening channel to market and their production capacity among other measures, rather than human resources and information technology. However, the more such movement progresses, the more reinforcement of human resources and IT will be required in order to support the global organisation and sustain its competitiveness in the future.

As the results of this survey suggest, CEOs in Western countries are more concerned than CEOs in Japan about securing talent. This implies more than a simple unemployment rate issue. It actually demonstrates the mismatch of human resources or the difficulty in securing adequate talent for organisational management amid the progress of globalisation and the fast pace of innovation. In addition, an increase in wages is anticipated in emerging countries in the future.

Figure 13 : Wages in emerging economies gradually catching up



Source: PwC “Global Wage Projections to 2030” (September 2013)

Gap in recognition over social impact measurement and reporting

Companies are expected to pay attention to their responsibilities and contributions to society and aim to pursue sustainable long-term business growth, while placing value on their relationship with various stakeholders instead of simply prioritising their growth and profits.

To the question asking CEOs about changes in their relationship with stakeholders over the past five years, most Japanese CEOs responded similarly to other CEOs around the world. In other words, more CEOs said that their relationship with "customers and clients" and "providers of capital" has improved and fewer CEOs said that their relationship with "the media" and "government and regulators" has improved. On the other hand, a lower proportion of Japanese CEOs said that their relationship with "Non-Governmental Organisations (NGOs)" has improved.

One of the reasons behind this could be the shorter history of NGO activities in Japan compared to that in Western countries.

While no prominent differences were observed in the overall responses between CEOs in Japan and other CEOs around the world with regard to the role of the corporation, a comparison of some detailed items revealed several characteristics. For example, the proportion of Japanese CEOs who agree with "balancing the interests of all stakeholders" and "satisfying societal needs beyond those of investors, customer and employees" is almost the same as the global average. On the other hand, while more Japanese CEOs agree with "measuring and trying to reduce their environmental footprint," fewer Japanese CEOs agree with "measuring and reporting social impacts of companies" compared with the global average.

Figure 14 : Relationship with stakeholders

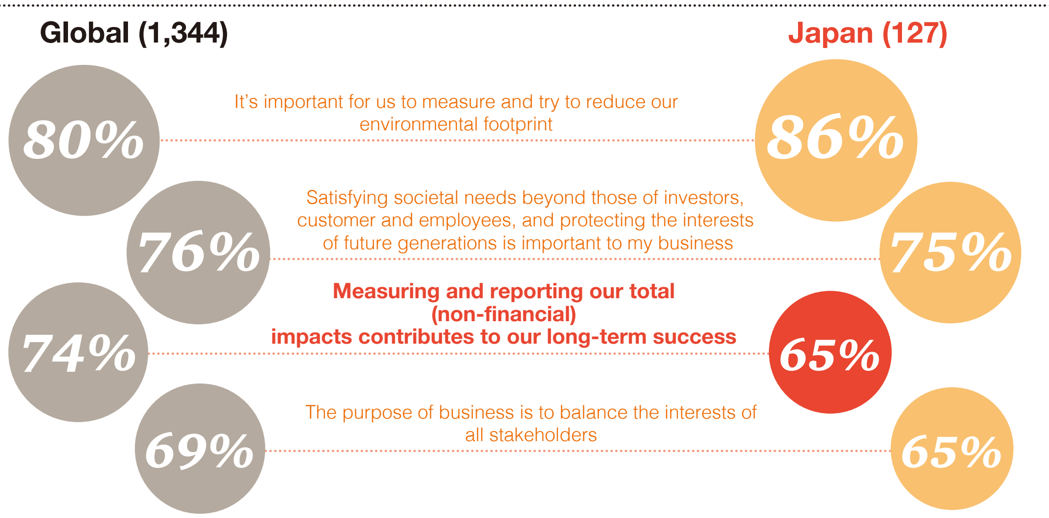
Question: To what extent has the level of trust the following stakeholders have in your industry changed over the past five years?

	Global (1,344)	Japan (127)	China/Hong Kong (134)	Asia Pacific (445)	Western Europe (329)	US (162)
Customers and clients	**52**	**47**	58	58	46	41
Providers of capital (e.g. creditors and investors)	**43**	**39**	46	49	35	40
Your supply chain partners	**42**	**36**	45	47	33	35
Employees (including trade unions/work councils)	**39**	**39**	47	47	32	32
Local communities	**31**	**29**	39	38	20	25
The media	**26**	**31**	33	34	22	12
Government and regulators	**24**	**21**	37	35	19	9
Non Governmental Organisations (NGOs)	**19**	**6**	27	23	14	12

Figures in the table indicate the percentage of respondents who selected "Improved" (%).

Figure 15 : Role of the corporation

Question: Please indicate to what extent you agree or disagree with the following statements.



Respondents who selected "Agree strongly" or "Agree" (%)

65%

While 74% of CEOs worldwide agree with "measuring and reporting social impacts of companies," fewer Japanese CEOs tend to agree with this.

Requesting a more internationally competitive tax system from government

As for the question about the role of the government, while 53% of CEOs throughout the world stated that the government should focus on "ensuring financial sector stability and access to affordable capital" as a priority, 76% of Japanese CEOs list "creating a more internationally competitive and efficient tax system" as the top priority for the government. Meanwhile, fewer Japanese CEOs stated that the government should focus on financial sector stability and the creation of a skilled workforce compared with the global average.

A potential reason for the former result could be that, although Japan was affected by the financial crisis in Western countries, the degree of fear over the collapse of financial institutions and the failure of the financial system itself was comparably lower in Japan. The latter result seems to have been influenced by the fact that the unemployment rate remains lower in Japan compared to Western countries, and that the mismatch of human resources has been recognised as a less impending issue in Japan.

To the question asking how effective the government has been in achieving these outcomes in relation to the role of the government, fewer Japanese CEOs responded that the government has been effective in "creating a more internationally competitive and efficient tax system" (the percentage of Japanese CEOs who selected "greatly effective" or "effective" is only 9%).

Figure 16 : Role of the government

	Question: Thinking about the role of Government in relation to the following outcomes, which three areas should be Government priorities, in the country in which you are based?		Question: How effective has Government been in achieving these outcomes in the country in which you are based?	
	Global (1,344)	**Japan (127)**	**Global (1,344)**	**Japan (127)**
Ensuring financial sector stability and access to affordable capital	53	35	46	42
Creating a more internationally competitive and efficient tax system	50	76	21	9
Improving the country's infrastructure (e.g. electricity, water supply, transport, housing, broadband)	50	56	37	44
Creating a skilled workforce	41	20	21	13
Developing an innovation ecosystem which supports growth	30	28	18	21
Creating jobs for young people (16-24 years old)	22	30	16	8
Reducing poverty and inequality	22	13	21	17
Addressing the risks of climate change and protecting biodiversity	10	9	17	17
Maintaining the health of the workforce	8	9	33	25

Figures in the table indicate the percentage of respondents (%).

Respondents who selected "Greatly effective" or "Effective" (%)

Winning in the global competition

The results of this survey indicate that CEOs around the world have regained their confidence and changed their attitude towards a more aggressive approach amid an upward economic trend, mainly in developed countries. In order for Japanese companies to win in the increasingly fierce competition in the global market, it is necessary to promote structural changes through innovation, hiring of global talent and utilisation of IT investment, while sharing medium to long-term strategies and visions with stakeholders such as institutional investors with the aim of attaining their cooperation.

Securing competitive advantage through continuous innovation

While many CEOs in Japan stated that the "shift in global economic power" is the most likely global trend to impact their business, most CEOs across the world stated that "technological advances" is the most impactful global trend. Naturally, Japanese companies should enjoy the advantage of being close to the Asian market, given its anticipated exponential future growth. On the other hand, in order to secure competitiveness from a long-term perspective, it is essential for Japanese companies to strengthen their developmental efforts in products and services through continuous innovation.

Strengthening management system by securing talent and investing in IT

As distinct characteristics of Japanese CEOs, they are highly interested in matters that could affect their corporate earnings, such as the cultivation of new geographic markets and the trend of economic conditions. On the other hand, their interest in securing talent and IT investment tends to be lower than that of CEOs in Western countries.

However, in order to remain competitive in a more global operating environment, it is mandatory not only to secure adequate talent but also to further strengthen the management system by enhancing the managerial framework through the promotion of information technology based on IT investment.

Utilisation of M&A as a means to save time compared with growing on own

Although this year's survey results reconfirmed Japanese companies' growing appetite for expanding business operations mainly in Asia through M&A and strategic alliances, the ratio of Japanese companies that plan to execute M&A activity is still lower than that in Western countries. Japanese companies should consider the greater use of M&A as a means to save time, compared with growing on their own.

Re-acknowledging the depth of the domestic market

It is also necessary to re-acknowledge the Japanese economy. Although Japan's GDP is now behind that of China, Japan still remains the third largest economy in the world. The outlook for the next 15 years or so also suggests that India will be the only country likely to supersede Japan (*2). As Tokyo has been selected as the host city for the 2020 Olympics, a new goal in six years' time has been set. If we can create a pump-priming effect out of this, and successfully implement Japan's restoration strategies under the three pillars of "Abenomics" through joint efforts by the government and the private sector, in order to expand foreign investment and talent inflow, employment could be boosted through reinvigoration of the overall domestic economy.

*2: PwC (February 2013) "World in 2050"

Formulation of medium- to long-term strategies amid rapidly evolving environment

The environment surrounding companies has been drastically changing as seen in the acceleration of technological innovation among other events. On the other hand, as internal operations within companies remain centred around activities by business unit, it is difficult for employees to grasp the company direction. In order for the corporation to achieve sustainable growth under such circumstances, executives should establish a business model that is matched with long-term trends and share their strategies and visions with external directors and employees, thus creating a consensus with them. Through these efforts, it will become possible to strengthen the corporate identity as well as the vitality as a company.

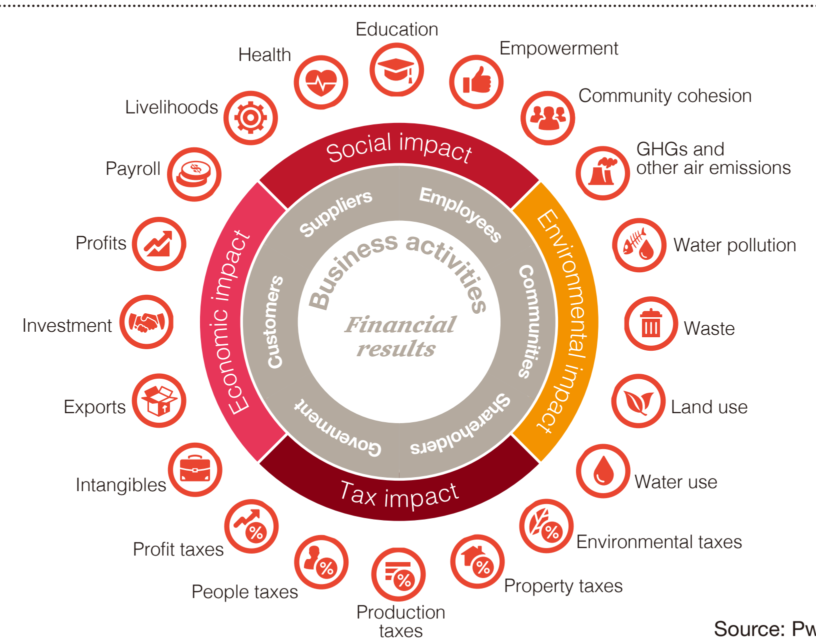
Attaining institutional investors' empathy through sharing of medium to long-term strategies

These medium to long-term corporate strategies need to be shared with institutional investors both in Japan and overseas in order to secure the risk money required for the execution of strategies. From this perspective, integrated reporting in which the processes of generating corporate value from short, medium and long-term perspectives are specified in a simplified manner will be one of the most effective disclosure methods. Attempts at integrated reporting have already been made both in Japan and overseas. These reports include easy-to-understand descriptions related to not only financial data of companies but also non-financial data, covering a wide range of areas including environmental and social initiatives, intangible assets and governance.

This happens to coincide with a time when a Japanese version of the stewardship code was compiled in Japan by putting together principles of actions for institutional investors. It will be necessary to prepare disclosure materials that include medium to long-term perspectives as a means to enhance dialogues between the corporation and institutional investors in the future.

Moreover, new attempts to further develop these frameworks, measure and quantify various impacts of companies and use them for making more rational management decisions (TIMM: Total Impact Measurement and Management) have started recently (Figure 17). This is expected to help companies explain their decisions behind the formulation of medium to long-term strategies in a more rational manner in the future.

Figure 17 : Innovative framework for rational decision making by companies



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