



# KPMG Business Insights América del Sur

**Version N°14**

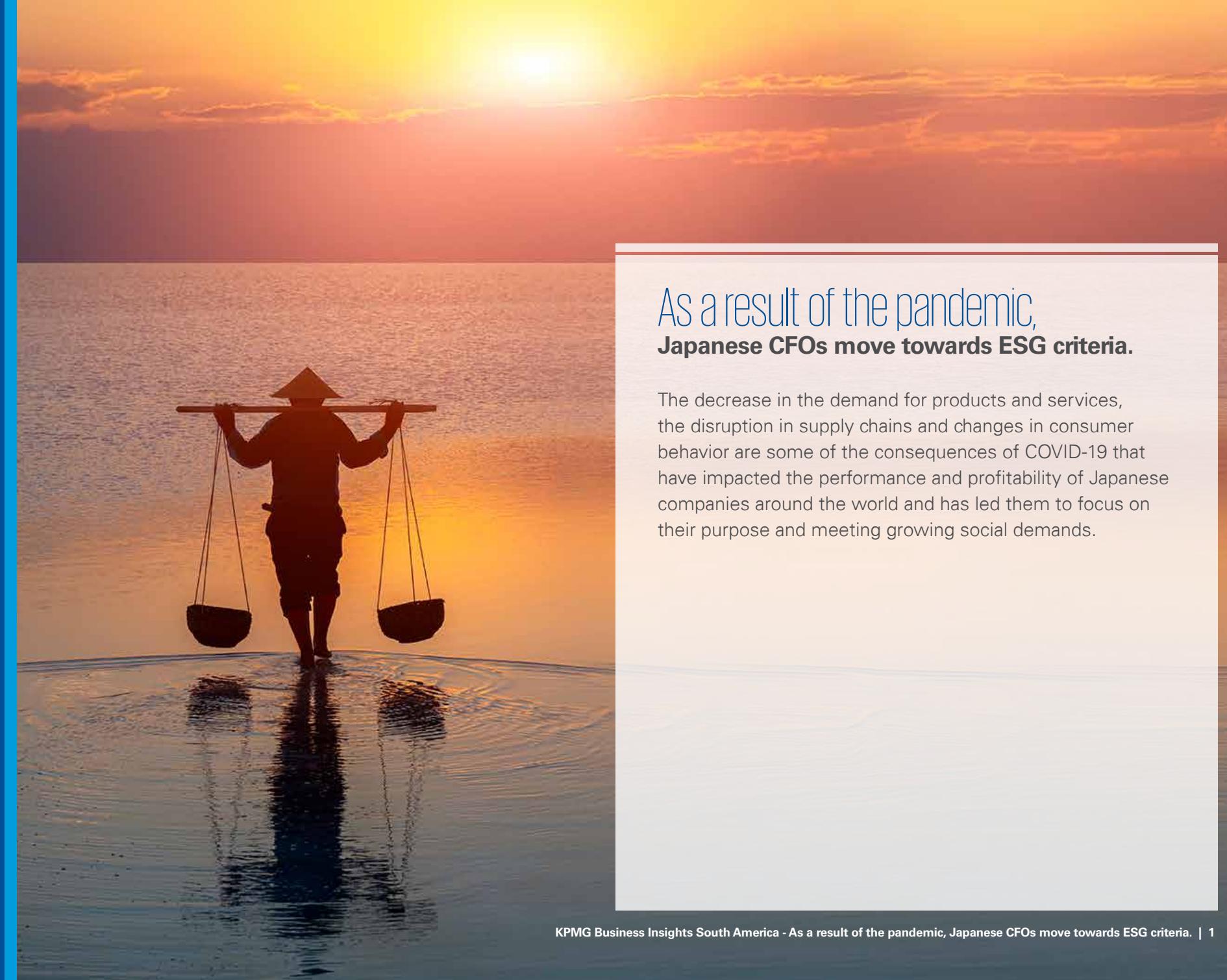
## Japan Desk

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April 2021



## *As a result of the pandemic, Japanese CFOs move towards ESG criteria.*

The decrease in the demand for products and services, the disruption in supply chains and changes in consumer behavior are some of the consequences of COVID-19 that have impacted the performance and profitability of Japanese companies around the world and has led them to focus on their purpose and meeting growing social demands.



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To understand the changes occurring in business strategies of companies as they face the health crisis, KPMG in Japan conducted a survey in October 2020 targeting CFOs of major Japanese publicly held companies ("Japan CFO Survey 2020")<sup>1</sup>. In this edition, the survey counted with the participation of 560 Japanese CFOs, approximately half of them from companies with annual revenues of less than ¥100 billion, and who carry out their activities in the **Machinery & Materials, Consumer Goods, Retail, Transportation, Technology and other various industries**. The results of this important survey, which seeks to provide a comprehensive response to the main challenges that Japanese CFOs are facing, not only domestically but internationally, make up a baseline for South American companies that, with certain nuances, are facing events with similar characteristics.

In general terms, it can be said that the responses of CFOs vary depending on the size of the company and the industry analyzed, as well as the time that their companies would be taking to recover from the current crisis and return to the growth path. Likewise, the change in the focus they are giving towards the determination of a corporate purpose with a strong social bond, and the convergence towards certain criteria whose demands have been increased by the health crisis, especially those related to social, environmental, and corporate governance (ESG) aspects is notable. And this finding is nothing new to South American leaders, whose responses to several surveys conducted by KPMG in South America show that this trend has become a new global paradigm. Large investment funds withdrawing from investments that cause negative impact in environment has being one of the main drivers for responsible investment, since the new global framework is increasingly tied to a growing body of regulations related to sustainability, to consumers who publicly demand that businesses go beyond the symbolic gesture to take real action, and to senior executives who,

from now on, will be evaluated and rewarded for their progress on these objectives (ESG), since their incorporation results in a clear competitive advantage.

The practices linked to ESG factors are even becoming a core prior requirement both for retention of employees and recruitment of new talents, as well as for the strengthening of the brand and the raising of funds (financing), thus creating a virtuous circle that positively affects all those involved in the economic relationship (companies, employees, clients and investors etc.). In fact, when asked about issues in promoting corporate value, among companies with sales equal or above JPY 3 trillion, as many as 52% chose "harmonizing pursuit of corporate social responsibility with economic performance" and 48% chose "engagement with diverse stakeholders". In addition, it is important to mention that even before ESG has been getting more important, many Japanese companies has stated "social contribution" in their corporate vision. For comparison purposes, the results of the latest KPMG CEO Outlook<sup>2</sup> showed that South American executives have similarly increased their interest in these criteria and are acting accordingly.

Indeed, around **71% of the South American CEOs** who participated in the study assured that they will seek to preserve the sustainability achievements obtained during the crisis, while over 60% of respondents are increasingly focusing on the social component of their ESG programs, with the purpose of giving a real and direct response to current demands, something that also stands out among Japanese CFOs, who have become more aware of the

social impact of their companies actions, leading them to broaden the definition and measurement of corporate success beyond the financial goal.

As one example of growing interest in ESG by Japanese companies, Japan has the largest number of TCFD (Task Force on Climate-Related Financial Disclosures) supporters in the world. (as of March 25, 2021).

It is expected that Japanese companies in South America will start some initiatives to correspond stakeholders demands in terms of ESG because one of Japanese companies business culture is "social contribution" and there are many spaces in South America which Japanese companies can contribute (e.g. protection of Amazon forest etc.).

On the growth front, **71% of Japanese CFOs** are optimistic and believe that the performance of their companies will recover to pre-crisis levels in less than two years.

In parallel, a significant portion of CFOs agreed that their role gained relevance during the pandemic, especially in the performance management and forecasting (67%), corporate funding (40%), and cost management (38%) areas. This fact, in addition to representing a drastic change in the strategic approach of companies regarding the responses collected in the 2019 survey – where 80% of CFOs observed that the priority, until that moment, was talent management – highlights that, with the drop in operating income and greater uncertainty caused by the pandemic, the focus of executives shifted

1. "Japan CFO Survey 2020. COVID-19 Special Edition", KPMG Japan, January 2021.

2. "CEO Outlook South America 2020. COVID-19 Special Edition", KPMG in South America, 2020.

to other activities more linked to the company's business situation, causing CFOs to gain importance with these activities.

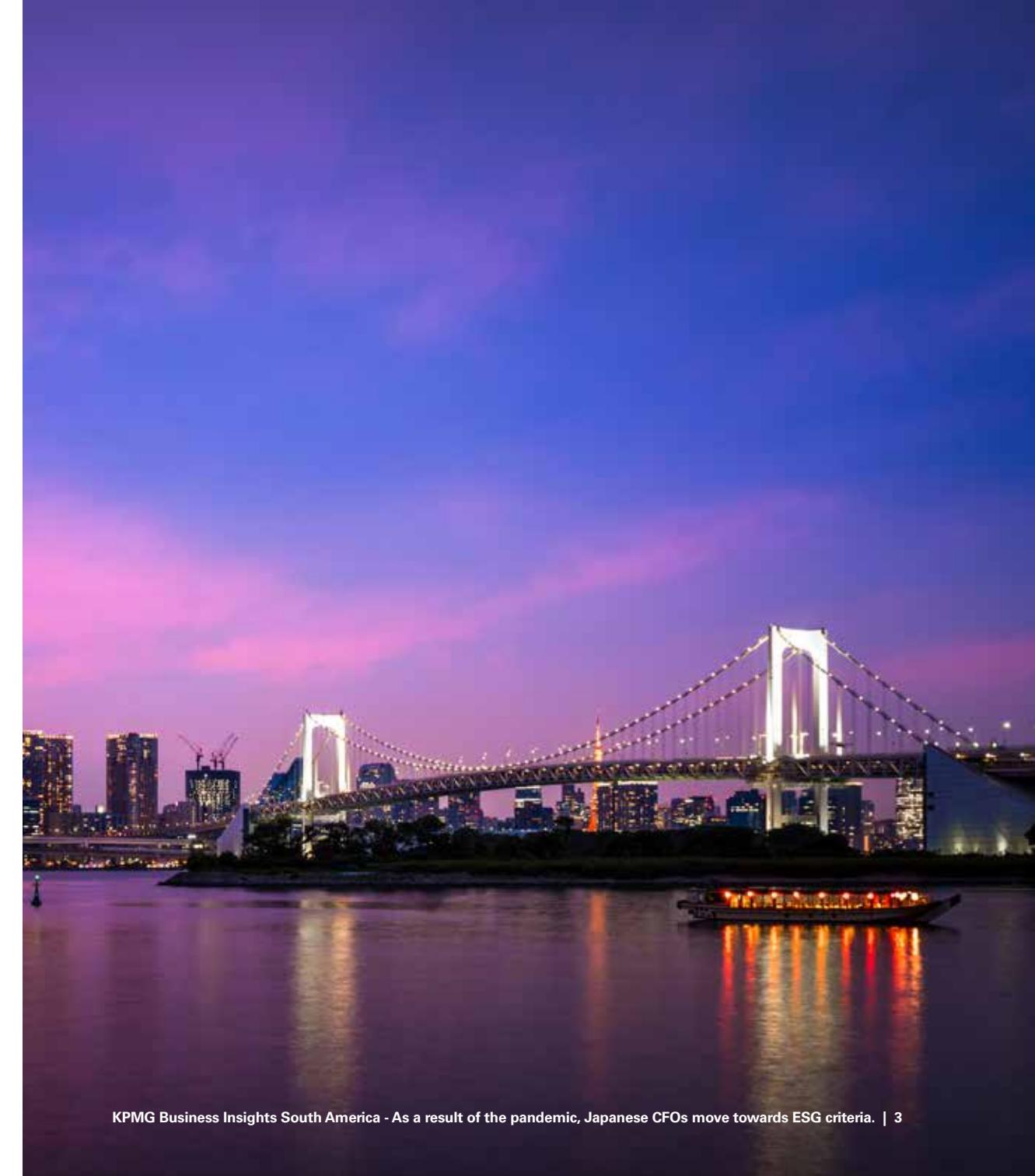
Considering those issues, although there is a parallel with South American executives – since **53% of them believe that their organizations will grow in the next 3 years**, according to the results of KPMG's CEO Outlook 2020 – a greater convergence is perceived with the perspectives adopted by the CEOs of companies from developed countries – where 68% believe that their companies will grow in the next triennium – which is logical considering the similarity of their social, political and economic situation, such as the resilience and adaptability of their expectations in face of the impacts caused by the crisis. Moreover, 59% of the CFOs of these companies claimed to be implementing several scenario analysis for their business plans, another 23% are doing so with capital policy simulations. In response to this point, the KPMG Japan's expert in Global Financial Management stated that the most important point to meet their growth targets is to ensure the company's liquidity. The prevailing uncertainty in the future performance projections and in the business plans contain a growing risk that could destroy the sources of external financing, highlighting that the levels of corporate liquidity will be fundamental in this new environment.

Amid the growing importance of ESG criteria, **56% of Japanese CFOs highlighted "enhancement of employee awareness" as crucial to fostering corporate value, followed by promotion of digitization (46%)**. This is something natural from both the unexpected increase in remote work (83% of Japanese CFOs said that "arranging the working environment for remote working" was the most common response policy, while another 59% said they were upgrading facilities to prevent employee infection), and the radical changes that occurred in consumer habits as result of the crisis, and that have transformed the way in which

people relate to brands. However, this result is not exclusive to Japanese companies, but a trend that has accelerated with the pandemic around the world. Indeed, following KPMG's global survey mentioned previously, the digitalization of operations through the incorporation of technology and the establishment of the next operational model of companies have drastically evolved during the health crisis for 32% of the South American CEOs and for 30% of the CEOs globally, bringing with them advances that, otherwise, would have taken years to be achieved. In fact, a significant portion of South American executives (**61% said they were allocating most of their investments to innovation** and technology acquisition as part of the strategic transformation process required to achieve growth targets.

Finally, it is important to clarify that the results presented in this article are based on the latest survey with Japanese CFOs but do not analyze completely the similarities that can be found with the concerns and expectations held by executives of South American companies, especially in the face of the current pandemic and the so-called "recovery phase" (which seems to be increasingly delayed, with the constant arrival of new "waves" of infections). Taking the foregoing into account, what is detailed in this article aims to offer a fairly accurate snapshot of the view of the Japanese CFOs, the challenges they await and their expectations in the short and medium term, especially in the face of a persistent health crisis and the uncertainty related to the global vaccination process.

This point of view is also a key element that South American companies should consider both when designing their development strategies in the new environment, and to boost their growth targets during the recovery phase. Companies and private capital are the main determinants or contributors to the productivity, investment and economic growth of nations, and the key to getting out of this crisis quickly and swiftly.





Unfortunately, according to Japan CFO survey 2020, only 2% of Japanese CFOs said Latin America is "main geographical area in which examinations of new M&A underway (multiple choice)." However, once COVID-19 pandemic will be overcome, it is highly expected that investments from Japanese companies to South America will be increased because South America has had a lot of attractive resources which Japan has not had.



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