



CFO Survey Insights

Technology, Media &
Telecommunications

16 May 2022

Technology, Media & Telecommunications
(TMT) Sector

KPMG in Japan



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Survey Responses

Executive Summary

The survey results were positive, with companies showing a willingness to invest in sustainability, human resources, DX and M&A to achieve further growth in the future, in comparison to last year's results, where companies showed a strong defensive approach toward securing their cash flow in response to damage caused by the COVID-19 pandemic.

01




Business Strategy

Management of human and intellectual capital, and diversity cited as sustainability issues that will greatly impact future corporate value.

Companies recognize the importance of continuously securing professional talent to enable sustainable growth of corporate value. On the other hand, awareness of climate change appears to be polarized.

02



Investment Strategy and Corporate Funding

Appetite for investment in human resources, DX, and M&A.

Making use of the DX investment promotion tax incentive and R&D tax deductions and incentives, while managing the associated tax risks, is important. There is, however, less willingness to invest in environmental measures.

03




Corporate Governance

Management commitment and diversity of core talent are key to solving sustainability issues.

In addition to ensuring the commitment of management and the diversity of core talent consistent with business and investment strategies, we also see issues in strengthening governance, particularly in internal audit departments, due to scandals in some subsectors.

04



Risk Management

Violation of laws and compliance, human rights violations, and tax issues cited as major sustainability risks.

Group-wide management and sophistication led by headquarters are important for identifying risks from a broad perspective. Meanwhile, concerns regarding risks relating to climate change, decarbonization, and the environment are limited to a few subsectors.

05




Tax

Growing importance of tax risk management and increasing visualization of tax information.

While the TMT sector is making progress with the visualization of tax information, strengthening tax governance in Japan is the next challenge.

06



Comprehensive Reporting Including Non-financial Information

Quantification of non-financial information is a pressing issue.

The increasing impact of non-financial information, including ESG information, on corporate value is creating a need to integrate non-financial information into disclosures of financial information, and to make the quantification of non-financial information more sophisticated.

07



Accounting and Finance

Moves toward strengthening cash management and capital efficiency.

There have been moves to strengthen cash management and capital efficiency against the backdrop of business restructuring in media and 5G investment in telecommunications. There are also expectations for CFOs to expand their roles into non-financial areas in the future.



01 Business Strategy



Management of human and intellectual capital is key to improving corporate value.

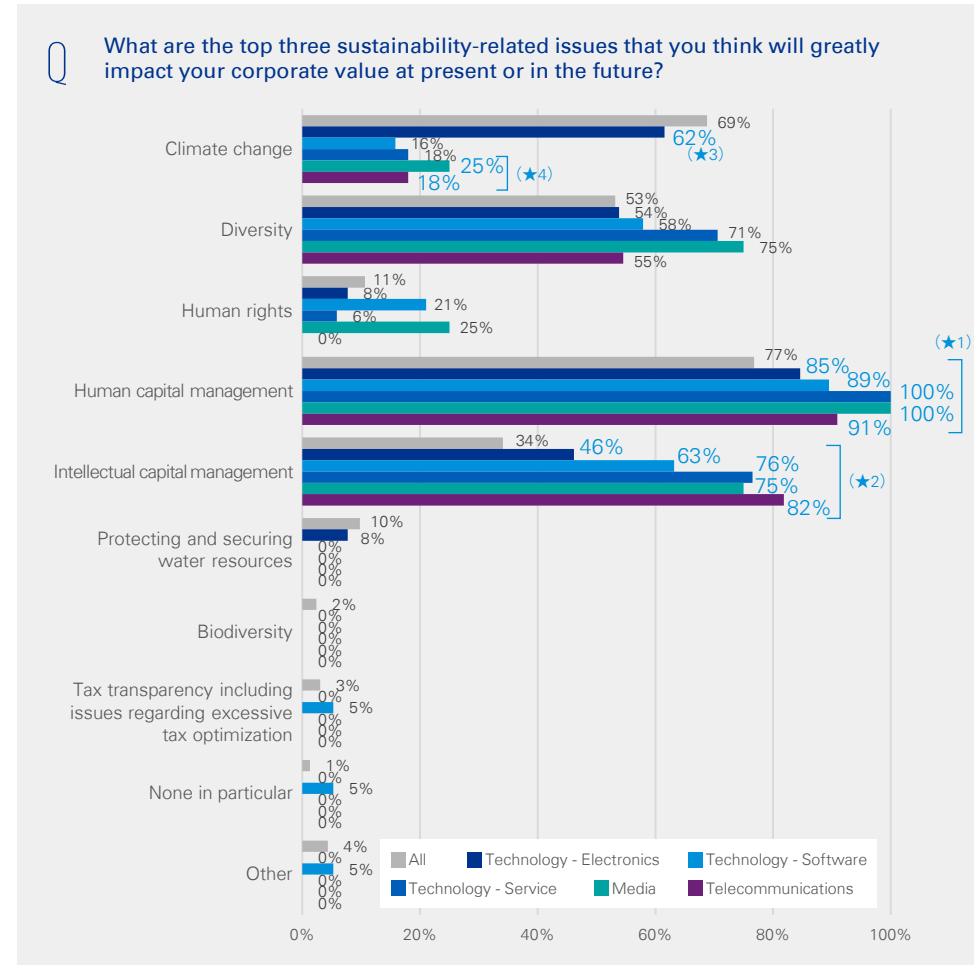
In the technology, media and telecommunications (TMT) sector, **most companies cited human capital management as a sustainability issue that will greatly impact corporate value in the future (★1)**. This is consistent with KPMG International’s Technology Industry CEO Outlook 2020, where “talent risk” was cited as a top obstacle to growth. CFOs are aware that securing professional talent is essential for keeping up with rapid technological changes in the industry and enabling sustainable growth of corporate value. Another sector characteristic is that many companies are actively working to create an attractive workplace through, for example, initiatives on inclusion and diversity.

There was also a **high level of awareness of issues related to intellectual capital management (★2)**. The factors behind this include technology companies working to achieve both open innovation and intellectual property protection, media companies internationalizing copyright and other intellectual property protection, and telecommunications companies addressing licensing strategies for Standard-Essential Patents (SEPs) and the international dispute related to 5G/Beyond 5G.



Polarized awareness of climate change.

We noted a difference among the technology, media and telecommunications industries in the level of awareness regarding climate change, an issue for which awareness levels are high across all industries. **In the technology industry, awareness was particularly high among electrical equipment manufacturers (★3)**. This may be because of the extent of their global business, which is feeling the effects of global environmental and carbon-neutral efforts that are also impacting suppliers of giant IT companies. In contrast, **many companies in media and telecommunications, with the exception of some mega-carriers that have already factored in climate change issues, still appear to be in the preliminary stages of addressing climate change as an issue (★4)**. There are, however, growing expectations for new environmental initiatives in these industries as well, such as the introduction of green power in massive communication server groups and data centers.



All: All Sectors



02 Investment Strategy and Corporate Funding



Appetite for investment in human resources, DX and M&A.

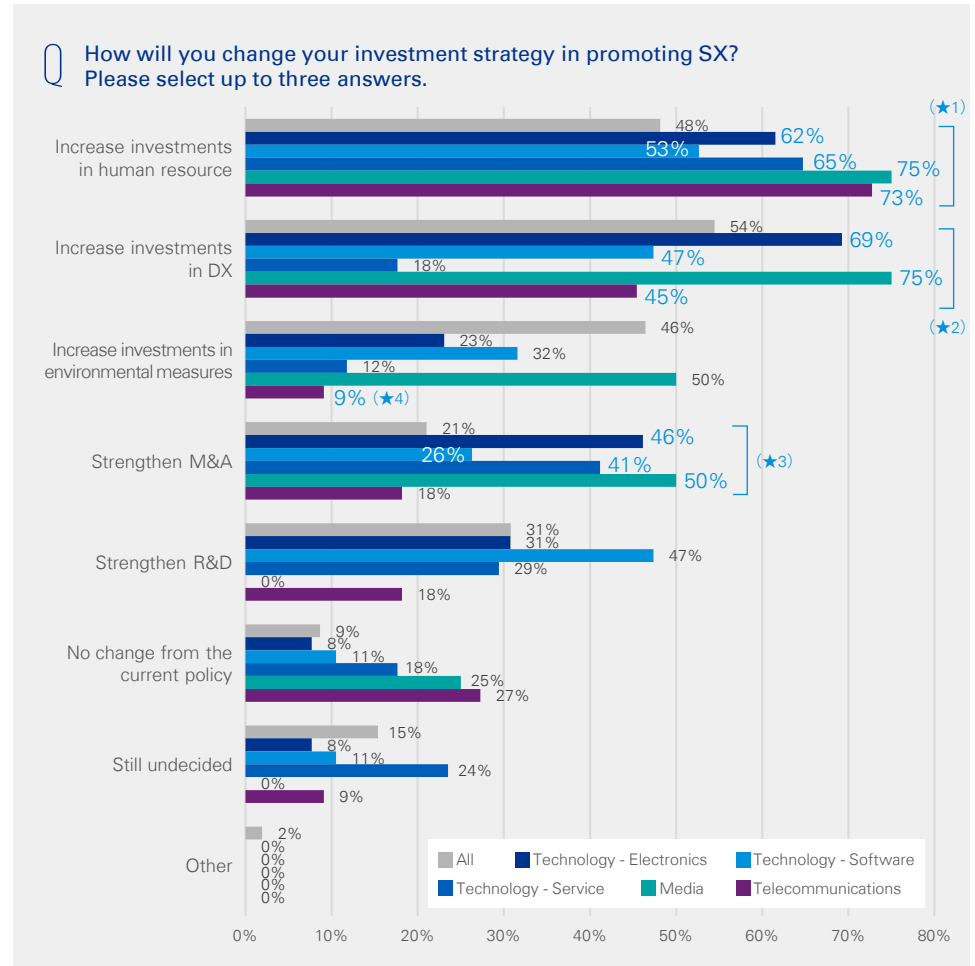
The TMT sector showed an appetite for investment in **human resources (★1)**, **DX (★2)**, and **M&A (★3)**, with a particularly strong focus on **M&A (★3)**. Reasons for the focus on M&A investment vary by subsector.

We can infer that technology, software, and IT services companies are either not affected by COVID-19, or are looking to invest and expand their business following their recovery from COVID-19.

In media, companies are investing in internet businesses and other non-face-to-face channels in response to 'nesting consumption' effects as a business expansion investment, while initiatives for real channels such as movie theaters are aimed at business restructuring, amid COVID-19 impacts.

Willingness to invest was relatively low for companies in telecommunications compared to other subsectors. We can infer that they may not have much room for other investments due to the large scale of 5G investment, with some companies selling their non-telecom businesses to raise funds for 5G investment. In addition, the intense rush of telecommunications companies into non-telecom businesses seen last year has slowed down, and they are now approaching a plateau with a view to reaping the benefits of their investments. However, compared to investment in human resources and DX, the **appetite for investment in environmental measures has not increased (★4)**. This indicates that investment in human resources, DX, and M&A in the telecommunications industry is made only from the perspective of front-line business expansion.

In order to invest in human resources and DX and to strengthen R&D, making use of the DX investment promotion tax incentive and R&D tax deductions and incentives is extremely important. Meanwhile, R&D deductions may be denied due to differences in opinion with tax authorities, or the applicability of tax incentives may vary according to country. It is therefore even more important for the tax department of headquarters to work together and share information with tax departments in respective countries and other headquarters departments (IP department, etc.). As R&D and investments become more active particularly in the field of technology, it is essential that companies not only make use of active investment incentives and tax systems, but also manage associated tax risks.





03 Corporate Governance



Management commitment and diversity of core talent are key to solving sustainability issues.

As in many other sectors, we found that many companies in the TMT sector believe that **securing diversity in core talent greatly impacts corporate value (★1)**. This is consistent with the result of the business strategy section in the survey, where many companies cited human capital management as the key to enhancing corporate value.

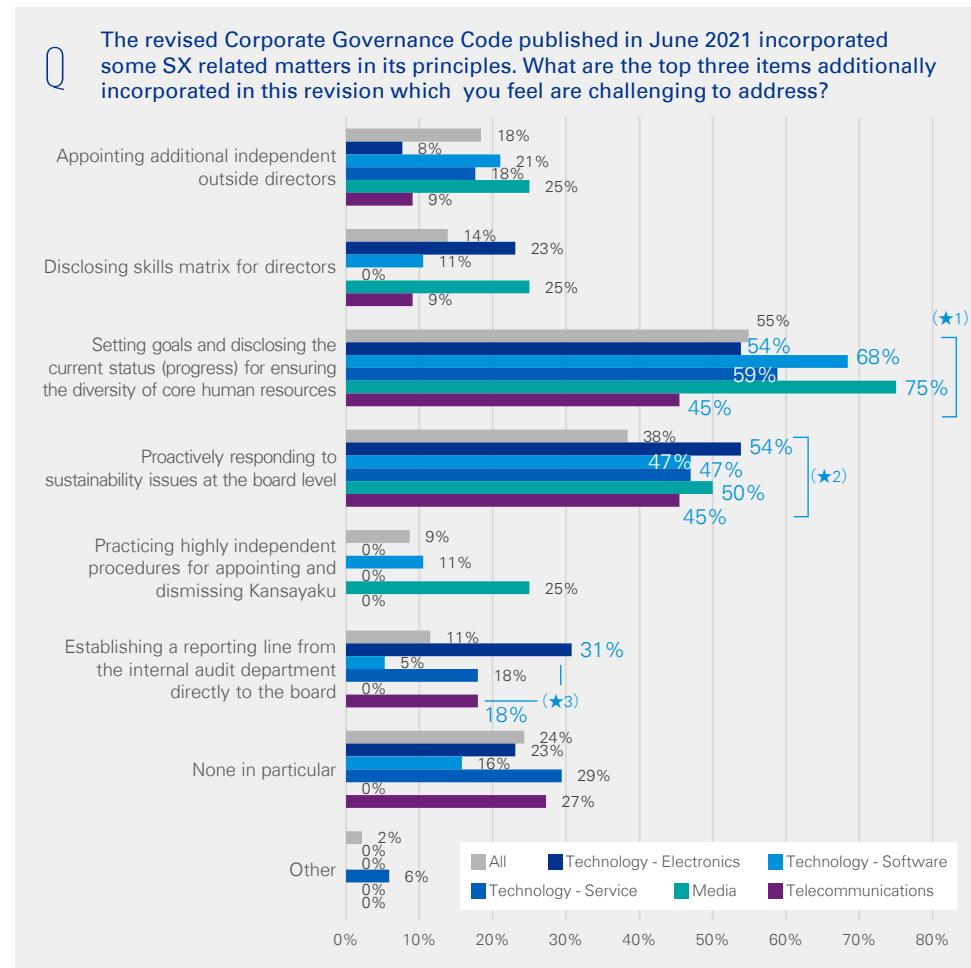
For all TMT subsectors, responses citing “proactively responding to sustainability issues at the board level” exceeded the overall percentage for all sectors (★2). All sustainability-related issues should be continuously addressed over the medium to long term. However, how companies address these issues may depend on their individual business situations. While TMT companies are finding addressing sustainability issues as management issues and effectively incorporating them into daily operations a challenge, we can see their stance of implementing initiatives through trial and error.



Strengthening governance is also an issue, especially in internal audit departments.

Among electronics and telecommunications companies, we saw an **awareness of the challenge of establishing a reporting line from the internal audit department directly to the board (★3)**.

In light of inspection fraud and other scandals, there is an urgent need for electronics companies to prevent recurrences and enhance their internal control systems. In the telecommunications industry, we saw expansion in the scope of operational management due to new business development and acquisitions in the process of expanding non-telecom businesses. It can be said that the survey result reflects the stance of companies to implement effective governance in this area as well. Regardless of sector, there is a tendency for companies to view this type of matter as a risk, since a single incident can cause damage in an instant no matter how many measures are in place.





04 Risk Management



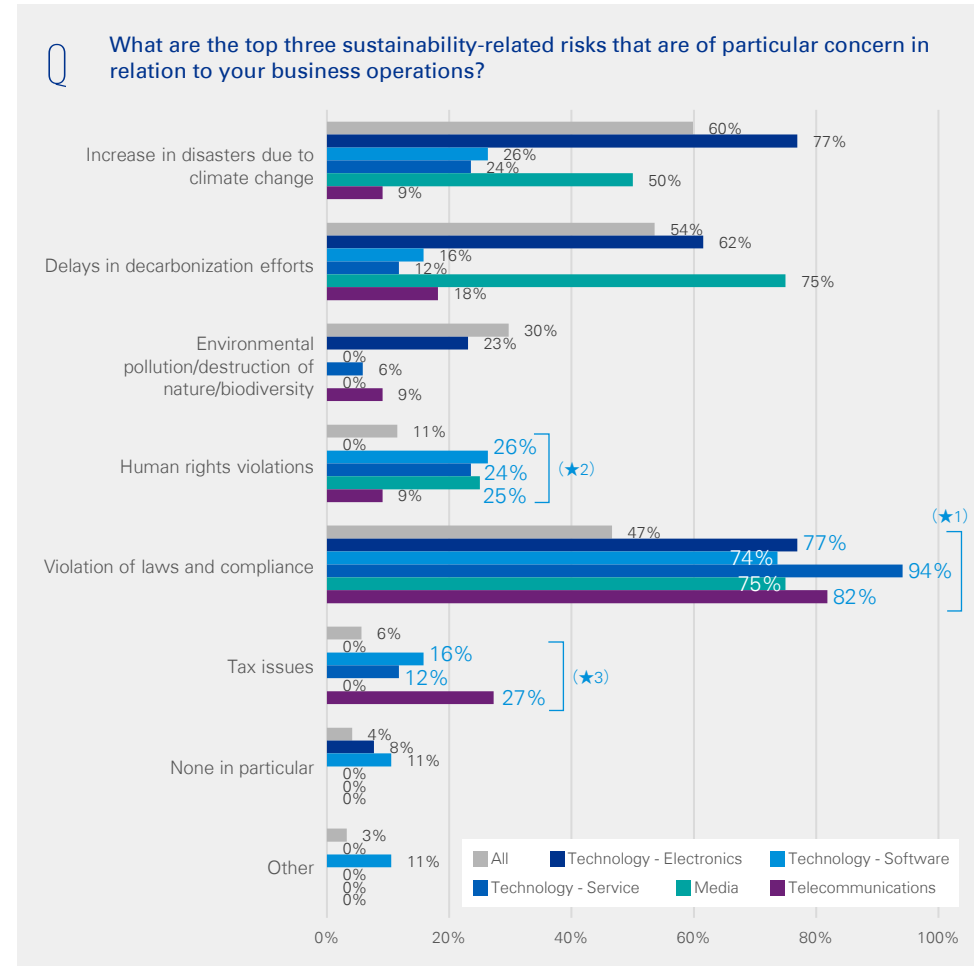
Identifying broader risks is the challenge for the future.

The high level of concern regarding risks related to climate change, decarbonization, and the environment was limited to electronics companies and some media companies that face global competition and have extensive supply chains. On the other hand, key sustainability issues across the TMT sector were human rights violations, violation of laws and compliance, and tax issues.

The high sensitivity to violation of laws and compliance (★1) can be attributed to the fact that legal compliance has always been a given for businesses especially in media and telecommunications, considering their highly public nature. Nowadays, companies worldwide, regardless of industry, have become increasingly aware of the importance of compliance and address compliance as a matter of course. Simply maintaining the status quo may not be sufficient in the future.

Human rights violations are a matter which Japanese companies have long been aware of and which they consider themselves to have been "sufficiently addressing as a natural response" (★2). However, companies need to regularly check whether they can say their response is on the same page as responses based on the global awareness of human rights, and whether they have sufficiently caught up with the rapidly changing trends in ethical values.

As regards tax issues (★3), there have been cases of companies being examined and taxed, and denied tax deductions as a result of differences in opinion with tax authorities. There have also been increasing cases of tax examination and taxation, triggered by a deterioration of performance amid the COVID-19 pandemic, and conversely, of tax authorities taking notice of subsidiaries whose profits have increased due to a rapid recovery in demand (imbalance in profit distribution between the parent company and subsidiaries). Therefore, how headquarters will lead the management of tax risks based on a group-wide outlook is key. In particular, as the IT and software industries tend to have a lower ratio of fixed costs and higher volatility in profits than general businesses, it is important to consider how to allocate profits and manage subsidiary profits also from a tax perspective.





05 Tax



Growing importance of tax risk management.

Taking advantage of active investment incentives and tax policies (★1), while managing the associated tax risks, will be effective in promoting investments in human resources and DX and strengthening R&D.

It is therefore important to clarify who should take on the R&D function as an important source of revenue, and how intangible assets and intellectual property such as patents, know-how, and brands should be built, managed, and utilized, within the supply chain (★2). It is also important to consider transfer pricing strategies (★3) in line with this, for achieving an appropriate allocation of profit within the group. Especially in the IT and software industries, the cross-border use of intangible assets and intellectual property makes companies susceptible to tax-related issues such as transfer pricing, indirect taxes, and digital taxation. It is therefore effective for headquarters to manage tax risk from a holistic perspective.

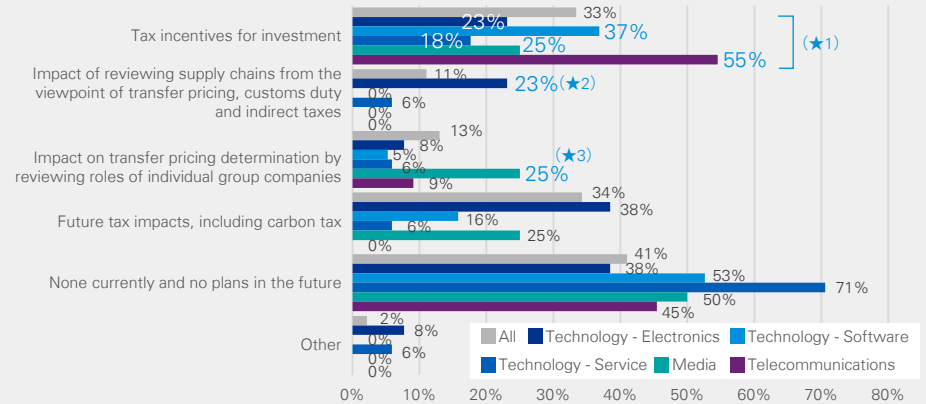


Tax disclosure as tax risk management.

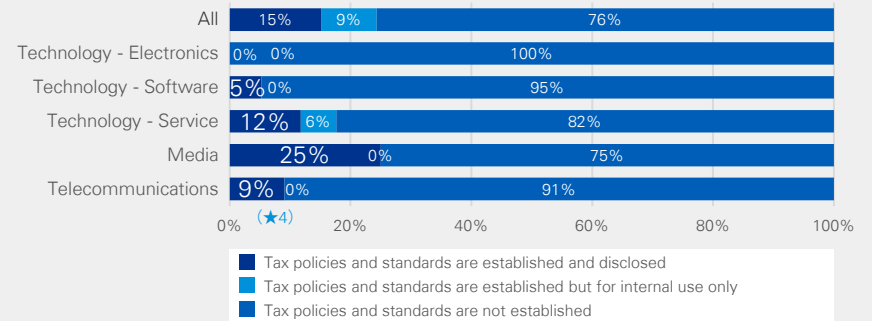
According to statistical data, only about 10% of all companies have clear tax policies and standards (★4). As a recent development, companies need to disclose their tax strategies and tax information (e.g., information by jurisdiction) not only as a tax requirement but also from the perspective of ESG evaluation. Therefore, one key challenge in corporate management is for headquarters to take the lead in disclosing tax information and managing risks based on an understanding of the group's tax strategy and tax information.

To establish a tax risk management system, it is important for companies not only to allocate resources including personnel, but also to develop a common internal infrastructure for collecting and sharing information, and providing feedback in an efficient manner.

Q What are tax-related measures or considerations which you have implemented or plan to implement in line with SX? Please select up to three answers.



Q Does your company have tax policies and standards applying to risk tolerance and tax judgments that are disclosed?





Increasing visualization of tax information.

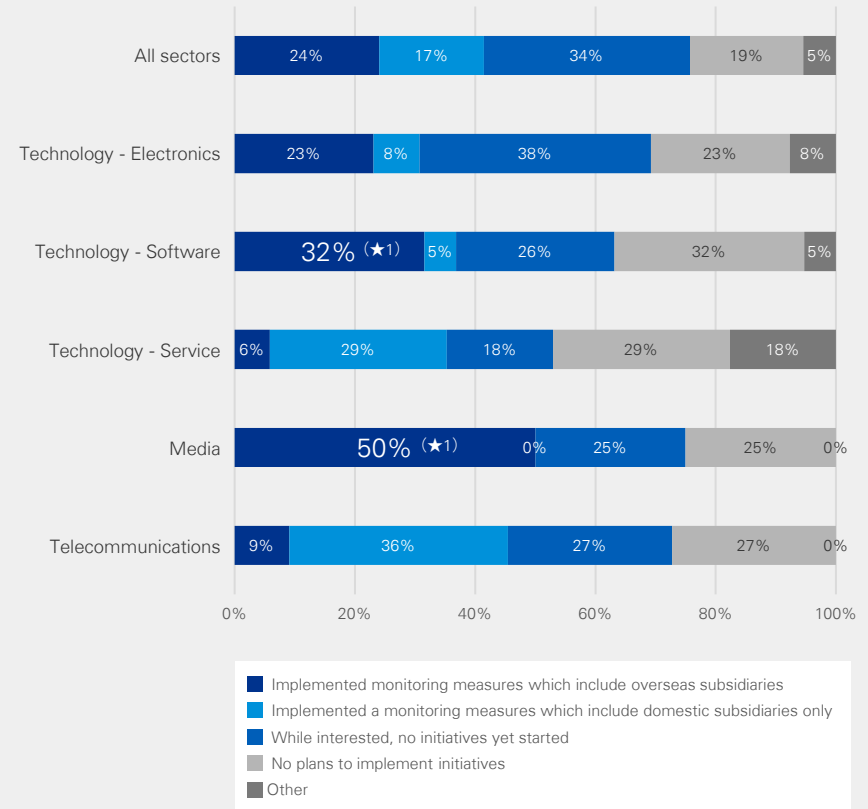
Monitoring tax information of individual group companies is essential for overall risk management. However, we saw cases where monitoring of tax risks of overseas subsidiaries was insufficient, due to tax systems and enforcement varying from country to country.

Against this backdrop, we can see from the statistical data that [tax monitoring is relatively advanced in the media and software industries \(★1\)](#).

Based on interviews KPMG conducted with tax personnel in overseas subsidiaries, we believe this result is attributable to the following facts: Industries in the TMT sector, such as media, software, IT and technology, had fewer physical restrictions, making the remote handling of tax issues and information sharing easier; and the establishment of internal infrastructure and systems for the sharing of tax and financial information was relatively advanced. Another reason for advanced visualization is the initial high level of interest in overseas taxation trends, due to expectations that those industries would be most affected by digital taxation (BEPS 2.0).

Meanwhile, Japanese companies have probably not made as much progress as expected in managing tax risks and strengthening tax governance compared to their European and U.S. counterparts, and initiatives for effective management will remain an issue.

Q Which statement best describes the status of initiatives for visualizing your group companies' tax information?





06

Comprehensive Reporting Including Non-financial Information Practical Issues for Sustainability Reporting



Sustainability should be addressed as a management issue.

We found that companies in this sector also face challenges in terms of [the lack of proactive discussions regarding sustainability issues at the board of director level \(★1\)](#) and [integrating material sustainability issues in their strategy \(★2\)](#).

We can infer that this is because individual companies still do not integrate sustainability-related issues into business strategies as a management issue. They are treated separately as special issues, and are not managed using the same PDCA cycle as regular business operations.

This is also related to the fact that many TMT companies still think that sustainability measures are not sufficiently connected with corporate value creation. In light of the certain degree of success that technology companies have achieved globally, to enhance corporate value through initiatives on sustainability issues, we believe it is important for companies to incorporate such issues into their companywide strategy, and for management to proactively work toward achieving this strategy, while communicating it in their own words.



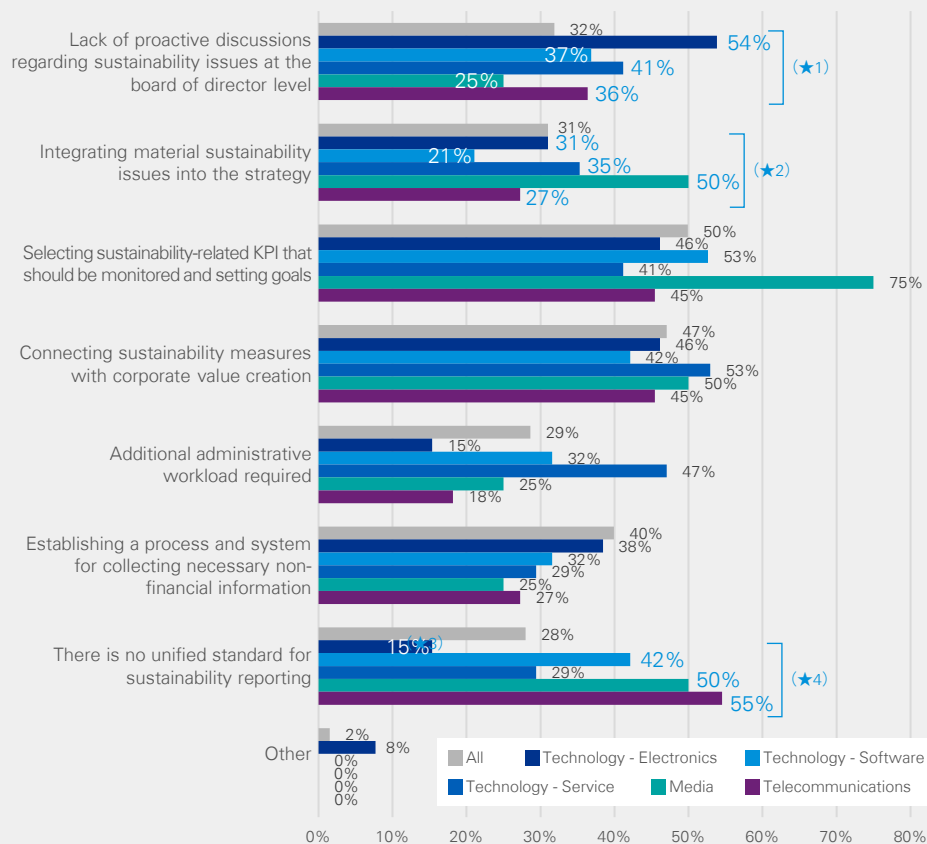
Quantification of non-financial information is a pressing issue.

With regard to disclosure and reporting, there was a high level of awareness that [there is no unified standard for sustainability reporting](#).

It appears that [electronics companies are making progress in this area \(★3\)](#), also at a global level. In contrast, we can infer that [companies in software, media, and telecommunications are not sure what to disclose and to what extent \(★4\)](#). The fact that they view this as an issue may be indicative of their commitment to take appropriate measures in the area of disclosure and reporting.

The need for disclosure will likely heighten with the increasing impact of non-financial information, including ESG information, on corporate value. While climate change and other risks are disclosed as part of non-financial information, in the future companies will be required to integrate this information with financial information disclosure, and to make non-financial information more sophisticated, such as through quantification.

What are the top three issues in preparing comprehensive reports which interconnect sustainability information with financial information?





07 Accounting and Finance



Moves toward strengthening cash management and capital efficiency.

The firm intention to undertake cash management measures that was revealed in last year’s survey among technology companies whose supply chains were damaged by COVID-19, appears to have now calmed down. Compared to overall results, the survey also reveals a particularly high level of willingness among companies to **strengthen financial governance, strengthen fund management of subsidiaries, and review levels of cash and deposits (★1)**.

This trend was also observed among telecommunications companies, but this is presumably due to the move to raise funds for 5G investment.

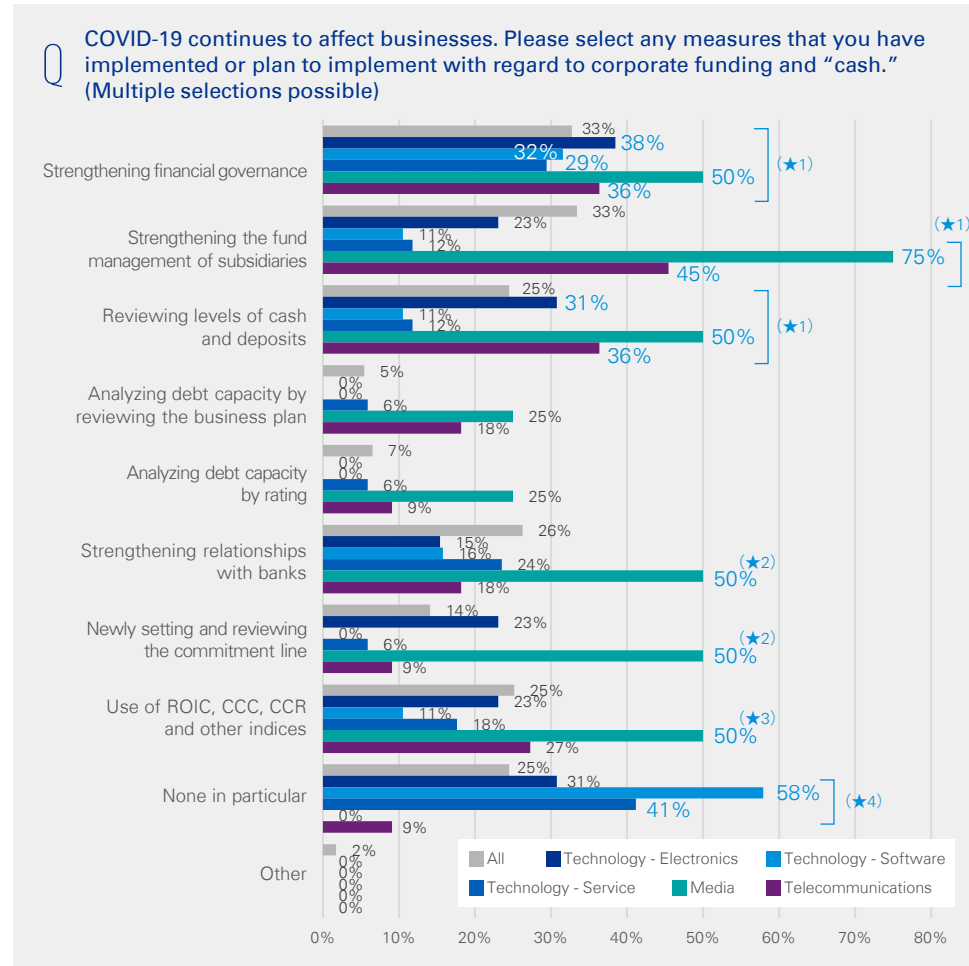
In addition, media companies show a high level of willingness to **strengthen relationships with their banks and to set new or revised commitment lines (★2)**. This is probably a reflection of the need to secure cash and improve financial stability among companies affected by COVID-19, such as traditional entertainment businesses and TV, newspaper, radio, and advertising agencies.

The survey also found that such companies were **twice as likely compared to overall results to use ROIC, CCC, CCR, and other indices (★3)**, which is indicative of their greater emphasis on capital efficiency in the wake of COVID-19.



Strongly performing companies maintaining the status quo.

Approximately 40% of companies in the software and technology services responded, “none in particular” (★4). This may be because there are also many companies that are performing well as a result of COVID-19.





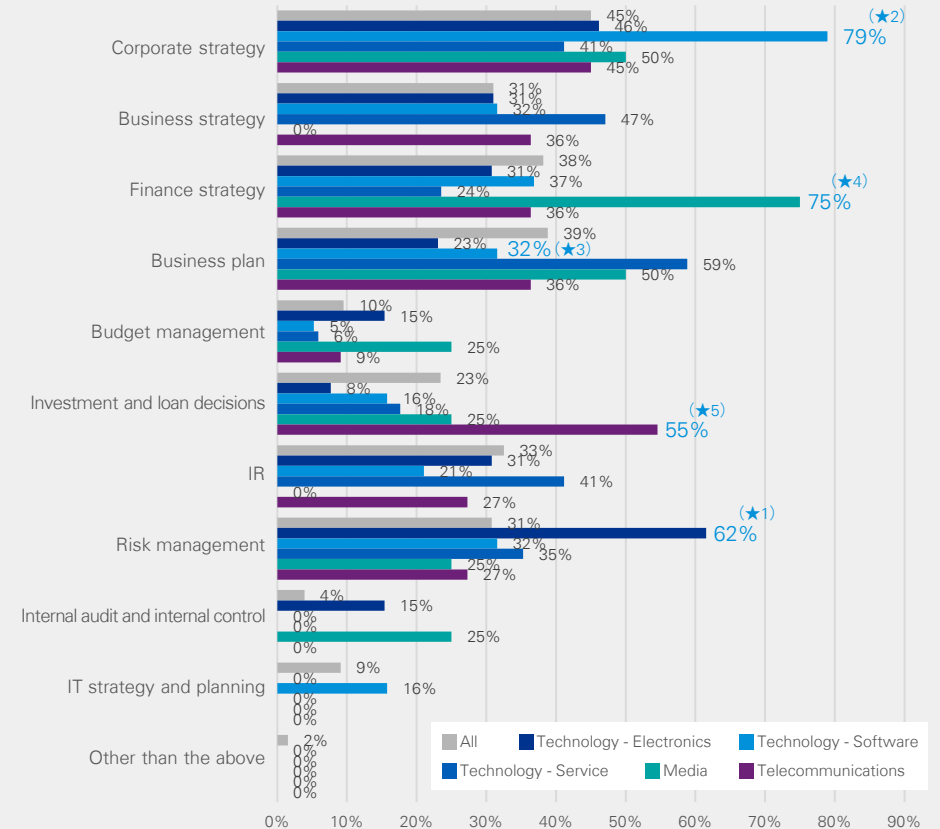
07 Accounting and Finance



The area of CFO responsibility that each subsector considers most important clearly reflects the background and issues facing respective subsectors.

Subsector	Important area	TMT sector insights
Technology - Electronics	Risk management (★1)	Electronics companies that face global competition and have extensive supply chains consider risk management as an important area, which is consistent with their high level of concern for climate change, decarbonization, and environment-related risks.
Technology - Software	Corporate strategy (★2)	Tend to have a lower ratio of fixed costs and higher volatility in profits, and face cross-border issues such as transfer pricing taxation, indirect taxes such as VAT, and digital taxation. Corporate governance, including tax strategy, is considered important.
Technology - Services	Management plan (★3)	Technology companies that have achieved a certain degree of success globally treat sustainability as a management issue, which is indicative of management's willingness to proactively work toward addressing sustainability issues in order to improve their own corporate value.
Media	Finance strategy (★4)	Consistent with the firm intention of media companies to strengthen relationships with banks, set new and revised commitment lines, and utilize ROIC, CCC, CCR and other indices.
Communications	Investment and loan decisions (★5)	We can infer that this is attributable to the fact that the intense rush of telecommunications companies into non-telecom businesses through M&A has slowed down, and companies have now reached a plateau from which they can look toward reaping the benefits of their investments. The trend of selling non-telecom businesses to invest in 5G also suggests this.

It is expected that management decisions driven by the linkage between financial and non-financial information will increase as the company makes progress towards SX. Of all areas that the CFO is responsible for, please select up to three areas that are considered to be of greater importance.

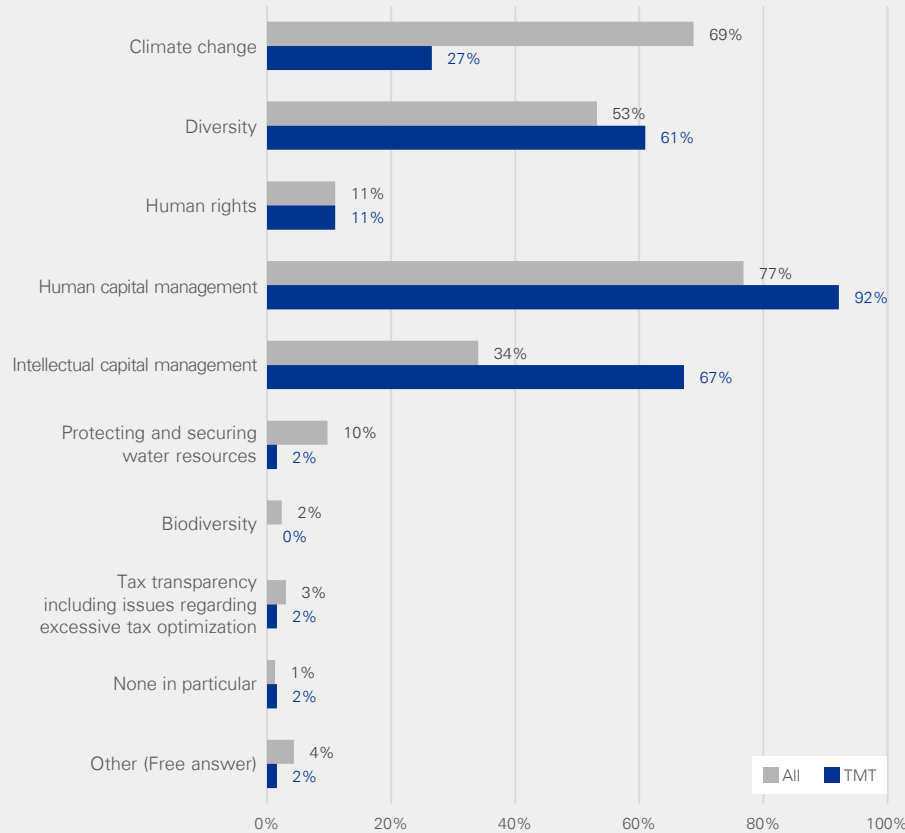




Survey responses

1.Introduction

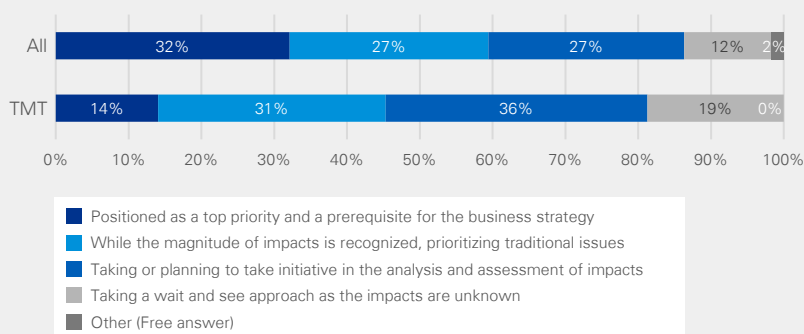
Q What are the top three sustainability-related issues that you think will greatly impact your corporate value at present or in the future?



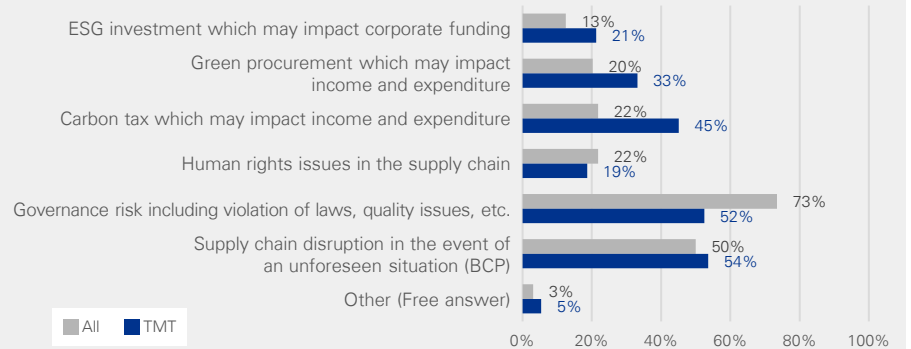
All: All Sectors
TMT: Technology, Media & Telecommunications Sector

2. Business strategy

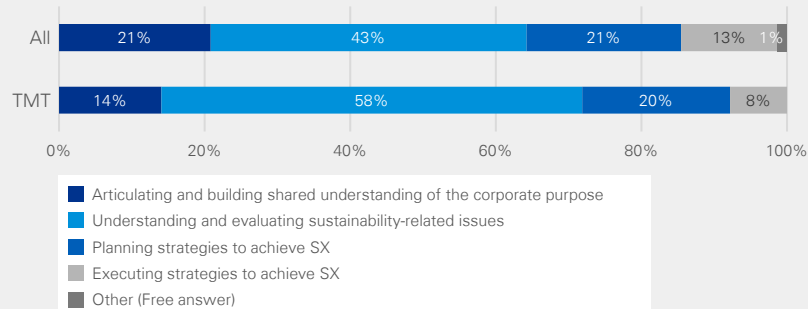
Which statement best reflects the positioning of SX within your company's management issues?



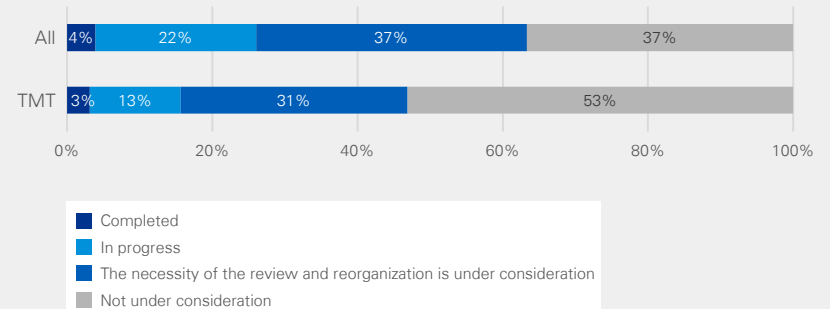
What are the top three concerns which you think will have a major impact on your company's current business strategy?



What is the most critical issue your company faces in promoting SX?

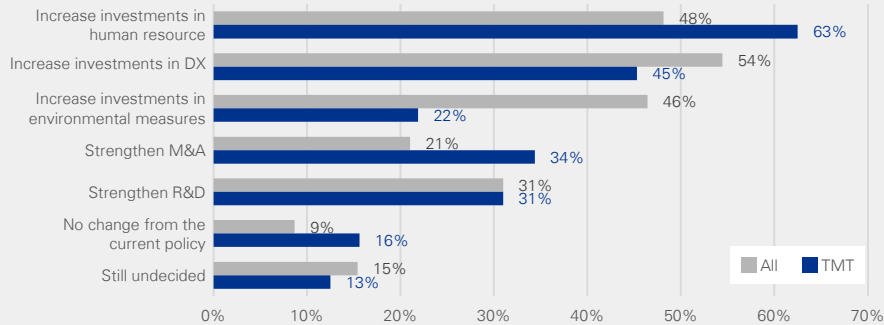


What is the status of reviewing and reorganizing the business portfolio on the premise of SX?

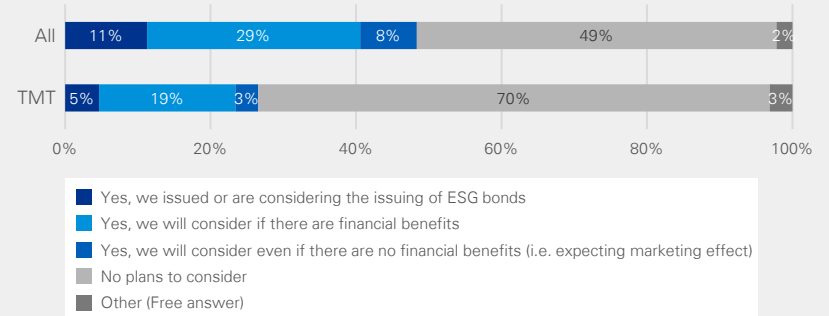


3.Capital policy and corporate funding

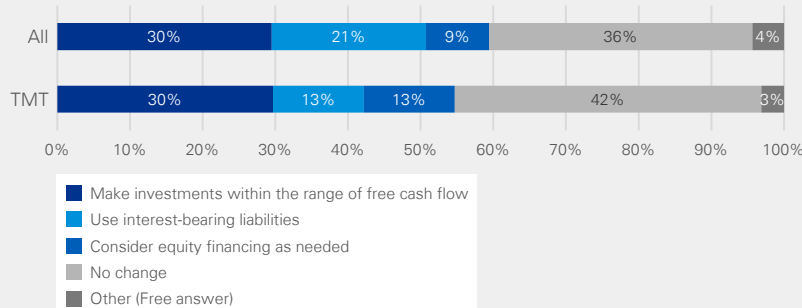
Q How will you change your investment strategy in promoting SX? Please select up to three answers.



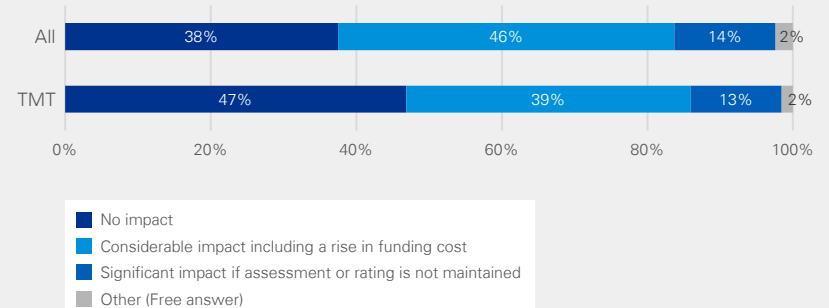
Q Will you utilize ESG bonds in line with SX?



Q How will you change your means of corporate funding in line with SX?

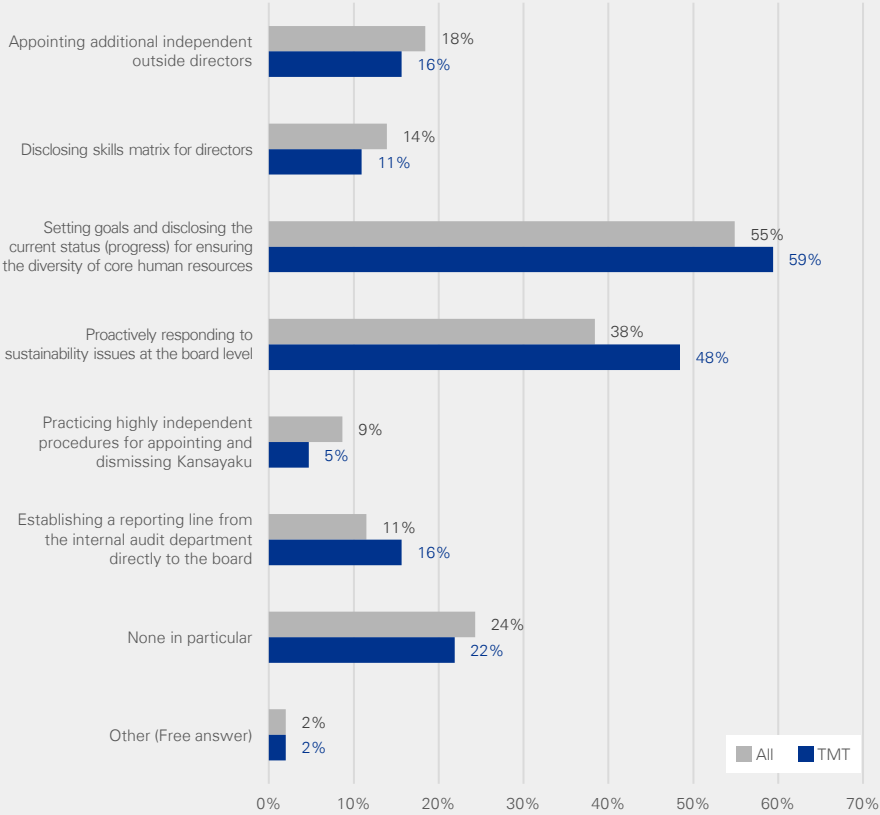


Q To what extent do you think ESG assessments and ratings will affect corporate funding excluding ESG bonds in the future?

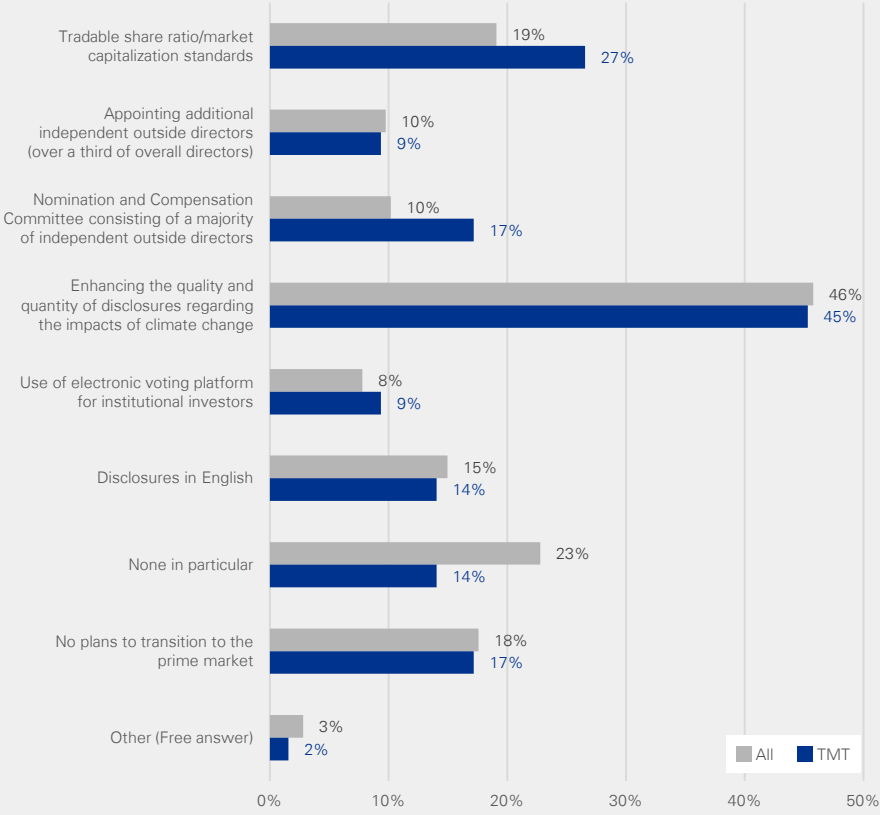


4. Governance

The revised Corporate Governance Code published in June 2021 incorporated some SX related matters in its principles. What are the top three items additionally incorporated in this revision which you feel are challenging to address?

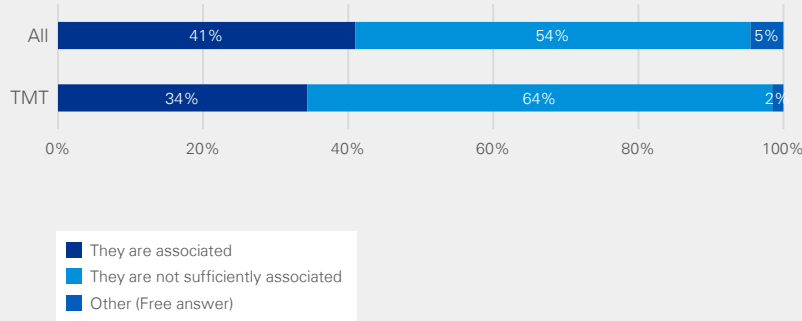


What are the top three criteria which you expect to be challenging when transitioning to the prime market?

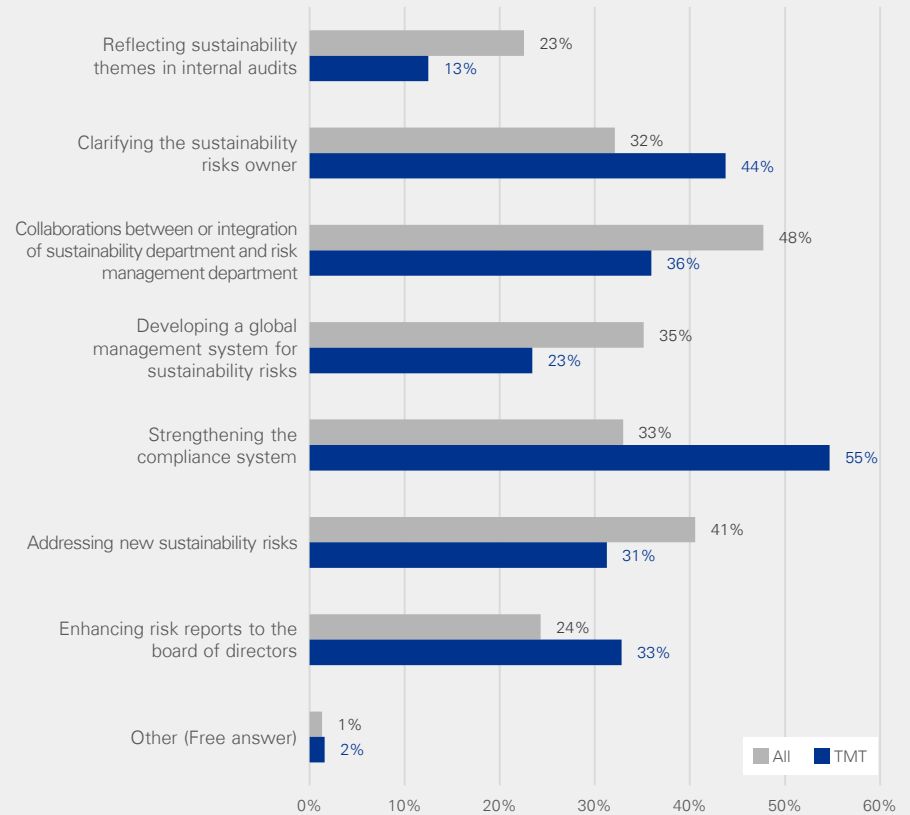


5. Risk management

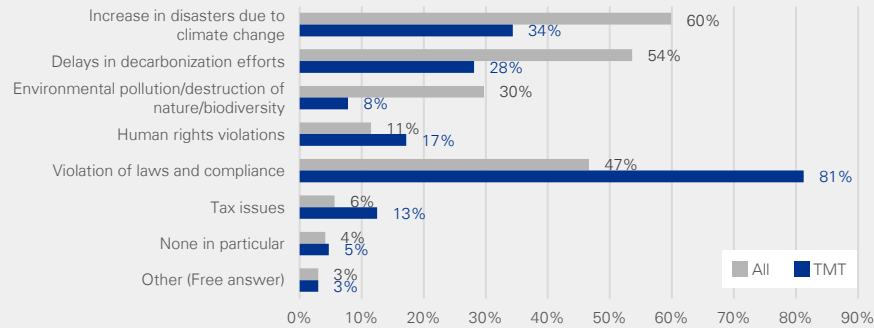
Q Are the risk management activities of your company designed and executed in association with material sustainability issues?



Q What are the top three initiatives in relation to the risk management system which you think are particularly necessary in proceeding with SX?

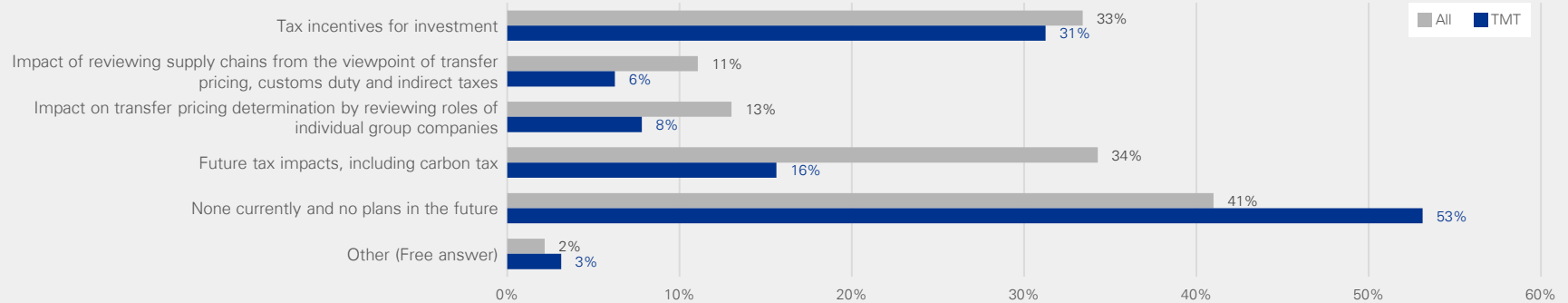


Q What are the top three sustainability-related risks that are of particular concern in relation to your business operations?

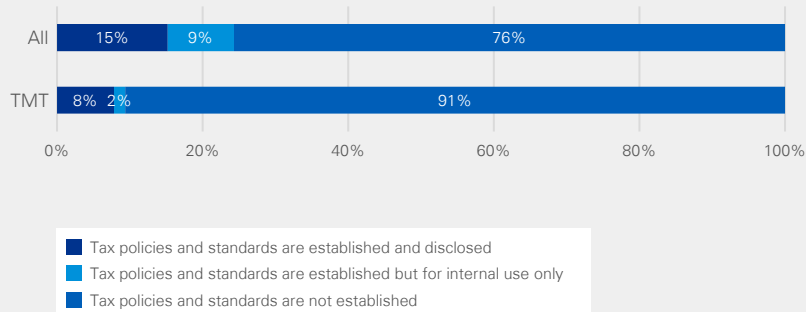


6.Tax

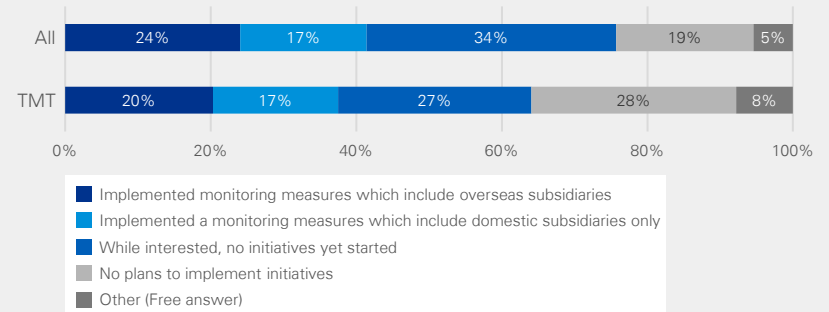
Q What are tax-related measures or considerations which you have implemented or plan to implement in line with SX? Please select up to three answers.



Q Does your company have tax policies and standards applying to risk tolerance and tax judgments that are disclosed?

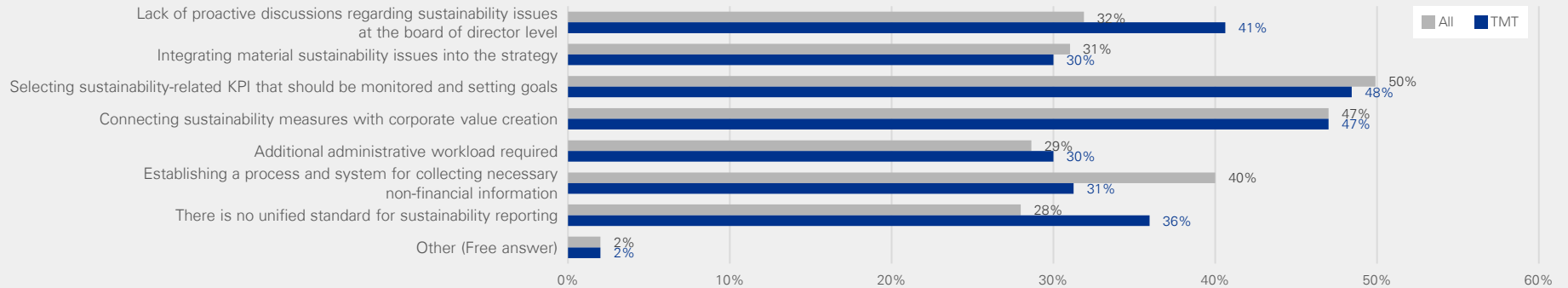


Q Which statement best describes the status of initiatives for visualizing your group companies' tax information?

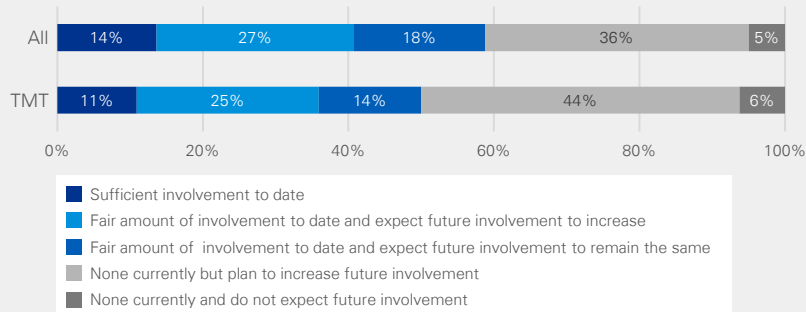


7. Comprehensive corporate report including non-financial information

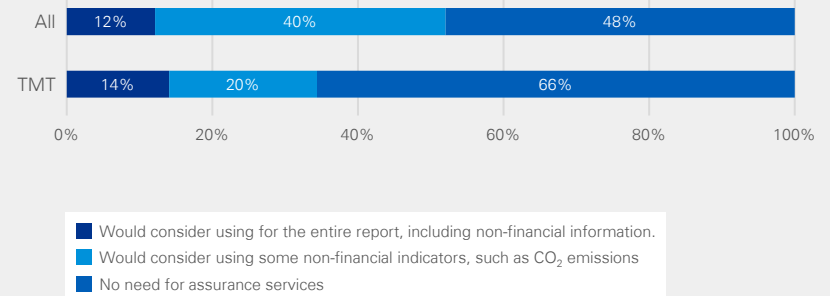
Q What are the top three issues in preparing comprehensive reports which interconnect sustainability information with financial information?



Q What is the current level of CFO involvement in sustainability reporting?

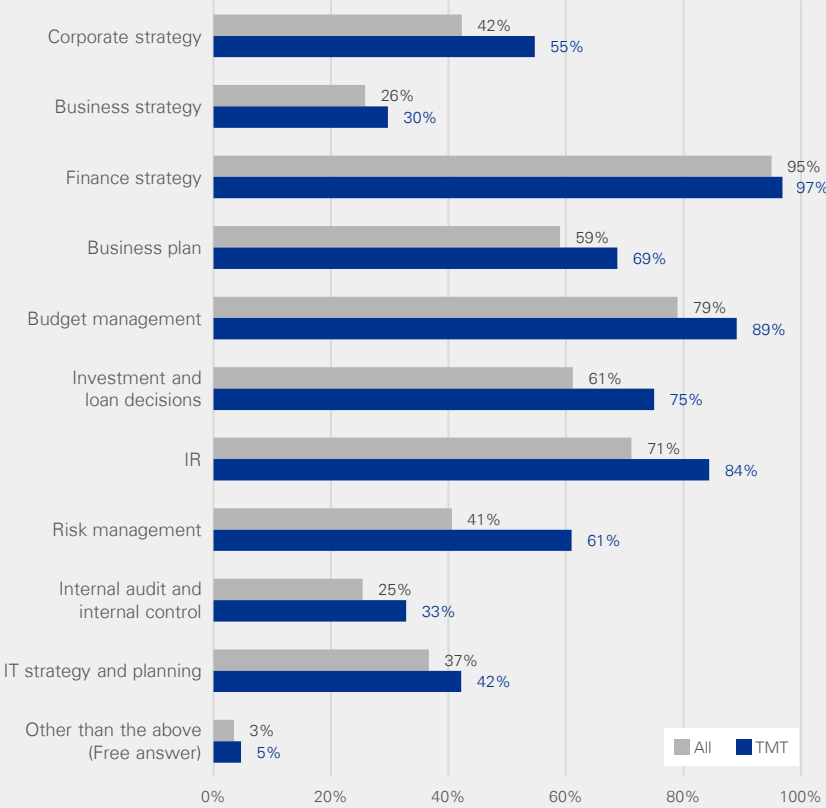


Q What are your views on using assurance services from the viewpoint of improving the reliability of sustainability-related information?

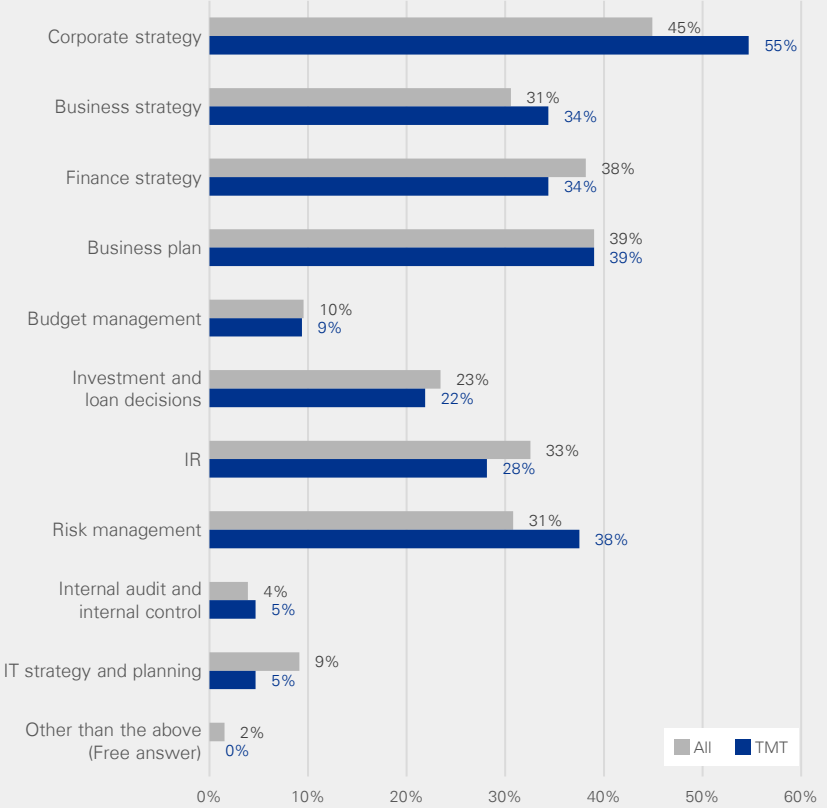


8.Accounting and finance (1)

Please select all business area for which the CFO is currently responsible. (Multiple choice possible)

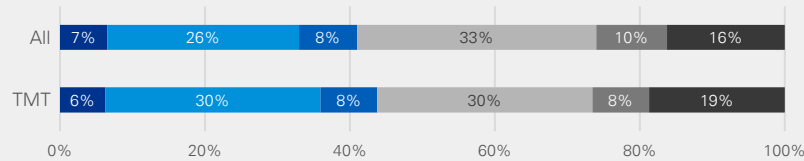


It is expected that management decisions driven by the linkage between financial and non-financial information will increase as the company makes progress towards SX. Of all areas that the CFO is responsible for, please select up to three areas that are considered to be of greater importance.



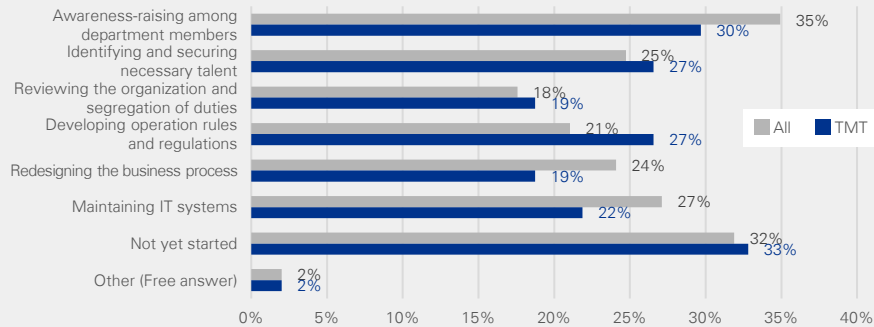
8.Accounting and finance (2)

Please select the statement reflecting the current accounting and finance department structure and capability in terms of promoting SX in the future.

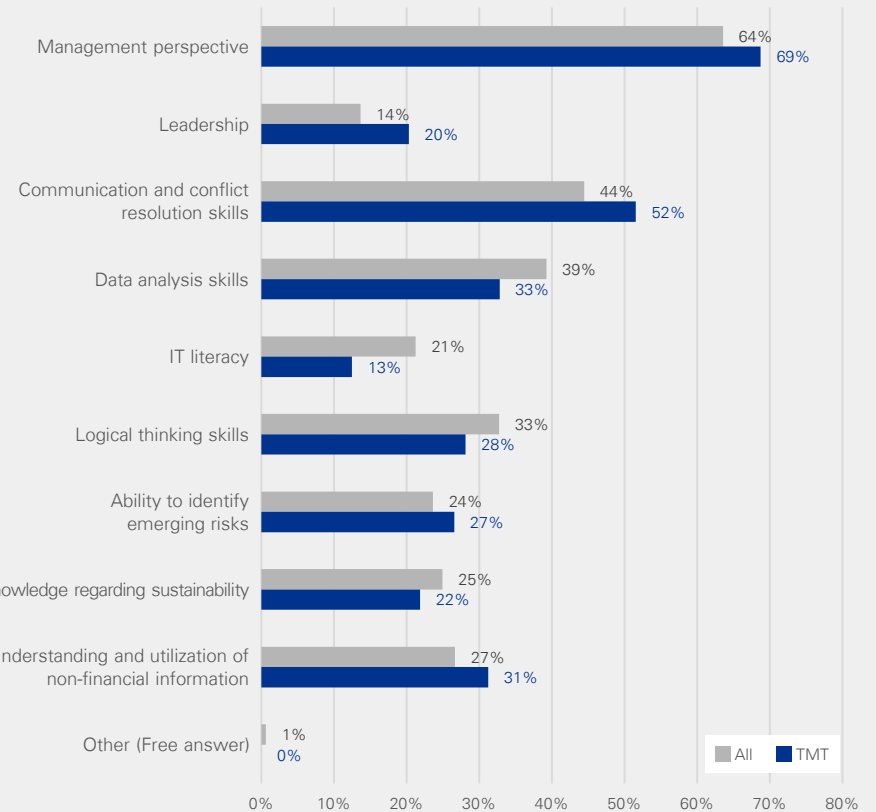


■ Current structure and capability is sufficient
■ Some improvement needed, and improvements being implemented
■ Drastic improvement needed, and improvements being implemented
■ Some improvement needed, but improvements not yet implemented
■ Drastic improvement needed, but improvements not yet implemented
■ Have not evaluated

Please select the items that have been or are being addressed for improvement activities in the accounting and finance department for the promotion of SX.

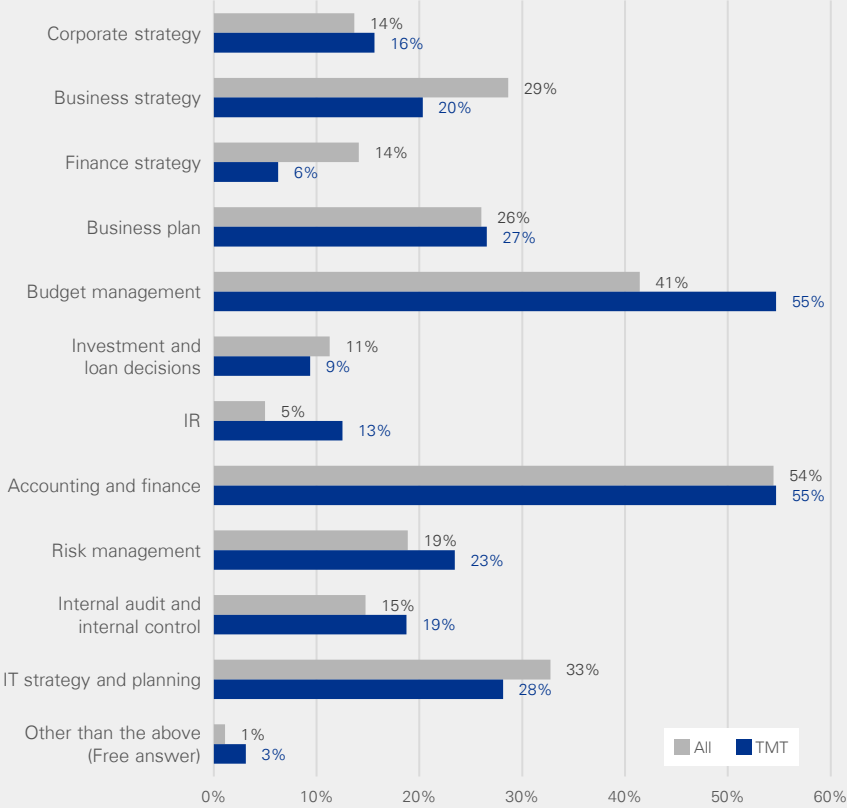


Please select up to three applicable items with regard to human resources and skills required for the accounting and finance department in the future.



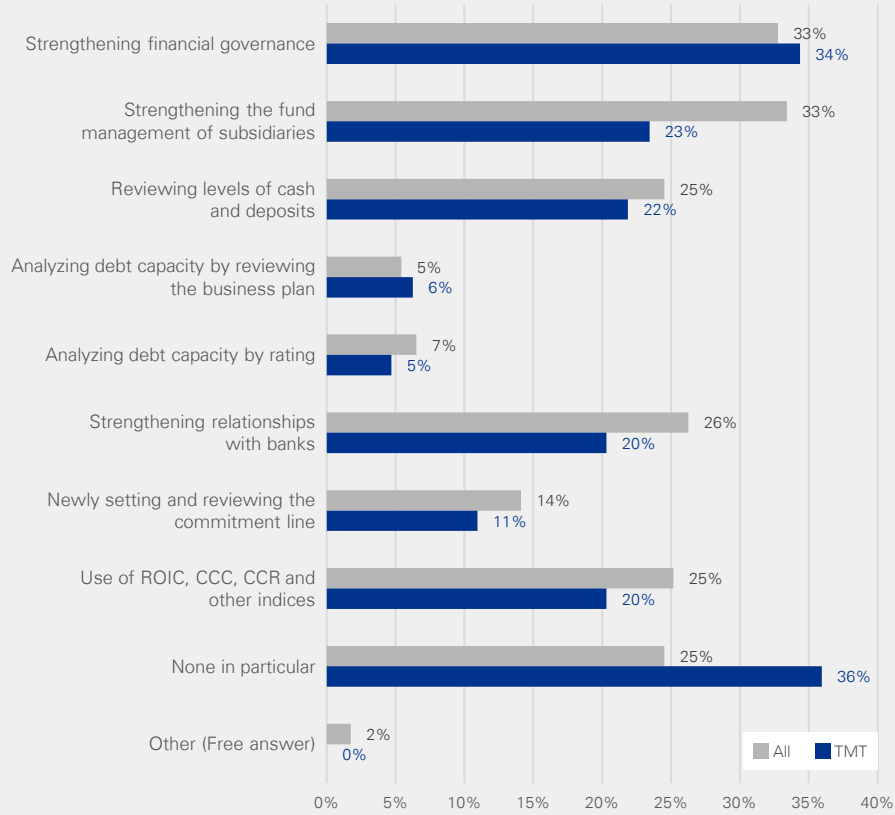
8.Accounting and finance (3)

In view of SX promotion in the future, please select three areas for which you think digital utilization will be more necessary than ever before.

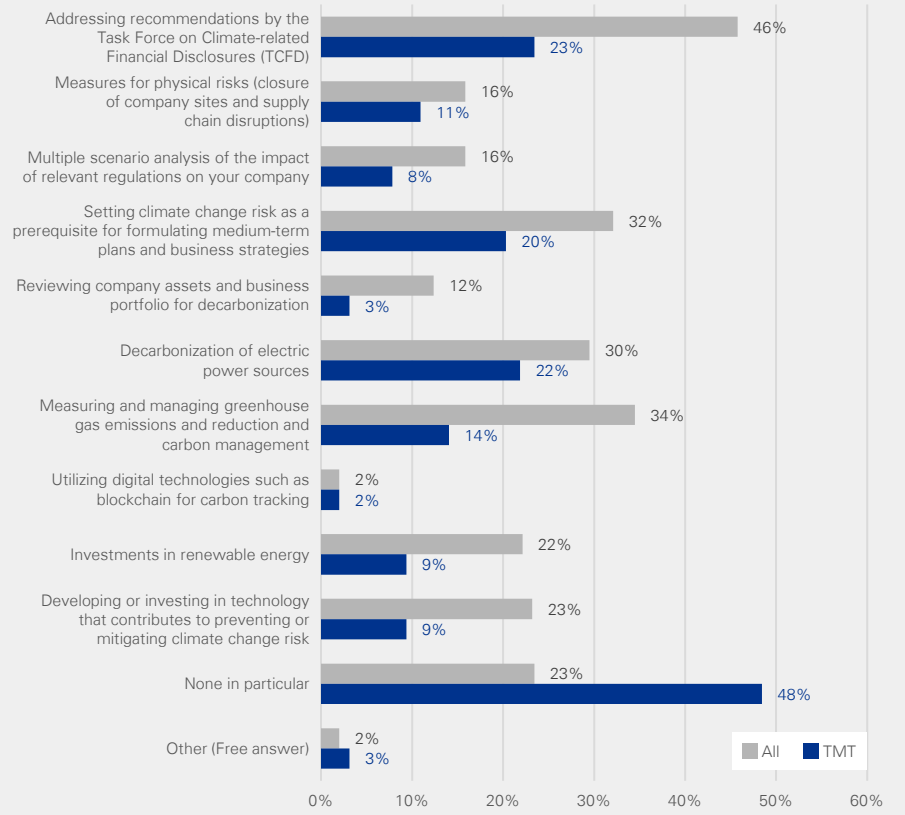


9.COVID-19

COVID-19 continues to affect businesses. Please select any measures that you have implemented or plan to implement with regard to corporate funding and "cash." (Multiple selections possible)

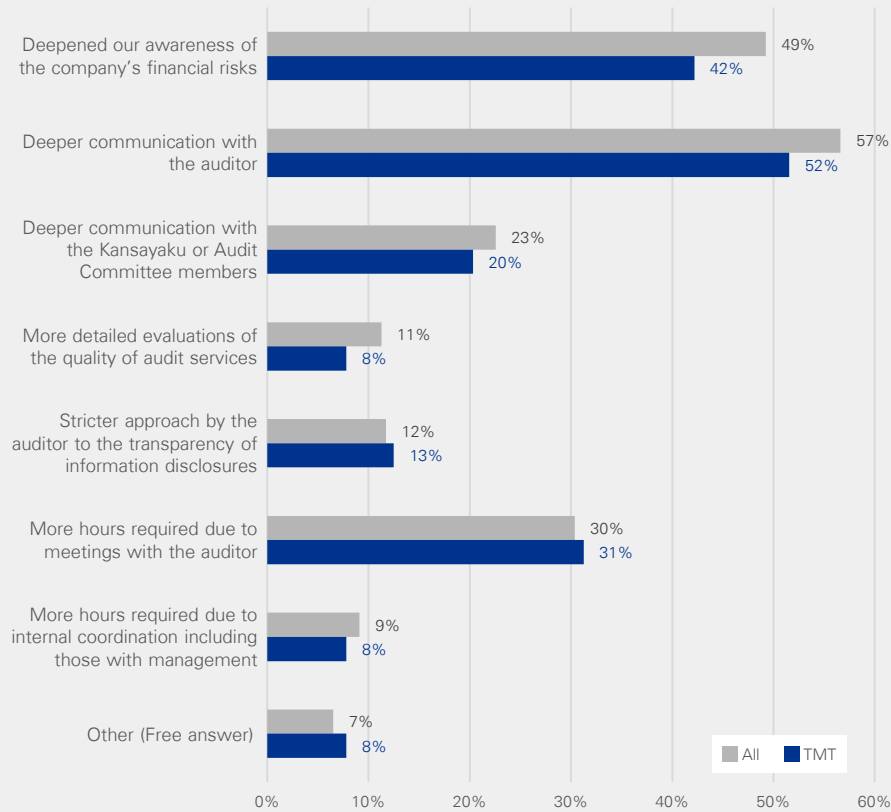


Please select all applicable measures that you have implemented or plan to implement in terms of dealing with climate change risk, which is receiving increasing attention from the market due to COVID-19. (Multiple selections are possible)



10.KAM introduction

What are the top three effects of KAM introduction you recognize?



Presentation of survey results as a ratio
 Survey results as a ratio are rounded to the nearest first decimal place and may not add up to 100 percent.



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