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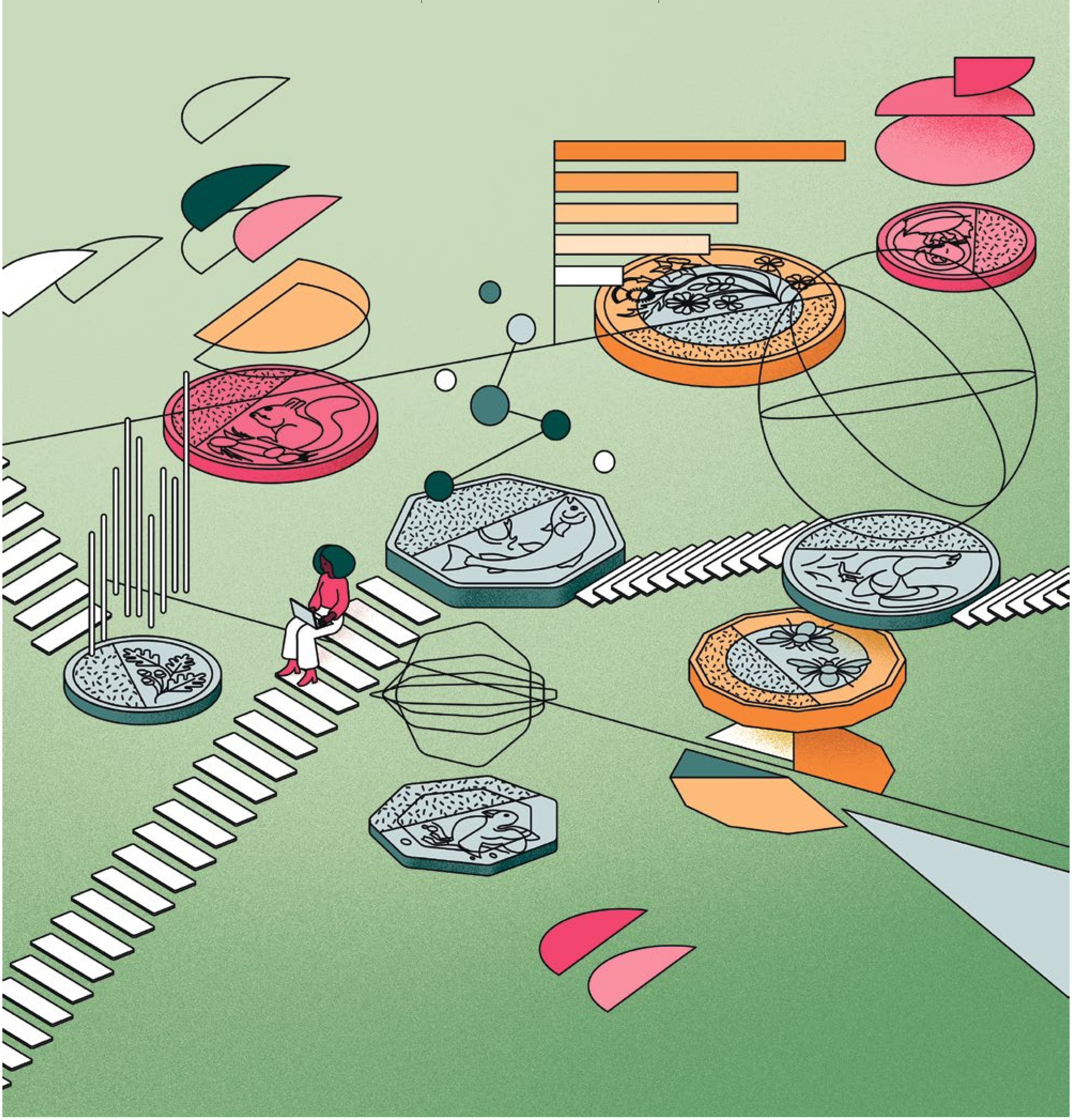
THE STRATEGIC CFO



THE STRATEGIC CFO

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Contributors

Fiona Bond
A freelance journalist covering all areas of finance and investing including personal finance, she is the former commodities editor at *Interactive Investor*.

Daniel Thomas
A writer and editor, with work published in *The Telegraph*, *Newsweek*, *Fund Strategy* and *EducationInvestor*, among other publications.

Ben Edwards
A freelance journalist specialising in finance, business, law and technology with more than a decade of editorial and commercial writing experience.

Raconteur

Special projects editor
Ian Deering

Commercial content editors
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Larnie Hur

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BUSINESS STRATEGY

Taxing times: how finance leaders cope with tight budgets

Where are tax and finance leaders feeling the pinch? What does it mean for their transformation plans and how can they balance cost-cutting with investment?

Fiona Bond

Confronted with economic uncertainty, fluctuating markets and rising costs, today's finance leaders face a precarious balancing act. They must navigate budget constraints while continuing to fulfil the business's strategic goals.

It is by no means the first time that businesses have had to contend with a challenging environment: few could forget the 2008 global financial crisis, which saw banks around the world collapse. But for many CFOs, who are increasingly relied upon to act as architects of business growth and resilience, the stakes today may feel higher.

According to NatWest, three in five business owners dubbed 2023 one of their most challenging years to date. Against this backdrop, finance leaders are finding it difficult to meet their growing responsibilities. According to the *EY 2024 Tax and Finance Operations Survey*, 43% of finance and tax leaders cited a lack of budget as the biggest barrier preventing their tax and finance functions from delivering their purpose and vision. It marks the first time in the survey's history that cost has been a leading challenge in this area.

With businesses facing rising labour costs, higher energy bills and ongoing supply chain uncertainty, many are opting to focus sharply on budget efficiency rather than pass additional costs onto customers.

To weather the storm, finance leaders must evaluate the importance of potential projects, weighing long-term value against short-term cost. In the past, CFOs often took a piecemeal approach to making cuts, with little consideration for the bigger picture. But today's CFOs are taking a more holistic approach. For many, the need to balance strategic cost-cutting and investment has become a fraught but essential task.

"Balancing the budget and investing in the finance function is a challenge, so you need to be very deliberate about what would benefit the finance team and the value it would bring the wider business," says Christoph Martin, CFO of PensionBee.

Martin says finance leaders need to have a deep understanding of what the team is required to deliver to meet both the organisation's strategic goals and the expectations of individual team members.

"Strong leadership is critical, particularly through more challenging periods," says Martin. "Leaders should carefully go through the budget and prioritise those needs, then look at what is left over and work out what would bring the greatest value to the finance team. If there is a good investment that would add significant long-term value - in technology or staff training, for example - leaders need to clearly articulate their business case, demonstrating the revenue growth it will generate.


PeopleImages via iStock

"Ultimately, finance leaders must take the view that it is an investment rather than an expense."

Heather Hopkins, founder and managing director of NextWealth, agrees.

"Navigating budgets and prioritising operational resilience is a balancing act. I try to ensure that every investment we make, whether it is in technology, people or infrastructure, contributes to the long-term growth and stability of the business," she says.

Hopkins approaches budgeting with a clear focus on the business's recurring revenue streams to ensure resilience over time. "We focus on projects that add value in the long run, not just in a short-term budget cycle," she adds.

Operating under the adage 'less is more' is no easy feat for finance leaders, particularly with the growing demands placed upon the finance function. Long gone are the days when finance was relegated to back-office administration. Today, CFOs are expected to act as strategic advisers to the CEO, responsible for enhancing operational efficiency and maintaining a competitive advantage.

However, unlike their predecessors, modern CFOs have one significant advantage: access to technology that can streamline processes. By coupling technological automation with real-time KPIs that hold individual corporate and operational functions to account, businesses can accelerate performance results against tighter budgets. In turn, these real-time insights can also enable management teams to make more informed and impactful decisions.

Unsurprisingly, interest in tech-driven solutions is surging. EY reported that one in three finance leaders believe utilising technology to drive increased automation and insight will be the most effective way to reduce the cost of their tax function while maintaining quality.

Strategic investments in these core areas can yield significant benefits at a fraction of the cost and time required for a full-scale transformation. However, to maximise this impact, finance teams must plan thoroughly and lay effective foundations for sustainable performance improvements.

Martin agrees that prioritising investments in smart technology can be a valuable addition in the long term.

"By automating manual tasks, finance leaders create more time for their team to focus on strategic projects that will add long-term value to the business," he explains.

CFOs are increasingly outsourcing certain elements. This is hardly surprising given the speed at which CFO responsibilities have changed and developments in technology and operational structures.

More than half (53%) of CFOs, finance executives and financial controllers surveyed by EY currently co-source their transactional accounting capabilities from a third-party provider, while 63% do so for statutory reporting.

The move towards outsourcing and co-sourcing also comes amid talent shortages, with 27% of finance and tax leaders admitting the inability to hire and retain the required talent is hindering their finance function from fulfilling its purpose. Outsourcing provides finance leaders with access to a vast talent pool and the ability to ramp up or scale back work as needed, offering greater financial flexibility. At the same time, CFOs can redirect their teams' knowledge and skills to more value-adding initiatives and projects that benefit business growth.

Navigating tighter budgets can be a turbulent experience, but adopting a holistic, strategic approach ensures that the finance function is much more likely to weather the storm intact. ●

49%
of tax and finance leaders selected effective management of tax function budgets/spend in their top three priorities for the tax function over the next three years

43%
of tax and finance leaders said lack of budget was the biggest barrier preventing their tax and finance function from delivering their purpose and vision

EY, 2024

FINANCE TRANSFORMATION

What does it take to train a modern finance team?

How finance leaders can prepare their teams to cope with modern demands


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Fiona Bond

Between economic headwinds, technological advancements and keeping pace with regulatory and competitive changes, business leaders have plenty to keep them busy. CFOs are increasingly being called upon to deliver a level of strategic leadership that sits well beyond their traditional role as number crunchers. Against this backdrop, a strong, well-functioning finance team has never been so important.

That is not to say that finance teams are renouncing their core financial management skills: budgeting, financial acumen and risk management remain critical. But the foresight to spot opportunities and steer the business through volatility and change means CFOs and their teams need to balance these with new skills, including strategic thinking, adaptability, strong communication and technological prowess.

Getting the balance right, however, is not without its challenges. According to the *EY 2024 Tax and Finance Operations Survey*, nearly half (47%) of CFOs and tax leaders struggle with training talent. To overcome this hurdle, finance leaders need to rethink their approach to upskilling staff and foster a culture of continuous learning and development.

One of the first steps CFOs must take in plugging the skills gap is to drill down into the needs of the business, says Christoph Martin, CFO of PensionBee.

"Finance leaders need to ask themselves what the strategic goals of the business are. For example, are they looking for private funding or is the company preparing for an IPO? Understanding exactly what the business is seeking to achieve in the future will inform what skills the team needs going forward," he explains.

Once the strategic vision of the business is clear, there are a few training methods businesses can use to build skills. Almost half (49%) of CFOs and tax leaders surveyed by EY said training sessions from external accounting or law firms had the biggest impact on developing their people, while 38% believe participating in tax policy groups has the greatest effect.

As finance leaders look to future-proof their teams, they will increasingly need to employ and nurture skills beyond those traditionally associated with finance. According to EY, 39% of respondents cited data management as the most important skill they are seeking to develop over the next three years, while 31% cited tech skills.

Scott Hofmann, chief revenue officer at GFT USA, says: "Financial leaders intimately understand that solid data foundations are not only necessary for evolving beyond the legacy technologies that have held them down all these years but also for futureproofing their organisations. Solid data foundations set them up to introduce even more advanced technologies going forward."

Similarly, the importance of strong communication skills is gathering pace. Finance professionals need to be able to relay complex information to non-financial peers and be compelling storytellers, capable of inspiring confidence and trust among stakeholders, senior leadership and customers. Fortunately, people don't need to be born with soft skills. Executive leadership courses, networking and mentoring opportunities can all be a great way to build these abilities.

Bringing together a diverse team can also support development. Catherine Birkett, CFO at GoCardless, agrees that hiring a pipeline of diverse candidates is integral to building a modern finance team. "This includes gender and ethnicity but also diversity of experience," says Birkett. "By having a mix of people, we bring different viewpoints to our team and the wider business, helping us to make better and more informed decisions overall."

However, a truly successful training programme should not be solely dictated by leaders but guided by employees themselves, say experts.

Martin explains: "Listening to your team is so important. Honest, open and transparent communication around what the individual wants to achieve is paramount to creating a successful team. It may be that they want to develop their leadership skills, have greater autonomy or develop more insight into other areas of the business.

> **Finance leaders need to ask themselves what the strategic goals of the business are**

"Having that clarity allows leaders to help align talent expectations with business objectives," he adds.

For Martin, on-the-job learning is one of the best ways to equip team members with the skills needed to succeed.

"Where we can, we hire internally as it means the person is familiar with the culture and how we do things. We choose to mentor team members ourselves, sitting alongside them and guiding them through real-life situations," explains Martin.

The ability to share experience and knowledge first-hand creates a feedback loop which can be "really insightful and helpful in making the most of their training", says Martin.

Another approach is cross-business collaboration, rotating staff into different parts of the business and inviting them to join in meetings with other departments.

Birkett says that providing exposure to wider elements of the business creates a solid training ground.

"The team must have the right context to support the business. That's why we give everyone, especially those early in their careers, plenty of opportunities to attend commercial discussions in the areas they look after. This helps them to learn what the business truly needs and how any data or analysis they're producing impacts decisions," she explains.

There is a growing expectation that finance teams should possess the skills to capitalise on new technologies. A combination of digital education and an element of 'jumping in headfirst' can help train teams for the changing landscape.

Xavier Rebeuf, chief product and technology officer at SBS, says that to overcome scepticism or change fatigue around new tech, providing hands-on training is crucial to demonstrate benefits.

"To address concerns – which hinder employees' career evolution and their organisations' transformation – finance leaders are turning to exercises that build trust between teams and technology. One exercise involves asking an individual to complete a task manually while a digital tool completes the same task and then comparing the results. This ultimately builds confidence in new technologies."

It is abundantly clear that skills gaps, if left unaddressed, can hinder a finance team's ability to rise and adapt to new challenges. In a fast-paced world, creating a culture of continuous learning will ensure businesses stay one step ahead. ●

TAX AND FINANCE LEADERS FACE MULTIPLE TALENT CHALLENGES

Which of the following aspects of talent does your tax function struggle with today?

EY, 2024

SUSTAINABILITY

Sustainability must be a strategic priority for finance leaders

Tax and finance professionals have a crucial role to play in integrating environmental considerations into corporate strategies

Dan Thomas

As any C-suite executive will tell you, no modern corporate strategy is complete until it has been scrutinised through the lens of sustainability. Not only does embedding sustainability at the heart of operations make good business sense, but it also helps companies comply with the growing raft of global sustainability reporting requirements. These require firms to set clear and measurable environmental goals that hold them accountable to stakeholders.

Tax and finance professionals play a crucial role in helping firms meet these objectives by devising greener business strategies and facilitating the reporting of environmental impact data.

Yet their work depends heavily on board-level support, close cooperation with other departments and effective companywide data management processes. Too often, these areas are lacking, making it harder for organisations to keep up with ESG regulations.

Mauro Cozzi is co-founder and chief executive of Emitwise, a carbon management software platform that helps firms reach net zero. One of the most important roles tax and finance leaders can play is in helping firms ensure that business strategies align with ESG goals, he says.

That might involve reviewing all finance activity against green criteria, promoting sustainable practices across the business's operations and supply chains, or sourcing funding options for green initiatives.

"For instance, they can allocate budgets for purchasing renewable energy or establish plans to enable procurement teams to pay a premium for greener products and services from sustainable suppliers," he says.

Tax and finance leaders also play a crucial role in helping the business conduct regular environmental impact assessments to share with regulators.

Under the EU's Corporate Sustainability Reporting Directive (CSRD) or the UK's Streamlined Energy and Carbon Reporting (SECR) and Task Force on Climate-Related Financial Disclosures (TCFD) frameworks, every big firm must now publish regular updates on their progress towards meeting their stated environmental goals. Failure to comply can lead to fines and significant reputational damage in an age when consumers expect businesses to behave with integrity.

Finance leaders are uniquely positioned to assist with data collection and governance because they typically manage procurement data, which is essential for accurately calculating supply chain emissions.

"By ensuring precise data collection and governance, finance leaders can facilitate compliance with audit requirements for greenhouse gas disclosures and other ESG disclosure reporting, thus reinforcing the organisation's commitment to sustainability," says Cozzi.

However, tax and finance professionals face some significant barriers in their sustainability work, which make it harder to achieve the desired results.

In terms of regulation, for example, there can be confusion over various reporting frameworks, inconsistencies across regions and industries and credibility problems due to the lack of external verification.

Indeed, some 37% of organisations see complying with regulations as the greatest challenge in meeting their ESG obligations, according to the EY Global Integrity Report 2024.

Firms must also remember that corporate sustainability encompasses a broader remit than just decarbonisation, extending to energy efficiency, waste reduction, water conservation and circular economy principles. This requires firms to collect hundreds of detailed data points from across the whole business and wider supply chain. This data may be of poor quality or might be difficult to access.

"First, there needs to be clear ownership for data collection and reporting with someone in the C-suite accountable for delivering on this, whether that's the CFO, CEO or CSO," says Sarah Reay, climate change manager at the Institute of Chartered Accountants in England and Wales (ICAEW).

"As the reporting requirements will involve collaboration across many departments and teams such as finance, sustainability and operations, there must be a clear process, and responsibilities defined for collating the data in the appropriate format."

Reay believes businesses will struggle to meet those demands without sufficient resources, both in terms of expertise in sustainability and personnel to measure and report on such vast quantities of data. This means sustainability must be prioritised in corporate strategies and embedded in organisational culture and operations.

"That way the organisation will reasonably resource its sustainability efforts and empower staff to directly contribute to the success of the strategy," she says.

A variety of tools and tactics can support tax and finance leaders in meeting their sustainability objectives. Although it may seem obvious, staying up to date on ESG regulations – which tend to change rapidly – is essential for success.

Leaders must also prioritise improving collaboration with other departments to ensure alignment with governance and disclosures. This is because everyone, from operations and HR through to digital and procurement, will have a role to play in company change programmes.

Increasingly, firms are turning to digital tools to help with ESG data collection, enabling them to manage and report their sustainability data more efficiently. They can also use analytics to unearth trends in the data.

"Organisations can also improve reporting by using established frameworks, engaging stakeholders for feedback and ensuring accurate data collection with third-party verification," says Jarrah Mohammad Alhindi, a partner at online investment firm XTB. "Clear communication and regular updates could enhance transparency, while ongoing assessments and documenting lessons learned could support continuous improvement."

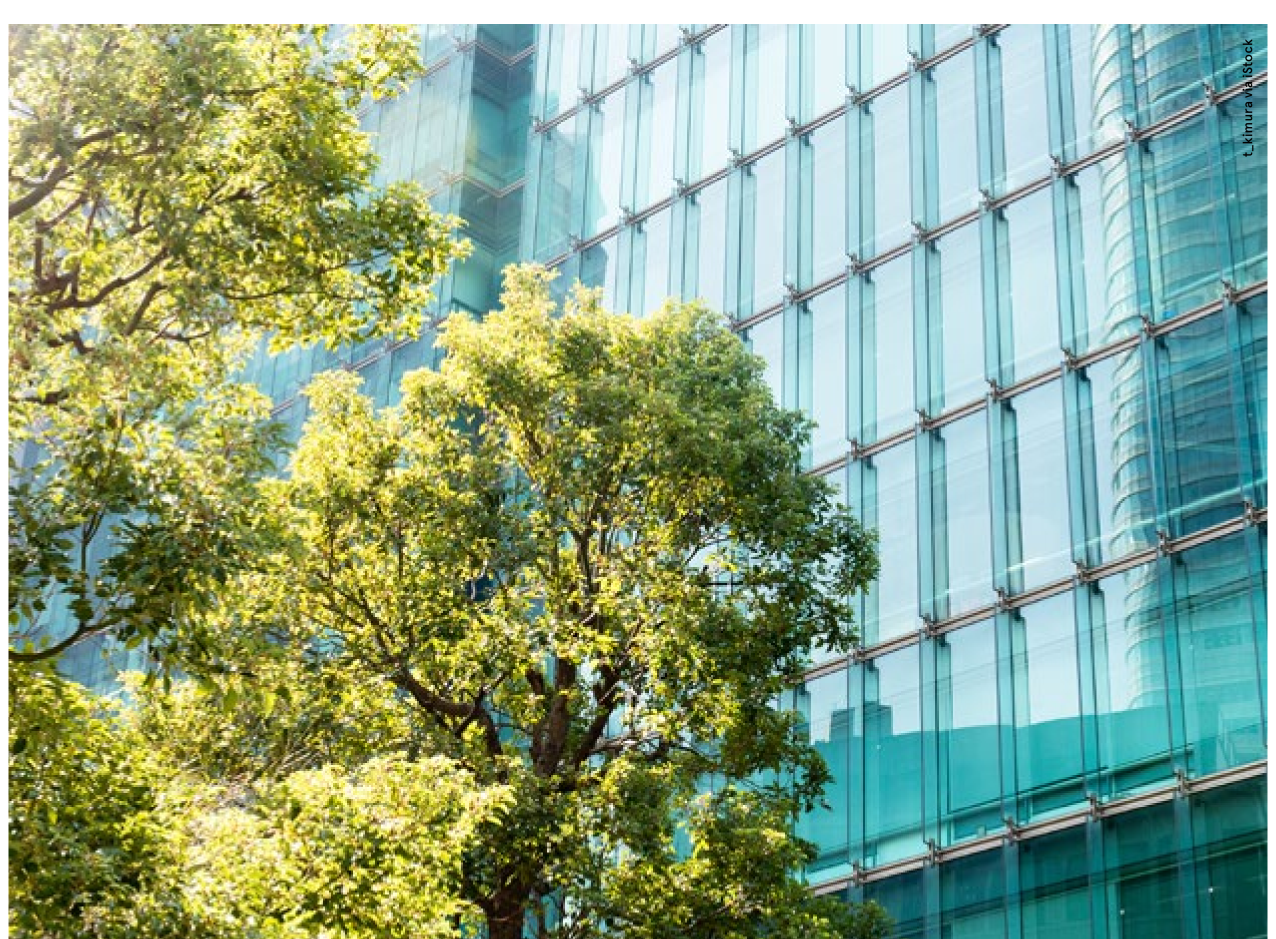
Perhaps the most important thing finance leaders can do is to ensure sustainability is a priority at board level, which involves communicating the business benefits. According to Sarwar Khan, sustainability director at BT, some leaders may be tempted to view meeting sustainability targets purely in terms of risk, even though it also offers huge opportunities.

"Embracing sustainability initiatives can boost long-term resilience, as well as help with both managing risks and meeting rising customer demand for sustainable products and services," says Khan.

Cozzi agrees, stressing that the capital investment necessary for achieving net zero should not be viewed merely as a cost.

"Rather, it has the potential to deliver significant returns through enhanced operational efficiencies and by attracting customers who may otherwise choose greener competitors or those with more stringent and developed ESG profiles."

> There needs to be clear ownership for data collection and reporting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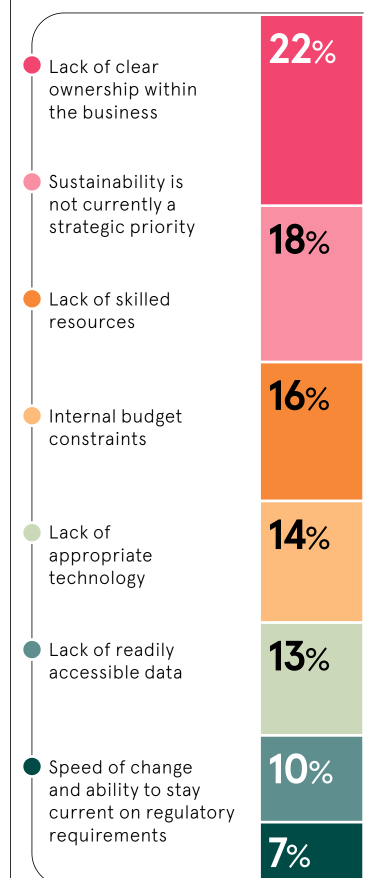
LACK OF OWNERSHIP IS THE BIGGEST CHALLENGE WITH SUSTAINABILITY REPORTING

Biggest challenges facing tax and finance leaders in meeting tax sustainability reporting requirements

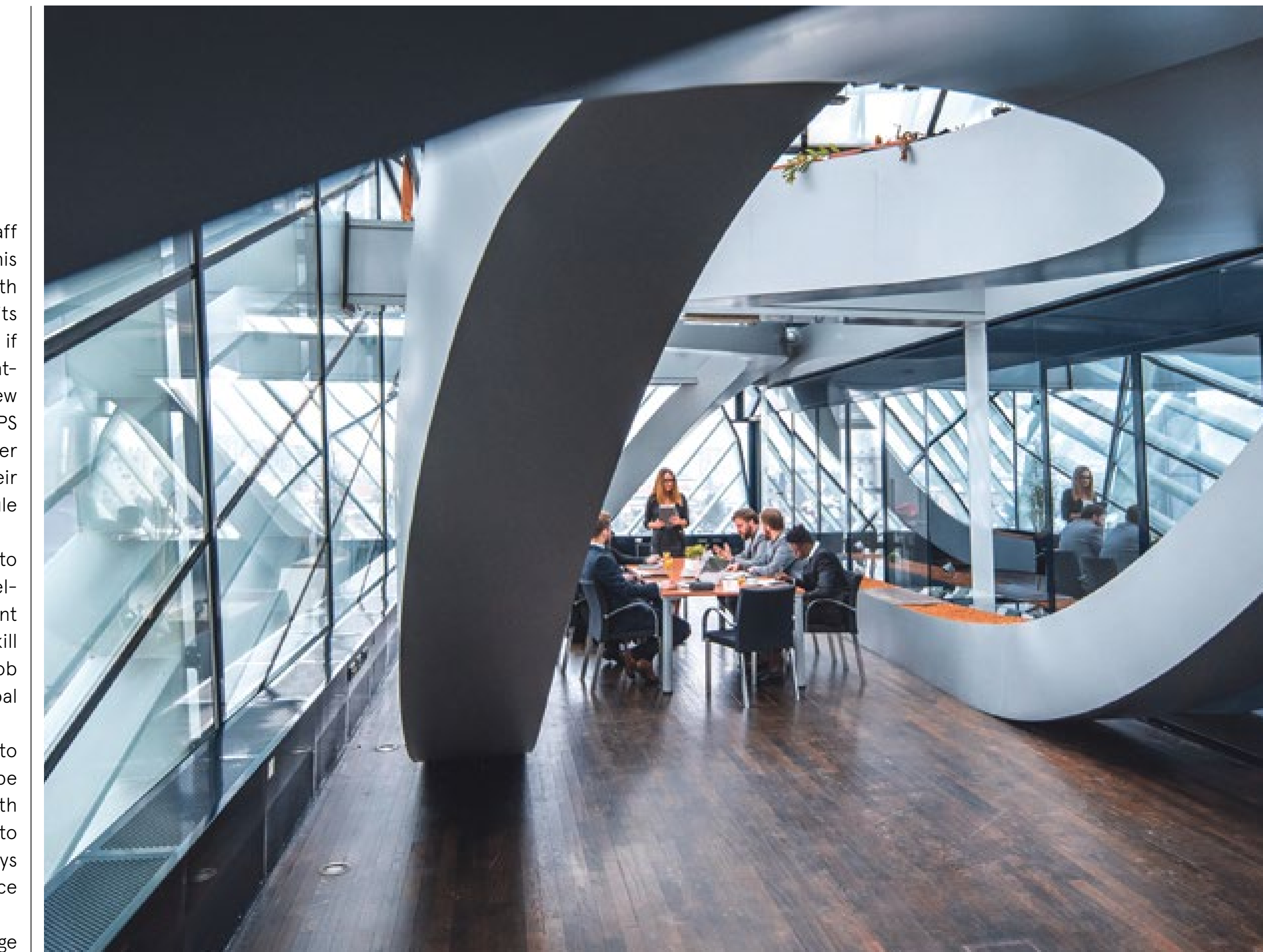


EY, 2024

Commercial feature

Tackling the talent crunch: how can CFOs navigate today's workforce challenges?

Leaders must explore: alternative talent sources, learning and development, AI and co-sourcing solutions



CFOs face a growing talent crisis. Fewer people are choosing to pursue a career as an accountant, while a steady wave of retirements have resulted in a widening talent gap that means finance and tax teams are more stretched than ever and unable to have the impact that the business demands.

"There has been a shift in the perception of what a good career looks like," says Stuart Lang, EY EMEIA tax managed services leader. "In the past, that might have been working in finance long enough to build a strong business foundation. Whereas today younger people are early on exploring new careers outside of accounting as technology transforms business."

This is causing challenges for businesses. Seventy percent of respondents in the EY 2024 Tax and Finance Operations Survey said that fewer accountants entering the profession will either moderately or significantly hamper the performance of tax and finance functions.

One solution is tapping into alternative hiring pools, where 62% of respondents said they are pursuing professionals without a college or university degree. Finance teams are also increasingly hiring data scientists and tax technology specialists.

"We're finding that the tax function of yesterday is not the tax function of tomorrow," says Jill Schwieterman, EY global compliance and reporting co-leader. "Companies should pursue professionals with new skills, such as data and technology, to augment tax technical skills."

Finance functions are facing high staff turnover and a growing skills deficit. This knowledge gap continues to widen with the intense focus on automation and its impact on experiential learning. Even if companies could hire all the accounting staff they need, the amount of new regulations globally – such as BEPS 2.0, among others – makes it harder for finance leaders to ensure their teams are properly up to speed on rule changes and other technical matters.

"This means companies need to invest in better training and development to keep employees current on new regulations, as well as re-skill existing staff to adapt to the shifting job demands," says Ben Smith, EY global compliance and reporting co-leader.

"Tax and finance functions need to shape their future talent model to be sure they have the right people with the right skills, including the ability to work with Generative AI (GenAI)," says Dave Helmer, EY global tax and finance operate leader.

As companies continue to leverage data, technology and AI, it's increasingly important for finance and tax professionals to develop new skills. Respondents said the most important skills they need to develop in their tax functions are process improvement (43%), data management (39%), problem-solving (34%) and critical thinking (33%).

To help achieve these goals and improve staff development, finance teams say the training methods that have the greatest impact are training sessions from external accounting or law firms (49%), followed by internal company rotation programmes (47%) and the provision of online learning resources (45%).

An additional challenge that finance and tax functions face amid the current talent shortage and skills gap is better managing how teams spend their time.

"Employees are being called on to do more with less, and businesses also want tax professionals to spend more time on strategic activities than they do on routine work," says Helmer.

The challenge for tax and finance professionals is that the compliance work – often the most time-consuming – still needs to be done, which means there is less time to focus on matters, such as strategic planning.

To help address this problem, businesses need to consider AI adoption and co-sourcing arrangements to free-up their teams to focus on more strategic activities.

"At the moment, companies say they only spend 20% of their time on strategic matters," says Lang. "In the future, CFOs want their employees to spend twice as much time on high-value activities."

Using AI for routine tasks will free up professionals to focus on the strategic work that can provide valuable insight and help improve business performance, he says.

"There are lots of opportunities for the application of AI in finance and tax, such as financial modelling, tax planning and strategic reporting and analytics that will really add value," says Lang.

Co-sourcing is another option businesses should consider to ease their resource pressures and help tax professionals focus on more strategic work. More than half of respondents (59%) are considering co-sourcing as a solution.

"Having a strategic operating relationship with a service provider can really help optimise your strengths and deliver more value," says Helmer.

While AI will inevitably replace certain activities, the demand for talent will not diminish. Organisations will still need experienced tax professionals and accountants to ensure their businesses are on the front foot to address any tax and financial issues.

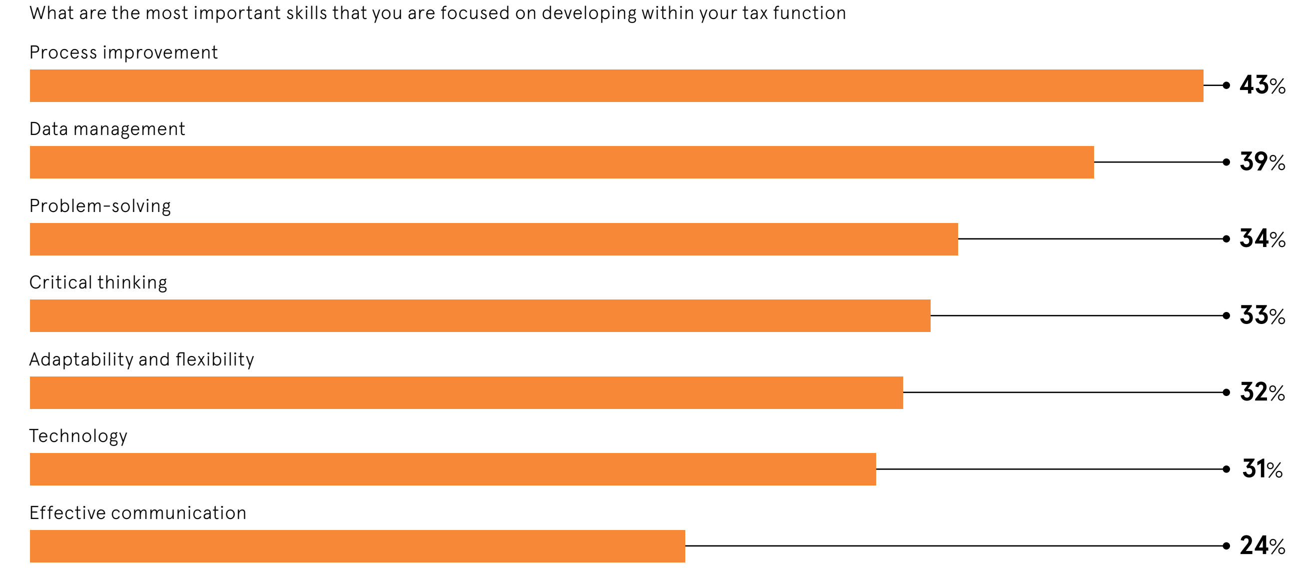
"A broad tax technical background, coupled with deep experience and sound judgement will always be valuable," says Schwieterman. "Automation and technology won't eliminate the need for seasoned tax professionals."

Companies can redirect talent to focus on more strategic work through more effective learning and development, adopting AI and considering co-sourcing with a service provider. In this way, CFOs can better address the talent crunch and help improve the overall performance of the finance and tax functions.

> Employees are being called on to do more with less, and businesses also want tax professionals to spend twice as much time on strategic activities than they do on routine work

CRITICAL SKILLS FOR TAX AND FINANCE PROFESSIONALS

What are the most important skills that you are focused on developing within your tax function



EY, 2024

THE TAX AND FINANCE OUTLOOK

The EY *2024 Tax and Finance Operations Survey* reveals how emerging technologies and new operating models may solve mounting talent, regulatory and cost pressures.

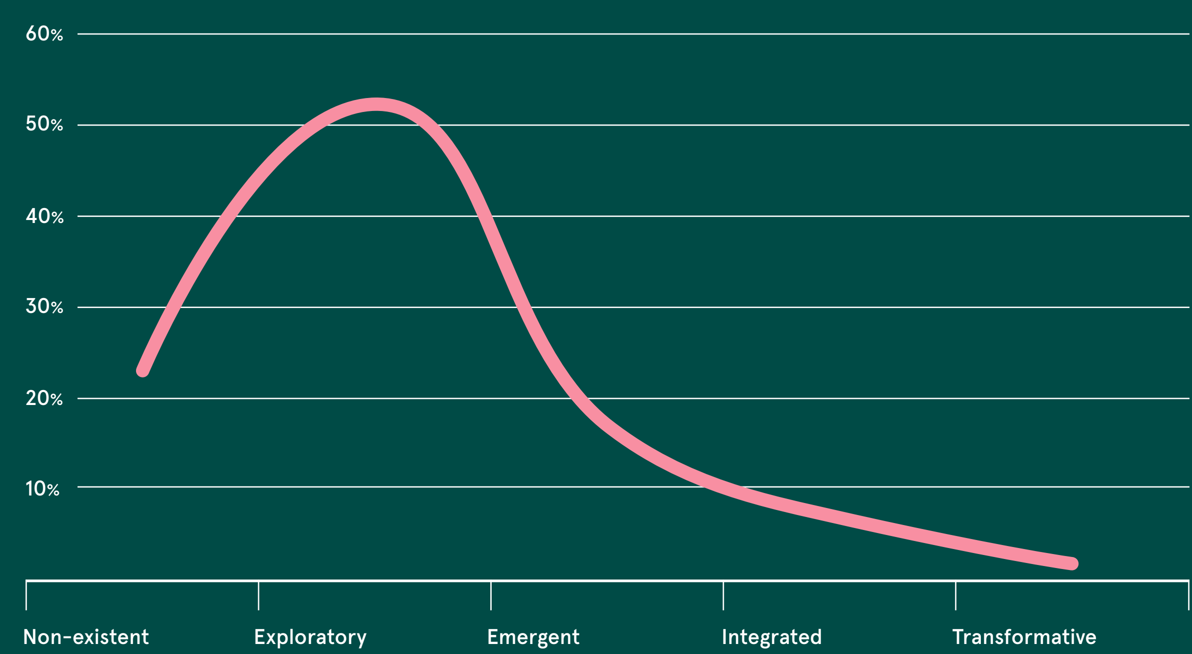
Growing AI optimism

Tax and finance leaders now believe GenAI will make their functions more efficient and effective

15% of respondents say yes
2023

87% of respondents say yes
2024

Tax and finance functions are just beginning their GenAI journeys



Intense cost pressure

Cost has emerged as the top priority and biggest barrier to success

49% cite effective management of tax function budget/spend as a top priority

#1 barrier to delivering purpose and vision is lack of budget

Transparency and reporting priorities continue to evolve

57% of organisations say complying with digital tax filings is the top reporting challenge

83% of organisations will make moderate to significant adjustments for BEPS reporting

56% of organisations will voluntarily disclose total taxes paid

Considering new operating models

Respondents say they want their people to focus twice as much time on highly specialised tax activities

Time spent	Highly specialised tax activities	Core tax function	Routine compliance activities
Current	20%	35%	45%
Preferred	42%	33%	25%

Companies explore new operating models and co-sourcing

54% of organisations are changing tax and finance operating models

59% of organisations plan to co-source

Talent gap

Top factors impacting the performance of the tax and finance functions

70% cite a moderate/significant disadvantage to fewer accountants entering the profession

63% cite a moderate/significant disadvantage to the retirement of senior tax and accounting professionals

Respondents are tapping into various talent sources

Tax technology specialist 83%

Data scientists 78%

Just-in-time staffing 65%

Tax and finance employees without a college/university degree 62%

EY, 2024

shapecharge via iStock

LEADERSHIP

Do IT and finance leaders need to build better relationships?

IT and finance share common goals. A strong relationship between these functions can lead to more effective resource allocation and decision-making, especially when budgets are tight

Ben Edwards

Finance and IT departments might share a common desire to do what is best for their company, but they can have competing interests. IT teams want more budget for investment, while finance teams often want to keep a tight leash on expenses. This tension can manifest in poor decision-making that could impact a business's bottom line.

For instance, the *EY 2024 Tax and Finance Operations Survey* found that 68% of tax departments are not treated as a key stakeholder by the IT function. While they may be consulted on issues, it is often too late to influence key decisions.

"The relationship between IT and finance can sometimes be adversarial if the teams don't see themselves as partners," says Rob Johnson, global head of solutions engineering at IT business SolarWinds.

When the relationship or communication between the CFO and CIO is weak, organisations risk being pulled in multiple conflicting directions, leading to misaligned priorities and potential inefficiencies.

Mark Partin, CFO at software company BlackLine, says that one of the challenges he sees is shadow IT, where employees use unauthorised applications. "When you have that and finance has to operate with a different priority and mission and objectives outside of the IT org, not only are we sub-optimising for the company, we are also only focusing on our own backyard," he says.

This misalignment on priorities means the CFO and CIO functions can often end up in different places where they may not have access to critical data, systems or controls, Partin adds. That could have a significant impact on both productivity and profits.

"A lack of collaboration can lead to ineffective use of technological solutions, slower operations and workplace inefficiencies, ultimately resulting in higher costs and employee morale issues," says Jeremy Rosall, senior vice president for finance at data management business Iron Mountain.

By contrast, companies that strive for closer alignment between the CFO and CIO functions will see benefits because everybody is on the same page rather than looking at their function in isolation.

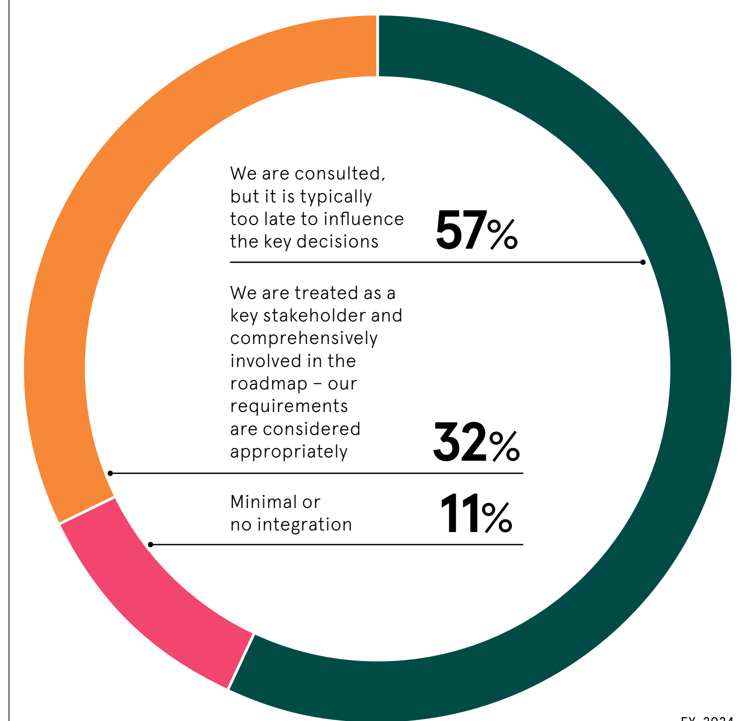
"If you strategise with a CIO about the top line – how they are building your infrastructure and managing your data – it can become a competitive differentiator and help the business grow," says Partin.

The growing importance of data and AI to business performance further underscores the need for deeper ties between the CIO and CFO functions to ensure organisations are getting the most value out of their tech investments.

> **The relationship between IT and finance can sometimes be adversarial if the teams don't see themselves as partners**

TAX FUNCTIONS ARE OFTEN NOT TREATED AS A KEY STAKEHOLDER BY THE IT FUNCTION

How integrated the tax department is with the IT function's data and technology strategy, team and implementation efforts



EY, 2024

"There's an incredible opportunity to transform how you run and strategically guide a company if the CFO organisation is working in partnership with your CIO organisation," says Brian Montgomery, senior director for international finance at Workday. "To really get what you need out of that data and maximise potential, you need a very close partnership."

Companies with misaligned IT and finance functions will struggle to use data to strategically transform their business and help senior management make more informed decisions. What's more, they will also be at a competitive disadvantage to peers that are more closely aligned, Montgomery says.

Those businesses that are more closely aligned will also be more agile.

"A collaborative approach that embraces technological solutions can accelerate innovation, reduce development time and lower costs, making it easier for organisations to adapt to changing business needs," says Rosall.

Some companies are already strengthening ties between finance and IT to support the wider business strategy. Partin says he has seen a clear shift over the past five years as both the CIO and CFO roles have become more strategically important to their organisations.

"CFO meetings with the CIO are now much more thoughtful, strategic and engaged with the overall company purpose and priority," says Partin. "Before, CIOs were often in the dark about a lot of things, but now they're a part of the planning, so there's a lot more engagement. We're all now speaking the same language about helping the company grow."

This is in stark contrast to how IT and finance teams would communicate in the past.

"Finance teams would usually come up with a laundry list of problems and then just lob it over the fence to IT," says Montgomery. "Now the approach is very different – the CIO and CFO orgs are working hand in hand. They're in the same meetings, so the CIO org has a much broader and in-depth understanding of the challenges that need to be solved."

A more collaborative approach from the start also ensures joint ownership of any projects, reducing potential conflicts down the line.

"We're at the same table and we own our problems together," says Montgomery.

Developing this mutual understanding is the first step IT and finance teams should take to build closer relationships so both functions are allied when it comes to meeting the company's long-term goals.

"Transformation sits between the CFO and CIO. If you aren't in sync, transformation projects have a tendency to take on a life of their own," says Partin.

CFOs should also make an effort to understand technology, says Partin, something the CIO function can support by creating greater awareness about the opportunities presented by tech investments.

"Sometimes we just take it for granted that everybody understands AI," says Sumit Johar, CIO at BlackLine. "It's all about better communication, regularly touching base and explaining the art of the possible to the CFO."

IT and finance teams also need a mutual understanding of their co-dependency when it comes to the strategic direction of the business.

"Without finance, you can't fund innovation and operational excellence, and without IT, you can't deliver innovation or optimise the operations," says Johnson.

The ideal working relationship between IT and finance is a symbiotic one, where CFOs and CIOs work collaboratively as strategic partners and are fully aligned with the business's overall goals. ●

DragonImages via iStock

ARTIFICIAL INTELLIGENCE

Is optimism growing for AI's role in tax and finance transformation?

Despite barriers to adoption, tax and finance leaders are increasingly hopeful that artificial intelligence can help them tackle their biggest problems

Dan Thomas

For tax and finance leaders at most enterprise-scale businesses, generative AI (GenAI) is both an exciting prospect and an unknown quantity. Many have started to dabble with the technology and a small but growing minority are integrating it into their practice with promising results.

Despite the excitement around its potential benefits, some businesses are unsure of how to harness the new technology effectively. Concerns also linger over the reliability of AI models, access to the data needed for training, data security and the shortage of skilled AI talent.

This is perhaps why many tax and finance leaders felt pessimistic about AI last year, with some 85% saying GenAI would not positively impact their department, according to the *EY Tax and Finance Operations Survey 2023*.

However, confidence in the technology is growing fast and this same cohort now feels more optimistic. Some 87% of leaders told EY this year they felt GenAI would increase effectiveness and efficiencies within the tax function in the next three years.

So, what's behind the shift in mindset? Where are businesses on their AI journey? And how can companies get the most out of this new technology while avoiding the risks?

Like most big businesses, the wealth management firm Quilter is at an exploratory stage of its AI journey. Mark Satchel, its CFO, sees the integration of AI into the finance and tax functions as "a natural progression" that could yield significant benefits as the technology evolves.

> **The shortage of qualified tax professionals reinforces the need to automate, which in turn helps attract new talent by reducing routine tasks**

However, he says the firm's current use of AI is "limited", focusing on improving management reporting and business planning.

"These enhancements have not yet fundamentally replaced existing processes and methodologies," he says. "But looking ahead to the more immediate future we expect AI to assist with tasks such as expense analysis, both within accounting and tax, and for its use to expand into other areas over time. This growing optimism reflects our belief in AI's potential to transform and elevate the efficiency and effectiveness of finance and tax operations."

According to EY's survey, 52% of finance and tax functions are at an early stage of their AI journeys, meaning they are investigating and experimenting with the technology but have no concrete plans to implement it.

Around 17% are classed as "emergent", meaning they have developed strategies to implement AI and are running pilot projects, while just 9% have fully integrated the technology into their business processes. Almost a quarter of leaders say their AI maturity is "non-existent" and that they haven't explored or adopted any of these technologies.

This could soon start to change, however, thanks to a distinct shift in mood about AI, says Ian Pay, head of data analytics and tech at The Institute of Chartered Accountants in England and Wales (IEACW). Businesses have become more familiar with the technology, its quality and capability are improving rapidly, and viable ideas about how the tech can be deployed in enterprises are emerging.

"We are seeing a lot of activity in the software vendor space," he says. "In October, for instance, it was announced that Thomson Reuters had bought Materia, a GenAI accounting platform."

According to the EY research, CFOs and tax leaders believe AI could impact many parts of the tax function. This includes data acquisition and cleansing, accounting, compliance, analytics and reporting and planning.

Bas Kooijman is CEO of DHF Capital, an asset management company based in Luxembourg. He believes AI's enormous potential to reduce operating costs and increase productivity makes it an appealing solution for managers aiming to maximise profits.

"AI's ability to process large volumes of structured and unstructured data – such as invoices and tax reports – enables faster, more accurate analysis, boosting confidence in the technology," he says. "Moreover, the shortage of qualified tax professionals reinforces the need to automate, which in turn helps attract new talent by reducing routine tasks."

Datasite is a software business that supports companies around the world with deal-making activities. Merlin Piscitelli, its chief revenue officer for Europe, the Middle East and Africa, says AI is already transforming some areas of his industry. For example, it is helping to reduce weeks of due diligence work into "days or hours".

Not only does this save time, but it also minimises human error, which can improve regulatory compliance, Piscitelli adds.

"AI can also aid in the valuation process by providing objective analyses based on historical data and market factors. Additionally, by automating repetitive and time-consuming tasks, AI can enable dealmakers to focus on strategic-level decisions and creative thinking."

But there are clear barriers to adoption, one of the most notable being cost. Creating, deploying and maintaining AI systems requires substantial ongoing investment and there's a continuous need for computing power, data storage and security measures.

Moreover, around one in ten tax and finance leaders find justifying return on investment as a significant barrier to AI use cases, according to the EY survey, which makes it harder to rationalise investments.

"Many companies are grappling with questions about how best to leverage AI within their specific business contexts," notes Piscatelli. "This experimentation, while necessary, can be costly and time-consuming. It also means that many organisations have yet to find the perfect fit for AI within their operations, further delaying the payoffs."

There are significant data privacy, security and compliance risks around AI too. Poorly calibrated algorithms or AI models that lack transparency can lead to incorrect decisions, potentially endangering the business in an increasingly stringent regulatory environment.

> **By automating repetitive and time-consuming tasks, AI can enable dealmakers to focus on strategic-level decisions and creative thinking**

"Breaches or improper sharing can severely damage a company's reputation," says Kooijman.

Naturally, there is a lot of "nervousness" about going "all-in" on AI, says Ian Pay of the ICAEW. Members of his group want to see clear and concrete examples of how AI can be deployed before they invest.

However, he says businesses can cut through the hype "by being laser-focused on the problems you are trying to solve and honest about whether AI is the right solution to those problems".

This is reflected in the *EY 2024 Tax and Finance Operations Survey*, which confirms that companies testing the waters should start with pilot projects, gradually scaling these up as they gain confidence. External experts like EY's consultants can provide support while using industry benchmarks to measure AI's ROI. Such an approach can help businesses focus on initiatives that deliver the most value and ensure investments are carefully managed, minimising risks while maximising returns.

Regardless of the risks, AI will likely become a key competitive differentiator: tax and finance leaders cannot afford to ignore it. As they face growing pressure to keep costs down, improve productivity and tackle skills shortages, AI could offer irresistible solutions to persistent problems, provided the risks can be managed and investments in the technology align with business objectives. ●

LEADERS ARE ANTICIPATING THAT AI WILL IMPACT MANY PARTS OF THE TAX FUNCTION

Single tax activity which will be impacted most by AI in the next three years

EY, 2024

MTStock Studio via iStock

How AI will impact four key areas of the tax function

New technology could play a big role in data management, compliance, accounting and strategic planning

1 Data cleansing and analytics

Generative AI (GenAI) could simplify data management for tax leaders. Large language models (LLMs) can sort, summarise and analyse large volumes of structured and unstructured data such as invoices, tax reports and customer records much faster than humans.

Using algorithms, businesses will be able to more easily gather and integrate data from different sources, formats and structures, as well as tag and categorise it by content.

AI will also be able to "cleanse" that information faster, finding and fixing flaws, inconsistencies and duplication, while using predictive modelling to fill in gaps and missing records.

All of this will make a company's tax and finance data significantly more usable for decision-making. AI-powered analytics will also be able to find trends, correlations and patterns hidden inside datasets, helping organisations anticipate opportunities and risks and make more proactive decisions.

2 Income tax and accounting

The accounting industry already uses AI to drive huge productivity gains by automating key tasks to free up time for higher-value work. This is especially vital as tax and finance leaders say effective management of departmental budgets will be their number one priority over the next three years, according to the *EY 2024 Tax and Finance Operations Survey*.

Today, finance departments deploy GenAI in several ways, including automating mundane tasks such as data entry, processing invoices and generating financial reports.

The Big Four accounting firms are also employing AI at a more advanced level in areas such as document review, where it is used to evaluate large volumes of contracts to extract key information, and the auditing process, where it helps to manage regulatory risk. AI technology is also used for coding and document generation. Additionally, it can be deployed in tailor-made client-side solutions.

Promising results from pilot projects suggest that algorithms will go even further in automating common accounting tasks, although the technology is expected to work alongside rather than replace workers. That is because AI cannot currently be substituted for the judgement, scepticism or experience that humans bring to the equation.

3 Compliance

Better control over data will also be key to helping tax and finance leaders reduce the compliance burden. Meeting tax laws and regulations is an ongoing challenge, particularly for businesses operating across borders, as rules continually change, and regulators demand more transparency and financial information from businesses.

AI could bring efficiencies by transforming and consolidating company data, improving the quality of queries from source systems and identifying data anomalies and areas of potential risk.

"In compliance, AI monitors large regulatory databases, identifying potential irregularities in real-time, which mitigates risks and ensures adherence to regulations," says Bas Kooijman, CEO of asset manager DHF Capital.

Tax authorities will likely begin harnessing AI to analyse tax data and returns, which could mean more regular requests and specific questions for businesses. The urgency to keep pace will therefore increase.

4 Planning

AI's forecasting models can help companies identify risks and long-term trends, enabling more informed decision-making and reducing uncertainty in tax planning. Businesses can input data – such as regulatory laws, company performance data and corporate strategy – into an AI model to proactively generate tax recommendations.

For example, the AI model might highlight a regulatory change in Spain that affects telecom companies. It might then suggest ways to manage the tax implications. Alternatively, a company may want to alter its tax strategy to free up more cash: the AI could offer a series of recommendations to achieve that goal.

By automating more tax planning decisions, businesses should be able to free up time for higher-value tasks.

> **AI monitors large regulatory databases, identifying potential irregularities in real-time**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