Key Priorities Shaping The Role of CFOs In 2024

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Introduction

The past five years in the GCC region have seen significant shifts in the tax landscape. As new tax categories such as excise tax and corporate income tax have been introduced and VAT rates adjusted, the tax system has grown more complex and mature. Against this evolving backdrop Thomson Reuters and the MEA Business Group have conducted our second annual CFO Survey. This study explores how CFOs based in the GCC are adapting to this new reality and how they see their tax and finance functions evolving through 2024 and beyond.

"The tax landscape is evolving rapidly following the implementation of VAT a few years ago. The introduction of CIT is a significant game changer, especially with the upcoming application of Pillar 2. Additionally, the complexity is heightened by the fact that many tax laws are not entirely clear and are open to interpretation.

Frédéric Duranton, Executive Director & Group CFO,
Mantrac Group

There have been substantial modifications to the tax system within the GCC recently, which has increased complexity across the countries which are part of the council. Numerous factors, such as the introduction of excise taxes on particular items, the introduction of VAT, and the ongoing revisions, specifications and modifications to tax laws are driving this trend. We have also noticed a growth of cross-border transactions in recent years and the requirement for adherence to international standards, which contribute to this development. In this context, the introduction of CIT across the UAE adds another significant complexity to the tax legislation in the region. When we talk to peers within our industry, we understand that significant investments in people, systems and strong compliance programs have been made to keep up with changing tax laws and put effective tax management techniques into place"

Benjamin Steinberg, CFO,
Messe Frankfurt Markets

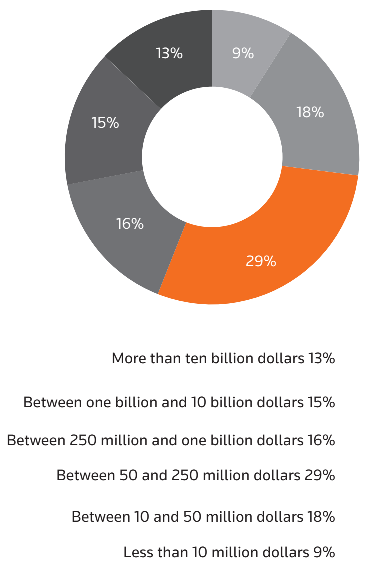
Who We Surveyed

We surveyed Chief Financial Officers (CFOs) from leading companies headquartered in the GCC, as well as those from global multinational corporations. Our respondent pool spanned a diverse array of industries. "Other" emerged as our most significant sector, encompassing representatives from Government, Non-profit, and Agriculture.

Distinctly, within the unique business environment of the GCC, the Energy, Real Estate, and Diverse (Family Holdings) sectors were predominantly represented by CFOs of GCC-based companies. In contrast, the Consumer Goods, Health Care, IT, and Services sectors saw a higher representation of CFOs from global multinational corporations.

We aimed for a median company revenue of $250 million amongst our respondents, a goal we managed to achieve. With responses both above and below this average, it provided us an opportunity to assess how company revenue influenced survey feedback.

Interestingly, revenue size didn't directly correlate with whether a company was headquartered in the GCC. For instance, the Energy and Real Estate sectors reported higher-than-average revenues and were primarily GCC-based. On the other hand, Professional and Financial services, predominantly outside the Middle East, reported average revenues below the $250 million mark.



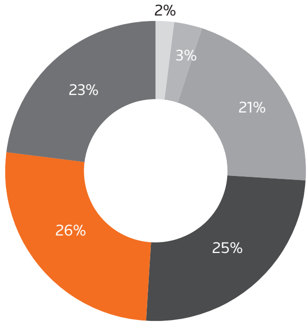
The Evolving Finance Function

The majority of CFOs surveyed have witnessed significant shifts within their finance functions over the past three years to 2024. Over a quarter (26%) observed profound changes in processes and company culture. Meanwhile, 23% noted a total transformation of the finance function. Those few who perceived no substantial changes typically fell within the lower revenue categories and spanned various industries.

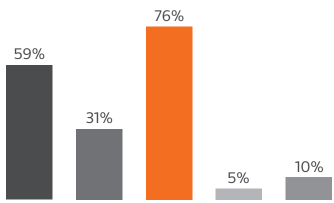
One of the most interesting aspects of the responses to this question was that there was no clear consensus on the nature of the changes that had taken place. All four responses defining the nature of the change were within 5 percentage points of each other.

Also interesting was that operational and not strategic changes over the last three years were most prominent amongst lower revenue reporting respondents while Family Holdings and Consumer Goods companies reported low levels of complete transformation compared to other industries (less than half of the industry average).

Over the past three years, Digital Transformation and Employee Relations have emerged as the primary areas of change in the finance function. Close to 75% of participants identified Digital Transformation as the main driver of change, while 60% pinpointed significant developments in Employee Relations.



No real changes have taken place 3%
Some changes but on an operational and not a strategic 21%
Significant changes but not exceptional for a typical three 25%
Extraordinary changes across both processes and employee 26%
A complete transformation of the finance function in this 23%
All or nearly all changes that took place in the period 2020 2%
Other 0%



Other (please specify) 10%
No significant changes 5%
Digital Transformation 76%
Sustainability and ESG Reporting 31%
Talent Management/Employee Culture 59%

> As the tax environment in the region continues to evolve, and as different jurisdictions publish their own rules, we need to swiftly shift from a compliance-focused and reporting mindset to take a more strategic, data-centric and technology-based approach.
>
> **MEA CFO of a leading global investment bank**

Business Partnering

From being traditionally viewed as guardians of financial reporting and fiscal health, the CFO's role has transformed substantially. Today, a major shift is their pivot towards strategic leadership. More and more, CFOs are aligning financial insights with business strategy, setting company direction, and exploring growth avenues.

Conducted in November 2021, the findings of our previous survey strongly reinforced this view, with the CFO/CEO relationship standing out as paramount for most participants.

This year, when respondents were asked about the evolution of their business partnering levels over the past three years, the findings were consistent: the bond between the CFO and CEO remains of utmost importance, especially from the CFO's perspective. Over 65% of the CFOs surveyed say that their relationship with their CEO has deepened and become more impactful.

It is also evident that a majority of CFOs are emphasizing the need for their teams to collaborate with other departments. Over half of the respondents have been actively promoting this approach. This strategy has multiple benefits. By pooling knowledge from various sections of the business, decisions are better informed and consider a wider range of factors. Furthermore, when teams are interconnected, they can leverage each other's strengths, avoid duplication of efforts, and align on common goals, leading to streamlined operations.

What is perhaps surprising in these results, given the reported enhanced focus on employee relations and talent management, is the modest proportion of respondents (22%) reporting a deeper relationship with their CHRO over the last three years. Given their shared interests in optimizing workforce investments and aligning talent strategies with financial goals, this may suggest missed opportunities for deeper collaboration between CFOs and CHROs.

Only a small minority of respondents report table or declining emphasis on business partnering over the previous three years. Revenue and industry sector were not significant factors in determining responses to this question.

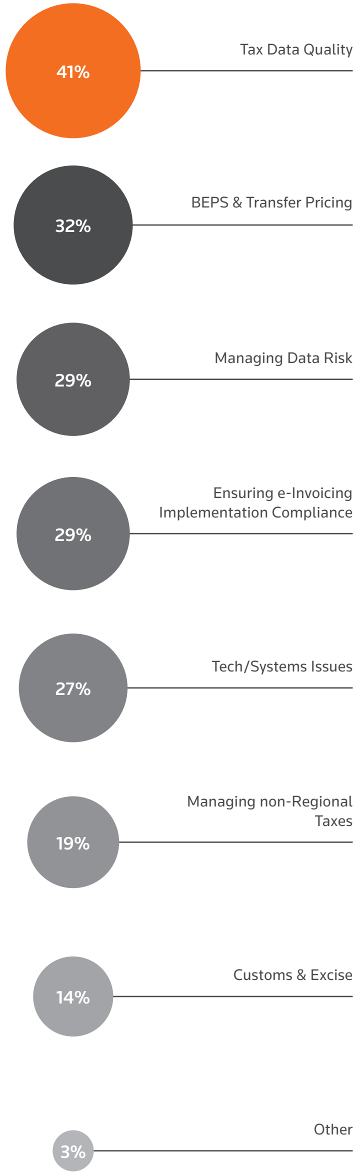
Key Challenges in the Tax Landscape

When examining the most pressing external tax challenges, there's a striking divergence from our November 2021 data in two primary sectors. As of 2024 42% of respondents identified tax data quality as their top challenge, a significant leap from just 25% 2 years prior. Conversely, customs and excise, which dominated our previous survey with over 55% of responses, has seen a decline, capturing less than 15% in 2024.

Breaking it down by industry, Consumer Goods, Industrial, and Real Estate sectors reported a disproportionately high concern with customs and excise, at over 25%. Meanwhile, a remarkable 67% of Healthcare respondents placed tax data quality among their top three challenges.

From a revenue perspective, the management of data risk stands out. Roughly 50% of both sub-$10 million revenue companies and those surpassing $10 billion cited this as a top challenge. Interestingly, companies falling between these revenue markers averaged a concern rate of only about 30%.

BEPS (Base Erosion and Profit Shifting) and Transfer Pricing becomes a much greater challenge as revenues of respondent companies increase.



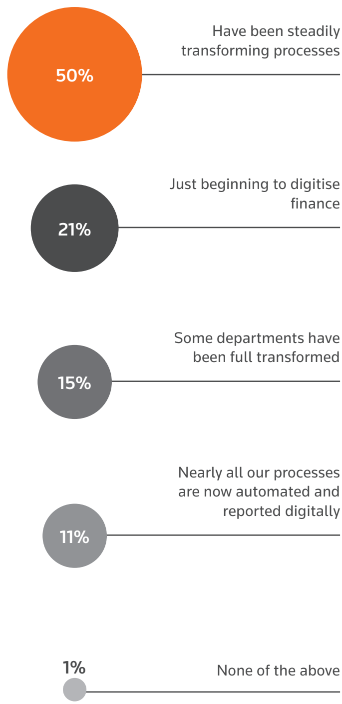
Digital Transformation:
Progress & Priorities

This year, we revisited the topic of how CFOs perceive their finance teams' progress in the digital transformation journey. The findings closely resemble those of our previous survey. Over 21% of participants report that they have started digitizing their finance operations. A significant portion, more than 50%, are currently transforming their processes to be more digital. Additionally, around 12% have reached a stage where the majority of their finance activities are automated and managed digitally.

In comparing our current results with those of our previous survey, we have noted one slight shift. Slightly fewer respondents (21%) now report being at the very outset of their digital transformation in finance. However, this change hasn't corresponded with an increase in the number of companies claiming to have finished their digital transformation. Essentially, this suggests that more companies have advanced beyond the initial stages of their digital journey but haven't reached its conclusion. They're progressing, but there's still work to be done.

Interestingly, neither revenue nor industry sector significantly influenced the responses to this question. For example, both companies earning under $10 million and those earning over $10 billion reported that just 18% of their CFOs perceive a nearly complete automation of processes and digital reporting in their operations.

> Tax has always been a challenging area for non-experts to understand. Automation plays an important role in simplifying tax processes and delivering more efficient results.
>
> **Shady Nassour, Regional Finance Director – MEA, EU & CIS, IDP Education LLC**



Digital Transformation: Progress & Priorities

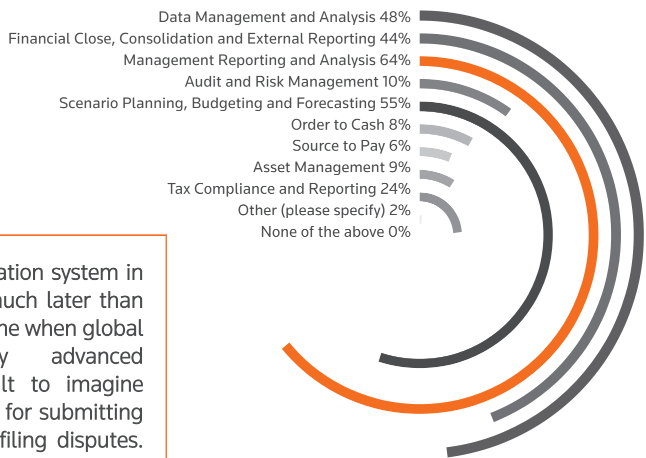
When asked about their top digital transformation priorities within the finance department over the next one to three years, CFOs indicated the following focus areas for 2024:

1. **Management reporting and analysis:** 64% (up 18% from 2021)
2. **Scenario planning, budgeting, and forecasting:** 55% (up 13%)
3. **Data management and analysis:** 48% (down 5%)
4. **Financial close, consolidation, and external reporting:** 44% (up 14%)
5. **Tax compliance and reporting:** 24% (up 11%)

Comparing these findings to those of our previous survey reveals significant shifts in priorities.

When comparing by company size, respondents from entities with revenues over $1 billion appear to place less emphasis on data management and analysis in 2024. Only 38% of these larger entities prioritize it, as opposed to 55% of companies with revenues below $1 billion. However, for other top priorities, revenue size didn't show a significant difference.

Notably, in the industry sector breakdown, Information Technology along with Professional and Financial services deviated from the norm. They ranked management reporting and analysis as a priority at only 40%, while the average across industries stood at 68%.



> We are fortunate that the taxation system in the GCC was implemented much later than in the rest of the world, at a time when global digitization had already advanced significantly. It's now difficult to imagine having to visit Tax Authorities for submitting tax returns, paying taxes, or filing disputes. The GCC Tax authorities have addressed these business needs by digitalizing all these processes
>
> **MEA CFO of a leading European packaging company**

ERP System Upgrades

Businesses require tax technology that aligns with their transactional speed and adapts to the evolving tax environment. This adaptability is particularly crucial for indirect tax in the GCC, an area that remains in flux and mandates a robust tax control structure.

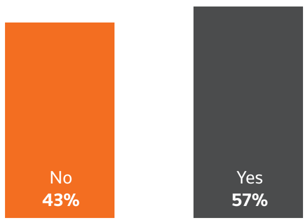
Some organizations choose to manage tax determination and compliance within their ERP systems. Compared to the survey from November 2021, there's been a notable uptick in companies undergoing ERP upgrades, with 57% currently in this process, up from 50%.

By industry, Healthcare stands out with 80% of its respondents confirming ERP upgrades, followed by Real Estate at 71%. On the other end of the spectrum, only 25% of Financial and Professional Services firms and 40% of ITC companies reported similar upgrades.

When broken down by revenue, companies in the sub-$10 million bracket reported the lowest rate of ERP upgrades at 36%. Interestingly, companies exceeding $10 billion followed closely. In contrast, the $1 to $10 billion revenue range showcased the most activity, with a striking 70% of respondents indicating ongoing ERP upgrades.

It is worth noting here that ERPs, though integral to IT infrastructures, aren't inherently designed with a tax-centric focus. As a result, tax considerations can be sidelined during ERP deployments or updates. This can result in an over-dependence on legacy tax coding or manual processes, both of which have a higher propensity for errors.

These issues can put additional strain on finance and tax departments to deliver accurate results. Ensuring a dependable tax setup in an ERP calls for specialized tax expertise and continuous adjustments to account for changes in tax norms or business dynamics.



> I personally do not believe that companies have caught up with the rapid digital evolution yet. Most multinational companies are still living with old ERPs, in which they have invested millions of dollars a long time back, and to which they have applied many alterations to suit their business needs. As a result, any changes to apply new technologies would be extremely expensive. Until new, modern, and user-friendly solutions arise in the IT industry, which are cost effective to cater for the massive current ERPs altered to fit various complex business models, I believe companies will limit their digitization journey to only automating data analysis and reporting to facilitate more data driven business decisions, which is what we are doing in our organization.
>
> **CFO of a British multinational automobile manufacturer for luxury vehicles**

Adoption of Tax Technology

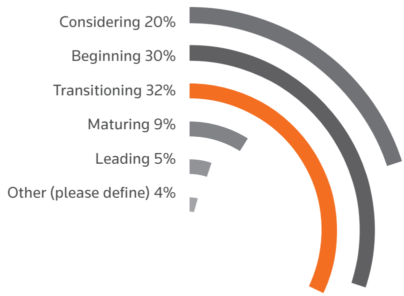
Technology can play a key role in enhancing tax management, potentially freeing up resources from compliance activities to focus on more effective risk mitigation.

Our most recent survey findings highlight an increasing awareness of this potential. Compared to the previous survey, there has been a significant decline in respondents stating tax technology is not a current priority, dropping from 53% to just over 40%. This trend suggests that more businesses are beginning to see the value in integrating tax technology into their operations.

More than 50% of respondents are now either "considering" or "initiating" the implementation of tax technology, a trend consistent with our previous survey's findings. However, notable shifts in 2024 shows those in the "maturing" phase have decreased from 18% to approximately 9%, while the "transitioning" segment has seen an uptick from 24% to 33%.

Within industry sectors, only ITC surpasses the 10% mark, with 11% identifying as "leading." It's also the sole sector to exceed 14% in terms of maturity, registering at 22%. When discussing the "beginning" or "transitioning" phases, Family Holdings and Healthcare are distinctly more inclined to identify with these stages.

From a revenue perspective, the "leading" response prominently emerges in companies with revenues exceeding $10 billion, recording a 27% response rate. Notably, this is in stark contrast to the 0% recorded for those in the $1 to 10 billion revenue bracket. Surprisingly, these very large enterprises are also the only group to report "beginning" at an elevated rate of 47%. Beyond this observation, revenue doesn't seem to significantly influence responses to the question.



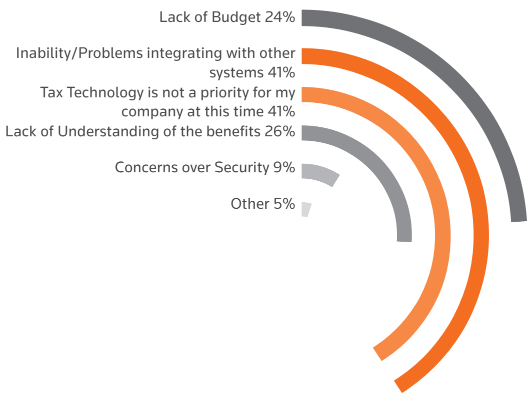
> We don't employ analytics as we don't have a unified ERP, making it more difficult
>
> **Imraz Khan, CFO, MEA at IDEMIA**

Tax Technology Implementation: Key Barriers

Looking at the latest survey results, it is evident that CFOs are facing two primary barriers when it comes to implementing tax technology. Approximately 24% of respondents pointed to budget constraints as a predominant challenge, although this represents a marginal decline of about 2% compared to two years ago.

However, a more pronounced concern has emerged. Over 40% of participants found that the integration of tax technology tools with their existing systems is a significant obstacle. This is a notable jump from the 27% who expressed the same sentiment in our previous survey.

To address this concern, organizations could consider implementing tax technology solutions that are designed for seamless integration with current ERP and business systems. Such a choice not only simplifies the implementation process but also prevents unnecessary maintenance costs and technical complications down the line.



Here is a breakdown of the challenges faced in specific industries:

- **Budget constraints:** Industrials and ICT sectors feel this pinch most, with 38% and 33% respectively citing lack of budget as a primary challenge.
- **Tax technology not a priority:** This sentiment is particularly pronounced in the Energy sector at 38%, and overwhelmingly in Consumer Goods, where a striking 87.5% felt it wasn't a priority.
- **Lack of understanding of benefits:** Family Holdings and Industrials both display a significant knowledge gap, with over 40% in each sector not recognizing the benefits of tax technology.

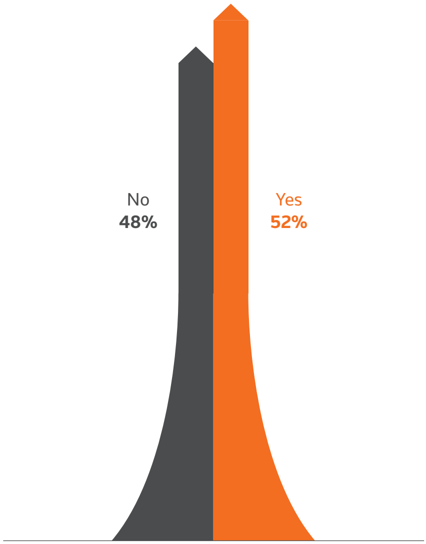
Interestingly, budget constraints pose the greatest challenge for companies with revenues exceeding $10 billion (31%) and those in the $10 to $50 million bracket (38%). Companies with less than $10 million in revenue find it least challenging, with only 9% citing it as an issue.

Integration is a predominant challenge for companies in the $10-50 million range, affecting 49%. Notably, a lack of understanding regarding the benefits is prominent in only one category: companies with a revenue range of $1 to $10 billion, where an astounding 53% cite this concern.

Harnessing the Power of Transaction Data

In the GCC's data-rich business environment, the ability to effectively manage and analyze transaction data can be incredibly valuable. It goes beyond compliance. Interpreting this data can offer actionable insights, leading to smarter business decisions. Companies can identify trends and refine their financial strategies.

To explore whether CFOs are leveraging the potential of their transaction data, we asked respondents whether their tax departments have the ability to analytically process transaction data and add value to their business operations. Overall, more than half (53%) of survey respondents answered "Yes".



> I believe strongly that data analytics has the potential to play a crucial role in modern tax operations, offering valuable insights and enabling businesses to make informed decisions and improve overall tax compliance. Our organization is currently using a fairly manual approach to analyse and calculate tax positions, based on SAP and SLX system extracts and the 'old fashioned' approach of using Excel spreadsheet calculations, which are then discussed and assessed by external consultants before our various tax return submissions. We are aware of several reputable data analytics tools and are considering implementing SAP Analytics Cloud (based on S4HANA) in due course. It will be of the essence to ensure no compromise on data security when implementing this support tool, certainly in close coordination with our tax consultants at HQs and locally.
>
> **Benjamin Steinberg, CFO, Messe Frankfurt**

> In the area of VAT, data analytics is very important. We leverage analytics to check for inconsistencies, trends, bucket-wise analysis and so on
>
> **MEA CFO of a leading global investment bank**

As this is a newly introduced question for the 2024 survey, our analysis focuses specifically on revenue and industry sector.

By industry:

- Healthcare, Consumer Staples, and Real Estate sectors stand out with high levels of affirmative responses, registering at 78%, 67%, and 65% respectively.
- On the flip side, the Energy/Materials sector showed less confidence with only 40% agreement, followed closely by Consumer Discretionary at 44%.

By revenue:

- Companies in the revenue bracket of $250 million to $1 billion showed the strongest agreement at 76%.
- Large companies, with revenues exceeding $10 billion, also demonstrated a significant agreement at 64%.
- Conversely, companies with revenues below $250 million largely disagreed with the statement:
    - o Those between $10 million and $50 million: 35%
    - o Between $50 million and $250 million: 44.5%
    - o Companies with revenues under $10 million: 45.5%

These findings underscore the varied landscape of analytical capabilities across industries and revenue tiers.

Tax Technology:
The Next 5 to 10 Years

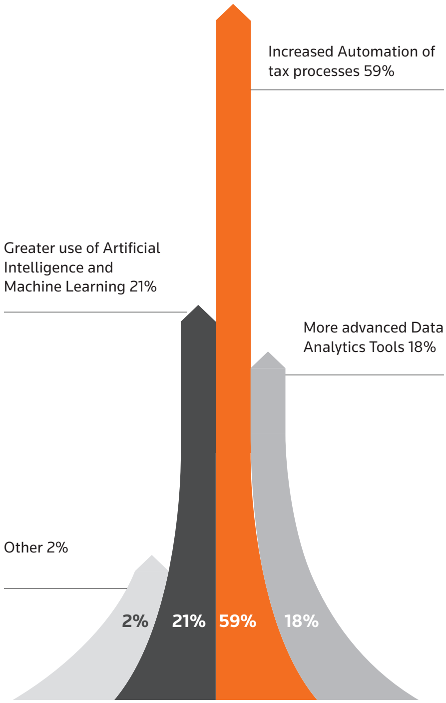
The trajectory of tax technology has always been dynamic, and understanding where it might head in the near future is essential for businesses aiming to stay ahead.

For this year's survey, we introduced a new question to glean insight into how CFOs see tax technology evolving over the next 5 to 10 years. Overall, close to 60% of respondents expect to see increased automation of tax processes, while 22% anticipate greater use of AI and machine learning.

Looking at the findings in more detail, Family Holdings/Conglomerates lead the charge in emphasizing increased automation of tax processes, with a noteworthy 75% in agreement. They're closely followed by the Healthcare and ICT sectors, both at 67%. In contrast, the Energy/Materials sector shows more reservation, with just 46% of its respondents sharing the same sentiment.

> Tax automation will continue to increase. This is due to the rising importance of tax in the region with economic diversification efforts, to match with the ongoing digitization journey of authorities and the increasing importance of tax components in financial decision-making. Timely, transparent and high-quality data will continue to be crucial for future automation efforts in the area of tax.
> **CFO of a leading European chemical and FMCG company**

> E-invoicing in KSA is the first step to having a fully automated VAT system. A move toward a more unified trade and travel block will see similar requirements across the GCC
> **Imraz Khan, CFO, MEA at IDEMIA**



Expectations of increased use of AI and Machine Learning were highest amongst Energy/Materials, Industrials, and Consumer Discretionary (more than 30%) and lowest among ICT, Real Estate and Family Holdings (15% or less). Notably, Data Analytics was not on the radar for Family Holdings, Industrials, and Consumer Discretionary Sectors, each registering less than a 10% response rate.

Analyzing the feedback through the lens of company revenue paints a differing picture. Companies boasting revenues above $1 billion demonstrated a reserved outlook towards the adoption of automation in tax processes compared to their smaller counterparts — 48% versus a 65% average. However, they exhibited a significantly heightened interest in advanced data analytic tools, with 31% expressing anticipation compared to a mere 14% among lower revenue entities.

> Most companies have given their CFOs the mandate to drive the automation agenda. The tax ecosystem is one vertical of this agenda. Depending on the tax ecosystem and its maturity, in terms of legislation and system infrastructure, I expect to see more tax automation within 5 years rather than 10 years.
>
> **Antonio Chedrawy, CFO, Omnicom Media Group (MENA)**

> The anticipation of increased tax automation in the next 5 to 10 years is driven by the growing recognition of its potential to simplify tax processes. As businesses face the challenges of increased complexity in tax regulations and compliance requirements, automation is a convenient way to offer a solution that can streamline operations, minimize the factor of "human error", ensure compliance with changing tax laws, expedite processes and enhance data management. As a result, businesses will be able to free up valuable resources previously allocated to manual tasks, allowing professionals to concentrate on strategic decision-making and higher-value activities that contribute to the overall growth and success of the organization.
>
> **Benjamin Steinberg, CFO, Messe Frankfurt**

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