

## Plenary Session 2: Organisational Change Management as a Key Enabler for Digital Transformation

This session aims to explore how tax authorities can manage change effectively, identify and overcome resistance to change, and effectively shift paradigms to meet the demands of a digital world. Additionally, the session will examine strategies for optimising resources to ensure efficient and effective management of the digital transformation process, business process re-engineering including project portfolio management, workforce planning, training and development, and stakeholder engagement.

### Presentation

- Mr. Richard Stern and Mr. Chris Sanger, Ernst and Young

### Panel discussion

- Ms. Béatrice Sarrot Reynauld de Cresseneuil, Deputy Head of Department of International Relations, French Ministry of Finance
- Mr. Datuk Mohd Nizom Sairi, Chief Executive Officer/Director General, Inland Revenue of Malaysia
- Mr. Philippe Tchodie, Commissioner General, Togolese Revenue Office (OTR) and Chairman of ATAF Council

### Open discussion and Q&A

### Moderator

- Ms. Melinda Crane, Moderator, Deutsche Well

Presentation

Sanger, C. & Stern, R. (2023). *Organisational change management as an enabler of the digital transformation of tax administrations*. EY.



# Organizational change management as an enabler of the digital transformation of tax administrations

**September 2023**

# Today's session

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- ▶ Potential gains from digital transformation of tax administration
- ▶ The process of organizational change management
- ▶ Key lessons from experience to date



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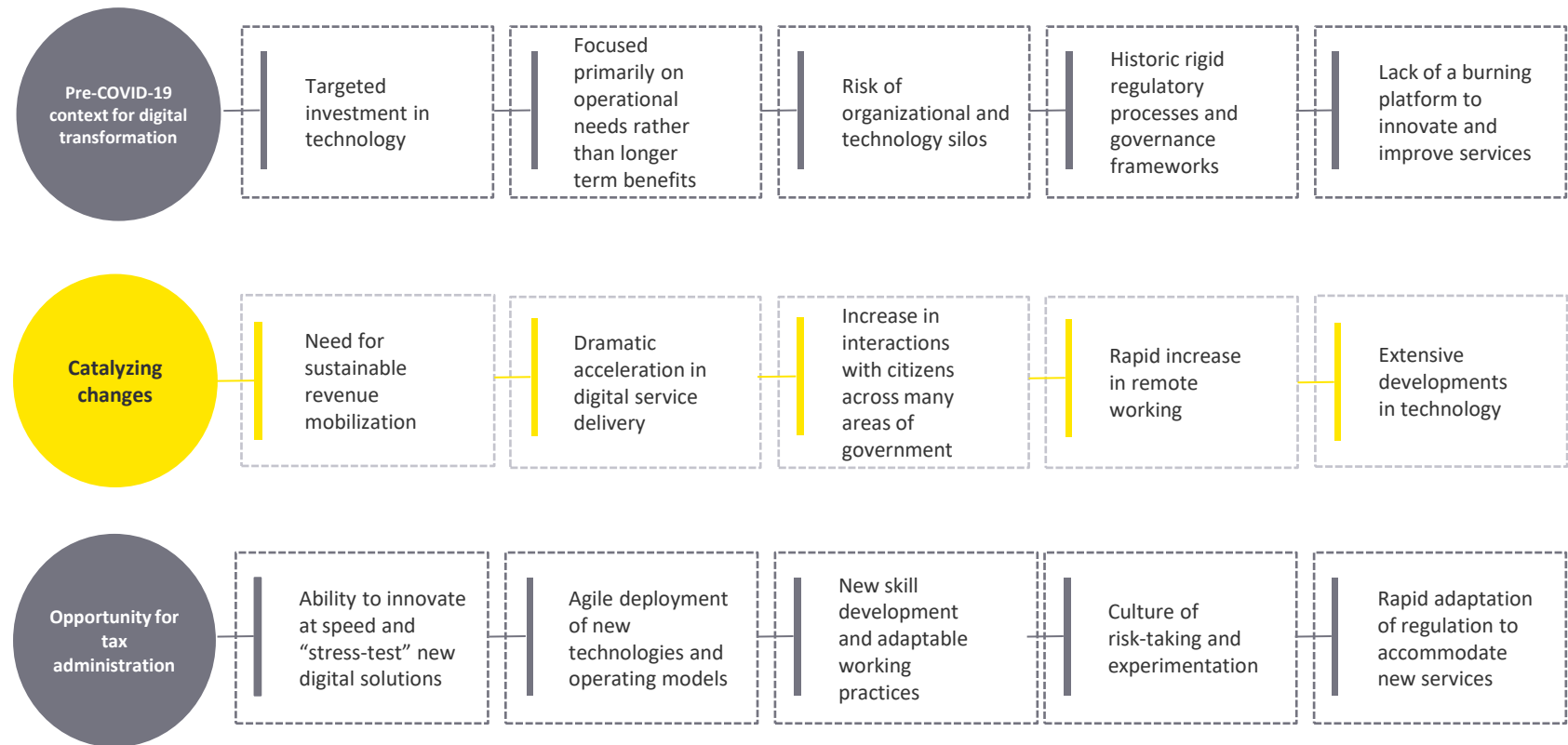
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# Where we are today: the opportunity for reform of tax administration

COVID-19 was an accelerator of digital transformation in tax administrations globally. The rapid shift to digitalization showed the possibilities when tax administrations embrace technology and empower their workforces to experiment with new approaches.

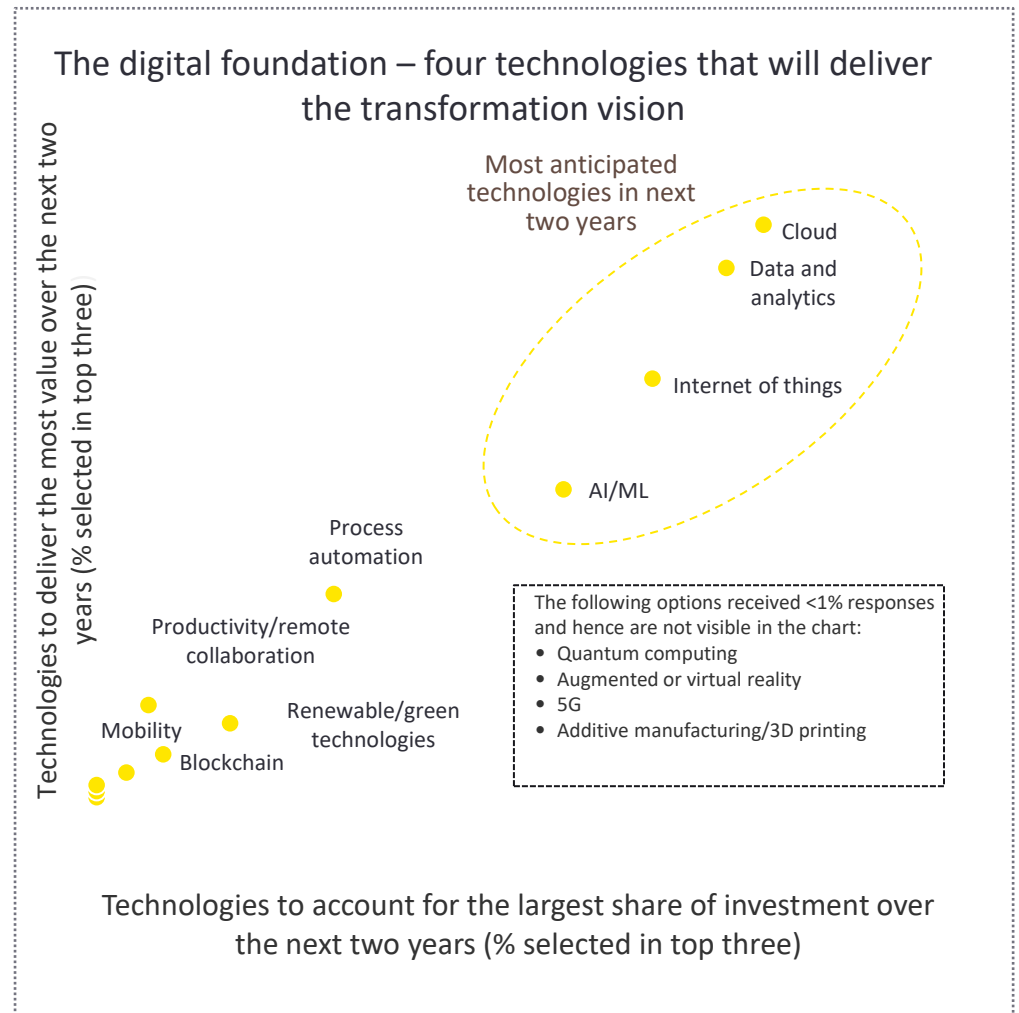


# The opportunity created by new technologies

## Research perspectives

Disruptive technologies can transform services for citizens and communities and free up public workers to focus on what is important. These technologies also provide a unique opportunity to free up resources to invest in priority policies.

With limited budgets, governments face tough decisions on where to invest. Our 2022 Tech Horizon Survey identified four priority technologies — cloud, data and analytics, the internet of things (IoT), and AI and machine learning (ML) — with the potential to radically change ways of working.



Source: EY Tech Horizon Study 2022; EY Knowledge analysis

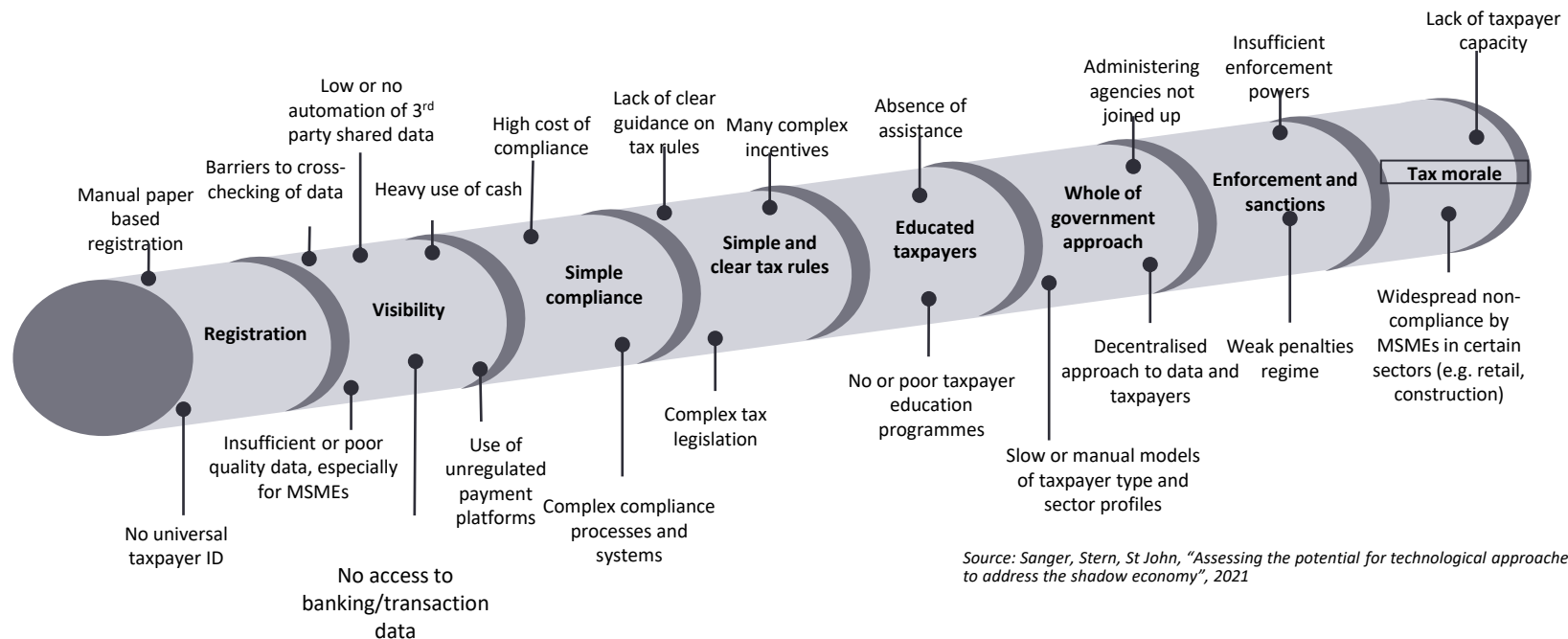
# Example of opportunity: tackling the shadow economy

## Tax administration issues

- Lack of data for small businesses
- Lack of a universal tax identification number.
- Insufficient data, particularly banking data, to track and large businesses and complex transactions.
- Complex incentives administered by multiple agencies.
- Low levels of automation to share government data or input third party data into tax administration systems.
- Limited use of integrated analytics to analyse, cross-check or construct dynamic models of taxpayer type and sector profiles.

## Taxpayer issues

- Widespread non-compliance among certain smaller firms within key sectors (e.g., construction and retail).
- Heavy use of cash, increasing use of e-payment platforms.
- Groupings of family or associated companies that act in concert to operate in the shadow economy.
- Compliance complexity and high cost of compliance.
- Manipulation to fall into the SME regime/claim incentives.



# Example of opportunity: applying new technologies

## Expanding the data net to increase visibility

- Data standards.
- Improved data collection & automation for 3<sup>rd</sup> party info.
- Electronic invoicing.
- Tools to aid taxpayer compliance, e.g. chatbots, prefilled returns.
- Blockchain to monitor large/complex tax arrangements.
- Build automatic reporting into incentives.

## Digital transformation building blocks

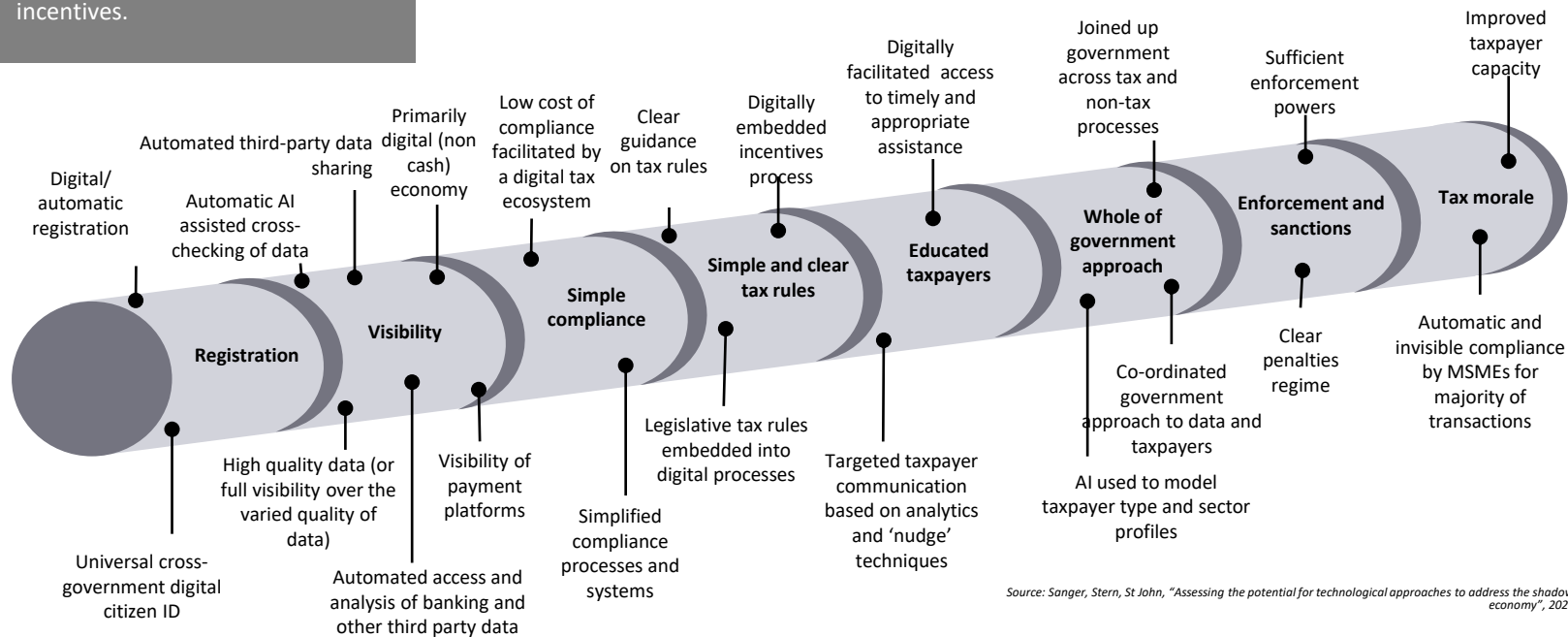
- Mandatory tax ID number.
- Data fabrics.
- API based on blockchain for data sharing and cross-check.
- Modernise legacy systems.
- An app or online tool for SMEs/micro business.

## Techniques and processes

- Using AI to build profiles.
- Use behavioural insights to target taxpayer comms.
- Introduce a non-final WHT in challenging sector(s)
- Technology assessment and capacity building.

## Reforming instruments

- Impose tax at partnership level.
- Introducing a presumptive tax (e.g. a turnover based tax for SMEs/micro business).

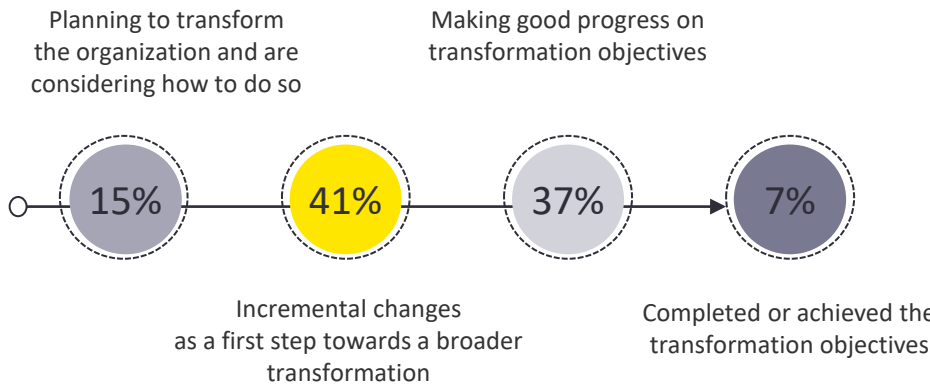


Source: Sanger, Stern, St John, "Assessing the potential for technological approaches to address the shadow economy", 2021



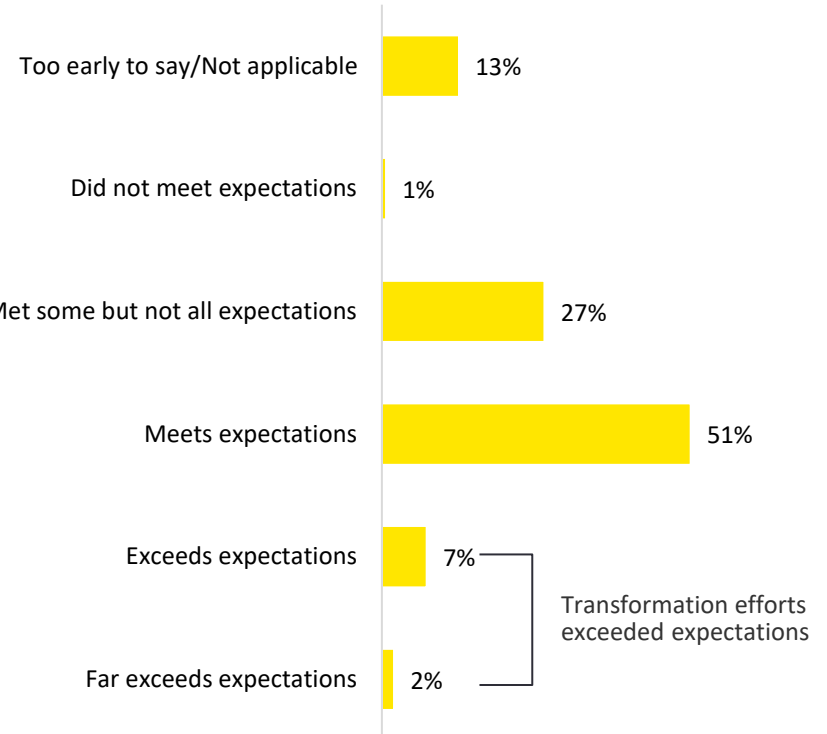
# Yet many transformation programs experience challenges in planning and implementation

## Status of government organization's digital transformation % of respondents



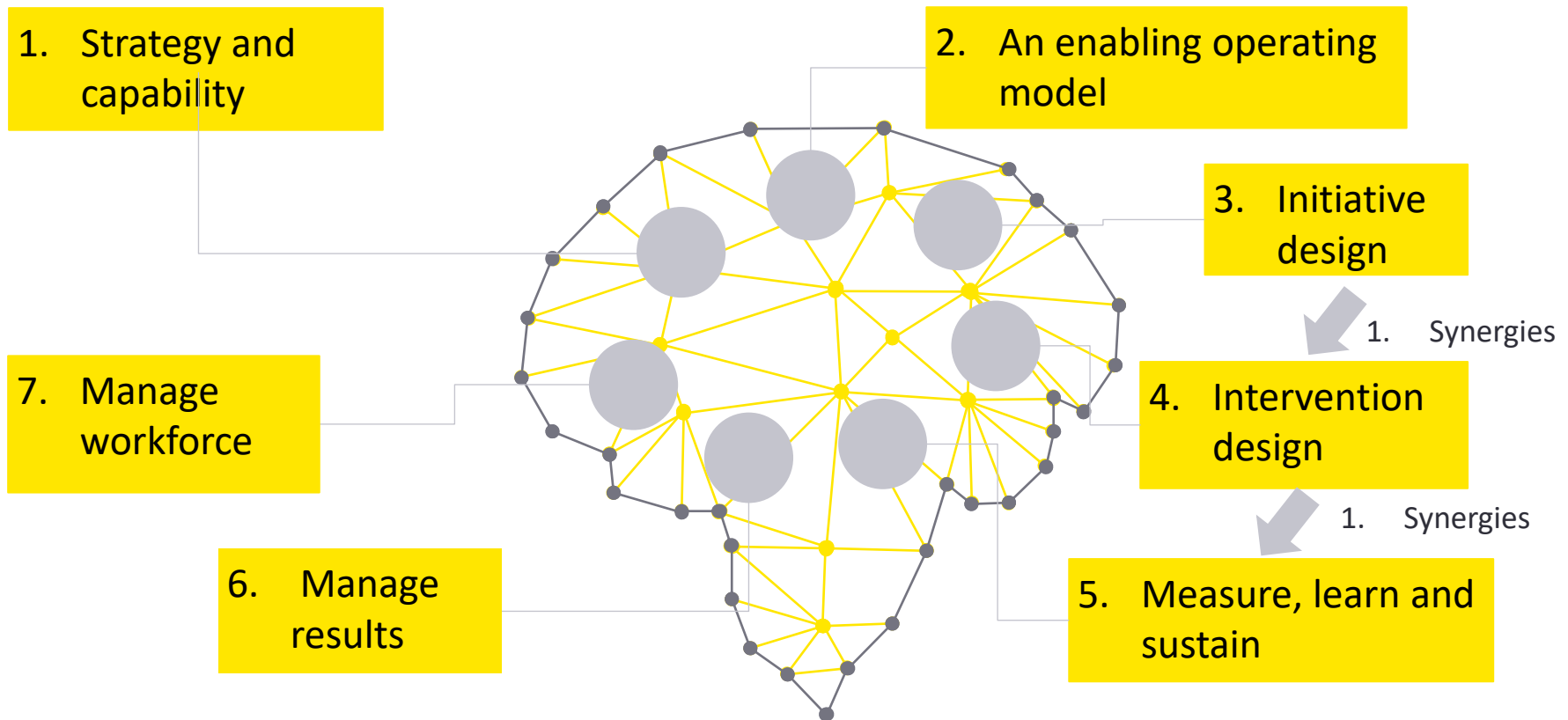
Less than one in ten respondent's organizations have completed or achieved transformation objectives; while more than half (56%) are in early planning stage or making incremental changes as a first step towards broader transformations.

## Success of transformation efforts so far % of respondents



Source: EY Tech Horizon Study 2022; EY Knowledge analysis

# Planning for success: Using the “seven synapses” model for Organizational Change Management



Source: Adapted from High Stakes, High Rewards (EY, 2017)

# 1. Strategy and capability

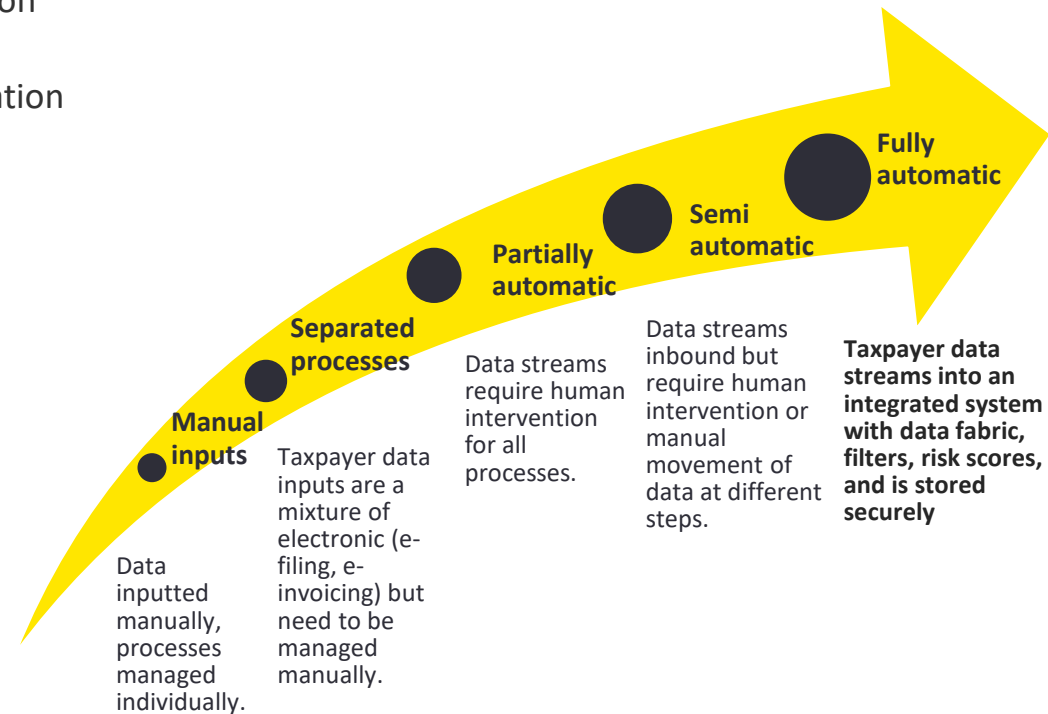
## Setting the vision

- Be familiar with government strategy
- Determine how tax administration transformation reflects overall strategy
- Sketch the general parameters of tax administration
- Determine how automatic the system will be
- Sketch and map the system architecture
- Determine the role of the taxpayer
- Consider possible technologies and budget parameters

## Key questions

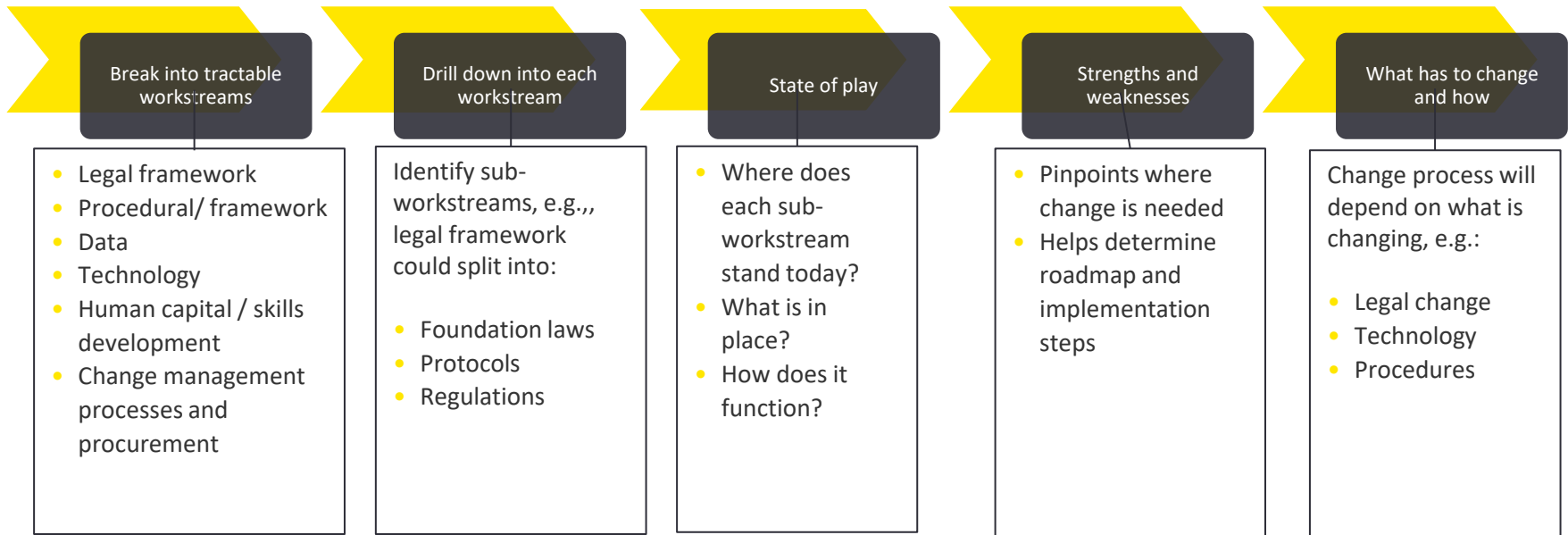
- What do you need to know to craft this vision?
- What would the tax administration like to be able to do in the future that it either cannot do now or wants to change?

## Snapshot: Determining the level of automation



## 2. An enabling operating model

### Which parts of the tax administration operating model will benefit from digitalization?



#### Input sources include:

- Statistical publications (background statistics)
- Laws, implementing regulations, circulars, guidance notes
- Process maps (procedures)
- Technology specification documents
- HR documents (although a skills inventory may be needed)
- Internal procedures manuals (change management, procurement, national governance guidelines, etc.)

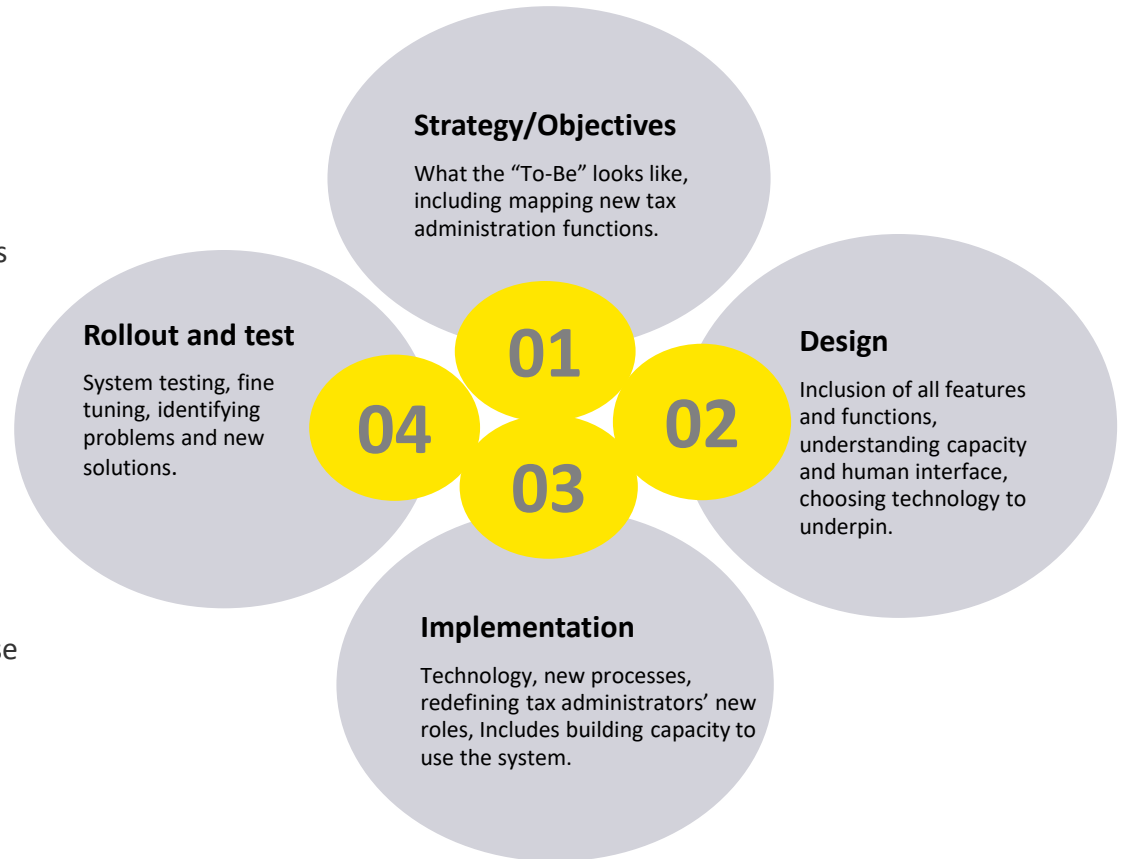
# 3 and 4. Initiative and intervention design

## Building up the digital roadmap

The Digital Roadmap is the bridge between planning and implementation. It involves:

- Taking baseline (A) and specific vision (B) and determining how to get from A to B including:
  - Developing a change management plan and step-by-step implementation in the six areas listed under the baseline
  - Developing a timetable for implementation, determining if it will be phased and how
  - Developing a yearly budget
  - Developing a procurement plan
  - Carrying out the monitoring and evaluation framework
- Testing each output to ensure it is fit for purpose and is functioning as envisaged
- Revising and revisiting outputs and functions which are not operating as envisaged.

## A blueprint for transformation



# 5. Measure, learn and sustain

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## Insights

- Leaders diligently focus on measuring the impact of their advanced technology initiatives – and learn how to adapt.
- Lagging organizations inconsistently apply performance measurements and often cannot overcome perceived barriers in developing an advanced analytics approach to measure impact.
- Poor communication of outcomes is a top challenge to value realization.

## Key pain points

- No visibility into value created from initiatives.
- Performance is measured and managed – but inconsistently across functions and lines of work.
- Definition of organizational outcomes is typically established up front, but measurement is often difficult.

## Leading practice for success

- Value measurement is integral
- Manage digitalization performance using defined financial and non-financial measures
- Use actual results and learnings to make decisions
- Embed lessons learned across organization
- Link outcomes to initial policy/guidance



# 6. Manage results

## Necessary systems for transformation process

Systems/processes, institutional features/admin features to get the process done:

- Budgeting
- Staffing plan
- Systems changes
- Data collection
- Political support
- Buy-in from staff

Setting up a monitoring and evaluation system for the transformation and for determining what success looks like

Risk: identifying, evaluating, and mitigating risks

## Example: Improving user adoption

### 1. Provision of incentives

- ▶ Enhance tax certainties by way early confirmation of tax position
- ▶ Reduced tax penalty or surcharge of any errors made due to technology issues.
- ▶ Tax incentives/ subsidies.
- ▶ Extend tax filing due dates.

### 2. Better support and user experience

- ▶ Friendly user interface will encourage user adoption.
- ▶ Interactive chatbot to provide 24/7 support to taxpayers.
- ▶ Leverage nation-wide digital identity to streamline log-in processes.
- ▶ Clear technical specification in order to support taxpayers' tech development.
- ▶ Provision of technical helpdesk to answer any technical issues.



# 7. Manage workforce

## A journey, not a destination



# 7. Manage workforce

## The importance of organizational culture

What are the most significant culture challenges you've encountered during your organization's transformation? [Select up to three]



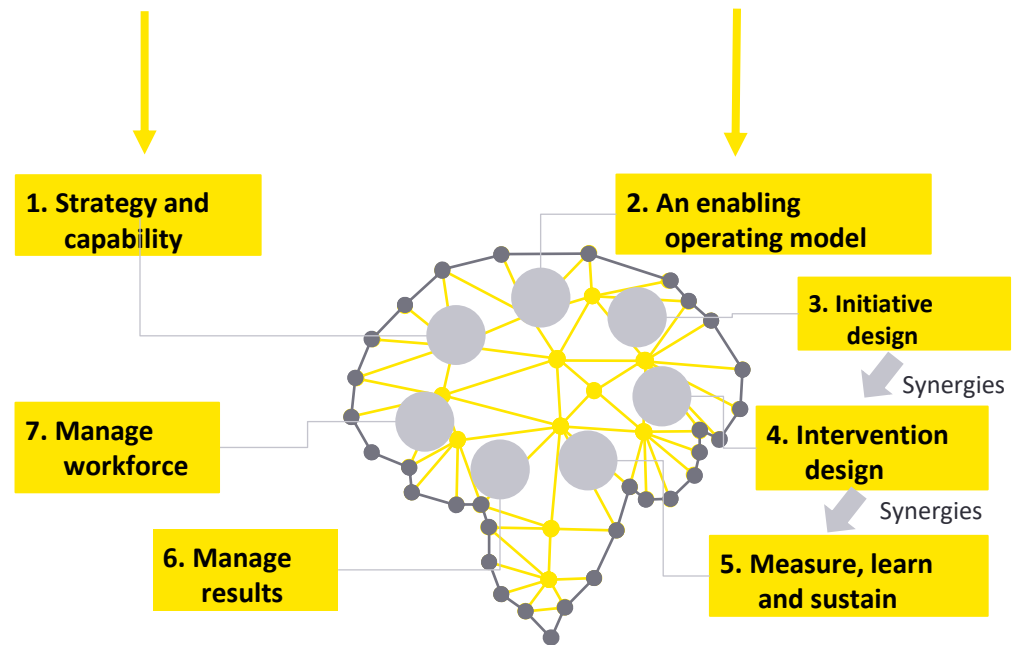
# Key lessons from experience to date

## Takeaways

- Digitalization can transform tax administration – but may be held back by poor planning, a lack of capabilities and outmoded ways of working.
- Organizational change management requires a strong vision, digital roadmap, a communications / stakeholder management plan, and the right governance, monitoring and evaluation systems.
- Culture will generally be at the center of transformation. Future-fit public sector organizations need digitally aware leaders and a plan for building the right capacity, skills, culture and employee experience.

## Root causes for failure in ICT projects

- Fragmented technology
- Disconnected and siloed data
- Reactive to legislative change
- Big bang approach
- End user resistance
- Slow and poor user adoption



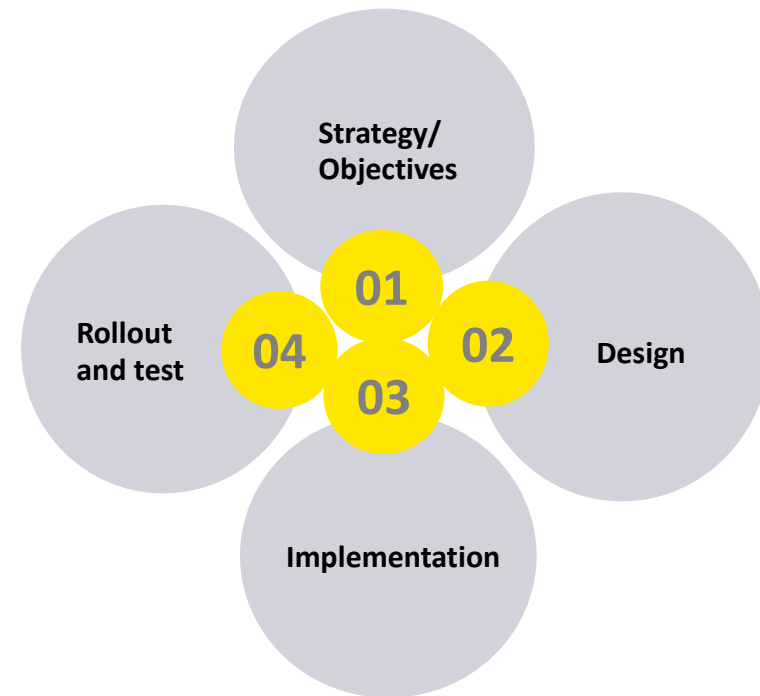
# Application to tax administrations

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## Managing change to enable digital success:

- Preconditions for success:
  - High-level support for governance mandate – from Ministers and Tax Commissioners
  - Supportive and cohesive team identities
  - Engagement with key stakeholders
- Strong, service-delivery focused leadership:
  - Get the right mix between tactical taxpayer service and long-term strategic process/approach change
  - Appoint project managers and steering committees with sufficient technical expertise
- Establish trust:
  - With taxpayers
  - With private sector service providers

... all enabled by a  
**DIGITAL TAX ROADMAP**



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