

To Transform Tax Functions, Transformational Leaders are Needed

*Considering a More Influential Approach
to Tax Leadership*

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In response to a daunting mix of forces transforming corporate tax functions, tax executives pursue efforts to upgrade the skills, processes and technology within their areas. As the impact of these economic, regulatory, social and technological disruptions intensify, tax executives need to focus on a more personal and pivotal enabler of tax transformation: their own leadership skills.

One leadership model tax executives should consider is transformational leadership, a highly learnable method that emphasizes the exertion of far-reaching influence instead of direct authority. In particular, this model can help leaders to enhance their ability to effectively respond to increasingly complex responsibilities, interactions and relationships.

Just as manual data gathering activities are no longer practical for most tax departments, the tax executive's traditional leadership tool box—one that primarily depends on technical competencies—may not be enough to address the complexity and ambiguity that exists in the tax management realm.

“Traditionally, disclosures in the annual report [were] the main publicity that tax received,” notes a recent Deloitte analysis of tax executives' evolving roles. “Now, tax is progressively taking center stage as the subject of regulatory, media, and public scrutiny. In response, tax directors and their teams are changing emphasis from stewardship and operational activities to become catalysts for change by setting strategy and adding value as a business partner.”¹

Technical tax management skills remain absolutely necessary, but they are no longer sufficient on their own; this is evident in the growing demand for new leadership insights among tax professionals being witnessed at industry conferences. At these events, some of the most highly attended sessions—and most passionate discussions—center on leadership and management topics. Clearly, tax professionals want to understand what meaningful leadership should look like in the tax office.

The discussions that follow examine the drivers transforming traditional tax functions and traditional forms of functional leaderships, define and illustrate transformational leadership, and show how current and future tax leaders can integrate transformational leadership into their leadership styles.

The Case for *Leadership* Transformation

Tax is hardly alone when it comes to functional transformation.

Digital transformation continues to ripple through companies and industries as cloud computing, big data and analytics, blockchain and other technological breakthroughs advance the role of the chief information officer (CIO). New marketing technology empowers the chief marketing officer (CMO) to precisely quantify and track their function's impact on revenue, boosting their function's relevance in the C-suite.

A similar star turn moment has arrived for chief tax officers (CTOs) and their tax functions. “The worldwide tax landscape has irreversibly changed, putting [multinational enterprises'] tax departments and the global tax planning they have relied on for so long in the center of a proverbial super typhoon,” writes *CEO Insights'* Henry Martin. “Only through careful navigation and the help of powerful tools will [global companies] weather the tax planning storm and effectively manage tax liability and reputational risk.”²

Recent changes to international fiscal and tax policy, such as Brexit, EU State Aid investigations, and the OECD Base Erosion and Profit Shifting (BEPS) Actions, pose new risks and opportunities tied directly to tax management strategies and decisions. The possibility of substantive US corporate tax reform has companies scrambling to conduct tax-centered scenario planning exercises.

The increasingly strategic, interrelated needs bearing down on tax functions require specific leadership skills. PwC's “Tax Function of the Future” research identifies numerous new skills, stakeholder relationships and modes of influence that tax leaders must master, including:

- “Responding in a clear and thoughtful way to a much wider base of stakeholders;”
- Influencing investors, non-governmental organizations (NGOs), the media and the general public;
- Assessing and mitigating reputational risk;
- Developing a clear vision for the function's desired future state;
- Charting a transformation course that is “immediate, holistic and practical;” and
- Securing the backing of the wider company.³

Nike CTO Wayne Monfries names translation and education as key facets of his role. The rest of the organization's lack of clarity on technical tax matters and the bottom line impact of these issues "calls out for translation," he notes. "As tax professionals, we play an important role in educating others about the corporate tax system and tracking and managing changes and impacts as they evolve."⁴

These qualities, requirements and activities fall outside the traditional boundaries of the CTO job description and outside the scope of most tax executives' current leadership approaches—which is why transformational leadership is worth considering.

Higher Levels of Motivation

Leadership expert James MacGregor Burns and organizational psychology authority Bernard Bass shaped and advanced the concept of transformational leadership in their writing and research starting in the late 1970s through the early 21st century. A new crop of organizational psychologists and leadership experts continue to write on and advance the approach, and a significant amount of research has illuminated the positive outcomes of this leadership style.

Burns describes transformational leadership as "engag[ing] with others in such a way that leaders and followers raise one another to higher levels of motivation and morality.... Power bases are linked not as counterweights but as mutual support for common purpose."⁵ Bass elaborates that these types of leaders influence and motivate their teams and other stakeholders by:

- Making them more aware of the importance of task outcomes;
- Inducing them to transcend their own self-interest for the sake of the organization or team; and
- Activating their higher-order needs.⁶

Bass and other transformational leadership experts tend to contrast the approach with more traditional command-and-control forms of leaderships. These tactical styles focus heavily on doling out contingent reinforcement (praise and rewards in response to actions the leader deems positive, or criticism and punishments for actions the leader views as missteps or mistakes) in the service of achieving specific, straightforward tasks.

This approach consumes significant time and energy because it requires leaders and managers to constantly monitor and respond to their direct reports' daily activities.

In contrast, transformational leadership aims to influence a much broader set of groups: direct reports, other organizational functions, the rest of the workforce, executive colleagues, the Board, shareholders and other external stakeholders.

These leaders exercise their influence based on the notions that change occurs due to the actions of a large group of individuals, and that people are most effectively influenced by leaders who deeply understand, believe in and effectively communicate organizational goals and how these objectives should be attained. Transformational leadership does not depend on positional authority, which means that these leaders motivate individuals and teams beyond their management purview.

There are four enabling components, or pillars, of transformational leadership:

1. **Idealized Influence:** This enabler relates to serving as a role model for the change that the leader is guiding; it is frequently referred to as "walking the walk" in leadership literature. "Transformational leaders behave in ways that result in their being role models for their followers," note Bernard Bass and University of Washington professor Bruce Avolio. "The leaders are admired, respected, and trusted. Followers identify with the leaders and want to emulate them."⁷
2. **Inspirational Motivation:** This enabler is about stimulating in others a sense of purpose and excitement concerning shared goals. Transformational leaders, according to Bass and Avolio, "motivate and inspire those around them by providing meaning and challenge to their followers work. Team spirit is aroused. Enthusiasm and optimism are displayed. The leader gets followers involved in envisioning attractive future states...and also demonstrates commitment to goals and the shared vision."⁸
3. **Individualized Consideration:** This enabler involves the demonstration of awareness and consideration for the needs of followers and other stakeholders. "The transformational leader treats each follower as an individual," Bass notes, "and provides coaching, mentoring and growth opportunities."⁹

4. Intellectual Stimulation: This enabler refers to curiosity, the drive to learn and the ability to inspire these qualities in others. Transformational leaders “support followers as they try new approaches and develop innovative ways of dealing with organizational issues,” notes Western Michigan University Professor Peter Northouse. “It encourages followers to think things out on their own and engage in careful problem solving.”¹⁰

Since it began attracting significant attention in the 1980s and 1990s, transformational leadership has been applied in dozens of different realms, including in most industries, government sectors and other corporate functions.

Last year, *Forbes* published an article detailing how Ceridian CEO David Ossip’s transformational leadership approach resuscitated a disgruntled workforce and elevated the human capital technology firm’s lowly Glassdoor rating (2) to new heights, while landing Ossip on Glassdoor’s “Highest Rated CEOs” list.¹¹

In an article detailing how transformational leadership can help drive change in the IT function, the CIO of Blue Cross and Blue Shield of Kansas City emphasizes that he does not view a transformational leader as an agent of radical change: “I see it as more of a mentoring or coaching role,” the IT executive explains. “It’s about motivation, empowerment and morale of the employees. You have to take the time to individualize, be the role model and understand people and how they think. You need to challenge long-term assumptions and beliefs and think about things a different way.”¹²

Integrating Transformation into Your Leadership Style

Terms like charisma, *esprit de corps*, inspiration and even passion may make some analytically minded, technically accomplished tax executives skeptical. This is understandable. On the surface, these qualities may seem difficult to link to tangible processes, steps and measures. However, most of these qualities are outcomes of transformational leadership enabling competencies that can be distilled into straightforward activities and steps –and then learned, measured and improved.

Transformational leadership is not the byproduct of specific personality qualities; it is the outcome of a concerted effort to optimize the tax executive’s technical

mastery through specific relationships, behaviors and interactions. Other analytically centered functional leaders have made, or are in the process of pursuing, similar transitions. Integrating elements of this type of leadership into your own leadership style starts with a shift in perspective. For example, when discussing the internal audit function’s transformation, Raytheon’s top internal audit executive discusses the importance of rethinking traditional performance measures: his group now recognizes that the number of calls the internal audit functions receives from the business asking for guidance marks a more accurate indicator of the function’s strategic contributions and value than the sheer number of individual audits it churns out.¹³

All internal audit functions absolutely must execute audits with technical proficiency. The most valuable internal audit functions also add value by addressing issues that arise in strategic planning and by assisting business colleagues in the achievement of business goals in an ethical and compliant manner.

To identify ways to deploy transformational leadership approaches, tax executives can consider the following questions and steps within each of the method’s four enabling competencies:

- 1. Play the part:** Demonstrating idealized influence means serving as a role model for the changes the tax function and the company are undergoing. These behaviors require tax executives to speak the language of the business. As Nike’s top tax executive mentions, tax should translate technical tax matters and challenges into a more business-friendly narrative.
- 2. Setting a vision:** Demonstrating inspirational motivation begins with establishing a clear vision for the tax function. What future state is the tax function striving to achieve? Once the vision has been established, it should be continually reinforced through narratives that relate to strategic objectives and the daily activities of the rest of the business.
- 3. Lead and interact with others in their context:** Demonstrating individual consideration requires tax executives to lead their tax professionals how they want to be led. To do so, tax leaders should recognize the individual motivations and learning styles of their reports and adapt their communications, interactions and relationships with them accordingly.

4. Remain curious and inspire curiosity in others:

Demonstrating intellectual stimulation involves continuous learning and an environment in which provocative questions and constructive challenges to status quo thinking flourish. For instance, in the current environment tax leaders might consider putting forth questions such as: *Are there any blockchain applications that might benefit our tax management capabilities? What are the tax implications of machine learning and robotic process automation? How might predictive analytics strengthen tax compliance? How can we rethink our relationship with regulators? Can we influence NGOs?*

There are a number of communications, collaboration and innovation methodologies that can help tax executives practice these enabling competencies. Most of these techniques boil down to tactics that help transformational tax leaders share the story of a business function more effectively with more stakeholders inside and outside the organization.

“Certainly technical competence is first and foremost, but it’s sort of a given, too,” Tenet Healthcare CFO Daniel Cancelmi shared in a recent EY roundtable event in which finance chiefs weighed in on their chief tax officers.

“What I think is really important for a tax professional

is to be able to take this very complex information and function and be able to communicate it in plain English to a layperson who’s not involved on a day-to-day basis from a tax perspective. Communication—being able to convey the key themes and concepts to senior management, the board, etc.—is just incredibly important.”¹⁴

Leading CTOs agree. “It’s one thing to work inside a company and be a teacher, nurturer and bringer of value,” Ford CTO Diane Dossin recently told EY. “But I also have to be able to tell our tax story externally, and to teach others to do so too. That could mean to the IRS [Internal Revenue Service], it could mean to members of Congress and their staff, it could mean to securities analysts or it could mean to the press.”¹⁵

On their current narrative and transformational trajectories, corporate tax functions are poised to become key strategic partners that participate in strategic planning, drive scenario planning, and help identify the risks and compliance of new strategic initiatives. The success of this ongoing transformation hinges on tax executives’ ability to support, enable and navigate their teams to higher strategic ground; in other words, the extent to which they can transform their own leadership styles.

Personal Leadership Transformation

Prior to joining Vertex, Chief Tax Officer Peggi Rockefeller worked as a tax executive for a multinational conglomerate. Here, she recalls how a relatively straightforward activity helped her demonstrate several elements of transformational leadership, including walking the walk (idealized influence), leading followers based on their personal circumstances and preferences (individual consideration), stimulating a sense of purpose and excitement about shared goals (inspirational motivation), and curiosity (intellectual stimulation):

Although my responsibilities centered on tax management, I knew I needed to keep current with our company’s activities. Experience showed me that sooner or later, the impact of most executive decisions would reach the tax function. I set up a Google Alert to monitor my company, our major competitors and our largest customers. Whenever anything newsworthy occurred, my inbox would ding with a rundown of what we had decided or done, and what our competitors and large customers were up to. Not all of the information was relevant, and I knew about many of the developments prior to receiving the alert.

Frequently enough, though, the tool keyed me in to something important coming down the pike. Since I worked remotely from our corporate headquarters, when I did get to the corporate headquarters once a month I was armed with questions related to information I had gleaned from the alerts. One day I ran in to the head of corporate strategy and asked him about a move made by one of our large customers and a competitor that I thought would affect our expansion plans in the Midwest. He squinted at me and asked, “You’re still in tax, right?” I replied affirmatively, and added that I pay attention to everything the company does because most key decisions have tax consequences.

From that point on, the head of corporate strategy insisted that I pop into his office for a quick brainstorming session whenever I visited HQ. Those discussions helped me immensely in my role and enabled my input every time we contemplated a major decision. The discussions also showed me what was possible from a career elevation perspective. There are many different ways to elevate the strategic trajectory of tax functions and tax careers—one of those methods is only a click away.

Endnotes

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About Vertex

Founded in 1978, [Vertex Inc.](#) is the leading provider of corporate tax software and services to automate, integrate, streamline or outsource tax processes for companies of all sizes, from small to medium-sized businesses to global multinationals. Vertex provides solutions for all tax types with industry-specific solutions for retail, communications, hospitality and leasing industries.

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