

**PERFORMANCE MANAGEMENT FOR A TAX ADMINISTRATION:
INTEGRATING ORGANISATIONAL DIAGNOSIS TO ACHIEVE SYSTEMIC
CONGRUENCE**

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ABSTRACT

While there are various studies on tax administration performance, a study which holistically analyses a tax administration performance management system is lacking in the literature. This paper proposes a performance management framework for a tax administration that integrates the congruence model for organisational behaviour diagnosis. The central idea of the congruence model is that the effectiveness of an organisation in achieving its objectives depends on congruence between the different parts of the organisational components in the transformation process. It is emphasised that if a tax administration is to adopt a performance management system in an interactive way, it needs to be embraced at an operational as well as behavioural level.

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1.0 INTRODUCTION

The best tax policy in the world is worth little if it cannot be implemented effectively¹ and tax policy design must take into account the administrative dimension of taxation.² According to Bird,³ tax policy and tax administration interact at three distinct levels: (1) the formation of policy and the drafting of legislation; (2) the administrative procedures and institutions needed to implement legislation; and (3) the actual implementation of the tax system. Bird⁴ added that some key policy decisions do not seem to have taken adequate account of their administrative consequences, which could lead to limitations in implementing a good tax policy.

The importance of good tax administration has long been a concern of many parties. The subject of tax administration is extremely important both to those concerned with the key role increased tax yields can play in restoring macroeconomic balance and those concerned with tax policy and its effects on the economy in general.⁵ The way a tax system is administered affects its yield, its incidence and its efficiency. According to Bird, tax administration is a difficult task, and the best tax administration is not simply that which collects the most revenues; facilitating tax compliance is not simply a matter of adequately penalising non-compliance; tax administration depends as much on private as on public actions (and reactions); and there is a complex interaction between various environmental factors, the specifics of substantive and procedural tax law, and the outcome of a given administrative effort.⁶ Even though tax administration is complex, its significant effects on

¹ Richard Bird and Eric Zolt, 'Tax Policy in Emerging Countries' (2008) 26 *Environment and Planning C: Government and Policy*, 73–86.

² Richard Bird, 'Administrative Dimensions of Tax Reform' (2004) 10 *Asia-Pacific Tax Bulletin*, 134–50.

³ Richard Bird, 'Administrative Dimensions of Tax Reform' (2003) *ITP Paper 0302*.

⁴ *Ibid.*

⁵ Richard Bird and Milka Casanegra de Jantscher (eds), *Improving Tax Administration in Developing Countries* (International Monetary Fund, 1992).

⁶ Bird, above n 3.

tax policy and economy make it important to be understood because tax administration is tax policy.⁷

Considering the important role of a tax administration, it is also essential to ensure that the system is working well and it achieves the objectives it has established. One way to find out whether a tax administration achieves its goals is by measuring the tax administration performance. The following section discusses the literature on tax administration performance.

2.0 TAX ADMINISTRATION PERFORMANCE

Tax administration has to perform in an efficient and effective manner in order to ensure an equitable and economically efficient taxation system exists.⁸ The importance of an efficient and effective tax administration is supported by Gill⁹ who stated that ‘while the tax policy and tax laws create potential for raising tax revenues, the actual amount of taxes flowing into the government Treasury, to a large extent, depends on the efficiency and effectiveness of the revenue administration’. Gill¹⁰ further added that weaknesses in revenue administration lead to inadequate tax collections, hence shrinking the budgetary resource envelope, and affecting the government’s ability to implement its policies and programs and provide public services.

Despite the importance of having a successful revenue administration, there are no general, agreed upon measures which provide for the comparative assessment of a tax administration’s performance.¹¹ Klun¹² also reflected that the literature does not offer a

⁷ Milka Casanegra de Jantscher, ‘Administering the VAT’ in Malcolm Gillis, Carl Shoup and Gerardo P Sicat (eds), *Value Added Taxation in Developing Countries* (World Bank, 1990).

⁸ Maja Klun, ‘Performance Measurement for Tax Administrations: The Case of Slovenia’ (2004) 70(3) *International Review of Administrative Sciences*, 567–74.

⁹ Jit B S Gill, ‘The Nuts and Bolts of Revenue Administration Reform’ (2003), <<http://www1.worldbank.org/publicsector/pe/tax/NutsBolts.pdf>>, 1.

¹⁰ Ibid.

¹¹ Margaret Levi, *Of Rule and Revenue* (University of California Press, 1988); Malcolm Gillis, ‘Tax Reform: Lessons from Postwar Experience in Developing Countries’ in Malcolm Gillis (ed), *Tax Reform in Developing Countries* (Duke University Press, 1989), 492–520; Robert Talierno, ‘Designing Performance: The Semi-Autonomous Revenue Authority Model in Latin America and Africa’ (Policy Research Working Paper 3423, World Bank, 2004).

common definition for performance measurement of a tax administration system. In fact, there is no one set of widely accepted performance measures or indicators for measuring the revenue performance or the overall performance of a tax administration system.¹³

Due to the lack of standardised systems for performance measurement,¹⁴ previous literature has suggested various methods in measuring the performance of a tax administration system. Some authors have proposed measuring tax office performance based on productive efficiency.¹⁵ Other authors — Goode,¹⁶ Tanzi and Pellechio,¹⁷ Silvani and Baer,¹⁸ and Casanegra de Jantscher¹⁹ — have grouped certain factors together within the single concept of tax administration performance in terms of efficiency and effectiveness. Frampton²⁰ considered the important components of tax administration to be efficiency, responsiveness and motivation. Silvani and Baer²¹ proposed that the tax administration system's efficiency and effectiveness are best measured by looking at the tax collection process and taxpayer's non-compliance or the tax gap. The OECD²² evaluated performance in tax administration of OECD countries by focusing on efficiency, service quality and effectiveness. In other words,

¹² Klun, above n 8.

¹³ Christian von Soest, 'Measuring the Capability to Raise Revenue Process and Output Dimension and their Application to the Zambia Revenue Authority' (GIGA Working Papers, No. 35, GIGA-WP-35/2006, 2006).

¹⁴ Klun, above n 8.

¹⁵ M J Farrell, 'The Measurement of Productive Efficiency' (1957) 120(3) *Journal of the Royal Statistical Society, Series A*, 253–90; Rolf Fare, Shawna Grosskopf and C A Knox Lovell, *The Measurement of Efficiency of Production* (Kluwer-Nijhoff Publishing, 1985); Xose Manuel Gonzalez and Daniel Miles, 'Eficiencia en la Inspeccion de Hacienda' (2000) 8(24) *Revista de Economia Aplicada*, 203–19; Wim Moesen and Annick Persoon, 'Measuring and Explaining the Productive Efficiency of Tax Offices: A Non-Parametric Best Practice Frontier Approach' (2002) 47(3) *Tijdschrift Voor Economie en Management*, 399–416.

¹⁶ Richard Goode, 'Some Aspects of Tax Administration' (IMF Staff Papers, 1981).

¹⁷ Vito Tanzi and Anthony Pellechio, 'The Reform of Tax Administration' (IMF Working Paper 95/22, 1995).

¹⁸ Carlos Silvani and Katherine Baer, 'Designing a Tax Administration Reform Strategy: Experiences and Guidelines' (IMF Working Paper, 97/30, 1997).

¹⁹ Milka Casanegra de Jantscher, 'Providing Resources to the Tax Administration, in Necessary Attributes for a Sound and Effective Tax Administration' (CIAT, 3-22, 1997).

²⁰ Dennis Frampton, *Practical Tax Administration* (Fiscal Publications, 1993).

²¹ Silvani and Baer, above n 18.

²² OECD, 'Performance Measurement in Tax Administration — Practice Note' (Committee of Fiscal Affairs Forum on Strategic Management, OECD, 2001).

the literature suggests that the scope of evaluation relates to input, output, productivity, quality, taxpayer satisfaction and the outcomes from revenue and compliance.

The World Bank²³ proposed that tax administration performance should be evaluated with respect to the three requirements of effectiveness, efficiency and equity. Teera²⁴ suggested that tax performance evaluation should focus on raising more tax revenue. According to Serra,²⁵ an example of an output of a tax administration system is the number of audits carried out by each tax inspector; while the outcomes usually include taxpayer satisfaction, quality of services to the taxpayers and taxpayer compliance rate. The OECD²⁶ stated that the outputs of a tax administration are, for example, the number of inquiries processed and the number of audits cases and debt cases settled; and the outcome could be in the form of changes in taxpayers' compliance.

In spite of the lack of standardised systems for tax administration performance measurement, researchers have been measuring performance of tax administration using various performance criteria, measures and indicators to try to gauge the problems concerning tax administration and to suggest ways to overcome those problems. A summary of empirical studies regarding the performance of the tax administration system is shown in Table 1.

Table 1: Summary of empirical studies on tax administration performance

Studies	Performance criteria	Performance measures /indicators
Ishi ²⁷ — Japan	Efficiency and productivity	Cost–revenue ratio and

²³ World Bank, 'Zambia — Public Expenditure Management and Financial Accountability Review' (Report No. 26162-ZA, World Bank, 2003).

²⁴ Joweria M Teera, 'Could Do Better: An Appraisal of Uganda's Tax Performance Relative to Sub-Saharan Africa' (Working Paper, University of Bath, September 2003).

²⁵ Pablo Serra, 'Measuring the Performance of Chile's Tax Administration' (2003) 56(2) *National Tax Journal*, 373–83.

²⁶ OECD, 'Monitoring Taxpayers' Compliance: A Practical Guide Based on Revenue Body Experience' (Forum on Tax Administration: Compliance Sub-Group, Centre for Tax Policy and Administration, 22 June 2008).

²⁷ Hiromitsu Ishi, *The Japanese Tax System* (Clarendon Press, 1993).

		employee productivity ratio
Mustafa ²⁸ — Malaysia	Efficiency and productivity	Cost–revenue ratio and employee productivity ratio
Tayib ²⁹ — Malaysia	Efficiency and productivity	Cost–revenue ratio and employee productivity ratio; tax employee organisational commitment and high-commitment work system
Gonzalez and Miles ³⁰ — Spain	Efficiency of tax office	Input: ratio of tax inspectors to tax personnel Outputs: number of actions performed to total taxpayer, and ratio of debt to gross added value
Moesen and Persoon ³¹ — Belgium	Efficiency of tax office	Input: number of tax personnel Output: number of audits returns

²⁸ Hajah M H Mustafa, ‘An Evaluation of the Malaysian Tax Administrative System, and Taxpayers’ Perceptions Towards Assessment Systems, Tax Law Fairness, and Tax Law Complexity’ (PhD Dissertation, Universiti Utara Malaysia, 1996).

²⁹ Mahamad Tayib, ‘The Determinants of Assessment Tax Collection: The Malaysian Local Authority Experience’ (PhD Dissertation, University of Glamorgan, 1998).

³⁰ Gonzalez and Miles, above n 15.

³¹ Moesen and Persoon, above n 15.

Taliercio ³² — Africa and Latin America	Efficiency and effectiveness	Input: personnel management and collection costs Output and outcome: tax/GDP ratio, taxpayer registration, compliance, taxpayer services
Klun ³³ — Slovenia	Efficiency and effectiveness	Simplicity, costs, voluntary compliance (taxpayer attitude, rights and service quality), tax audit, labour productivity
Barros ³⁴ — Portugal	Efficiency of tax office	Inputs: cost of labour and cost of capital Outputs: tax collected, clear-up rates of contested cases for tax demands
Aizenman and Jinjark ³⁵ — various countries	Tax collection efficiency	VAT revenue/consumption, and annual VAT

³² Taliercio, above n 11.

³³ Klun, above n 8.

³⁴ Carlos P Barros, 'Performance Measurement in Tax Offices with Stochastic Frontier Model' (2005) 32(6) *Journal of Economic Studies*, 497–510.

³⁵ Joshua Aizenman and Yothin Jinjark, 'The Collection Efficiency of the Value Added Tax: Theory and International Evidence' (Working Paper 11 539, National Bureau of Economic Research, 2005).

		revenue/GDP
Serra ³⁶ — Chile	Tax revenue collection	Customer satisfaction, tax revenue collection, compliance rate, enforcement
von Soest ³⁷ — Zambia	Revenue raising capability	Information collection and processing, merit orientation, administrative accountability, and revenue performance
Tennant and Tennant ³⁸ — Jamaica	Efficiency of revenue collections	Tax/GDP ratio, cost of administration, administrative procedures, technical staff, auxiliary input
James, Svetalekh and Wright ³⁹ — Thailand	Tax collection performance	Productivity, good practice, tax employee attitudes and

³⁶ Pablo Serra, 'Performance Measures in Tax Administration: Chile as a Case Study' (2005) 25 *Public Administration and Development*, 115–24.

³⁷ von Soest, above n 13.

³⁸ Sandria Tennant and David Tennant, 'The Efficiency of Tax Administration in Jamaica: An Introspective Assessment' (2007) 56(3) *Social and Economic Studies*, 71–100.

³⁹ Simon James, Thamrongsak Svetalekh and Brian Wright, 'Tax Charters, Performance Indicators and the Case for a More Strategic Approach to Tax Administration' (Discussion Paper in Management, Paper No. 07/12, 2007), <http://business-school.exeter.ac.uk/documents/discussion_papers/management/2007/0712.pdf>.

		perceptions of collection process
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Source: Author

Reflecting on the studies in Table 1, three main limitations are derived. First, most of the empirical studies concentrated on the performance measurement and ignored the importance of performance management to improve a tax administration. Although measurement is a critical component of performance management, measuring and reporting alone have rarely led to organisational learning and improved outcomes.⁴⁰ Silvani and Baer⁴¹ suggested that, in order to determine the performance of a tax administration, attention must be given to the design and implementation of standards for management evaluation and control. Performance management is an appropriate tool for management evaluation and control of a tax administration. Alley and Bentley⁴² suggested that performance management theories support the achievement of a good tax administration system through target setting, which is measured by selected key performance indicators.

Second, previous empirical studies disregarded the importance of diagnosing the problems faced by a tax administration when aiming to improve its performance. Silvani and Baer⁴³ suggested that one of the first steps reformers need to take in initiating a tax administration reform is to diagnose existing problems and to develop an appropriate strategy for improvement. In addition, Radnor and McGuire⁴⁴ stated that some of the problems in the performance management for public organisations arise because of the reasons behind its implementation, for example purely for measurement and evaluation rather than as a tool for

⁴⁰ The US National Performance Management Advisory Commission, 'A Performance Management Framework for State and Local Government: From Measurement and Reporting to Management and Improving' (2009), <<http://www.gfoa.org/downloads/PMCommissionFrameworkPUBLIC-REVIEW-DRAFT.pdf>>.

⁴¹ Silvani and Baer, above n 18.

⁴² Clinton Alley and Duncan Bentley, 'The Increasing Imperative of Cross-Disciplinary Research in Tax Administration' (2008) 6 (2) *eJournal of Tax Research*, 122–44.

⁴³ Silvani and Baer, above n 18.

⁴⁴ Zoe Radnor and Mary McGuire, 'Performance Management in the Public Sector: Fact or Fiction?' (2004) 53(3) *International Journal of Productivity and Performance Management*, 245–60.

improvement. Organisational behaviour diagnosis therefore could reveal the problems faced by a tax administration and identify key areas for improvement.

Third, empirical studies on tax administration performance focused on the quantitative part of the performance measures. Studies incorporating behavioural aspects of a tax administration are lacking in the literature. Radnor and McGuire⁴⁵ suggested that if public sector organisations are going to use performance management systems in an interactive way and develop coherent sets of performance measures, they need to embrace the system on a behavioural instead of just operational level.

Even though performance management is important for a tax administration, there is neither a performance management study nor a performance management framework for a tax administration in the literature. There are general performance management frameworks for public sector organisations being proposed in the literature — see, for example, Australian Public Service Management Advisory Committee (APS);⁴⁶ the US National Performance Management Advisory Commission;⁴⁷ and Mackie⁴⁸ for the Scottish Government. However, like approaches to quality, there is no single performance management framework that suits all organisations.⁴⁹ A performance management framework which considers the organisational behaviour aspect specifically for a tax administration should be developed. The following section discusses a proposed performance management framework for a tax administration.

3.0 A PROPOSED PERFORMANCE MANAGEMENT FRAMEWORK

⁴⁵ Ibid.

⁴⁶ Australian Public Service Management Advisory Committee (APS), 'Performance Management in the Australian Public Service: A Strategic Framework' (2001), <<http://www.apsc.gov.au/publications01/performancemanagement.htm>>.

⁴⁷ The US National Performance Management Advisory Commission, above n 40.

⁴⁸ Bobby Mackie, 'Organisational Performance Management in a Government Context: A Literature Review' (2008) Scottish Government Social Research, <<http://www.scotland.gov.uk/Resource/Doc/236340/0064768.pdf>>.

⁴⁹ Kit Fai Pun and Anthony S White, 'A Performance Measurement Paradigm for Integrating Strategy Formulation: A Review of Systems and Frameworks' (2005) 71(1) *International Journal of Management Reviews*, 49–71.

A performance management framework for a tax administration is proposed as depicted in Figure 1. At the centre of the framework is the transformation process where the tax administration consumes inputs to produce outputs/outcomes. This framework utilises the Nadler and Tushman⁵⁰ congruence model for diagnosing the tax administration transformation process. The Nadler and Tushman model has a reasonably complete set of variables and presents them in a way that encourages straightforward organisational analysis.⁵¹ It also provides a useful classification of internal organisational components while showing the interaction among them.

The congruence model for analysing an organisation's performance is applicable in the context of a tax administration. In this case, the tax authority acted as the transformation process between the inputs and outputs of the organisational system. Gill⁵² suggested that the congruence model enables a step-by-step analysis of the input, strategy, transformation processes, outputs and feedback mechanisms of a revenue administration system, with a view to identifying systematic deficiencies that lead to inefficiency and ineffectiveness in its operations.

The congruence model puts its greatest emphasis on the transformation process and specifically reflects the critical system property of interdependence. It views an organisation as made up of components or parts; that is, task, formal organisation, informal organisation and people that interact with each other. These components exist in states of relative balance, consistency, or 'fit' with each other. According to the model, the different parts of an organisation can fit well together and function effectively, or fit poorly and lead to problems, dysfunctions or performance below potential.

While the Nadler and Tushman congruence model provides a theory on how to diagnose the transformation process of an organisation, the model itself is a general model for the analysis

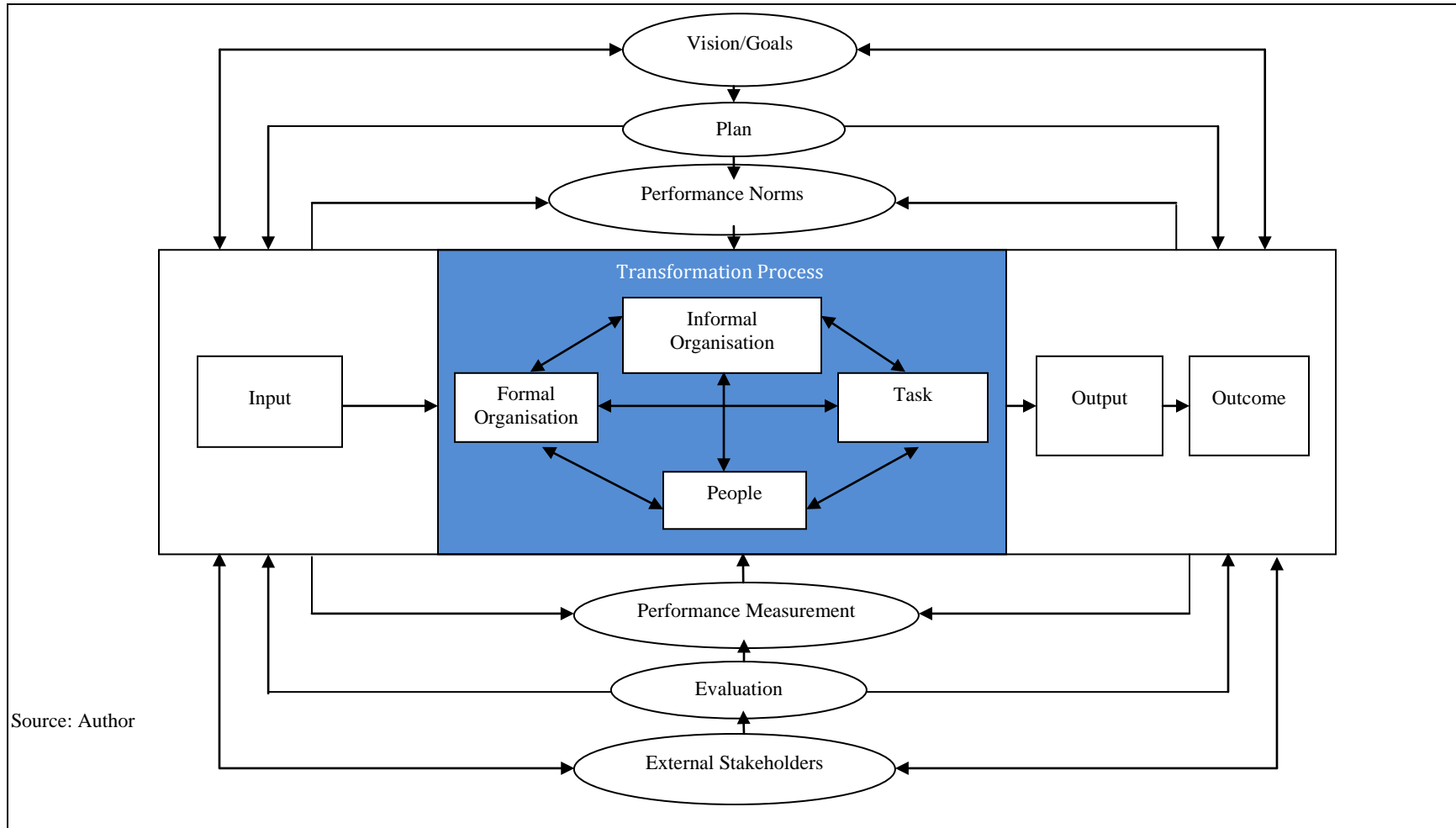
⁵⁰ David A Nadler and Michael L Tushman, 'A Model for Diagnosing Organizational Behavior' (1980) (Autumn) *Organizational Dynamics*.

⁵¹ Tupper Cawsey and Gene Deszca, *Toolkit for Organizational Change* (Sage, 2007).

⁵² Jit B S Gill, 'A Diagnostic Framework for Revenue Administration' (World Bank Technical Paper No. 472, World Bank, 2000).

of organisations. There is a need to include more specific methods to define high and low congruence among tax administration components. In addition, the congruence model only emphasises the transformation process and does not consist of other elements that make up the whole performance management system. This paper therefore provides a systematic approach to utilise the congruence model in the context of a performance management system for a tax administration. The following sections discuss the elements in the proposed performance management framework.

Figure 1: Performance management framework for a tax administration



Source: Author

3.1 TAX ADMINISTRATION TRANSFORMATION PROCESS

The tax administration transformation process has its major components: its tasks, its people, the formal organisational arrangements and the informal organisational arrangements. The real challenge of tax administration design is to select from the range of alternatives the most appropriate way to configure the tax administration components to create the output required by the strategy. In order to do this, it is essential to understand each tax administration component and its relationship to the others. The following sections discuss these tax administration components.

3.1.1 THE FORMAL ORGANISATIONAL ARRANGEMENTS

According to Wyman,⁵³ the formal organisation is made up of the structures, systems and processes each organisation creates to group people and the work they do and to co-ordinate their activity in ways designed to achieve strategic objectives. It is proposed that an important aspect of formal organisational arrangement is the strategic planning system. Strategic planning has been defined as a disciplined effort to produce fundamental decisions and actions that shape and guide what an organisation is, what it does and why it does it.⁵⁴ A strategic plan is essential for a tax administration. Given that the future is uncertain, management will always need to plan in order to develop the procedures and operations necessary to cope with the changing requirements. With a well-conceived strategic plan, tax managers will be more forward thinking in their approach in an era of uncertainty. A strategic plan is an important document to guide any tax department on the way forward. It provides a mechanism to pool ideas from each level of the organisation. Such collaboration and co-operation can only benefit the entire organisation. Adequate planning will help management to find the best way of achieving a particular objective. In addition, it allows tax administration to examine areas that can be improved, including better use of available resources.⁵⁵

⁵³ Oliver Wyman, 'The Congruence Model: A Roadmap for Understanding Organizational Performance' (2003), <http://www.oliverwyman.com/ow/pdf_files/Congruence_Model_INS.pdf>.

⁵⁴ John M Bryson, *Strategic Planning for Public and Non-profit Organizations: A Guide to Strengthening and Sustaining Organizational Achievement* (Jossey-Bass, revised ed, 1995).

⁵⁵ For example, it may be recognised that joint assignments by tax collection agencies may be a better utilisation of resources than for each organisation to carry out an assignment independently.

Proper planning lends itself to more integration and synergies within the tax administration. Revenue collection is the main purpose of all tax departments. Therefore, any decision that will enhance that process should be examined. The strategic planning concerning performance objectives and operational strategies for a tax administration could be in the form of the desired outcomes.⁵⁶ Dhillon and Bouwer⁵⁷ suggested that these strategies include the desired outcomes of collecting more tax revenue, improving services to taxpayers, improving compliance and risk management and improving operational effectiveness. Bird⁵⁸ added that a tax administration must also select strategies and set out administrative rules to counter each type of non-compliance by different groups of taxpayers.

The more important issue, however, concerns putting plans into action specifically for a tax administration. Strategic planning is an action-oriented type of planning that is useful only if it is carefully linked to implementation — and this is often where the process breaks down.⁵⁹ Tax administrators may fail to link their strategic planning efforts to other critical decision-making processes. Mintzberg⁶⁰ is one of the most vocal critics of strategic planning precisely because organisations' planning activities are too often completely divorced from performance measurement and resource allocation. Even though tax administrations around the world have embraced strategic planning, it is unlikely to produce the anticipated benefits unless they drive it through budgeting, measurement, and performance management processes. It is therefore important to ensure that the strategic plan of a tax administration is properly related to other critical strategic planning processes such as stakeholders' involvement, strategic management practices, allocation of resources, performance management and performance measurement processes.

⁵⁶ Australian Taxation Office (ATO), 'Guide for Researchers. Literature Review: Measuring Compliance Effectiveness' (2007),

<<http://www.ato.gov.au/corporate/content/00105122.htm&pc=001>>; OECD, above n 26.

⁵⁷ Amardeep Dhillon and Jan G Bouwer, 'Reform of Tax Administration in Developing Nations' (2005) 1 *Accenture*.

⁵⁸ Bird, above n 2.

⁵⁹ Theodore H Poister and Gregory Streib, 'Elements of Strategic Planning and Management in Municipal Government: Status after Two Decades' (2005) 65(1) *Public Administration Review*, 45–56.

⁶⁰ Henry Mintzberg, *The Rise and Fall of Strategic Planning: Reconceiving Roles for Planning, Plans, Planners* (Free Press, 1994).

In addition to the formal organisation arrangements, an organisation has informal organisational arrangements. While the strategic planning system is a formal arrangement, strategic planning processes and implementation can be in the form of informal organisational arrangements, which are any informal, unwritten guidelines that exert a powerful influence on people's collective and individual behaviour. It is important that informal organisational arrangements encompass the culture of an organisation. However, this issue is not given due attention in the tax administration context because of the dearth of literature on the topic. The following section discusses the importance of organisational culture in relation to organisational performance.

3.1.2 THE INFORMAL ORGANISATIONAL ARRANGEMENTS

Organisational culture has been defined as a complex set of values, beliefs, assumptions and symbols that define the way in which an organisation conducts its business.⁶¹ Flamholtz⁶² suggested that an organisation's culture is the set of values, beliefs and social norms which tend to be shared by its members and, in turn, tend to influence their thoughts and actions. Culture can also be broadly understood as a set of basic assumptions about how the world is and ought to be that a group of people share and that determines their perceptions, thoughts, feelings and, to some degree, their overt behaviour.⁶³ According to Peterson and Smith,⁶⁴ organisational culture reflects individuals' interpretations of events and situations in organisations.

The relationship between organisational culture and organisational performance has had sporadic but growing interest from a range of disciplines.⁶⁵ In fact, general connections

⁶¹ Jay Barney, 'Organizational Culture: Can it be a Source of Sustained Competitive Advantage?' (1986) 11(3) *Academy of Management Review*, 656–65.

⁶² Eric G Flamholtz, 'Accounting, Budgeting and Control Systems in their Organizational Context: Theoretical and Empirical Perspectives' (1983) 8(2/3) *Accounting, Organizations and Society*, 153–69.

⁶³ Edgar H Schein, 'Three Cultures of Management: The Key to Organizational Learning' (1996) 38(1) *Sloan Management Review*, 9–20.

⁶⁴ Mark Peterson and Peter Smith, 'Sources of Organizations and Culture' in Neal M Ashkanasy et al (eds), *The Handbook of Organizational Culture and Climate* (Sage, 2000).

⁶⁵ James L Garnett, Justin Marlowe and Sanjay K Pandey, 'Penetrating the Performance Predicament: Communication as a Mediator or Moderator of Organizational Culture's Impact on Public Organizational Performance' (2008) 68(2) *Public Administration Review*, 266–81.

between an organisation's culture and its performance have been made since the early stages of management and organisation theory.⁶⁶ One of the major reasons for the widespread popularity of and interest in organisational culture stems from the argument that certain organisational cultures lead to superior organisational performance.⁶⁷ Academics and practitioners argue that the performance of an organisation is dependent on the degree to which the positive and strong values of the culture are widely shared.⁶⁸

The claim that organisational culture is linked to performance is founded on the perceived role that culture can play in generating competitive advantage.⁶⁹ Krefting and Frost⁷⁰ suggested that organisational culture can create competitive advantage by defining the boundaries of the organisation in a manner that facilitates individual interaction by limiting the scope of information processing to appropriate levels. It is also argued that widely shared and strongly held values enable management to predict employee reactions to certain strategic options thereby minimising the scope for undesired consequences.⁷¹ Sustainable competitive advantage of an organisation which stems from a superior culture leads to superior organisational performance. Indeed, many commentators have advised organisations and researchers to exploit the multiple advantages that could be offered by culture rather than

⁶⁶ Elton W Mayo, *The Human Problems of Industrial Civilization* (Macmillan, 1933); F W Taylor, *Principles of Scientific Management* (Harper & Brothers, 1911).

⁶⁷ Emmanuel Ogbonna and Lloyd C Harris, 'Leadership Style, Organizational Culture and Performance: Empirical Evidence from UK Companies' (2000) 11(4) *The International Journal of Human Resource Management*, 766–88.

⁶⁸ Terrence Deal and Allan Kennedy, *Corporate Cultures* (Addison-Wesley, 1982); Daniel R Denison, *Corporate Culture and Organisational Effectiveness* (Wiley, 1990); John P Kotter and James L Heskett, *Corporate Culture and Performance* (The Free Press, 1992); William Ouchi, *Theory Z* (Addison-Wesley, 1981); Richard T Pascale and Anthony G Athos, *The Art of Japanese Management: Applications for American Executives* (Simon & Schuster, 1981); Tom Peters and Robert Waterman, *In Search of Excellence: Lessons from America's Best-Run Companies* (Harper & Row, 1982).

⁶⁹ Christian Scholz, 'Corporate Culture and Strategy — The Problem of Strategic Fit' (1987) 25(Winter) *Long Range Planning*, 3–16.

⁷⁰ Linda A Krefting and Peter J Frost, 'Untangling Webs, Surfing Waves, and Wildcatting: A Multiple-Metaphor Perspective on Managing Culture' in Peter J Frost et al (eds), *Organization Culture* (Sage, 1985).

⁷¹ Emmanuel Ogbonna, 'Managing Organizational Culture: Fantasy or Reality?' (1993) 3(2) *Human Resource Management Journal*, 42–54.

focusing on the more tangible side of the organisation.⁷² In the management and organisational research, culture is seen as providing a quick fix for managers seeking to improve productivity or organisational performance more generally.⁷³ It is therefore interesting to see the type of organisational culture that exists in a tax authority and how this culture influences the way it conducts the tax administration tasks, hence influencing the overall tax administration performance.

3.1.3 TASKS

Task is the defining activity of any organisation; that is, the basic and inherent tasks to be performed by the organisation and its parts. The performance of this task is one of the primary reasons for the organisation's existence and any analysis from a design perspective has to start with an understanding of the nature of tasks to be performed, anticipated work flow patterns, and an assessment of the more complex characteristics of the work.⁷⁴ Gill⁷⁵ listed the main tasks of a tax administration that require analysis when assessing if a tax administration needs to be reformed (see Table 2). The tasks consist of organisation, management and operational tasks.

Table 2: Main tasks of revenue administration requiring analysis

Organisation and management tasks	Operational tasks
Strategy and policy formulation	Registration of taxpayers
Planning, budgeting, resource allocation	Taxpayer services: <ul style="list-style-type: none"> • Taxpayer education • Taxpayer assistance • Facilitation of voluntary compliance
Monitoring and evaluation	Processing of declarations and payments
Co-ordination	Monitoring of tax withholders and collecting

⁷² Gerry Johnson, 'Managing Strategic Change — Strategy, Culture and Action' (1992) 25(1) *Long Range Planning*, 28–36; Coimbatore K Prahalad and Richard A Bettis, 'The Dominant Logic: A New Linkage Between Diversity and Performance' (1986) 7 *Strategic Management Journal*, 485–501.

⁷³ Rachel Parker and Lisa Bradley, 'Organisational Culture in the Public Sector: Evidence from Six Organisations' (2000) 13(2) *International Journal of Public Sector Management*, 125–41.

⁷⁴ Wyman, above n 53.

⁷⁵ Gill, above n 9.

	agents
Financial management	Collection of information about taxable transactions <ul style="list-style-type: none"> • Collection of information from third parties • Intelligence operations • Search and seizure and survey operations to obtain incriminating evidence
Personnel management	Risk analysis and selection of cases for audit and investigation
Information technology management	Audit and investigation
Asset management	Recovery of tax arrears
Internal control	Legal and judicial matters: <ul style="list-style-type: none"> • Legislation • Appeals • Prosecution
Anti-corruption	Code of ethics, disciplinary rules, vigilance and co-operation with external anti-corruption agencies
External relations	Effective interaction with important environmental factors to promote the tax administration objectives, meet external challenges and exploit emerging opportunities offered by the environment

Source: Gill⁷⁶

Concerning the issue of tax administration tasks, Silvani and Baer⁷⁷ suggested that, in order for a tax administration to be efficient, the general strategy of the tax authority should have an integrated approach to the tax collection process as a guiding principle, where each

⁷⁶ Ibid 7.

⁷⁷ Silvani and Baer, above n 18.

element in the tax collection process is essential to the tax administration strategy. Silvani and Baer⁷⁸ also stated that to achieve a significant improvement in the overall performance of a tax administration, each element in the tax collection process needs to be improved. They elaborated that tax collection process involves: (1) taxpayer registration; (2) tax returns and payments processing; (3) computer operations; (4) detection of stop filers and collection of arrears; (5) delinquent taxpayers; (6) audit; (7) the sanctions and penalty system; (8) taxpayer services and publicity; (9) management and organisation; and (10) personnel.

Meanwhile, Baurer⁷⁹ suggested that all modern tax administrations perform common types of activities or business processes. Some of these activities (core business practices) directly relate to the mission of the tax administration, while other activities provide the support framework to properly carry out this mission. Core business processes are interrelated and ongoing communications and co-ordination between these processes is essential. For example, significantly increasing the number of audits in a given year will affect taxpayer services and enforced collection resource requirements. Similarly, increased attention to non-filers will affect audit and collection resource needs. Legislative changes will have similar impacts. The integration of all these factors into the development of an annual operating plan for a tax administration becomes a complex and demanding job. It is therefore important to evaluate the tax administration tasks as proposed in the performance management framework to ensure that the tasks are congruent with the rest of the components in the tax administration transformation process.

3.1.4 PEOPLE

Basically, a revenue collection system is an interactive structure of people, equipment, methods and controls, designed to create information flows and records that support the repetitive work routines of the revenue collection departments.⁸⁰ It is important to identify the salient characteristics of the people responsible for the range of tasks involved in the core

⁷⁸ Ibid.

⁷⁹ Lewis I Baurer, 'Tax Administration and Small and Medium Enterprises (SMEs) in Developing Countries' (2005), <http://rru.worldbank.org/Documents/Toolkits/SME_Taxation_Toolkit.pdf>.

⁸⁰ Ulric J Gelinias, Allan E Oram and William P Wiggins, *Accounting Information Systems* (PWS-KENT, 1990).

work of an organisation. These characteristics include the knowledge and skills they bring to their work; their needs and preferences, in terms of the personal and financial rewards they expect to flow from their work; their perceptions and expectations about their relationship with the organisation; their demographics and how these factors relate to their work.⁸¹

The people who perform the core tasks are indeed an important element in tax administration. The importance of the tax employee in the tax administration environment was highlighted by Mikesell⁸² in his statement:

Whether any tax system achieves the goals set by society depends in large part on the success of the tax administrative procedure and tax administrators [or personnel] in carrying out the procedure. While some tax legislation can be so bad as to render it impossible to administer competently, incompetent administration can render any tax system bad.

The above view stressed that the tax employee is an important element since the employee performs tax administrative procedures such as tax collection to ensure that the tax administration system is performing in an efficient and effective manner. Revenue administration should focus on personnel rather than specific technical initiatives because what matters most is the combination of the institutional environment and the qualities of the tax administration personnel. When the right experts are placed in settings conducive to training and skill transfer, they have a significant impact; and if these conditions are not met then the tax administration fails, no matter what the instrument is.

Schlemenson⁸³ shares this view, proposing that the administration of human resources is a fundamental pillar of tax administration which will affect its efficiency and effectiveness. Bird and Zolt asserted that effective tax administration requires qualified tax officials.⁸⁴

⁸¹ Nadler and Tushman, above n 50.

⁸² John L Mikesell, 'Administration and the Public Revenue System: A View of Tax Administration' (1974) 34 *Public Administration Review*, 618, 615–24.

⁸³ Aldo Schlemenson, 'Organizational Structure and Human Resources in Tax Administration' in Richard Bird and Milka Casanegra de Jantscher (eds), *Improving Tax Administration in Developing Countries* (International Monetary Fund, 1992, 343–64).

⁸⁴ Bird and Zolt, above n 1.

Silvani and Baer⁸⁵ suggested the importance of tax personnel in tax administration reform when indicating that giving less attention to personnel matters as compared to technical matters may handicap other tax administration reforms. In addition, Jenkins, Kelly and Khadka⁸⁶ suggested that the availability and retention of trained human resources are by far the most important factors in determining the efficiency of a tax administration.

In spite of the important role of tax employees, few studies have been performed on them especially regarding their attitudes and behaviours. Bird and Casanegra de Jantscher⁸⁷ stated that there have been almost no studies in any country of tax officials, of why and how they do what they do; and governments in some developing countries have little day-to-day control over tax officials, little knowledge of what they do, and no easy way to obtain such knowledge. Most tax administration performance studies did not focus on the element of people involved in the tax collection process. For some of those studies which included tax employees, the measurements were limited to tangible aspects such as employee efficiency and productivity ratios. However, there is a limited study on tax employees' attitudes regarding their job and workplace.

Examining the attitudes of employees is important because they can affect customer satisfaction and therefore influence the performance of an organisation. According to Heskett, Sasser and Hart⁸⁸ and Parasuraman, Zeithaml and Berry,⁸⁹ a major determinant of customer satisfaction within the service industry is the attitude of customer contact personnel. This relationship is succinctly summarised by John Smith, a former CEO of Marriott Corporation, in the phrase, 'you can't have happy customers served by unhappy employees'.⁹⁰ Schneider and Bowen⁹¹ and Marshall⁹² report that service cultures with the

⁸⁵ Silvani and Baer, above n 18.

⁸⁶ Glenn Jenkins, Roy Kelly and Rup Khadka, 'Modernization of Tax Administration in Low-Income Countries: The Case of Nepal' (CAER II Discussion Paper 68, 2000).

⁸⁷ Bird and Casanegra de Jantscher, above n 5.

⁸⁸ James L Heskett, W Earl Sasser and Christopher L Hart, *Service Breakthroughs* (The Free Press, 1990).

⁸⁹ A Parasuraman, Valarie A Zeithaml and Leonard L Berry, 'Understanding Customer Expectations of Service' (1991) Spring *Sloan Management Review*, 39–48.

⁹⁰ James L Heskett, W Earl Sasser and Leonard A Schlesinger, *The Service Profit Chain* (Free Press, 1997).

highest organisational commitment and lowest employee turnover consistently report the highest levels of customer satisfaction. Further, Bowen and Schneider⁹³ noted that a high percentage of the time when customers report unfavourable views of service quality, they also report having served with bad attitudes or overhearing employees complain about their jobs and surroundings.

In a meta-analysis, Harter, Schmidt and Hayes⁹⁴ found that overall employee attitudes at the business-unit level are positively correlated with several business-unit performance measures including customer satisfaction, productivity and profitability. Schneider, Parkington and Buxton;⁹⁵ Schneider, White and Paul;⁹⁶ and Schneider and Bowen⁹⁷ used data from commercial banks to show that employee perceptions of the service climate are significantly related to customer perceptions of service quality at the branch level. The findings are also supported by Johnson.⁹⁸

Liao and Chuang⁹⁹ found that the service climate in a chain of restaurants is associated with employees' assessments of their own service performance. This view is supported by a study involving 200 retail stores conducted by Wiley¹⁰⁰ on the relationships among employee attitudes, customer satisfaction and organisational performance. The study revealed that the

⁹¹ Benjamin Schneider and David Bowen, 'Employee and Customer Perceptions of Service in Banks: Replication and Extension' (1985) 70(3) *Journal of Applied Psychology*, 423–33.

⁹² John Marshall, 'Employee Retention Linked to Better Customer Service' (2001) 17(2) *Financial Executive*, 11–12.

⁹³ David Bowen and Benjamin Schneider, 'Services Marketing and Management: Implications for Organizational Behavior' (1988) 10 *Research in Organizational Behavior*, 43–80.

⁹⁴ James Harter, Frank Schmidt and Theodore Hayes, 'Business-Unit-Level Relationship between Employee Satisfaction, Employee Engagement, and Business Outcomes: A Meta-Analysis' (2002) 87 *Journal of Applied Psychology*, 268–79.

⁹⁵ Benjamin Schneider, John Parkington and Virginia Buxton, 'Employee and Customer Perceptions of Service in Banks' (1980) 25 *Administrative Science Quarterly*, 252–67.

⁹⁶ Benjamin Schneider, Susan White and Michelle Paul, 'Linking Service Quality and Customer Perceptions of Service Quality' (1998) 83 *Journal of Applied Psychology*, 150–63.

⁹⁷ Benjamin Schneider and David Bowen, 'The Service Organization: Human Resources Management is Crucial' (1992) 21 *Organization Dynamics*, 39–53.

⁹⁸ Jeff Johnson, 'Linking Employee Perceptions of Service Climate to Customer Satisfaction' (1996) 49 *Personnel Psychology*, 831–51.

⁹⁹ Hui Liao and Aichia Chuang, 'A Multilevel Investigation of Factors Influencing Employee Service Performance and Customer Outcomes' (2004) 47 *Academy of Management Journal*, 41–58.

¹⁰⁰ Jack W Wiley, 'Customer Satisfaction: A Supportive Work Environment and its Financial Cost' (1991) 14(2) *Human Resource Planning*, 117–27.

stores most favourably rated by employees were rated equally favourably by customers. In fact, customer-satisfaction ratings were strongly and positively related to employees' descriptions of key aspects of their working environment, especially working conditions, minimum obstacles to accomplishing their work, and a strong sense that supervisors and co-workers emphasis customer service.

In the context of a tax administration, all the above findings could suggest that if the tax employees' attitudes towards the tax administration are positive, it could have favourable effects on taxpayer satisfaction and the overall tax authority performance. It is therefore proposed that the evaluation of tax employee attitudes is an important element in the performance management framework for a tax administration.

3.2 PERFORMANCE MEASUREMENT AND PERFORMANCE NORMS

The first cycle outside the transformation process in the performance management framework contains two elements — the performance measurement and the performance norms — where the tasks in the transformation process are compared against performance standards or performance norms. Performance measurement is also depicted as an essential prerequisite of the evaluation process, requiring not just information about the process but also contextual information.¹⁰¹ This contextual information encompasses achievements in the form of outcomes/effectiveness. Outputs are not usually valued in themselves but more for the outcomes they provide, for example what the customer values as the result of the activity.¹⁰² In the tax administration context, outcome or effectiveness is the degree to which institutional objectives of the tax authority are being achieved in the forms of taxpayer satisfaction, qualities of services to the taxpayers, and taxpayer compliance rate.¹⁰³ Tax authorities in the developed countries, such as the Australian Taxation Office (ATO)¹⁰⁴ and the US Internal Revenue Service (IRS),¹⁰⁵ have been measuring taxpayer satisfaction and quality of services to the taxpayers as their performance indicators for the outcome/effectiveness of the tax administration. Outcome/effectiveness can also be in the form of employee attitudes towards the tax administration. The IRS, for example, includes tax employee satisfaction as one of the measures in its performance assessment framework.

In establishing indicators for performance measurement and comparing them with performance norms, it is proposed that benchmarking is an appropriate tool for evaluating

¹⁰¹ Paul Rouse and Martin Putterill, 'An Integral Framework for Performance Measurement' (2003) 41(8) *Management Decision*, 791–805.

¹⁰² Anthony A Atkinson et al, *Management Accounting*, (Prentice-Hall, 3rd ed, 2001).

¹⁰³ Serra, above n 25.

¹⁰⁴ <<http://www.ato.gov.au>>.

¹⁰⁵ <<http://www.irs.gov>>.

the performance of a tax administration. Gallagher¹⁰⁶ for example, uses performance indicators to assess a tax system of a country and then compare it with international benchmarks. Benchmarking is a means of comparing a set of specific indicators that capture the fundamental nature of almost any tax system to either international best or probably most relevant practices. It is used by some to refer to goals and outcome measures which are linked to a strategic plan or vision.¹⁰⁷

The benchmarking system also allows the tax authority to establish goals and specific targets for tax collection process improvement and modernisation. Specific benchmarks can be tracked over time and can show how reform or modernisation efforts are being implemented and even how they contribute to the tax administration's performance. The use of benchmarking is also proposed by the accounting profession when the American Institute of CPAs (AICPA)¹⁰⁸ declared that benchmarking is the new performance measurement tool which compares costs, staffing, productivity, quality, service, value added, technology and organisational structure; identifies areas that offer the greatest opportunities for efficiency and effectiveness improvement; helps sell the need for change internally; and provides access to the best practices of world-class performers. Benchmarking, therefore, can be used to evaluate the tasks performed by a tax administration.

3.3 ORGANISATIONAL PLAN AND EVALUATION

The second cycle in the performance management framework is the control model which interprets the two subsystems of planning and evaluation as suggested by Flamholtz.¹⁰⁹ Planning can be defined broadly as an attempt to influence the future by assessing the organisation and its environment, setting objectives and developing strategies for the achievement of these objectives.¹¹⁰ Planning is believed to lead to positive organisational outcomes for a number of reasons.¹¹¹ Rational planning forces leaders to clarify their goals and objectives, and thereby provides a framework for allocating resources in line with the purposes of the organisation. Furthermore, the goals and objectives of the organisation must be communicated to all staff who can then channel their efforts accordingly. The process of planning allows external events and internal changes to be identified and brought into

¹⁰⁶ Mark Gallagher, 'Benchmarking Tax Systems' (2005) 2 *Public Administration and Development*, 125–44.

¹⁰⁷ Michael Link and Robert Oldendick, 'The Role of Survey Research in the Benchmarking Process' (2000) 12(1) *Journal of Public Budgeting, Accounting & Financial Management*, 138–64.

¹⁰⁸ AICPA, 'Benchmarking: The New Performance Measurement Tool' (*The CPA Letter*, Accounting & Tax Periodicals, 1998).

¹⁰⁹ Flamholtz, above n 62.

¹¹⁰ Aaron Wildavsky, 'If Planning is Everything, Maybe it's Nothing' (1973) 4 *Policy Sciences*, 127–53; Steve Leach, 'In Defence of the Rational Model' in Steve Leach and Joseph Stewart (eds), *Approaches in Public Policy* (Allen & Unwin, 1982); Noel Capon, John Farley and James Hubert, *Corporate Strategic Planning* (Columbia University Press, 1987); Henry Mintzberg, 'The Strategy Concept II: Another Look at Why Organizations Need Strategies' (1987) 16(1) *California Management Review*, 25–32; Brian Boyd and Elke Reuning-Elliot, 'A Measurement Model of Strategic Planning' (1998) 19(2) *Strategic Management Journal*, 181–92.

¹¹¹ John C Camillus, 'Evaluating the Benefits of Formal Planning Systems' (1975) 8(3) *Long Range Planning*, 33–40; George Boyne and Julian S Gould-Williams, 'Planning and Performance in Public Organizations: An Empirical Analysis' (2003) 5(1) *Public Management Review*, 115–32.

alignment. Rational planning also allows decisions between alternative strategies to be taken on the basis of comprehensive information, rather than intuitively on the basis of hunches or guesswork. Finally, planning contributes to the integration of the diverse activities in an organisation. Separate functions can be combined and co-ordinated into a corporate whole, instead of working at cross-purposes.

It is therefore important for a tax administration to form a well-established organisational plan, systematically evaluate the achievement of the plan, and make appropriate reporting on the matter. The performance management framework proposed in this paper helps provide a reliable diagnostic tool for the evaluation of the transformation process in a tax administration, which would then aid in planning for the development of resources, tasks, procedures, services, people, output and outcome related to the tax administration system.

3.4 VISION/GOALS AND EXTERNAL STAKEHOLDERS

The outermost cycle completes the performance management framework where the interface between the tax administration and its external stakeholders¹¹² takes place. According to Atkinson et al,¹¹³ stakeholders' requirements and expectations define the environment and general constraints that the organisation must recognise in its operations. Organisation goals embody the vision or mission, which are expressions of its response to stakeholder expectations and requirements. Outcomes reflect the impact of outputs on stakeholders' expectations. Recent work in performance measurement has argued that stakeholder expectations encompass both financial and non-financial dimensions of the organisation.¹¹⁴

Stakeholder expectation represents external reporting that includes benefits and outcomes of a tax administration. Inadequate delivery of benefits can lead to withdrawal of stakeholder contributions and subsequent failure of a tax administration. This is particularly important for a tax administration, where the government (through its Ministry of Finance) is a major stakeholder which can be expected to intervene if the tax administration does not pay sufficient attention to the needs of groups it wishes to target. External stakeholders of a tax administration are also the taxpayers who are affected by the tax administration objectives. In this case, it is important for a tax administration to consider the aspects of stakeholders' expectations and benefits in its performance management system and make appropriate external reporting regarding these matters to the relevant groups of stakeholders.

4.0 CONCLUSION

In this conceptual research paper, the focus of inquiry has been on identifying the knowledge gap in the previous literature and proposing new ways to look at the discipline of performance management for a tax administration. While there are various studies on tax administration performance, a study which holistically analyses a tax administration performance management system is lacking in the literature. Most of the tax administration performance studies concentrated on the small scope of performance measurement instead of examining performance management. These studies also disregarded the importance of

¹¹² Stakeholders are any identifiable group or individual that can affect the organisation's objectives or who are affected by these objectives.

¹¹³ Atkinson et al, above n 102.

¹¹⁴ Rouse and Putterill, above n 101.

diagnosing the problems faced by a tax administration in order to improve its performance. In addition, previous studies focused on the quantitative performance measures for a tax administration. Studies incorporating soft indicators or behavioural aspects of a tax administration — specifically tax administration culture, tax employee attitudes and taxpayer satisfaction in relation to the performance management system — are lacking in the literature. Hence, this paper proposes a holistic performance management framework, which incorporates the congruence model for organisational behaviour diagnosis, as a guide for a tax administration to evaluate, improve and manage its overall performance management system. However, further research is required to identify how this improved understanding of performance management and emerging approach of integrating organisational behaviour diagnosis to achieve systemic congruence can be translated into better outcomes for a tax administration.