

PERFORMANCE MANAGEMENT IN THE SLOVAK TAX ADMINISTRATION

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Abstract

The idea that organizations should measure and actively manage their performance is a core element of public sector reforms realised in last app. twenty years in many countries. This idea was very much motivated by the New Public Management (NPM) ideology proposing simultaneously the minimization of the role of government vis-à-vis society (external dimension) and the improvement of the internal performance of the public sector (internal dimensions). Whereas the first dimension is more and more connected with the expression “Adie NPM”, this does not imply so simply for the second dimension. Internally governments are still trying to optimize their workings. They do this by many different patterns, still using many instruments born by the ideas of NPM, with more or less success, depending on concrete conditions and implementation capacity.

However, not all reform attempts of this type delivered expected, if any outcomes. The goal of this paper is to analyse performance management schemes on the level of the Slovak tax administration, namely at its directorate (Danove riaditelstvo, now Finančna sprava). The first part describes about ten years old experiment of internal performance management scheme and its results. The second part deals with the current performance management scheme and its results. Old and new systems are compared and lessons learned formulated.

Key words: performance management, tax administration, Slovakia

JEL Code: H11, H80

Introduction

New Public Management (NPM) ideology (Drechsler, 2005, Gualmini, 2008, Hague, 1998, Hood, 1991, Levy, 2010, Lynn, 1998, Manning, 2001, Pollit and Bouckaert, 2004 and many others) proposed simultaneously the minimization of the role of government vis-à-vis society (external dimension) and the improvement of the internal performance of the public sector

(internal dimensions). Whereas the first dimension is more and more connected with the expression “Adie NPM”, this does not imply so simply for the second dimension (see for example Pollit and Sorin, 2015 or de Vries and Nemec, 2013). Internally governments are still trying to optimize their workings. They do this by many different patterns, also via several forms of implementing performance measurement, performance management and performance financing.

However, as all NPM „generated“ tools, performance management is not generating automatic positive outcomes. The purposes for this are multidimensional, starting from subjective and objective problems connected with performance measurement (typical “wicked problem”). The performance research copes with questions such as (see for example Blalock, 1999, Boyne et al, 2006, Jahoda, 2013):

1. What should be measured, and how should it be measured?
2. How should the measurement criteria be made operational?
3. Does measurement measure what it intends to measure?

The following “wicked” dimension is the task to connect performance measurement results with motivation schemes for the organisation and for its employees (Moynihan and Pandey, 2010). In this paper we provide (hopefully) interesting case study from the Slovak Financial (Tax) Directorate, showing how difficult performance management is.

1 Taxation in Slovakia

The new system of the Financial Administration in Slovakia was established on 1st January, 2012 by merger of the customs administration and tax administration. Its establishment was preceded by the approved reform of the customs administration and tax administration, in order to unify collection of taxes, customs duties and insurance premiums according to the UNITAS Program. Before this period, the tax administration was the separate part of the public administration system in Slovakia. The Financial Administration according to the Act No. 333/2011 Coll. consists of the Financial Directorate of SR, the customs offices, the tax offices and the Financial Administration Criminal Office. The Financial Directorate of SR is a budgetary organization, having jurisdiction on the whole territory of the Slovak Republic. The registered seat of the Financial Directorate of SR is Banská Bystrica. The Financial Administration employs app. 9 500 full time equivalent employees.

According to the international evaluations the tax administration in Slovakia belonged among the most expensive in the world, from the point of view of the administrative costs of taxation (direct costs to administer Slovak tax system - Table 1), from the point of view of the compliance cost of taxation (costs, except for taxes, to be spent by tax payers to pay taxes – Table 2), but also because of relatively low level of tax compliance (see for example European Semester).

Tab. 1: Administrative costs of taxation – selected countries

Countries according to their administrative costs of taxation (%)	Countries according to their tax revenues to GDP			
	< 20%	20-30%	30-40%	Over 40%
- 0.60		USA		Sweden
0.61 - 0.80		Korea	Ireland Spain New Zealand	Austria, Denmark Finland, Germany Norway
0.81 - 1.00	Mexico	Turkey		France
1.01 - 1.20			Hungary Netherlands UK	Luxembourg
1.21 - 1.40			Canada	Belgium Czech Republic
1.40 +		Japan	Poland Portugal Slovakia	

Source: OECD, 2011

At least the fact of high administrative costs of taxation was admitted and reflected by the government, which in 2012 undertook the large scale tax system reform called UNITAS. The main goals of UNITAS are to improve the flow and use of information and to merge the collection of all taxes and social contributions under one administration. The official OECD data seem to suggest that UNITAS reforms achieved important results (Table 2), however, such too positive data are hard to believe.

Tab. 2: Administrative costs of taxation: Slovakia

Administrative costs for tax administration/net revenue collected %					
2005	2006	2010	2011	2012	2013
2.20	2.49	3.06	3.04	1.36	1.43

Source: <http://www.oecd.org/tax/forum-on-tax-administration/database/>

If the tax administration “external” performance is limited, one might expect that several internal measures will be implemented within the system of tax administration bodies. In the following core part of this paper we try to evaluate performance management schemes implemented within this system during more than last ten years.

2 Performance management system 2004-2005 (Tax Administration)

In 2003, at the start of this model, the Slovak tax administration bodies consisted from the Tax Directorate and 102 tax offices, with app. 6000 full time employees (in it 1750 tax controllers and 350 tax executors) . The staff realised app. 55 000 control actions discovered tax fraud on the level of app. 150 mil. EUR (x % of tax revenues) and only two out of ten tax control discovered irregularities (EU average 6 out of ten). These data indicate major tax administration performance inefficiencies and not positive situation of non-fraudulent economy (Burak, 2007).

To improve the situation, three core measures were implemented (Burak, 2007):

a/ switch from quantity to quality of tax controls (less but more selective controls, focusing on tax subject showing signals of fraud),

b/ introducing of e-tax control for large tax subjects (IDEA system from Canada),

c/ introducing performance measurement and management schemes on the level of tax administration.

The performance measurement and management scheme was developed on two levels – for tax offices as bodies (Balanced Score Card approach – see for example Kaplan and Norton, 1996) and also for all individuals - individual performance targets. Performance system for tax controllers included ten indicators (number of regular tax controls realised, number of controls with discovered unpaid tax, number of ex post tax controls realised, number of ex ante contrails realised, the value of unpaid tax discovered, the value of

discovered unpaid tax finally paid by tax payer, the financial results of possible review process – findings confirmed or reviewed by the review body, results from controls realised on own initiative, innovative proposals to improve tax control, publications) and for tax executors five indicators (number and structure of performance outputs, the sum executed, efficiency of unpaid tax execution, sum executed to value of unpaid tax to be executed, the level of fulfilment of the yearly plan of the sum of executed unpaid tax).

We are not able to prove the direct link, but during the time of the use of this performance management experiment, the core results of the tax administration system significantly improved – the number of tax controls with financial findings increased from 20 % to 60 % and the total sum of unpaid tax found doubled. The data collected also allowed for interesting comparisons of efficiency of tax control between different taxes and regions.

As all experiments, also this one included both strengths and weaknesses (Burak, 2007). Its most important positive aspects are as follows - the findings helped to improve remuneration system – bonuses part in general and best performing individuals received also special premiums, shift of the focus from processes to results, important internal reserves discovered, internal quasi-competition supported, cooperation of different tax administration officials improved, internal comparisons better possible. The data collected clearly showed that the real performance of tax official is dominantly based on skills and attitudes, not so much on luck to be appointed to control a body with tax fraudulent behaviour.

The core weakness of this experiment was the need to collect data inputs manually, a lot of extra work and costs. Another problem was connected with the fact that the chance to discover tax fraud of larger level is not equal for all controllers (significantly depends on the wealth of the region and on the type of tax). The last, but not least problem to be mentioned is the fact that the system created also adverse behaviour, for example by restricting the quality of cooperation between “competing” tax officials, or by overemphasising of individual indicators.

Similarly to the above mentioned experiment in state administration, also this experiment was cancelled after two years of its existence. It was costly and delivered too much transparency, not appreciated by the average and especially low performing tax officials. Also the situation of best performing tax officials did not sufficiently improve – the increase of their salaries because of better performance was very marginal and their social (team position) situation worsened in many cases. The ranking (and remunerating) of public

officials according to their performance is really difficult task in any conditions, but almost “mission impossible” in post-soviet region, where everybody is expected to be equal.

3 Current system of performance management

The system of individual performance measurement never returned to the Tax/Financial Administration. However, BSC use continued in different variations also after 2005 and it is the reality also today (“Karta vyrovnaných výkonov”). We briefly describe most recent developments of BSC use to measure performance of tax administration part of the Financial Administration. The core advantage connected with the use of BCS today is the fact that most data are automatically inputted from internal information management system.

In 2013 – 2014 performance of tax offices was monitored by the system of indicators and targets. For all indicators target were set in interval form and the final ranking of tax offices calculated. In 2015 – 2016 period the system of indicators did not change significantly, but the system of targets yes. Two types of targets were used - targets with defined concrete target value and targets without defined concrete target value. The core indicators and targets used today are provided by the Table 3.

Tab. 3: Core indicators and targets for the Slovak tax administration (2015 – 2016)

Indicator	Target value
Area 1: Detection of tax fraud	
Unpaid tax findings total to number of such findings transferred for execution (only cases over 3 000 EUR) - %	not defined
Number of unpaid tax findings transferred for execution for one tax controller	not defined
Area 2: VAT	
Number of ordered decisions to cancel the VAT registration for tax bodies	not defined
Number of processed VAT declaration within the prescribed time limit to the total number of VAT declarations - %	not defined
Number of VAT declarations processed per one tax controller	not defined
Area 3: Tax control	
Number of tax controls with findings to total number of finished tax controls - %.	20 %
The sum of unpaid tax discovered EUR	not defined

To reach the planned level of unpaid tax findings (tax findings to planned tax findings) - %	100 %
The value of illegal VAT claims discovered to the planned value - %	100 %
The value of findings in the area of international taxation - EUR	not defined

Source: internal materials of Financial Administration

The list of indicators and targets used by the Financial Administration today to calculate BSC is very interesting for several reasons. Two issues shall be mentioned. First, the core indicator of the efficiency of tax control is back to 20 %, value achieved already in 2003. With limited public resources in time of austerity such target is too low – seems that the tax control is insufficiently targeted (pre-selection of somehow suspicious tax subjects). Second, high focus is connected with the need to achieve planned sums of findings – plan to reality – post-socialist heritage?

Conclusions

Our article evaluated the ways how performance management (measurement) was executed in the Slovak tax administration system. The first attempt to measure results and to motivate for results was realised in 2003-2005 period, but was very soon cancelled on the individual level. The BSC system to evaluate the performance of tax administration bodies continues, but data in the Table 4 indicate that the only real improvement after 2004 is the switch to automatic inputting of most of data to calculate results from information management system.

Our results indicate that the performance measurement and performance management of badly performing Slovak tax administration system still needs major improvements. It seems to be more formal than real and especially it does not include individual motivation. The answer to the question why the individual level is absent is not obvious and simple. However, we feel that it is very much connected to the concrete Slovak conditions – conditions of missing accountability, conditions where any individual performance measurement system is disliked by all involved (managers, who prefer subjective allocation of bonuses, average and low performing employees, but may be also well performing employees, who need to trade-off between higher bonuses and friendly relations with colleagues).

Acknowledgment

This research was completed with support from the research project “Performance Management in Public Administration: Theory and Practice in the Czech Republic and Other CEE Countries”, ID (CEP) GA16-13119S and the research project of the Faculty of Business Administration IP 300040 „Competitiveness“.

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