



MEASURE WHAT MATTERS, A BALANCE SCORECARD FOR TAX ADMINISTRATIONS

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Abstract: The Balanced Scorecard (BSC) approach has been accepted as a very comprehensive tool for the performance measurement. While the specific process of performance management has been researched particularly in the context of private profit seeking companies, there is still a long way to go in applying the balanced scorecard approach to public bodies and particularly to tax administrations. The aim of this paper is to contribute to the literature with Balance Scorecard for Tax Administrations. This comprehensive approach ensures that tax administration consider various factors contributing to long-term success and strategic management.

Keywords: Balanced Scorecard, performance measurement, Tax Administration, Public Sector

JEL Classification: M10

1. INTRODUCTION

It is a fact that performance management plays a very crucial role in fulfilling the strategic objectives of the entity, whether it is a private profit seeking company, a public organization, or a non-profit organization. Moreover, the development and application of performance measures which lead to improved outcomes, quality for service users, satisfaction of stakeholder needs by keeping overall cost at a low level are top priority strategic issues for most public organizations. While the specific process of performance management has been researched particularly in the context of private profit seeking companies, there is still a

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long way to go in applying the balanced scorecard approach to public bodies and particularly to tax administrations. Thus, this paper addresses the research gap concerning balance scorecard applied to tax administration and highlight the need a tailored, "augmented" BSC model. In this context, the standard four perspectives of BSC namely Financial, Customer, Internal Process, and Learning and Growth transformed to Tax Revenue Efficiency and Collection, Operational Capacity and Compliance Management, Taxpayers Services Experience and Learning and Growth Keeping in mind that tax revenue sustainability, tax evasion and tax avoidance plays a major role in macroeconomic framework and economic growth the aim of this paper is to contribute to the literature with augmented Balance Scorecard for Tax Administration. This comprehensive approach ensures that modern tax administration within the framework of increasing complexity and importance of effective performance management should consider various factors contributing to long-term success and strategic management. As far as the structure of the paper is concerned, this paper is developed as follows. In Section 2 we present the literature review concerning Balance Scorecard, then in Section 3 we present the augmented model and Section 4 concludes and provides further remarks.

2. LITERATURE REVIEW

Kaplan and David Norton (1992,1996,2001) introduced a new tool for measuring business performance and to improve managerial insights which is called the Balanced Scorecard (BSC). According to this comprehensive approach, business performance results are not only financial performance objective, but give equal consideration to both long- and short-term perspectives such as customer satisfaction, internal business processes, and learning and growth capacity. Therefore, the application of Balanced Scorecard (BSC) which is based on a cause-and-effect relationship, linking interdependent processes to vision and strategy, such as non-financial aspects (customer, internal process, employee and system performance) revolutionize how organizations measure performance and implement successful and differentiated strategies by considering historical accuracy of financial measures with critical elements of future performance ((Brignall (2002), Inamdar and Kaplan (2002), Ittner and Larcker (2003), Nørreklit (2003), Davis and Albright (2004), Veen-Dirks (2002)). By understanding the organization's strategy, employees are likely to

unfold many of their hidden organizational abilities by knowing its course and the way in which they can help achieve the vision, prepare for the future challenges and ensure their strategies remain relevant, robust and practical. Since its introduction the balanced scorecard (BSC) has been widely accepted as a useful performance management and measurement tool (Kald and Nilsson (2000), Malmi (2001), Brignall, (2002)). It is rather conceivable though that BSC's performance management approach appears consistent with the aims of most profit seeking organizations in order to fulfill financial and strategic objectives. However, Kaplan and Norton (2001) and Niven (2002) suggest BSC can be readily adapted and adjusted for use in public sector organizations as a measurement performance tool enhancing transparency, accountability and responsibility to main stakeholders (Kaplan and Norton, 1992). Thus, relevant literature supports the BSC utility in the public sector organization (Forgione, (1997); Aidemark, (2001), Bilkhu-Thompson, (2003), Speckbacher (2003)) despite the complex operations, strategic orientation identification of a limited number of KPIs implementation (Chow et al., 1998). However, there is skepticism and reservations regarding efficacy of implementation and causal relationship of BSC into complex public sector contexts (Pidd (2005)). As much of the literature of BSC concerns profit seeking companies (Hoque and James (2000), Ahn (2001), Williams, (2001) Lipe and Salterio, (2002), Davis and Albright (2004)) few studies have examined how the recalibration of the standard BSC model applied to public sector performance management (Radnor and Lovell, (2003), Chan, (2004), Yeung and Connell, (2006), Greatbanks and Tapp, (2007), Moulin (2017)) which takes into accounts wider stakeholders' interest and non-financial performance measures. Fewer authors then have examined this issue within public sector organization especially within tax administration and provide with augmented specific theoretical model which is the contribution issue of this paper. This model provides with a robust linkage between formal strategy setup and causal relationship between strategic objectives and complex internal processes.

3. THE PROPOSED MODEL FOR TAX ADMINISTRATIONS

Following the relevant literature and Tax Administration Series 2024 (OECD Centre for Tax Policy and Administration's comparative information series we isolate our 4 separate areas that need to be analyzed further under the context

of SBC. More analytically the adjusted BSC for Tax Administration four areas, also called legs, involve Tax Revenue Efficiency and Collection, Operational Capacity and Compliance Management, Taxpayers Services Experience and Learning and Growth. By implementing, these different perspectives and KPIs contributed further to overall performance and improved efficiency of tax administrations. It is rather conceivable that these four areas are particularly relevant for tax administrations due to the fact that they adhere to basic strategic pillars such as tax revenue sustainability, operational efficiency, servicing experience and human resource management and

Tax Revenue Efficiency and Collection. How do we look to stakeholders?

As it has been already highlighted the main objective of the performance of tax administrations is to collect timely and in effective way taxes so as to fund public services, achieve broader macroeconomic performance and fiscal sustainability. This can be achieved through streamlined revenue collection systems, supporting withholding processes and digital payments and establishing efficient and taxpayers-oriented debt collection functions. In this context advanced analytics, proactive treatment and debt intervention strategies, enforcement measures and tax debt management initiatives, organization of special debt collection function with the appropriate tools and performance measures can help towards desired outcomes for welfare of society.

Operational Capacity and Compliance Management. What we must excel at?

As far as operational capacity is concerned complex tax administrative processes and wider roles of tax administrations undoubtedly change the way tax function operates. Taxpayer registration and identification, integrated governmental databases, e-channels and e-filing, prefilling tax returns and digital methods of payments, minimizing the compliance burdens are rather critical for the effective and innovative operation of a tax system which is friendly to businesses. Another important issue is the effective management of compliance risk the minimizing of the effect of non-compliance, tax gap analysis and dispute resolution and preventions. This can be achieved by tax gap measurements, audits to identify compliance risks, e-invoicing and digital transactions, efficient and purposeful usage of third-party data and legal

framework. Also, tax compliance risk can be mitigated by big data management and capitalization of artificial intelligence advantages. It is also obvious that complexity of business and tax operations enable tax administration to adopt specific organizational initiatives and targeted risk management techniques so as to enhance the overall integrity and the reliability of tax system. In the same context forward looking risk analysis and forecasting is regarded as prevention measure to prepare the appropriate strategy framework to robustly assess the future tax compliance risks. Moreover, tax administration has developed tool so as to measure voluntary compliance rate as well as indicators and risk reviews, data analytics techniques and administrative sanctions to address non-compliance and enhance tax certainty.

Learning and Growth. Can we Continue to Improve and Create Value for Customers and our Business?

Modern tax administrations have their own institutional model of governance, budget expenditure management ,internal organizational structure, strategic and operational planning process, performance standard and management as well target, autonomous control and oversight except for public or parliamentary committee and national audit function, personnel management such recruitment, development and remuneration ,information technology management which eventually lead to more efficient operations and set up the framework for value added

Taxpayers Services Experience. How do Customers See Us?

It is rather conceivable that the relationship between the tax administration and the taxpayer led to voluntary compliance and higher taxpayer service experience levels due to efficient and effective services mainly due to broader application of technology. In this context by providing the suitable servicing package, stakeholders satisfaction will increase and this will eventually lead to greater level of participation, taxpayer trust, and confidence in the tax administrations.

4. CONCLUSIONS AND FURTHER REMARKS

From our analysis it is obvious that modern tax administrations are undergoing major reforms regarding to their business models which is to adhere to governance

The Balance Scorecard

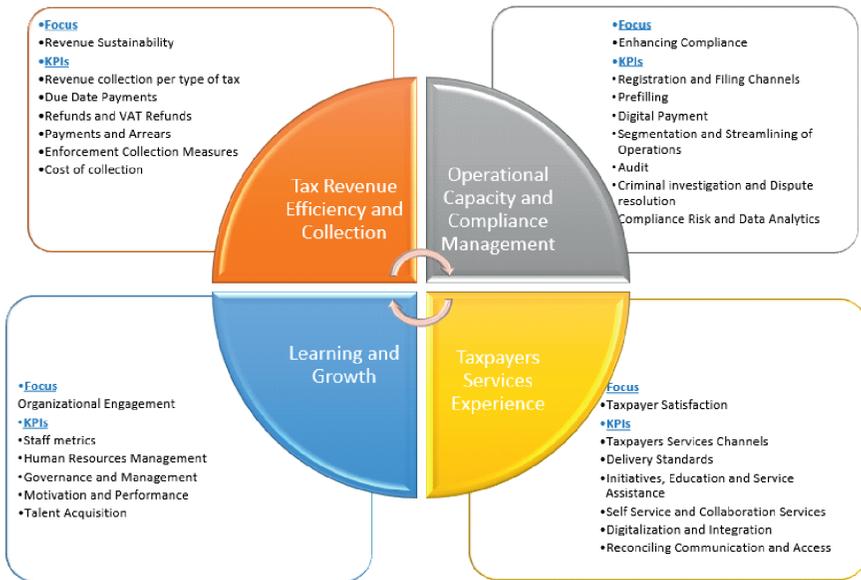


Figure 1: Visual Representation of the of the new BSC Model

arrangements, check and balances so as to ensure operational efficiency, transparency and robust overall management of tax system and tax revenue collection sustainability. The establishment of reliable strategic framework enhance enhancing stakeholder's confidence and trust in tax administration. Also, the identification of key variable for taxpayer's satisfaction so as to meet taxpayer service preferences is critical not only for tax operations but also in minimization of non-compliance effects. Moreover, the effective management of compliance risk and the reported information are vital for the integrity of the tax system. Effective people management is top priority issue for positive organizational culture and well-functioning tax operations.

Another important issue is to incorporate emerging business trend in strategic management process such as data-driven decision-making (AI, machine learning, predictive analytics and digital transformation), apply agile and flexible business strategies as well risk management processes and integrate of environmental, social, and governance (ESG) metrics into the Balanced Scorecard. Under this context the proposed model is contributed further as a decision-making tool applied for tax administration purposes. A significant

Table 1: BSC for Tax Administration¹

Perspectives	Objective	Where to focus
Tax Revenue Efficiency and Collection	Revenue Sustainability	Revenue collection per type of tax Due Date Payments Refunds and VAT Refunds Payments and Arrears Enforcement Collection Measures Cost of collection
Operational Capacity and Compliance Management	Enhancing Compliance	Registration and Filing Channels Prefiling Digital Payment Segmentation and Streamlining of Operations Audit Criminal investigation and Dispute resolution Compliance Risk Management and Data Analytics
Taxpayers Services Experience	Taxpayer Satisfaction	Taxpayers Services Channels Delivery Standards Initiatives, Education and Service Assistance Self Service and Collaboration Services Digitalization and Integration Reconciling Communication and Access
Learning and Growth	Organizational Engagement	Staff metrics (KPIs to evaluate an employee's effectiveness, efficiency) Human Resources Management Governance and Management Motivation and Performance Talent Acquisition

1. Based on information and tables in OECD (2024), Tax Administration 2024: Comparative Information on OECD and other Advanced and Emerging Economies, OECD Publishing, Paris, <https://doi.org/10.1787/2d5fba9c-en>.

limitation is the scarcity of robust empirical studies that validate the statistical reliability and interpretability of key performance indicators within the context of tax administration. Future research should focus on developing and testing standardized methodologies for KPI selection, measurement, and reporting. Moreover, it is critical to say leadership and top management commitment as well organizational culture support and employee engagement enhances and provide the appropriate business wise performance management framework. In the same context critical success factors such as management engagement on performance excellence, effective organizational strategy setting, a simple but holistic SBC approach, adequate training and motivation facilitates proper identification of KPIs, valid stakeholder analysis and quality benchmarking process and reporting provide the new environment of application of new public management of accountability and effectiveness.

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