

## **DEVELOPMENT OF SYSTEM OF STATE REVENUE SERVICE PERFORMANCE INDICATORS**

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**Abstract.** In the public sector, performance-oriented reforms have become topical over the last twenty years. The performance management documents such as Business Plan, Annual Report, Service Delivery Standards and Surveys of Taxpayers as a good practice have been adopted and are used in almost all of the countries considered; there are slight variations as to which of these documents are publicly available. State Revenue Service (SRS) is no exception. Latvian laws and regulations related to the development of performance include appropriate well-known practices adopted in the world that ensure quality of the content of adequate effectiveness measurement, however mentioned measurement indicators mainly used for state budget planning purposes not for performance management. This study aims to investigate the performance measurement system of the SRS as a tool to achieve the institution's strategic goals. In the paper possibility of introduction of integrated outcome-output indicator's matrix is proposed to ensure process management system and performance management system integration. The research object is SRS performance measurement system. The research is mainly based on the literature analysis, monographic descriptive method as well as the methods of analysis and synthesis and content analysis.

**Keywords:** performance, public administration, performance indicators, process management.

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### **Introduction**

In the public sector, performance-oriented reforms have become topical over the last twenty years. The public sector has a limited opportunity to use efficient and targeted performance evaluation elements characteristic of the private sector; therefore most developed countries have gradually developed and implemented the system of performance indicators characteristic only of the public sector for the evaluation of administration activities. As Raj (2012) points out in his study the advent of the 21st century has altered the landscape of the government structure and culture wherein the focus is on quicker delivery of the goods and

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services on the one hand and also become accountable and responsible for the omissions and commissions towards the people on the other (Raj, A. S., 2012).

Countries that have adopted a new public management approach determine its efficiency by the compliance of state administration activities with the needs of society. National governments, following the New Public Management (NPM) guidelines, introduced private principles and instruments in the public field to improve the efficiency, effectiveness and financial stability of state enterprise (Calogero, M., 2010). The way the performance management systems are used affects organisational activities; in turn, the impact of these activities depends on contractibility. Contractibility implies a clear understanding of the objective, the ability to choose real performance indicators and the manager's ability to manage and control performance transformation processes. Authors concur to Speklea, R.F., Verbeetenb, F., H., M., 2014 pointed that the way in which these systems are being used affects organizational performance, and that these performance effects depend on contractibility.

Strengthening the performance approach to public service agencies has proved its merits, so that in future it is of importance for public authorities to further develop the performance measurement and other activities to improve the organisation's performance. The economic crisis provides some insights on the role of measurement systems. As shown by the ongoing discussion of credit rating agencies by political actors and in the news media, measurement is not a neutral device but an active agent in societal processes (Van Dooren, W., De Caluwe, C., Lonti, Z., 2012). Therefore, special attention should be devoted directly to the strategic choices behind the selection and implementation of performance measurement practices in public sector entities (Jaaskelainen, A., Laihonon, H., 2014).

Despite the fact that the performance management practices in public administration have established some traditions, where countries try to take over the most appropriate expertise from one another, public administration institutions often experience the situation when they have to justify their performance as well as the use of financial resources to the society. It is important for the society to know whether the use of financial resources in the public sector is justified, as one of the factors that hinders business development and reduces the competitiveness of enterprises is the existing administrative burden (Pilvere, I., Nipers, A., Upite, I., Bulderberga, Z., Popluga, D., Dobeles, A., Dobeles, L., 2012).

This study aims to investigate the performance measurement system of the State Revenue Service (SRS) as a tool to achieve the institution's strategic goals. The main task is to evaluate the possibility of integrating the process management systems to improve the quality of performance indicators. The research object is SRS performance measurement system. The research is mainly based on the monographic descriptive method as well as the methods of analysis and synthesis.

## 1. PERFORMANCE MEASUREMENT STRATEGIC GOAL

At present, in the tax and customs administrations of many countries, there is a tendency to improve both financial planning performance and performance implementation management. Although financial planning performance and performance implementation management are considered to be distinct concepts, in practice many national governments have tried to introduce a results-based approach in both management and financial planning contexts, in which organisations are given some flexibility in the way, in which performance improvements are achieved. Performance measurement in the public administration has two main functions: to measure financial planning performance and to evaluate performance in order to modernise management techniques in an organisation. However, there are countries, where the organisations representing the public sector have to comply not only with uniform laws and regulations that govern the scope of performance but also should establish their performance management system in such a way to be able to perform the whole system target mandated.

Table 1

### Revenue bodies' mandated business performance targets

| Country         | Business performance targets mandated for 2012 (and beyond) |                    |                   |                                      |                                  |                                 |
|-----------------|-------------------------------------------------------------|--------------------|-------------------|--------------------------------------|----------------------------------|---------------------------------|
|                 | Budgeted revenue                                            | Tax debt reduction | Tax gap reduction | Improvement in taxpayer satisfaction | Compliance with burden reduction | Operating costs/staff reduction |
| Austria         | √                                                           | X                  | X                 | X                                    | X                                | X                               |
| Denmark         | √                                                           | √                  | √                 | √                                    | √                                | √                               |
| Estonia         | √                                                           | X                  | X                 | X                                    | X                                | X                               |
| Greece          | √                                                           | √                  | √                 | √                                    | √                                | √                               |
| Hungary         | √                                                           | X                  | X                 | √                                    | X                                | √                               |
| Ireland         | √                                                           | √                  | X                 | X                                    | √                                | √                               |
| The Netherlands | √                                                           | √                  | X                 | X                                    | √                                | √                               |
| Portugal        | √                                                           | X                  | X                 | √                                    | X                                | √                               |
| Slovak Republic | √                                                           | X                  | X                 | X                                    | X                                | X                               |
| Spain           | √                                                           | √                  | √                 | √                                    | √                                | √                               |
| Latvia          | √                                                           | X                  | X                 | √                                    | X                                | X                               |
| Romania         | √                                                           | √                  | X                 | √                                    | √                                | √                               |

**Source: OECD, 2013**

The authors have considered revenue bodies' mandated business performance targets of the EU Member States, such as Austria, Denmark, Estonia, Greece, Hungary, Ireland, the Netherlands, Portugal, the Slovak Republic, Spain, Romania and Latvia, which are the OECD (Organisation for Economic Co-operation and Development) countries or candidate countries of the OECD, and which have integrated their tax and customs administrations into one organisation (Table 1). The degree of integration of tax and customs administrations can vary considerably in various countries, for example, in Latvia tax and customs basic processes are separated from each other, while in Estonia tax and customs basic processes are fully integrated. Moreover, according to the model topology of customs authorities, by combining

the tax and customs administrations there are differences in the degree of their autonomy, for example, a Revenue Department – the structural unit that performs tax and customs functions at the national level as a single entity in the relevant ministry, usually the Ministry of Finance, and a Revenue Service – a partially independent organisation, where tax and customs administrations are integrated at the national level, the structure of which could be similar to a Revenue Department; however, it is partially independent of the ministry to which it is subordinated.

In Latvia, it is often emphasised that the merging of tax and customs administrations happened based on Denmark's experience; however, analysing the performance of the State Revenue Service it can be concluded that the main incentive for the creation of SRS has been the improvement of efficiency – budgeted revenue, improvement in taxpayer satisfaction and compliance with the law in contrast to Denmark, where a productivity incentive was set as a priority (Pētersone, M., Ketners, K., 2013).

## **2. SRS PERFORMANCE INDICATORS**

In view of the new performance management trends in tax and customs administrations, other countries' best practices are gradually being taken over. The performance management documents such as Business Plan, Annual Report, Service Delivery Standards and Surveys of Taxpayers as a good practice have been adopted and are used in almost all of the countries considered; there are slight variations as to which of these documents are publicly available.

Latvian laws and regulations related to the development of performance (Cabinet of Ministers, 2009a) include appropriate well-known practices adopted in the world that ensure quality of the content of adequate effectiveness measurement. Since Latvia is one of those countries, where the public administration has to comply with uniform laws and regulations governing the scope of performance, the mutual policy cycle of outcomes and their performance indicators is regulated, which also envisages the classification of performance indicators (Cabinet of Ministers, 2009b):

1. input indicators (indicators of resources) - reflect the amount of investment and resources required to achieve the objective or outcome;
  - indicators of resources – characterise the planned amount of financial resources of direct administration institution, the administrative capacity, infrastructure required to perform the functions of direct administration institution and ensure its operation;
  - direct performance indicators – reflect the institution's internal activities that are oriented to internal customers;
2. benefit indicators:

- policy outcome indicators – priority monitoring indicators – changes in the society (in the relevant policy) that are affected by a number of performance outcomes achieved and partly by external factors;
  - performance indicators – task / event monitoring indicators – the end product – the achievement level is fully dependent on the policy implementer;
3. macro-impact performance indicators – basic indicators for development assessment – changes in the society that is affected by a number of policy outcomes and external environmental factors;
4. analytical indicators reflect the relationship between inputs and outputs or the compliance of intended benefits with the outcome or objective achieved:
- economic performance indicators (efficiency) – the degree at which a system or its component reaches the desired outcome (performs its functions) compared to consumption of resources;
    - ✓ economic indicators characterise performers' economy and the ability to efficiently use the available resources. Economic indicators are only applicable to the investment;
    - ✓ productivity indicators characterise the intensity of operation and the ability to use time efficiently;
  - functional performance indicators (effectiveness) – describe the extent to which the resources invested and the performance outcomes obtained have ensured the achievement of intended policy outcomes;
  - quality indicators – characterise the compliance of services and products provided to the society and public administration institutions with quality requirements and standards set as well as reflect the satisfaction level of needs and desires of the society and public administration institutions (The Guidelines on Outcomes and Performance System for the Period of 2008–2013).

Traditionally, system performance management process takes place at three levels – strategic, tactical, and operational. For example, in the Russian Customs Service the performance system is divided into three levels – federal, regional and local customs authorities (Gubin, A., 2011) each outcome level has its own strategic goals, objectives and performance indicators. The SRS has a single-tier organisational structure, where each performance indicator level performs only the functions assigned to its level. At present, the performance indicators of SRS operation strategic management levels operate as a separate assessment tool without direct interaction with the performance indicators of other SRS structural unit levels; namely, there is no clear subordination, traceability and interaction of strategic level performance indicators, tactical level performance indicators (structural unit (process) framework) and operational

level performance indicators (particular sphere of operation, persons (employees, service users) and groups of persons involved) with the achievement of the SRS strategic goals and objectives.

The system of strategic management level performance indicators or political outcomes (according to the Cabinet of Ministers, 2009a) have been identified relatively recently (for the first time available in the State Revenue Service Operations Strategy for the period of 2014–2016). Therefore, it is difficult to assess whether the defined performance indicators fully reflect the achievement of the SRS goals.

The tactical management level or performance outcomes (according to the Cabinet of Ministers, 2009a) are characterised by the fact that there is a strict subordination of operational results and performance indicators to strategic goals and objectives but there is neither strict traceability with strategic level performance indicators nor subordination to the performance indicators of operational management level.

At the operational management level for the purpose of performance outcome aggregation, the SRS has recently developed the SRS performance aggregation matrix, which compiles information on the SRS structural unit performance outcomes, which cannot be regarded as performance indicators for measuring the implementation of the strategy. The SRS performance aggregation matrix serves as a tool that exists in parallel to the calculation of performance indicators and summarises the SRS structural unit operations results but there is no clear link with other level performance indicators (Figure 1).

| Operational level             |                            |                            |                                             |
|-------------------------------|----------------------------|----------------------------|---------------------------------------------|
| Fiscal performance indicators | Decision-making indicators | Control process indicators | Customs and tax customer service indicators |

Fig. 1. **The SRS performance aggregation matrix**

In the SRS performance matrix, the operations objective, process and the responsible structural unit are specified for each indicator. However, to accurately characterise the SRS performance outcomes, the aggregation matrix should include a performance indicator determined for each process operation.

### **3. INTEGRATED OUTCOME AGGREGATION MATRIX**

Evaluating internal laws and regulations of the SRS performance management process, it should be concluded that, although there is formally a sequential relationship among the SRS operations strategy (the medium-term planning document), the SRS action plan (the short-term planning document) and the SRS structural unit action plans, specific tasks for structural units are not identified but exactly the execution of the tasks would affect the achievement of all the strategy objectives in the short and medium terms. Within the framework of the SRS structural units, there is no operation planning that focuses on the activities identified in the

SRS annual operation plan to achieve strategic goals. The authors believe that within the framework of performance planning, it would also be useful to draw up a plan for each employee, setting up individual tasks, the fulfilment of which would affect the achievement of strategy's goals. Setting of such annual tasks for employees would be related to annual performance evaluation (Petersone, M., 2013a).

To make all performance planning documents interrelated, it is necessary to know the origin of each performance indicator at all three levels; however, at present the procedure for the calculation of a particular performance indicator is not developed and described in the SRS operations strategy as well as the data sources are not listed. In the SRS basic structural units, a variety of tools are used for the calculation of performance indicators. For example, the SRS responsible Tax Administration Unit obtains data from the SRS data warehouse system, tax information system (TIS) and other databases. Performance indicators are obtained through standard data filtering; however, there are certain indicators that require manual accounting and calculation. The responsible employee of the Planning and Coordination Department of Customs Modernisation Unit of Customs Administration summarises the data sent by the SRS structural units and performs repetitive manual data entry using MS Excel tables with built-in formulas for the calculation of indicators. Performance indicators are not analysed in detail with the aim to understand their sphere of influence and make adjustments to the operation of structural units.

The SRS has ensured the quality of content of performance measurement, by linking it to the process management system creating the SRS outcome matrix (On the State Revenue Service's Performance Outcome), where each indicator is linked to one process and process activities. In the SRS performance aggregation matrix, 1,028 performance indicators are identified. The SRS performance aggregation matrix is based on a process management system (Petersone, M., 2013b), where the process and the responsible department are specified for each performance indicator, so the matrix serves only as an overview of obtained indicator group performance.

In an attempt to improve the financial planning performance and performance management process, the authors propose complementing the existing SRS performance matrix with analytical performance indicators as well as positioning a more appropriate level of management to each performance outcome (Figure 2).

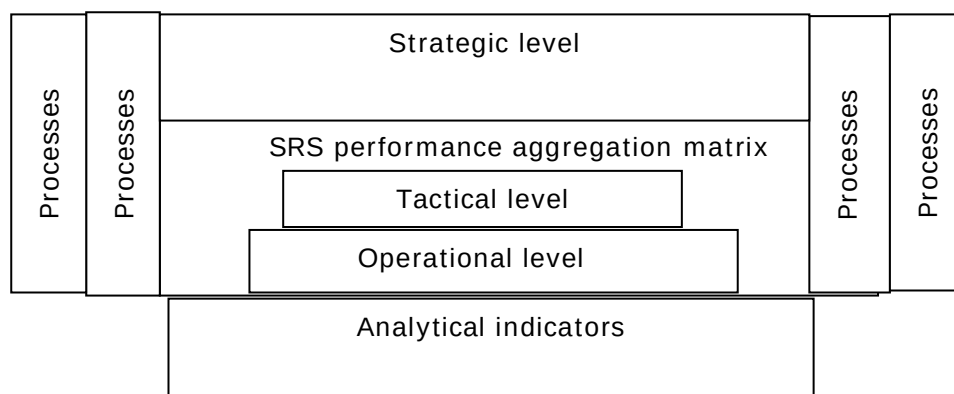


Fig. 2. **The SRS integrated outcome aggregation matrix**

In the SRS performance aggregation matrix the performance indicators of tactical and operational management levels are integrate, provided matrix is stipulating the compliance of indicators with each management level and their potential impact on the strategic level. The traceability and interrelation of performance outcomes at all levels would help manage the SRS performance process. Thus by interconnecting performance indicators at all levels, it is possible to establish the subordination of certain indicators and to relate them to the achievement of strategic goals. At present, the group of analytical indicators of performance measurement system by its functions is rather focused on disclosing organisation's performance to the society. The authors believe that introducing analytical indicators to the performance aggregation matrix, the latter could be used more successfully for the purpose of performance management.

The integrated outcome aggregation matrix based on the process management system through the same operating principle affects other organisations in human resource management areas (Petersone, M., Ketners, K., Krastins, A., 2013), such as talent management (Petersone, M., Ketners, K., Krastins, A., 2014) or risk management (Petersone, M., 2014), which implies a considerable opportunity to influence the achievement of strategic goals and objectives. The regulatory documents of strategic management and the hierarchy of performance indicators, respectively, are of importance.

## Conclusions and recommendations

1. Performance management system implementation in the public administration institutions has proved its merits in the world. Improving the performance management system in the public administration, it is expected to enhance the employees' understanding of their role in the achievement of institution's strategic goals; thus, it will be possible to continuously monitor and control the strategic development.
2. In the tax and customs administrations of many countries, there is a tendency to improve both financial planning performance and performance implementation management.



3. The performance indicators of SRS operation strategic management levels operate as a separate assessment tool without direct interaction with the performance indicators of other SRS structural unit levels; namely, there is no clear subordination, traceability and interaction of strategic level performance indicators, tactical level performance indicators and operational level performance indicators with the achievement of the SRS strategic goals and objectives.
4. Performance measurement is one of the decisive stages of the performance management process. Improving the performance measurement system, it is necessary:
  - to clearly define a hierarchy of performance system indicators and the principles of interaction and subordination of performance indicators at all levels;
  - to describe the process of developing performance indicators;
  - to assign employees responsible for the process implementation;
  - to identify the selection principles of performance indicator types, the selection principles of performance indicator values;
  - to determine the evaluation criteria of efficiency and adequacy of performance indicators;
  - to define updating and valuation principles of performance indicators as well as identification and accumulation principles of the necessary data for measuring performance indicators;
  - to determine the regularity for measuring performance indicators and the application principles of performance indicators in the process of decision-making.
5. The issue of modernisation of the performance management process is becoming ever more urgent for the SRS; therefore, by integrating in the SRS performance aggregation matrix the performance indicators of tactical and operational management levels, at the same time stipulating the compliance of indicators with each management level and their potential impact on the strategic level, the content quality of performance measurement system would be improved.
6. Improving the performance management process, it is expected that one of the improvement indicators will be the elaboration of internal laws and regulations, which will describe the performance management process, including strategy development and updating cycle as well as the subordination of performance indicators in all performance management documents.

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