DEVELOPMENT OF REVENUE AUTHORITY ORGANIZATION PRINCIPLES WHICH ARE BASED ON PROCESS MANAGEMENT

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Abstract. Effective and efficient organization of public administration and reorganization is one of the goals of policymakers and practitioners. This paper examines the processes of reorganization in the State Revenue Service in Latvia as a tool for authorities to achieve strategic objectives in order to make proposals for the planning activities of structural reforms. The aim of this study is to examine the processes of reorganization in the State Revenue Service (SRS) as a tool for authorities to achieve strategic objectives in order to make proposals for the planning activities of structural reforms. The research is mainly based on the monographic descriptive method as well as the methods of analysis and synthesis. Main results are related with identification of procedures and approaches for reorganization and structural changes in tax and customs administration. It can be concluded that for the organisational structure, which is modelled according to the processes linked with units, it is possible to make precise analysis showing how the reorganization process will change performance indicators and to clarify important factors. This research identifies need for the internal regulation and the respective procedure for implementing structural changes is described in the paper.

Key words: tax and customs administration, reorganization, process management.

JEL code: H83, H11

Introduction

Striving for excellence in work, the SRS is aware of the importance of reorganization in this process and tries to use both the most suitable theoretical approaches as well as experience of different countries. With each strategic initiative the SRS shows that the reorganization process is not an end in itself but a prerequisite for the institution’s activities and a tool for achieving its objectives. With every year the overall performance of the authority increases as well as its productivity. As an important international recognition can be considered the fact that the Organisation for Economic Co-operation and Development (OECD) in its publication "Tax administration 2015. Comparative information on the OECD and other advanced and emerging Economies" (OECD, 2015) in the section on strategic management issues and six national examples of good practice together with developed countries, such as Australia, New Zealand, South Africa, Britain and the United States, has included the Latvian State Revenue Service as well. Although the SRS has made a huge effort in improving the strategic management, insufficient attention was so far devoted to the structuring of reorganization process.

Different aspects of Public’s Sector’s Efficiency and Effectiveness has been viewed in scientific paper by several authors (Curristine T. et al., 2007; Kersule L. et al., 2011; Maguire F., et al. 2013) as Efficiency and Effectiveness indicators most directly affect Public Administrations reorganization’s process and therefore structure of institutions. World Bank Group (2003), Kidd and Crandall (2006) and Yasui (2009) show in their research that national governments choose the approach how to make customs and tax administration’s institutional structures, based on national policies. Such authors as Mavlutova et.al. (2014) and Zarbafi (2011) note the transfer of the New Public Management ideas from Business to Public Administration. SRS statistics confirm the impact of Efficiency on institution’s structural changes.

As the hypothesis being put forward - reorganization process based on the performance management system is essential and integral part of integrated human resources management. The aim of this study is to examine the processes of reorganization in the State Revenue Service (SRS) as a tool for authorities to
achieve strategic objectives in order to make proposals for the planning activities of structural reforms.

To achieve this aim, the following objectives are pursued:

• to analyse the existing advantages and disadvantages of the reorganization process in the SRS;
• to describe the reorganization principles having main impact on the performance indicators;
• to develop a model for implementing the reorganisation process, which is based on the process management system, in order to improve the performance management in organisation.

The information compiled by SRS statistic, scientific publications of foreign and local researchers, and other materials have been used for the purpose of the study. The research is mainly based on the monographic descriptive method as well as the methods of analysis and synthesis.

**Research results and discussion**

Regarding public administration efficiency, the emphasis is placed mainly on effective human resources management, which means calculating the optimal number of employees necessary to perform the current functions, forecasting the number of employees for the near future including their education and qualification (Petersone M. et al., 2014) and retaining the most talented professionals. In turn, by knowing the objectives and tasks of the organization, it is possible to plan human resources necessary in the future. Attracting the most talented (Petersone M. et al., 2014) people to the public administration sector is not considered only a problem of single state in the 21st century. As stressed by Buligina et al. (2014): "A high priority in the EU policy is establishing closer links among education, training, and work for skills upgrading and employability. This requires
key components of the public sector. The increase of tax revenues and the positive conditions created by synergy are used as the main arguments for implementing the reforms. Ensuring trust to the public administration and implementation of public reforms are used as additional arguments; tax administration reform is usually mentioned as the most visible result of the successful reform carried out by the government. It should be noted that the integrated model for tax administration, which is mentioned in the recommendations of the International Monetary Fund (IMF) and World Bank (WB), belongs to the New Public Management (NPM) concept and is indirectly recommended by the EU as well.

The expected results are usually determined qualitatively rather than quantitatively - the expected policy result from the autonomy:

- efficient management of human resources and lower corruption risks (integrity);
- better exchange of information among the structural units of the joint body.

A study conducted by the World Bank presented the performance of joint tax and customs administrations in Denmark, Canada, Latvia, Colombia, the Netherlands and Ireland as well as reforms they have implemented, noting two reasons - to increase the tax collection efficiency (the Netherlands, Latvia and Colombia) and its productivity (Denmark) or both above mentioned together (Canada (until 2003)). According to this approach, the integration efficiency is evaluated by using the parameters of revenue collection - amount of tax revenue collected and reduction of potential tax fraud etc. but productivity characterizes the resources of public and private sectors being spent on each unit of the collected revenues. Unlike in Denmark, where the collection productivity is positioned as the main reason, in Latvia it is often stressed that the integration of customs and tax administration is implemented by improving its operational efficiency, reducing the possible risk of tax evasion, increasing integrity level and the amount of revenue collected.

Arguments used for the establishment of single tax and customs administration and autonomous functioning of this authority are political trust, depoliticisation; as benefits are mentioned: creation of flexible structures, budget appropriation flexibility, corruption risk reduction and efficiency increase, for the payer - better service, saving of costs and time.

All these arguments cannot be measured on a quantitative scale. As pointed out by Kidd, M. et al. (2006), there are technical difficulties - lack of multiannual data before and after the reforms, it is not possible to determine the impact of autonomy or integration as well as there are several variables and other factors, whose impact on the revenue increase cannot be evaluated. Integrity (indicators of lower corruption levels and ethical compliance) and financial autonomy are used as additional indicators for the efficiency. It is assumed that converting the tax-type structure into a revenue agency automatically means cost reductions. It is also considered that the speed of information exchange increases, IT system integration is ensured and taxpayers spend less time interacting with the agency.

Danish tax authorities are mentioned as the best example of efficient structural changes in international practice. Reforms of tax administration in this country reduced the costs by 15% from 2006 to 2013, while the number of employees decreased by 25% from 2006 to 2013. Despite the resource reductions, tax administration performance is improving, which is confirmed by, inter alia, reduction of the tax gap (The Danish Ministry of Taxation, 2015). In turn, Uganda is mentioned as an example of failure (Yasui T., 2009), where it was not possible to identify any indicators that have changed after the reforms were implemented. It is virtually impossible to find direct analogues in the sector.
of institutional reforms as very much depends on historical traditions and national regulatory bodies. Therefore, there is a segmented taxpayer approach (US, Australia), a functional approach (joint tax and customs administration), an integration into the Ministry of Finance and matrix integration (Great Britain). Without institutional reforms it is also possible to close the regional offices (consolidation), use approach of administration mergers as well as reorganization and automation of processes. Recent examples - creation of competence centres in Estonia (2012), optimization of regional institution network in Finland (2011), merger of tax, customs and social security contribution administrations in Hungary (2010), setting targets of cost reduction by 8% and administration cost reduction by 25% in Denmark (2010).

**Assessment of the State Revenue Service Development Results**

In Latvia it is often stressed that the Customs and Tax Administration merger has taken place following the Danish model; however, the authors believe that the main motive for the SRS establishment was to increase its efficiency - risk of fraud, honesty degree, the amount of revenues and compliance with the law, in contrast to Denmark, where productivity motive was set as a priority (World Bank Group, 2003). The SRS also believes that the most important argument for fulfilling the expectations of legislator and the government is the efficiency (Curristine T. et al., 2007) - the amount of taxes collected and the fight against the shadow economy (Schneider F., 2014). Although the issue of public sector productivity is very controversial (Maguire F. et al., 2013), one of the productivity indicators - the cost per collected euro (Figure 1) is no less important for the SRS.

**Fig. 1. The cost per each collected euro**

The SRS cost per each collected euro has decreased from 3.4 euro cents in 2004 to 1.5 euro cents in 2014. This indicator is positively affected by an increase in revenues, reduction of expenses, or both simultaneously. The statistics show that the most important SRS cost reduction has taken place during the crisis in 2009 - as a result of budget consolidation, which also provided for significant restructuring measures. However, reduction of resources related to revenue collecting alone does not show significant signs of positive effect the
reorganization measures would have on the productivity of the SRS work. Currently SRS structure, functions and tasks are affected by two significant and directly reflective elements - public administration expenditure budget reduction and reorganization initiated in the SRS as well as review of the functions at the national level. Since its founding in 1993, the SRS implements structural reforms periodically. In 2009 the number of SRS Deputy Director General positions was reduced from four to two returning to the structure with four positions of Deputy Director General in 2012. Reduction of positions was applied to around 700 long-term vacancies; around 100 positions were opened after some time. Structural changes resulted in termination of the employment relationship with 191 employees. For example, the SRS IT Department was included in the Administrative Department in 2010 but in 2011 it became a separate department again. The subordination of Excise Department was changed from the SRS Deputy Director General in Tax Area to the SRS Deputy Director General for Customs in 2010 but at the end of 2013 the subordination was changed to SRS Deputy Director General in the Area of Combating Crime. In 2015, the functions of Excise Department were divided among the Tax Department, the Tax Control Department and the newly created Department for Movement of Excisable Products, which remained subordinated to the SRS Deputy Director General in the Area of Combating Crime. In 2012, the subordination of Finance Department was changed from the SRS Director General the SRS Deputy Director General in Administrative Area but in 2013 it was returned to the SRS Director General.

**Improvement of the reorganization process for achieving the desired effect**

Reorganization is usually based on a political decision related to the fight against tax evasion (the Netherlands), efficiency increase (Estonia, Denmark) or cooperation improvement among Jelgava, LLU ESAF, 21-22 April 2016, pp. 342-346 departments of the institution (Latvia) (World Bank Group, 2003).

The efficiency of reforms can be assessed by the changes in performance indicators, service delivery standards (customers using electronic services, application processing time, waiting time, declaration processing time, tax refund time, the waiting time in line, customs declaration processing time), customer surveys and satisfaction indicators. However, most studies about the reorganization are related to the business environment and the use of this approach in the public administration is controversial. For example, Mavlutova et al. (2014) offer their own corporate restructuring algorithm or Zarbafi (2011) states that work productivity decreases during the internal reforms in the organization.

Each process has its own indicators - the collected debts, the current debts to be collected, tax revenue against the potential tax revenue, tax liability etc. Costs associated with fulfilment of taxpayer obligations or collection costs of tax administration are usually used for efficacy evaluation. However, technically there may be differences in the tax burden and the potential tax burden that undermine making comparisons at international level. Integrated tax and customs administration model with financial intelligence functions can be used to compare agency models used in Estonia and/or the Netherlands.

To identify its functions and tasks, the SRS has divided its operation into three levels - tasks, processes and process performance. Consequently, each task has its sub-processes with their own operational activities. As a result, each structural unit has specific knowledge of the processes and operational activities. Consequently, regulating their work in this way the SRS ensures that processes and even operational activities do not overlap. Job description of each employee reflects the operational activities he/she is responsible for as his/her professional duties in the position of a
state official (Petersone M., 2013). Simultaneously with identification of ideas for processes, the SRS has also initiated working-time accounting in order to obtain comprehensive information about how resource intensive is each of the processes, and how much does it cost. However, the cost accounting, which is related to the processes, is not ensured. As a result, measures, which are inseparable from the cost accounting including the reorganization processes and should result from the above mentioned information, are useless because the invested resources are not balanced with regard to the expected results.

Traditionally, strategies of organizations reflect the objectives to be achieved and the key indicators. For the performance management the SRS ensures the substantive quality of performance indicators by linking them with the process management system by establishing the SRS performance matrix, where each indicator is linked to one process and operational activities. The SRS performance matrix lists the group of performance measures (output) (Petersone M. et al., 2015). Creation of the SRS performance matrix in correlation with the SRS work accounting system each other would offer an innovative approach to the reorganisation process of organisation creating the system allowing to identify what processes and how many processes each employee has performed, workload of each department and to model changes in the organizational structure, if necessary (Figure 2).

![Source: authors' construction](source_url)

**Fig. 2. The reorganization process model based on the performance management system**

Strategic failure, failure to achieve the goal, and situation, when the goal is reached but the action has not been sufficiently efficient, can trigger the necessity for reorganization. However, the reorganization process of organisation is always accompanied by great employee resistance to change; hence, it is the last instrument to be used for achieving the organization’s goals. When launching structural reforms, it should be assessed how the existing model of structure undermines the goal that has been set. If the organizational structure is created according to the principle of processes linked with the structural units, it is possible to make a precise forecast of how the reorganization process will change investment indicators, output indicators and analytical indicators and to respect the principles of reorganization, such as:

- responsibility for functions of the entire organization;
The possibility for the SRS to withdraw from the implementation of processes which are not delegated to the SRS by law. For example, the forecasting of budget revenue is a competence of the Ministry of Finance, which has received an appropriate amount of financial resources. Since the SRS has not received resources for such function, it uses the resources allocated for other functions.

- enforcement of laws and regulations, which may disproportionately increase the resources necessary to complete the process;

For example, the SRS performs responsibilities imposed by laws and regulations that are useless and do not affect the outcome. In this case the SRS would be expected to initiate amendments to legislation by eliminating the useless activities. For example, the SRS should assess the financial situation of the taxpayer before granting the payment deferral but in practice the SRS has limited possibilities for assessing the financial situation of the taxpayer; several documents are required, the resources are used to ensure this process.

- responsibility for functions of the reorganized unit;

There should be convincing arguments for dividing or combining several units regarding such questions as to which of the new units will be responsible for the function and if this function is relevant for the respective unit. For example, merging the Unit of Public Benefit Organization Administration with the Unit of State Officials Data Administration accelerates acquisition and exchange of information among the state institutions and the SRS.

- process optimization possibilities, including process automation possibilities;

For example, within one process initial preparation of the "Decision on overdue tax payment reinforcement" was automated but it should be prepared manually repeatedly.

Automation of this process from 2011 to 2014 made it possible to save at least 2 200 hours per year or one employee's time per year on average.

- the possibility of duplication of the delegated tasks and processes;

For example, if the reorganization process overlaps with other units or only information on continuing the process in the recent practice or possibilities of centralization of the process is assessed.

- not only the basic process optimization but also support and overall process optimization;

For example, personnel qualification improvement is mainly HRD (Human Resource Department) competence but the assessment should also contain information about the SRS units which could be affected by overlapping of the mentioned support process.

- internal standards for work accounting;

For example, by merging several SRS customer service centres not only the number of employees and registered taxpayers should be assessed in case of merger but also the potential savings in rent as well as expenses related to the transportation, moving and storage of taxpayers' files.

Unfortunately, very often it is not possible to obtain reasonable evidence regarding the effect to be achieved through structural reforms, thus, reorganization can become an end in itself rather than a precondition and tool for achieving the goals of institution. This means that the overall performance of the institution cannot be
improved and the efficiency of its work cannot be maximized. On the contrary, structural change may be harmful and the related expenses - useless. For example, after a series of structural changes the SRS has not evaluated, whether it has achieved the desired effect and how the structural changes affect tasks and processes of the SRS.

When deciding on the need for structural changes, internal procedures or rules of procedure are necessary in order to determine the system for implementing the structural changes. The procedures should specify the unit(s), which organize(s) and justify(ies) the need for a reorganization process, officials, who evaluate the necessity and decide on the structural changes, normative documents justifying their action (process evaluation, service reports, orders etc.), procedures of document approval and coordination. In addition, the procedure should also be made for the way how the regulatory documents will be registered in the record-keeping system helping to identify the documents directly related to the structural changes.

Conclusions, proposals, recommendations

1) The structural changes have to be justified by an assessment of the current situation and planned effects, which should be achieved in case of structural changes. The process of implementing structural changes must be based on procedures for identifying, updating, assessing, describing and documenting tasks and processes delegated to the units.

2) For the organisational structure, which is modelled according to the processes linked with units, it is possible to make precise analysis showing how the reorganization process will change investment indicators, output indicators and analytical indicators, and to clarify important factors, such as:
- responsibility for functions in the entire organization;
- enforcement of laws and regulations, which may disproportionately increase the resources necessary to complete the process;
- responsibility for functions in the reorganized unit;
- process optimization possibilities, including process automation possibilities;
- the possibility of duplication of the delegated tasks and processes;

3) The SRS has introduced working time accounting for all processes; however, task tracking for processes still is not implemented. Consequently, the measures, which are inextricably linked to the processes and which should be drawn from that information, are useless - the result of the process and human resources required for its implementation still are not determined, the invested resources are not balanced with expected results.

4) In assessing the cost accounting procedures, the necessary expenses should be recorded according to the operational processes, rather than as it is traditionally done by units, which would change the accounting procedures according to the tasks and processes defined by the SRS.

5) The SRS, like any public body need the internal regulation, which would determine the procedure for implementing the structural changes. The procedure should specify the unit(s), which organize(s) and justify(ies) the need for a reorganization process, officials, who evaluate the necessity and decide on the structural changes, legislative documents justifying their action (process evaluation, service reports, orders etc.), procedures of document approval and coordination.

6) Integrated human resource management approach incorporate organization reorganization principles which correlate with
those fields of activity, which can also be based on the process approach, such as management.

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personnel, finance, risk and quality management.


