

TAX CHARTERS, PERFORMANCE INDICATORS AND THE CASE FOR A MORE STRATEGIC APPROACH TO TAX ADMINISTRATION

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Abstract

Reform of tax administration has not always been an unmitigated success. One way of improving the chances of success might be to take a more strategic approach to reform as has already been suggested in the case of tax simplification (James and Wallschutzky, 1997) and tax compliance (James, forthcoming). In this paper such an approach is continued by examining a natural experiment in which the development of tax charters was undertaken following a more strategic approach in Australia than it was in the UK. To date at least, the former approach appears to have been the more successful. However, a very important aspect of a strategic approach is monitoring and review of progress. The paper therefore goes on to examine the use of performance indicators. It begins with a very brief account of the theory of performance indicators, the development of their use in the private sector, in other parts of the public sector and then specifically their use in tax administration. The paper then outlines a case study of performance indicators in the Excise Tax Administration in Thailand.

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1. Introduction

There is little doubt that there is scope for improvement in tax administration, indeed in changing times there always will be. For instance in terms of compliance in the USA the Commissioner of the Internal Revenue Service (Everson, 2004) estimated that quarter of a trillion dollars were lost each year because taxpayers did not pay their tax voluntarily or in a timely fashion. Furthermore the problem could be getting worse – again taking the USA as an example, Everson (2004) reported that over the period 1999 to 2003 the number of Americans saying that it was acceptable to evade taxation rose from 11 to 17 per cent. In the UK the House of Commons Committee of Public Accounts (2004) stated that the tax compliance strategy set out by the Inland Revenue (now HM Revenue and Customs) in the 1980s was no longer adequate. There is no doubt that any such strategies also have to be continually modified to take account of changing economic, social and legal factors. Tax administration must achieve compliance in a wider national and international context that includes, among other things, a range of government goals and policies. Finally it has to be conducted in ways that are compatible with public perceptions of fairness and so on. It seems, therefore, that a more strategic approach to tax administration is required than *ad hoc* responses to issues that are particularly pressing at a particular point in time. Although the term strategic has been used before, it has not always been reflected in the development of a genuinely strategic approach.

This paper therefore begins in Section 2 with a brief discussion of a strategic approach to tax administration. The main themes are that such an approach should take account of the wider context and must also have mechanisms to ensure that it continues to achieve its intended purposes. Section 3 examines a natural experiment in which taxpayer charters were developed in both Australia and the UK though with the former taking a more systematic approach than the latter. Section 4 goes on to look at performance indicators as a key method of monitoring progress. It begins with a very brief account of the theory of performance indicators, the development of their use in the private sector, in other parts of the public sector and then specifically their use in tax administration. The paper then outlines a case study of performance indicators in the Excise Tax Administration in Thailand. Finally Section 5 draws some conclusions.

2. A Strategic Approach to Tax Administration

An essential input in the development of successful strategies is the systematic analysis and understanding of the factors involved. This includes the wider environment in which the activity is being conducted as well as the areas of immediate concern. Furthermore a key aspect in the development of strategy is implementation. Henry Mintzberg (2004, p. 55) is one of the most prominent management scholars in the area and believes that strategy is an interactive process requiring constant feedback between thought and action and that successful strategies evolve from experience. He also stresses the importance of strategists having expertise in the area and that they should not simply pontificate at a high level of abstraction and leave it to others to implement the strategies (and certainly not blame them for any shortcomings in the strategy). Other commentators, such as Grant (2002, p. 25), are also clear that the formulation and implementation of strategy go together.

A well-designed strategy should take account of the process of implementation and it is through the implementation that a strategy can be refined and reformulated. An important part of strategy implementation consists in measuring outcomes and revisiting the strategy in the light of experience gained. Importance of measurement and its link to strategy can be seen, for example, in the development of strategic management accounting (Kaplan and Norton, 1993, 1992, 1996a, 1996b).

A strategic approach to tax policy has been explored before – for example with respect to tax simplification by James and Wallschutzky (1997). Here it was stressed that even tax simplification was a complicated process – and needed not just *ad hoc* responses but a strategy that took account of the different factors generating complexity and the best ways of responding to them in the context of the tax system as a whole.

More generally, all aspects of policy should be consistent not only with other activities within a particular government department or agency but also with other government policies. For example, because they frequently have a large proportion of their receipts in the form of cash, small businesses may have more scope than other taxpayers to evade tax. However, government policy is often designed to encourage small business activity for a range of reasons (see for instance Channon *et al.*, 2002, and Holz-Eakin, 1995). If small businesses are to be a particular target then care should be taken that the effect of the action will be to deter tax evasion without also discouraging small business enterprise unnecessarily. The failure to take account of wider effects of enforcement action may result in a particular action appearing successful but only at a cost elsewhere that might be overlooked. Klepper and Nagin (1989), for example, point out that a policy change designed to reduce one form of non-compliance might result in taxpayers transferring their non-compliance activities to take advantage of a now superior alternative opportunity.

A start has been made with compliance policy. The OECD (2004) has laid out a process, which it refers to as compliance risk management, for the identification, assessment, ranking and treatment of tax compliance risks systematically. This general approach is also followed in this paper but with a number of differences including an analysis of non-compliance earlier in the process. The process developed here consists of the following stages:

1. Establish clearly the aims of the tax system. A major function of taxation is, of course, to raise revenue, but tax systems are also used for other purposes.
2. Specify the administrative constraints under which the tax system must operate.
3. Identify different risks of non-compliance.
4. Assess the importance of the risks.
5. Analyse compliance behaviour.
6. Develop tax compliance strategies, taking account of the aims and objectives of the tax system and broader government economic and social policies. The strategies should take account of both the areas of highest priority and those where there is the highest probability of success. These strategies should also take account of the work of other government enforcement agencies and wherever possible be developed in conjunction with them.
7. Plan and implement compliance strategies including intended outcomes.

8. Monitor and evaluate the performance of the strategies against the plan.

The essential point here is that the approach is to be systematic and must contain provision for ensuring continuing success. We now turn to taxpayer charters where this approach was followed much more in one case than in the other.

3. Tax Charters in Australia and the UK

In a more specific area a natural experiment has arisen in which tax charters were developed in both Australia and the UK. The Australian and UK tax systems share a common cultural tradition in many ways. The development of the Australian tax system was heavily influenced by that operated in the 'mother country' as it was once seen. In recent years some developments in the Australian system have also strongly influenced similar developments in the UK such as the establishment of the electronic lodgement of tax returns. However, as described below, in the case of tax charters Australia took a more strategic approach to development than appears to have been the case in the UK.

In the UK the revenue departments were well ahead of the mainstream in the development of charters. The Inland Revenue produced a Taxpayer's Charter jointly with Customs and Excise in 1986. In introducing the Charter the Inland Revenue (1986, p.1) stated that:

The Charter recognises our commitment to certain standards. It does not mean that from tomorrow everyone who writes to his or her tax office can expect a reply by return of post. Nor can we guarantee that we will never make mistakes. But it is a recognition of the standards which the Department, and the people who work in it, aspire to in their dealings with the public.

This is a helpful view since it indicates a general ambition regarding public sector performance in the round rather than merely the achievement of a set of detailed targets, the achievement of which may or may not improve the service as a whole. Customs and Excise (1986, p. 9) took the view that:

The Charter sets out the longstanding principles which the department tries to meet in its daily dealings with the public and gives guidance on how to appeal or complain. In particular it recognises the need to minimise costs incurred by taxpayers in complying with the law.

The initial Taxpayer's Charter was a straightforward one page document and consisted of six sections as follows:

- Help and Information
- Courtesy and Consideration
- Fairness
- Privacy and Confidentiality
- Costs of Compliance
- Independent Appeal and Review

Following the publication of the Citizen's Charter in July 1991, the UK Taxpayer's Charter was revised in August 1991. The Inland Revenue (1991, p. 14) stated that the new version kept the original aims of 'giving a fair and efficient service' but it was a 'fresh, and more sharply focused, version so that we can get these aims over to the public more clearly'.

However, since that time the focus on the Taxpayer's Charter has shifted. The Inland Revenue's annual report has been a good indication of current priorities and the last one to include a copy of the Taxpayers' Charter was Inland Revenue (1998). The time had come to move on to a new initiative. Nick Montagu, the Chairman of the Board of Inland Revenue, wrote in the following report (Inland Revenue, 1999, p. 6) that 'the Taxpayer's Charter – which we shared with Customs and Excise and which has served us well – no longer covers everything we do'. Instead he announced the introduction of 'Our Service Commitment to You'. Although it had a resemblance to the Taxpayer's Charter it replaced, the new document lacked the precision, focus and impact of its predecessor. Although new and separate 'Customer Charters' for taxpayers and national insurance contributors were agreed with Ministers at the same time as the new Service Commitment, in subsequent annual reports from 2000 references to charters have all but disappeared and have been replaced with references to a scheme that awards a 'Charter Mark' to public services that meet certain criteria (Cabinet Office, 2004).

Although this initiative has received a great deal of publicity, particularly by the public sector recipients, there have been concerns about its operation. As a minor example, two letters to the organisers by the first author of this paper in 2002 had still not received the courtesy of a reply at the time of writing (July 2005). Since responding to correspondence is such a basic minimum standard for administration, it seems that this latest initiative might have at least an element of form rather than substance. This is reinforced by further evidence that there is room for improvement in UK tax administration such as the paper by Hansford and Hasseldine (2002). Under the title of 'Best Practice in Tax Administration' they found concerns about matters such as the lack of communication between Customs and Excise staff and tax advisers, inconsistency of approach in different VAT offices and an apparent lack of technical and legal knowledge and business awareness on the part of some tax officers. It may be that the further development of the charter approach could have enabled such issues to be addressed more effectively than they have been by subsequent initiatives.

The UK Taxpayer's Charter has now been superseded in practice by more diffuse arrangements. Although the Inland Revenue (2004) advertised an explanatory booklet *IR167 Charter for Inland Revenue Taxpayers*, published in July 2003, telephone requests for a copy made in March and July 2004 received the response that this publication was obsolete and had been replaced by a 'service commitment statement' that has been incorporated in other Inland Revenue leaflets. The version available on the Inland Revenue's website in July 2004 referred to a wide range of leaflets produced by the Inland Revenue and an account of 'our overall approach to customer service'. Although it reproduced material formally contained in the Charter, it was not presented as a formal charter as it had been previously. The benefit of having a single clear and succinct charter to focus on these issues now appears to be thought less important in the UK. This is rather different from the Australian approach.

The Australian Taxpayers' Charter

The Australian Taxpayers' Charter provided a clear focus for basic principles of sound tax administration and McLennan (2003) has examined the historical background to the development of the Australian Taxpayers' Charter in some detail. To summarise, the process began with the publication by the Parliament of Australia of the Report *An Assessment of Tax* by the Joint Committee of Public Accounts (1993) – hereafter referred to as the JCPA Report - which found a case for a Charter. It pointed out that taxpayers had no single written statement of rights 'despite the fact that the ATO [Australian Tax Office] investigatory powers are far more extensive and less well supervised than any criminal law enforcement agency' (p. 307). The JCPA Report also noted that 'the ATO itself was using performance standards, particularly in the areas of record keeping and debt management, which it would not have tolerated as normal practice by either business or individual taxpayers' (pp. 307-8). The JCPA Report indicated that there was a need to provide protection for taxpayers and it would be helpful to set out formally the relationship between taxpayers and the tax authority. In its report it quoted the graphic evidence from the representative of the Taxpayers' Association of Australia:

It is very difficult if you are in a Mini Minor, meeting a huge express train at a level crossing and dead heat, you lose. It makes an awful mess and it does financially too (p. 310).

The JCPA examined practice in the UK and the USA and concluded that the 'UK Citizen's Charter was superior to the US system' (p. 313). Although the JCPA had chosen the UK Citizen's Charter (described in Prime Minister, 1991) as the model, it did not develop the Australian tax charter in the same way. The UK Charter had not been produced on the basis of a systematic and thorough consultation process with the full range of stakeholders. Pollitt (1994, p. 12) memorably contrasted it with the People's Charter of 1838 that had been drawn up by the people and presented to the governors. As Pollitt pointed out, the 1991 Citizen's Charter had been 'drawn up by the governors and presented to the people'.

The Australian Taxpayers' Charter was based on a very much wider range of views and expertise. It was developed over a period of two years in consultation with ATO staff, the general public and other groups from business and the community, tax advisers and other government agencies. Although there was initially a view that the Charter was merely a passing administrative fashion, the ATO pursued the Charter approach systematically and it has gained acceptance and support from ATO staff. After the Charter was launched in 1997 it was sent to taxpayers with their tax returns and explanatory literature and publicised on television and radio.

Since the Charter had been based on a great deal of preliminary work and consultation, it was not expected that the basic principles behind the Charter would change and indeed they have not. This seems to reinforce the view that the Australian Charter is based on firm foundations. Subsequent developments have been concerned with ensuring that practice reflects the Charter's principles.

A more sophisticated approach than has been found in other charters was also followed. For instance simplistic standards such as answering the telephone within a specified time were not thought to be an advantage if the taxpayer received an answer that was prompt but incorrect. Furthermore, it was thought that the Charter had to become more than a set of rules and more about an approach to standards of service. It was also felt that this should apply throughout the organisation. One tax official was quoted as saying “I don’t think about the Charter much, it’s just the way we do things around here”. It has been pointed out that it is helpful for ATO staff as well as taxpayers in clarifying a range of matters. It is seen as a useful framework and has been a unifying factor at the ATO. Indeed the Charter has also been linked to other aspects of tax administration such as compliance policy. There is a contrast with the UK Citizen’s Charter where one of the criticisms was a lack of ownership by civil servants who sometimes regarded it as nothing more than yet another initiative.

The first full major review of the Australian Taxpayers’ Charter was completed in the 2002/03 financial year, following which a revised Charter was introduced in November 2003. Currently it is the subject of an ongoing review informed, for example, by a quantitative survey every six months of people who have had dealings with the ATO and a formal monitoring of the usage of the explanatory booklets. The primary document for taxpayers is now the *Taxpayers’ Charter – What You Need to Know* which is a response to the feedback that the previous *Taxpayers’ Charter* was too long. However for those who would like further information there is also a larger document *Taxpayers’ Charter – In Detail* and a series of explanatory booklets on particular aspects. Again there is a contrast with the UK Citizen’s Charter where it was felt that there was insufficient monitoring and evaluation and that the quality of some charters was poor.

The ATO position is that the ‘Charter describes the relationship we want to have with taxpayers in the community’ (Commissioner of Taxation, 2003, p. 102). As a result of the extensive groundwork undertaken initially it is clear that there is widespread agreement on the principles behind the Charter but it is also worth examining how far the Charter represents in practice the relationship taxpayers want with the ATO. We therefore now turn to evidence on Australian taxpayers’ views.

Survey Evidence

The evidence presented here is based on two surveys – the first was conducted in 2000 and the second a follow up survey in 2002. In both cases random samples of Australian voters were sent a survey of their views on tax matters. The surveys covered a range of issues but primarily, of course, it is the responses to the sections on the Taxpayers’ Charter that are reported here. The first survey was known as the Community Hopes, Fears and Actions (CHFA) Survey (Braithwaite, 2000). The goals and measures of this survey have been summarised by Braithwaite (2001), the survey method, sample representativeness and data quality by Mearns and Braithwaite (2001) and preliminary findings from the survey by Braithwaite, *et al.* (2001). The survey was designed to obtain a picture of the beliefs, attitudes and motivations held by Australian citizens with respect to the ATO, the tax system, Australian democracy and other taxpayers in the year 2000. This was a particularly interesting time for such a survey to be undertaken as it coincided with the introduction on 1 July 2000 of a goods and services tax (GST) – see James, 2000). Therefore, public consciousness of

taxation would have been particularly high. The second survey was a follow up exercise and contained many of the same questions as the first survey. It was conducted between November 2001 and February 2002.

The sample for the first survey was chosen at random from publicly available electoral rolls and consisted of 7,754 Australians - a figure that contemporary response rates suggested would yield at least 2,000 usable responses. Non-respondents were followed up over time using a procedure based on the Dillman Total Design Method (Dillman, 1978). Follow-up was accomplished by using an identification number attached to each questionnaire, which was in turn linked to a sample name. After attempting to follow-up non-respondents several times a total of 2,040 usable responses were received – an adjusted response rate of 29 per cent. The second survey sample consisted of three groups. The first was made up of 1,944 of the respondents to the CHFA Survey (the other 94 had removed their identification number on the first survey so could not be contacted for the purposes of the follow-up), 2,000 randomly selected non-contacts from the first CHFA Survey and a new sample of 3,000 from the Australian electoral roll. Again, the process of following up non-respondents over time was used in the second survey. By the end of June 2002 a total of 2,374 usable responses had been received. The final unadjusted response rates by sample group were 59.70 per cent for the respondents to the 2000 CHFA survey, 9.75 per cent of the non-contacts from the 2000 survey and 32.40 per cent of the new sample from the electoral role.

To assess how representative these responses were, the Australian Bureau of Statistics was commissioned to provide comparative data from the 1996 Census of Population and Housing. Statistical comparisons suggested for both surveys that the respondents were broadly representative of the population with respect to sex, occupation and education but with some bias towards those working in areas requiring reading and writing skills. Also, younger age groups were under-represented which is not unusual in surveys of this sort and might also have been influenced by the tendency for financial and tax arrangements to be more complex for those in older age groups. Older Australians were slightly over-represented by the respondents. The respondents in both the 2000 and 2002 surveys were between 18 and 93 years of age ($M = 48.39$, $SD = 15.55$ for 2000 and $M = 50.10$ and $SD = 14.98$ for 2002), For the 2000 survey, 47 per cent of respondents were male and 53 per cent female. For the 2002 survey 51 per cent were male and 49 per cent female. The average personal income level of the 2000 respondents for the previous financial year was approximately AUS\$28,000 and their average family income was about AUS\$49,000. For the 2002 respondents the figures were AUS\$32,000 and \$54,000 respectively.

Both surveys informed respondents that the Taxpayers' Charter was the document that sets standards for the way the ATO conducts its dealings with taxpayers and presented respondents with the 12 basic principles incorporated in the Charter. Using a five point scoring range from 1 (almost never) to 5 (almost always), respondents were asked if they believed the ATO acted in accordance with these standards. The results for all respondents to the two surveys are shown in Table 1.

Table 1: The extent to which all respondents indicated they believed the ATO acts in accordance with the standards set out in the Taxpayers' Charter – mean ratings for total samples for the surveys of 2000 and 2002#

<i>Taxpayer's Charter Principles</i>	Total samples	
	<i>Mean</i>	
	Year 2000	Year 2002
Accepting your right to get advice from a person of your choice	3.96	3.68**
Treating you as honest in your tax affairs	3.95	3.69**
Keeping your information confidential	3.93	3.86*
Treating you fairly and reasonably	3.66	3.39**
Respecting your privacy	3.65	3.64 NS
Giving you access to information they hold about you	3.64	3.45**
Offering you professional service and assistance	3.47	3.39*
Giving you advice and information	3.42	3.30**
Explaining decisions about your tax affairs	3.39	3.30*
Giving you the right to a review from outside the Tax Office	3.38	3.20**
Being accountable for what they do	3.28	3.09**
Helping to minimise your costs in complying with tax laws	2.89	2.84 NS

* $p < 0.05$ ** $p < 0.001$

#Scores range from 1 (almost never) to 5 (almost always). Year 2000 Minimum N = 1,873.
Year 2002 Minimum N = 2,203.

Note: NS = not significant at the .05 level.

Source: James *et al.* (forthcoming 2005)

With regard to most of the principles the respondents generally agreed that the ATO meets its obligations at least most of the time. Of the top three areas of performance, two might be categorised as straightforward and routine – ‘accepting your right to get advice from a person of your choice’ and ‘keeping the information they contain about you confidential’.

An important result is that the other principle that was rated in the top three was related more directly to the way taxpayers felt they were treated – namely as ‘honest’ in their tax affairs. This is a particularly encouraging response because the ATO has developed a ‘Compliance Model’ that starts with the assumption that taxpayers are honest (Braithwaite and Braithwaite, 2000; Murphy, 2004). The appropriate official response is therefore to help taxpayers to comply and enforcement activity is only considered appropriate if there is evidence of less worthy behaviour (ATO, 2002). Since honest and co-operative taxpayers are much easier to deal with than those who are not, the Charter and compliance policy appear to be operating in a mutually supportive manner. In another section of the two surveys 72 per cent (in 2000) and 73 per cent (in 2002) agreed with the question that they personally should honestly declare cash earnings on their tax return. Furthermore only 8 per cent (in 2000) and 7 per cent (in 2002) thought it was acceptable to overstate tax deductions on their tax returns. At the other end of the scale, respondents were less impressed with the accountability of the ATO and its efforts in minimising compliance costs.

Although there are positive responses overall to both surveys, one matter that might be of concern is the apparent fall in the mean ratings between the 2000 and 2002 surveys. For all respondents to the two surveys (see Table 2), there are no statistically significant differences for the responses regarding the ATO ‘respecting your privacy’ or ‘helping to minimise your costs in complying with tax laws’. However with respect to all the other 10 principles, Table 2 indicates significant falls in respondents’ agreement that the ATO meets its obligations under the Taxpayers’ Charter.

It is not certain what the reason(s) for this change are, particularly over such a relatively short period of time. However, one likely possibility is that the first survey was conducted in 2000 when public attention was being drawn to the tax system and its reform and there was a great deal of public debate about taxation. It is possible that a greater focus on such matters at that time might have influenced respondents even more in a positive direction and the 2002 survey detected more of an equilibrium situation. If this suggestion is true, it might be the case that greater awareness of taxation could have a positive effect on taxpayers’ views.

One interesting question was whether some segments of Australian society had different views regarding the ATO’s adherence to the Taxpayers’ Charter. Taxpayers’ responses to the CHFA Survey were therefore analysed with respect to seven social-demographic indicators – personal annual income, age, sex, marital status, number of children, nationality and educational attainment. The results indicate that there were no major differences between social-demographic groups in their views about the Tax Office’s performance with respect to the Charter. However there was a slight tendency for older people, those with less personal income and those with no children to express more confidence in the Tax Office’s performance. Further details and results are presented in Braithwaite and Reinhart (2000) and further discussion with respect to charters in James *et al.* (forthcoming, 2005).

The development of the Australian Taxpayers’ Charter suggests that careful and systematic preparation, including extensive examination of the issues, a review of previous experience and wide consultation in developing the initiative can contribute a great deal to it being genuinely accepted at an operational level. After implementation any such initiative should continue to be monitored, evaluated and

modified where appropriate in the light of experience. Such a strategic or systematic approach to tax administration clearly seems to be the best way forward.

4. Performance Indicators (PI)

4-1 The Theory of Performance Indicators

Generally, performance evaluation has been about reviewing, auditing, measuring and improving the performance of an organisation and establishing how well it is progressing towards achieving its goals and objectives. Kennerley and Neely (2002) added that measurement also establishes the effectiveness of evaluation at each level. Moreover, the information generated by performance evaluation helps managers in making decisions, undertaking analysis, identifying points of weaknesses, planning and setting targets. Neely (1998) pointed out that organisations find it necessary to implement effective performance evaluation since it quantifies the efficiency and effectiveness of previous actions. Furthermore performance evaluation should be linked to strategic planning, budget planning and continuous improvement. To examine the process of development of PI, sections 4-2 and 4-3 will describe the development of PI in the private and public sectors in turn. PI in the education sector and the health service will provide examples from the public sector. Section 4-4 will then discuss PI in the tax administration of a wide range of countries. Section 4-5 focuses on PI in the excise tax administration in Thailand and outlines some empirical work. Finally, section 4-6 provides a summary and offers some suggestions.

Even though there are many benefits of performance evaluation, it can have serious limitations. Some evaluation techniques rely on short-term measures. Managers would make the wrong decisions because they needed to maximise short-term measures and neglected to invest in the projects that had good long-term prospects. (Drury, 1998). Dearden (1962) raised the example of managers who failed to replace equipment and make new investments because they were afraid of unfavourable current performance. Short-term indicators might be particularly unhelpful and even counter-productive where there are no clear measures of output and goals (Lapsey and Mitchell, 1996). De Bruijn (2002) argued that performance evaluation might also block innovation. Secondly, performance evaluation would not be reliable if performance data were unreliable. It could be interpreted incorrectly for setting the targets, increasing incentives and providing the rewards to the wrong managers if the data were incorrect (Davies, 2003).

4-2. Development of Performance Indicators in the Private Sector

A performance evaluation framework has been used by organisations for many years. It began by using measurements generated from accounting systems. A favourite accounting technique is the budget and a key measure is profitability. Furthermore financial ratios such as EPS, ROI and P/E are used to assess performance. Although measurement by profitability and financial ratios are convenient and have clear purposes, the traditional measures of performance may not be reliable measures of value creation. From early in the 21st century, financial indicators were developed continuously. They concentrated more on shareholder wealth. EVA (Stewart, 1991)

and SVA (Rappaport, 1986) were developed to indicate shareholder wealth. Although financial performance indicators have continued to be developed, Johnson and Kaplan (1987) argued that such financial information has limitations for business management. Financial measurement does not directly reflect changes in the competition and strategies of modern organisations. Moreover, Brun (1998) argued that historical information did not indicate future performance. Thus, performance evaluation is intended to change the focus from only financial measures to a more balanced combination of financial and non-financial measures (see, for example, Kaplan and Norton, 1992, 1993).

Modern performance evaluation approach was launched in the 1990s. This approach emphasises more non-financial variables such as customer satisfaction. However, the most popular form of performance evaluation has been the balanced scorecard. This integrates four different aspects of performance - financial, customer, internal business and innovation and learning perspectives (Kaplan and Norton, 1992). Ernst and Young (1997) found that financial analysts improved the accuracy of their predictions by also considering non-financial factors. Whenever, non-financial measurement is incorporated in analysis, earning forecasts are more accurate. As a consequence, investors can minimise risk. According to Ahn (2001), the balanced scorecard can be used as a guarantee for strategy-oriented planning and budgeting actions. It provides a significant advantage for linkages between short-term and long-term actions for budget and strategy plans respectively. Nevertheless, there are some shortcomings of the balanced scorecard. Atkinson *et al.* (1997) criticised the balanced scorecard as it neglected to consider the contributions by employees and suppliers. In other words, it did not include the value chain. Neely *et al.* (1995) noted that the balanced scorecard did not have a competitiveness dimension such as that of Fitzgerald (1991). Fitzgerald's Results and Determinants framework comprised financial performance, competitiveness, quality of service, flexibility, resource utilisation and innovation.

Apart from the balanced scorecard, many authors proposed models that balanced sets of measures. Keegan, Eiler and Jones (1989) introduced a performance measurement matrix, mirroring cost or non-cost and external and internal measures. Lynch and Cross (1991) developed the strategic measurement and reporting technique (SMART). It measured the activities of an organisation from the top to bottom level, including internal and external measures. Finally, another indispensable dimension of performance evaluation is the viewpoint of stakeholders. The Royal Society of Arts (1995) took the view that competitive success relied on several approaches to management, reflecting the need of all stakeholders. The performance prism applied a stakeholder viewpoint that shows the relationship among capabilities, processes and strategies, stakeholder contribution and stakeholder satisfaction (Kennerley and Neely, 2002).

In conclusion, performance measurement in the private sector tends to consider the framework to be multi-dimensional in order to reflect all areas of performance in the organisations. These performance measurements have been developed by individual organisations to incorporate design indicators to suit their own circumstances.

4-3. The Development of Performance Indicators in the Public Sector

Performance evaluation in the government sector has important differences from the private sector. For example, customers and partners are different from the private sector. What is more, indicators and outputs of both sectors are very different. The Institute on Governance (2001) has pointed out that private sector indicators focus on profits, revenue, share price or market price whereas indicators of public sector performance concentrated on the objective of improving people's lives in a wider sense.

PI in the public sector was developed in the 1980s under the Thatcher Administration which transformed the management style of government. It involved changes to new techniques and the redrawing of the boundary between the public and the private sectors. Moreover, the Thatcher Administration focused on drive and energy rather than the avoidance of mistakes. What is more, it concentrated on value for money, efficiency, decentralisation and accountability. Above all, it illustrated a change of the culture of government. The number of PI increased rapidly from about 500 indicators in the Annual Public Expenditure White Paper in 1985 to 1800 indicators in 1987 (Carter, Klein and Day, 1993). From 1990, the performance indicators were published in the department of government (HM Treasury, 1990). For example, the Ministry of Defence deployed costs per vehicle mile, plant utilisation and availability. The Ministry of Environment used the numbers of visitors to royal parks etc. One of the organisations that had a significant role in the performance evaluation of the government sector was the Institute on Governance (IOG). It was established in 1990 to promote effective governance. Schacter (1999) said that performance evaluation in the government sector was a difficult business and it was not clear what the bottom line was whereas in the private sector it was simply profit. He suggested that public sector measures should consist of input, output, efficiency and outcome measures. Input measures concerned with the resources allocated to programmes and organisations whereas output measures related to government programmes and activities. Efficiency measures were based on the ratio of output and input. Outcome measures indicated the areas in the state of society where the government tried to bring about change.

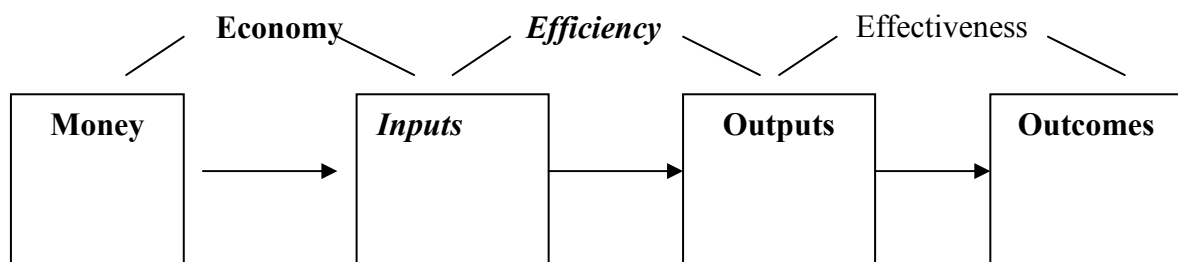


Figure 1 The Relationship between the different types of evaluation

Source: Schacter (1999)

PI in the government sector has been criticised by several researchers. It is seen as more difficult than the private sector. PI in the public sector has the purpose of improving people's lives that is very difficult to measure whereas performance in the private sector can be measured by profitability or some other number. In addition, there are many disagreements about the objectives of the public sector, the process of establishing possible key performance indexes and deriving the performance indexes

from the logic model (Institute on Governance, Ottawa, 2001). Ghobadian and Ashworth (1994) supported the view that measurement in the public sector was quite complicated because of attitude, variety of tasks and technical difficulties.

One response to the criticisms is for government measurement to focus on outcome and efficiency measures rather than other factors. Nevertheless outcome and efficiency measures are also often very difficult to measure. Before turning to PI in tax administration it might be helpful to consider the experience in two other parts of the government sector: education and health.

The Education Sector

One of the dominant PIs of education sector is the examination success rate. Exam results were simple to produce and Britain has a well-developed examination system (Willms, 1986). However, exam results could not be compared among schools because the ability of the student intake is not equal. (Gray *et al.*, 1986). Besides measuring from exam results, education indicators could be assessed by employment outcomes. According to data from the Higher Education Statistics Agency (HESA) in 1999-2001, the indicator could be shown by the number of graduated students who were in employment, further study or training. In addition, the indicator could be illustrated in terms of the percentage employed compared with those who graduated. It should be measured separately from other student achievements and participation skills such as leadership, creativeness, teamwork and presentation. In universities examination achievement can be measured by average degree class of students and the percentage obtaining results above a certain level (Smith, 1996). Research output is another important indicator that can be assessed from the publications originating in each department. Moreover, funding for research could be an indicator in the university sector. This indicator helps stimulate competition among universities to produce research. Finally, universities should be evaluated by official assessments of teaching quality.

The Health Service

The National Health Service (NHS) was the largest, most complex and most heterogeneous organisation when compared with other public sector organisations (Carter, Klein and Day, 1993). There are multiple indicators that have been measured in different periods. In 1983, there were three key policies of evaluation. First, they were related to the efficient use of NHS resources such as dealing with lengths of stay and turnover intervals in hospital. Secondly, they were concerned about value for money such as cost of treatment. Thirdly, it focused on access to the NHS, mirroring the data about admission rates and waiting lists (Carter, Klein and Day, 1993). The NHS focused on a set of output targets such as 50,000 hip replacements, 14,000 bypass grafts and 70,000 cataract operations seven years later (HM Treasury, 1990). Peurseem, Patt and Lawrence (1995) suggested that Health Service Sector could be measured by output-input ratios such as costs/patient, practitioner/patient, return on investment and profit and leverage ratio etc. However, such ratios have both advantages and disadvantages. Significantly, Pollitt (1985) argued that NHS should not ignore measures of quality outcome and consumer satisfaction and the performance indicators had too much emphasis on access and productivity.

The NHS focuses on quality of services and key performance targets. Key Target Indicators concerned a number of important factors designed to offer a better service to patients. Thus, patient surveys have the important role for the measurement of the quality of care. The interesting key targets of the NHS were four-week smoking quitters, waiting-list targets, decrease of waiting time of patients, improving working lives and access to a primary care professional etc. The four-week smoking quitters indicator showed a decrease of illness of smokers in the UK. A fall in waiting time of patients improves patient satisfaction. However, such a fall in waiting time may only be achieved by additional doctors and so increasing NHS costs. In addition, although patients might be seen more quickly this might be associated with a fall in the quality of treatment. Furthermore, *The Times* (2003) revealed that some health care services manipulated waiting times in accident and emergency wards by practices such as removing the wheels from trolleys and rebranding them beds and using partitions to create observation wards. Finally, the NHS was improving working lives of all staff as well as improving the quality of care for patients. Improving working lives by training, welfare and conditions of work place generally improved incentives and motivation for employees. Achieving the improving working lives (IWL) standard was a particular challenge for the NHS.

Obviously, performance indicators of the education and health service sectors concentrate on output and outcome measures. Exam results and research are the main outputs of education sector while aspects such as four-week smoking quitters and reaching waiting list targets are the key outputs of National Health Service. Similarly, the average degree class of students, the percentage obtaining results above a certain level and employment outcomes indicate the efficiency of the outcome in higher education whereas the decrease of cost/patient and increase of practitioner/patient ratios are important in health. However, the indispensable indicator is quality of service. Quality of teaching should be assessed by students whereas quality of services in health sector should be evaluated by patients and taxpayers should have a strong input into the assessment of the quality of tax administration.

4-4. The Development of Performance Indicators in Tax Administration

Frampton (1993) considered the important components of tax administration to be efficiency, responsiveness and motivation. In addition, the OECD (2001) stated that an effective tax administration should consider the relationship with taxpayers, employees, laws and changes arising from globalisation. To set the standard of effective tax administration, a tax organisation should assess tax administration in the whole system.

Musgrave (1969) suggested that tax performance of a developing country should be evaluated by the ability to pay approach, efficient resource use approach, ability to collect approach and comparison with average performance. The OECD (2001) evaluated performance in tax administration of OECD countries by focusing on efficiency, service quality and effectiveness. In other words, the scope of evaluation relates to input, output, productivity, quality, taxpayer satisfaction and the outcomes from revenue and compliance. The main input measures are cost and labour hours whereas output measures are usually associated with the number of taxpayers or tax returns and the number of audits and verifications. Productivity is shown in terms of unit costs such as cost per taxpayer, administration cost of tax collection revenue etc. Finally, the quality of service or taxpayer satisfaction is one of important factor for

measurement. This may be shown by processing time for an application, the accuracy of the assessments and so on. This information should come regularly from the results of taxpayer surveys. The Worldbank (2003) suggested that tax administration performance should be evaluated with respect to the three requirements of effectiveness, efficiency and equity. Frampton (1993) defined effectiveness is the level of successfully operational objectives or fiscal policies in practice. Similarly, the OECD (2001) submitted an input-activity-output-outcome model for evaluation of tax administration.

PI of tax administration has been used in several countries to assess work problems of tax administration. Klun (2004) measured tax administration in Slovenia in five areas: simplicity of the tax system, administrative and compliance costs, voluntary tax compliance, tax inspection and tax administration productivity. He added that tax administration indicators should be simple, easily accessible data and not too much numeric. On the contrary, Serra (2005) argued that a lack of knowledge of measurement and the complexity of measuring the public sector resulted in over-simplified performance measurement. As a result, simplified performance measurement would tempt employees to maximise the targeted score instead of achieving institutional objectives. Serra (2005) mentioned that the indicators that measure performance in tax administration in the Chilean Internal Revenue Services were maximisation of tax revenue collection, minimising compliance costs and taxpayer satisfaction as measured by surveys. However, other specific objectives are to improve efficiency, promote staff development, reduce levels of tax evasion and tax avoidance, improve taxpayer services and develop technology. Habammer (2001) implemented a performance comparison of tax offices in Germany. He identified four target areas: Task fulfillment (the number of cases that were implemented by the speed of work), Customer satisfaction, Employee Satisfaction and Efficiency. In other words, he focused on these areas from management concepts that are risk management, service management, human resources management and financial management respectively.

Teera (2003) said that tax performance evaluation in Uganda focused on raising more tax revenue. Thus, indicators of tax performance concentrate on possibility of raising tax revenues. Moreover, Teera (2003) claimed tax performance, particularly, in developing countries, is ordinarily evaluated by the taxable capacity and tax effort. Tax effort is considered by the expected tax yield given a country's taxable capacity. Chelliah (1971) supported the view that tax effort is related to improvements in administration, introduction of new taxes and reforming of existing taxes.

In addition to evaluate tax administration overall, Manaf, Hasseldine and Hodges (2004) studied more specific issues in the performance of the Malaysian land tax administration system. They mentioned that land tax collection performance could not be measured by only comparison of efficiency and productivity in each state. Staff appraisal, staff commitment, work system and the structure of land tax system have affected collection performance.

In conclusion, the general principles of performance evaluation in tax administration are not considerably different from PI in the government sector. It still focuses on output, outcome and productivity. Tax revenue collection is the first measurement that should be considered. In addition, quality of services and taxpayer satisfaction are

significant indicators that tax authorities should use. Finally, tax employees should be strongly motivated to improve tax collection performance.

In the next section, PI in excise tax administration in Thailand will be investigated.

4-5. A Case Study of Performance Indicators in the Excise Tax Administration in Thailand

The Structure of the Excise Department in Thailand

The Excise Department is the second largest revenue source of the Thai government. The structure of the excise department is divided into two main parts: Central Excise Office and Provincial Excise Office. The main function of the Central Excise Office is general administration and policy whereas provincial excise offices are responsible for collecting revenues in their own areas and passing them on to the revenue collection division. The Provincial Excise Office is divided into 9 offices that cover the different areas of country. Each of the provincial offices has branches in their provinces. Nowadays, Excise tax collection is levied on 19 types of domestic and imported goods and services. The main revenues are levied from petroleum products, passenger cars, spirits, tobacco, alcoholic beverages and telecommunication. The revenue from these sources is approximately 90 percent of the whole revenues from excise taxes

However, there are several problems regarding excise tax collection that are worth investigating. First of all, the main problem of collection is tax evasion and corruption. Secondly, manpower and other resources such as vehicles in each area are inadequate to deal with fraudulent individuals. Moreover, sometimes officers lack sufficient auditing knowledge. They are used to the traditional methods in checking the process of production, raw materials and accounting. However, some entrepreneurs have developed methods of evading tax that are difficult to deal with. Thirdly, there are problems with the IT system that result in poor billing and collection. Finally, there is a controversial policy between the Ministry of Finance and government policy. The Government launches many policies designed to limit tobacco and liquor consumption such as allowing the selling time for the public between 11am and 2 pm. and between 5pm. - 7pm etc. However, the government still requires the Ministry of Finance to increase the tax revenue for public expenditure.

Current arrangements for performance indicators in the Thai Excise Department

Performance Indicators of Excise Department are divided into four dimensions: Effectiveness, Quality of Services, Efficiency and Organisational Development IN terms of effectiveness, half the indicators are associated with related issues, targeted revenue collection, criteria of excise tax laws for community energy and environment etc. However, some indicators are related to the government and the Ministry of Finance but not directly related with Excise Department. For example, public debt / GDP, currency in balanced budget and a decrease of a number of debtors that registered with government etc. These indicators make up about 20 percent of all indicators. Quality of services, six percent, is measured by the increase of taxpayer satisfaction. Efficiency, the same percent of quality of services, is evaluated by the

decrease of expenditure and a reduction of service time to taxpayers. Finally, the residual indicators were assessed by organisational development. They relate to the percentage of completed measures of improvement of learning in the organisation, the percentage of completed implementation of legal measure and the percentage of measures completed in accordance to the law developing plan. From these indicators, there are some problems of measurement. Firstly, some indicators are very difficult to quantify such as the improvement of learning in the organisation. In other words, it looks like an arbitrary measurement. Secondly, definitions of many indicators are unclear. It should be clearly defined in terms of criteria and the responsibility of managers and employees. Thirdly, indicators are not being fairly distributed. Apparently, the quality of service that is the heart of measurement of public sector is allocated only six percent of the whole of the indicators whereas some other indicators do not directly mirror to the performance of Excise Department. Finally, rewards are never linked to performance measurement. With bureaucratic systems, the difference between the salary of those who are promoted and those who are not is very small. Therefore there is little pecuniary motivation to achieve the targets.

Empirical Investigation

The purpose of this part of the study is to evaluate excise tax collection performance, to investigate the attitudes and perceptions of those involved in excise tax collection and to investigate the scope for improvement. Three main research methods are being employed.

First, secondary data analysis is being conducted to compare productivity in nine regional excise offices. The desk research consists of obtaining the data about the excise tax collection system in Thailand and current performance indicators. The main documents stem from the tax planning office and the website of the Ministry of Finance and the Excise Department of Thailand. Initially, secondary data analysis shows the trend of excise tax collection in the past. Tax revenue collection and the number of excise tax staff and cost is aggregated and compared to excise tax collection and productivity from nine different regional excise offices. Furthermore, the main factors that affect the increase and decrease of revenues are investigated.

Secondly, semi-structured interviews are being conducted with staff occupying high, medium and lower level positions in the Excise Office. Such interviews are also being undertaken with entrepreneurs and tax advisors with experience of the excise tax system. It is intended to conduct such interviews with 15-20 people. The excise staff interviews cover problems or difficulties staff face in assessing excise tax and suggestions for improving the performance, current PI and strategy for voluntary excise tax compliance etc. The interviews with entrepreneurs and tax advisors are being undertaken to gain feedback about excise tax problems that they are facing. Moreover, suggestions are being sought from outside the excise department on any matters that may improve excise tax collection.

Thirdly, a survey by questionnaire of about 1,200 excise tax staff is being conducted to assess further those areas of good practice, areas where performance might be improved as well as staff attitudes and perceptions of the tax collection process more generally. The questionnaires were submitted to all the people who are working in Bangkok area excise offices and nine regional excise offices. In addition,

questionnaires were sent to the central office that deals with excise tax revenue collection. To increase the response rate an online questionnaire was prepared to follow up non-respondents.

Preliminary information from the empirical work

At the time of writing (July 2005) the empirical work was under way and it is hoped to present fuller results at the conference. The results will allow a comparison of the productivity of excise tax collections from nine different regional excise offices. Information will also be available about the attitudes and perceptions of those involved with excise tax collection. Moreover, the difficulties staff perceived at different organisational levels and in different areas of assessing or collecting excise tax will be analysed. From preliminary information available at July 2005 from interviews and questionnaires, the main problems consist of:

1. Tax Evasion and Corruption
2. Inadequate resources such as money, human and vehicles etc.
3. Lack of both staffs and entrepreneurs
4. Obsolete excise tax laws
5. Poor IT System
6. Conflict of Government policy

The current PI of Excise Department are not necessarily the most suitable to tackle such problems. Three-quarters of the indicators were government indicators that are the same in every department in Thailand. One-quarter of the indicators were established by Excise Department. These indicators tend to be similar in every year. In addition, as the main goal in each month is targeted revenue the excise office might not pay sufficient attention to the success of PI. Furthermore, staff may not make the other indicators to be a priority because there is only a small difference in the bonus if they are achieved or not.

From these problems, first of all, there should more concern with other PI together with targeted revenue. Secondly, indicators should be more specifically designed to address real problems and to form guidelines for audit and the improvement of performance. Thirdly, outcome and productivity should have a more important role in evaluation. Taxpayer satisfaction should not be ignored because it may lead to an improvement in quality standards. Finally, opinions from staff in medium and lower level positions might draw attention to important problems; however, at the moment, the management of excise department still tends to be top-down management. There are not many opportunities or channels for staff to input their experience into the major decision making processes the department.

4-6 Conclusion Regarding the use of Performance Indicators

The literature on PI provides clear guidance on the development of PI both in the private sector and in the public sector. The trend of PI in the private sector focuses on the framework of multi-dimensional aspects that reflect all areas of performance in the organisations whereas PI in the public sector focuses on input, output, outcome, productivity and customer satisfaction.

Similarly, PI in tax organisations is not different from the concept of PI in the government sector. Input, output, outcome and productivity are the main targets of

evaluation. However, taxpayer satisfaction should be considered and can be based on taxpayer surveys. In addition, decreases in tax evasion and increases of voluntary tax compliance are significant indicators for monitoring.

For the Thai Excise Department, targeted revenue collection is still the main indicator despite of fact that excise tax is levied to decrease the consumption of luxurious products. An increase in excise tax collection shows that government could not decrease cigarettes, liquors and petrol consumption by the population and could not therefore show a positive performance to that aspect of policy. A single indicator is insufficient to mirror whole performance. Finally, it is important that problems in the Thai Excise Department should be monitored and the results of evaluation fed back into continuous improvement in the organisation.

5. Overall Conclusions

With constantly evolving economic, social and legal considerations together with changing political priorities (see, for example, James, 1999) it is easy to see why much tax reform takes on an *ad hoc* appearance. However the advantages of a more strategic approach to tax administration are supported by the comparative experience of the development of tax charters in Australia and the UK. Furthermore there seems to be considerable scope for the development of performance indicators to tax administration.

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