"The income tax system is everyone's business and it is in everyone's interest that it be effective and fair - a system to be proud of."

Strategic Planning: An Effective Management Instrument in the Tax Administration

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Introduction

The purpose of this paper is to show how a tax administration may become more effective by introducing a strategic approach to management. Strategic planning is not a panacea and the paper identifies some of the most common problems usually encountered and how they can be overcome.

In addition to a discussion of what is meant by the terminology and the steps generally involved in the strategic planning process, the paper describes strategic planning in practice, focusing on the experience of Revenue Canada, Taxation.

Strategic Planning, the Meaning Behind the Term Why a Tax Administration Should Plan?

Uncertainty is the enemy to anyone who is faced with the need to make decisions and planning is the best defence. People must plan if they are to be better prepared to meet the future. Without plans the risks of making the wrong choices can only increase. This is true for the organization as well as for the individual.

There is an old witticism that describes an economist as someone who plans today what he will say tomorrow about why he was wrong yesterday. Underlying this quip is the presumption that no matter how carefully one plans, incorrect decisions will result. Unfortunately, there is an element of truth behind the cynicism. However, while it is true that the planner is rarely 100% correct, planning does help to reduce the number of times he or she will be 100% wrong. On some occassions proper planning may even result in exactly the right decision being made.

Planning will certainly assist a tax administration to better anticipate change. In today's world the pace of change is rapidly accelerating and flexibility is crucial to the success of any organization. It is often said that there are more scientists living and working today than the cumulative total in all previous history. The implication is that the new ideas being generated will create greater opportunities and challenges for all organizations including tax administrations. Planning will contribute greatly to preparing a tax administration for the profound changes which lie ahead.

If one considers a plan as a framework for decision-making, the usefulness of planning for a tax administration becomes clearer. Organizations need to plan, but because of the need to react quickly to change, it is important to consider planning as a process rather than a product. If a plan is viewed as a set of decisions rather than the framework for arriving at those decisions, plans become less amenable to change. An organization which plans is able to focus its human, material and financial resources towards producing results.

Defining Strategic Planning

Strategic planning has been defined in many different ways. One definition, useful for tax administration, is to view strategic planning as a management tool which helps bridge the gap between where the organization is now and where one wants to take it in the future. Strategic Planning can help the tax administration not only to prepare itself for meeting the future as it unforlds but actually to create a better future - the future it wants.

Strategic planning should not be confused with long term planning. Some organizations may think of the future in terms of decades, others merely months. What is important is identifying the changes necessary to bridge the gap to a better tax administration rather than the time taken to get there. Some strategic changes can be made immediately, while other changes will be of a continuing nature as the organization constantly expands its reach towards an evolving future.

How Strategic Planning Differs from Operational Planning

In general, operational planning may be viewed as a process where alternative courses of action for achieving objectives are carefully considered and the most feasible option selected. In Canadian federal government departments and agencies, operational planning involves formulating programs and a series of related sub-objectives and forecasting human and financial resources required to carry out the plan. Operational planning involves a medium range or a three to five year planning horizon.

To carry out operational planning without strategic planning may result in losing sight of where one wants to take the organization. Operational planning encompasses all planning that is not strategic in nature. In the military sense, operational planning may be considered the tactics for carrying out the grand battle strategy. Strategic planning provides the overall guidance, sets the direction and defines the limits within which operational plans are devised.

The Advantages of Strategic Planning

A tax administration can use strategic planning to become more proactive rather than simply waiting to react to crises as they arise.

There are many benefits to strategic planning. Strategic planning will help an organization focus its energies, improve its ability to target its resources and reduce the number of false starts and costly errors. As expectations are clarified, people become more aware of how best to contribute. Divisions become less concerned with internal rivalries and more concerned with overall organizational effectiveness.

Factors Essential to the Success of Strategic Planning

There are many factors which can influence the success of the strategic planning process. One crucial ingredient is leadership. Without the leadership of the chief executive officer, supported by the executive management team, planning will quickly lose its focus. Someone must demonstrate the will to introduce change, make decisions and create a path for others to follow.

Associated with leadership is vision. The vision of where one or more key members of the organization see the organization in the future will be tested, enlarged and refocused during the strategic planning process. Initially, however, some inspiration providing the motivation for strategic planning must originate in the mind of the leader, certain senior managers or employees.Other factors include the ability of the organization to work as a team, a willingness of managers and employees to be open to change and the commitment of most of those involved. Widespread commitment is often absent during the early stages of the strategic planning process. It is crucial, however, that commitment be build up along the way if a high degree of success is to be achieved in implementing the strategic plan.

A management information system capable of tracking performance against meaningful measures of success is also critical. Without feedback during the implementation phase, minor mistakes will progress unchecked and corrective action will become more difficult and costly to execute successfully. The system does not need to be complex but its existence is fundamental to improving management control.

The Importance of Corporate Culture

All organizations are imbued with traditions subtly revealed through a myriad of rules on acceptable behaviour - some explicit, others tacitly understood. Over the years an understanding is gradually established on how the organization functions and these patterns become ingrained. Generally speaking these rules and patterns of behaviour are very usefull in most situations. For example, when an operational problem similar to past episodes arises, people do not have to re-invent solutions but can draw on their past experience to solve problems.

Gradually, almost imperceptibly, the network of attitudes, norms, behaviours and interrelationships develops into a corporate culture. Although very useful for dealing with most daily operations, the corporate culture has one main drawback - the resistance to change. What has worked in the past becomes a comfortable paradigm for addressing similar problems in the future. The danger is that it is difficult to introduce something new and innovative.

Strategic planning and corporate culture often come into conflict. Strategic planning calls for creating a new future for the organization. This may mean tackling problems in a unfamiliar way using a new set of rules which people are not comfortable with. Changing the corporate culture is a formidable task.

If success is to be achieved in introducing strategic planning, conflict with the corporate culture must be minimized during the transition period. One way of accomplishing this is to involve as many people as possible in the process. Keeping people involved and aware of changes which might affect them gives them a stake in the outcome and makes them more receptive to change.

To modify corporate culture, prior to even beginning a strategic planning process, many organizations initiate a process which seeks to involve a wide corporate audience of people below the senior management level. This could, for example, take the form of a conference involving all managers at which discussion groups are established to identify and address the major concerns of individuals.

The Stages of Strategic Planning

In applying strategic planning, the organization must:

- have a vision of where it wants to go;
- clearly define its mission or purpose;
- develop implementation strategies, and
- adjust them as needed to achieve the desired future.

One of the first steps in carrying out strategic planning is to establish a framework for the process. Usually a staff support unit will recommend a process for senior management approval after studying different models, considering who will participate at achieving results.

Elements of the framework might include:

Mission and Vision

What business is the organization in today? What business should it be in tomorrow? What is the ideal? How does the organization picture itself in the world of tomorrow?

Policies and Principles/Value

How should members of the organization conduct themselves vis-a-vis external audiences - taxpayers and other clients, partners, competitors, the community, central agencies? What is the corporate philosophy? What are the guiding rules for program delivery? What is the organization's attitude towards its employees?

Environmental Scanning

What is happening in the world today to keep constantly aware of because of a potentially significant future impact? How should economic, demographic, political, technological and other trends be factored into organizational plans? Are client expectations changing?

Strategic Objectives

What are the broad areas for action? What directions should be pursued? What major results are expected?

Strategies and Priorities

What specific initiatives should be undertaken to achieve desired results? In what order should objectives be pursued? What is the timetable for action?

Contingency Planning/Crisis Management

What plans should be made to handle possible disasters which could befall the organization?

The product of carrying out all of the steps described in the framework should provide the nucleus of information needed for preparing a strategic plan for the organization. This should be a brief document for distribution to operation managers designed to foster teamwork and common purpose. The strategic plan will provide guidance and serve to focus operational planning on achieving results that are consistent with the mission and strategic objectives of the organization.

How an Organization goes About Defining its Mission

To be effective, an organization must focus on why it exits today and why it should continue to exist in the future. It is important for all members to be aware of the organization's mission or purpose and their contribution to its achievement.

Most often a mission statement is established by the senior management group meeting periodically 'in retreat'. The group needs to get away from day-to-day operational distractions and meet for short periods of a day or two over a period of several months to arrive at a mission statement. However, because this is not practical for most organizations including tax administrations, many choose to have only one or two sessions of up to a week for the mission exercise.

Some organizations begin the mission exercise by defining a series of vision statements. These statements, proposed by members of the group, are brief phrases describing some of the ideal attributes or characteristics of the organization in the future. If this approach is followed, it is useful at this stage to discuss some of the main environmental factors likely to affect the organization in the future. The group then revisits the task of defining mission by focusing on what kind of organization will be needed to create the future envisioned.

To support the mission exercise, a facilitator is needed to guide the group and a scribe is needed to document decisions. The facilitator's role is to escort the group through each step of the task at hand, to bounce ideas around and enlist the contribution of all participants. Facilitating the group, however, should not be confused with the leadership role.

Most often the head of the organization should not be the group facilitator. By allowing the facilitator to handle the mechanics of the meeting, the organization's chief executive officer remains free to concentrate on content rather than on the process and to intervene only when he or she feels it is important to exercise leadership. Usually the chief executive officer can make a better contribution by standing back and listening to the views of others rather than dominating the meeting.In addition to gaining new insight by listening to the ideas generated by participants, the chief executive officer can also gain a better appreciation of the influence of corporate culture.

Elements of the Mission Statement

The mission statement must, as a minimum, include a section on the purpose of the organization. Many mission statements advance beyond this and have a section on corporate beliefs and values. These are management principles or policies governing ethical conduct and demonstrate the integrity of the organization.

A third element that some organizations include is a description of how the mission is to be accomplished. Addressing 'how' might encompass some elements of corporate values and some elements of a strategy or action plan. It is risky, however, to be too definitive because flexibility can be diminished if too narrow a description of how the mission will be accomplished is made.

Unless the organization is willing to frequently change its mission statement, a process that is often time consuming, the organization should leave any allusion to how the mission will be accomplished to a later phase of the strategic planning process - the stage of establishing strategic objectives.

Why Environmental Scanning is so Important to Effective Strategic Planning

Environmental scanning is one of the most important components of the strategic planning process. A flexible organization is one that is able to adapt its plans in the light of significant events. To accomplish this, the organization should periodically monitor internal and external developments which may have major implications. Environmental scanning involves monitoring and analysing economic, demographic, social, political, technological and other trends which could have a positive or negative impact on the future of the organization.

Environmental analysis might also include identifying key concerns and considering alternative scenarios for meeting challenges, identifying opportunities and threats. It should also involve carrying out a situational audit to assess issues, the organization's strengths, weaknesses and corporate values.

In addition to reviewing various publications and analyzing quantitative information, consultation and communication are needed to identify the concerns of users such as clients, special interest groups and, in the case of tax administration, groups of taxpayers, tax practitioners, employees, central agencies and other tax administrations.

How Strategic Objectives, Strategies and Initiatives are Developed

Strategic objectives, strategic and initiatives - these form the main body of the strategic plan, the actions that are required to take the organization from where it is now to where it wants to be in the future.

In some organizations the management team may proceed from developing the mission statement to identifying the key action areas for making changes. In other organizations a staff group may propose such areas to the management team based on research and consultation across the organization and with clients. For each area identified, a statement is usually produced identifying either in a general way the strategic direction of the changes to be made or, more concretely, the strategic objectives to be achieved.

In some organizations, as has been the case in Revenue Canada Taxation, task forces with wide internal representation are then established. Working independently, yet meeting periodically to ensure a coordinated effort, these task forces together form the organization's strategic directions development team. This team is responsible for producing a strategy or action plan for achieving results related to each action area, general strategic direction or more definitive strategic objective.

Alternatively, the development team may be a particular head office unit or external consultants hired expressly for the purpose. Involving people with different operational backgrounds will generate new ideas, prevent the creation of overlapping or conflicting strategies and ensure a commonality of purpose during the implementation phase.

For government establishments, particularly those with a policy or regulatory mandate, the development team may start from the point of having action areas or strategic directions to further investigate. Private sector enterprises and government institutions with operational responsibilities are usually able to be more definitive and would prepare specific corporate objectives before charging the team with the responsibility of developing strategies or action plans. For the operational arm of their organization, these types of organizations often have strategic business plans instead of, or in addition to, a more general strategic plan.

Each of the strategies which the development team generates would most often include a list of specific iniciatives or projects and, for each of these, a series of steps to be carried out, the time frame for their accomplishment and a list of who will be responsible for carrying out each step.

The more detailed the action plans, the greater the difficulty in keeping the strategic plan up to date. For this reason many organizations choose to keep the action plans quite general and leave the specifics for inclusion as part of operational planning.

Issues and Crisis Management

Contingency planning is carried out as part of the typical strategic planning process. Contingency planning means being prepared for dealing with emergency situations such as, for example, a strike by employees, a major computer system outage or a taxpayer revolt. To remain viable, the contingency plan must be regularly updated based on data from ongoing environmental analysis. The advantage of contingency planning is that it positions the organization to better handle crises by having plans on the shelf for dealing with disasters if and when they materialize.

For an organization to be effective it must be capable of mobilizing financial and human resources when needed. To ensure a response capability, a crisis management plan should be put in place identifying who should be called upon in emergency situations. There should be a team or numerous teams for different types of crises identified in advance. In addition here should be a credible spokesperson to deal with the media. Mechanisms should be set in place to identify potential crises at an early stage so that preventative measures can be taken or damage control exercised if the crisis has already erupted.

What can Go Wrong in Carrying Out Strategic Planning

Many theorists today believe that strategic planning is difficult to implement successfully for a number of compelling reasons.

- **Because it is so difficult to determine which environmental changes today are likely to have the greatest impact on the organization of tomorrow, a certain amount of environmental myopia is inevitable.**

Undoubtedly many organizations will find that the factors which have the greatest impact may have been entirely omitted from environmental scanning because of a failure, at the crucial early stages, to recognize any significance.

Ten years ago which organization would have had the foresight to consider the potential impact of AIDS? Two years ago could one have foreseen the demise of communism in Eastern Europe? Less than a year ago would one have believed that the United Nations could be successfully to form a coalition against aggression?

What are the important factors that are currently being overlooked? Religious revivalism? Bio-technology? Privatization? Women in

Leadership? Hindsight shows that it is often something currently on the fringe which revolutionizes daily life.

- **The concept of strategic planning is alien to the typical line employee.**

Because of this, it is difficult to ensure employee allegiance to any strategic plan. Changes to corporate culture and communications structures are major hurdles to be overcome to bring employees on side.

- **The use of technical tools when undertaking an environmental scan produces a statistical overload for many members of the organization.**

Some may not understand the tools of environmental scanning or the information produced. Others may find it takes too much effort to interpret the data. The use of quantitative analysis, forecasting, modelling and statistical indicators is usually expensive and complicates the process. The turns many people off strategic planning, particularly if predictions later fail to mirror reality, as is often the case.

- **Intra-organizational hurdless abound.**

There are barriers created by vertical and horizontal integration. There are rivalries between divisions and pockets of resistance at all levels where commitment is almost unattainable.

Finding an Alternative

Many organizations have turned to strategic competitive thinking and processes as a replacement for comprehensive strategic planning. These enterprises adopt a mind-set aimed at helping them arrive at a sustainable competitive advantage. They try to think competitively even if a monopoly situation exists because they know full that competition breeds excellence.

For a tax administration this may mean thinking about what services the tax administration can provide better than tax practitioners in the private sector or how the tax administration can outperform other tax administrations elsewhere in the world.

Must organizations today do not have a large strategic planning division. Instead they have:

- reduced corporate strategic planning divisions to only a small staff unit which does not follow systematic processes that are too academic and ivory tower but rather keeps in touch and assists managers to think strategically;
- made strategic thinking the job of line managers and made sure these managers know the organization in and out and understand its strengths and weaknesses;
- substituted elaborate guidelines with simpler ones which facilitate rather than impose limitations;
- encouraged multidirectional internal communications and frequent interaction throughout the organization through meetings, electronic mail, telephone and other media;
- made sure all participants understand and have the opportunity to live the mission of the organization.

The corporate stance being followed today is to replace contingency planning with issues analysis. Consequently many organizations do not undertake complex, all encompassing trend analysis and expensive contingency plans covering any potential crisis or disaster which might befall the organization.

Only those issues with both a high probability of occurrence, a high probable impact on the organization and a short time fuse are analyzed in detail.

The potential outcomes of existing issues are studied instead of analyzing all potential issues. Rather than developing a policy position which is put on the shelf, operational decisions are made on what to do in particular situations.

Strategic planning is a top management responsibility

However, to build allegiance to the plan across the organization, **it is important to communicate the plan widely and involve as many line managers as possible at an early stage.** Participation helps build more meaningful plans. People develop a sense of ownership to the plan and feel they have a stake in its success.

Strategic planning is not a panacea. Even with a comprehensive strategic plan in place, unforseen events will occur but the organization will be in a better position to cope than in the absence of strategic planning.

Bi-products of the strategic planning process are managers who are always looking ahead and anticipating change. Even the most careful plan will not mirror reality, but because a process has been set in place, the organization is better able to move forward as a unified corporate entity and better able to adapt to changing conditions.

Strategic Planning in Practice

Strategic Planning at Revenue Canada, Taxation

The experience of the Canadian federal income tax administration in following a strategic approach to planning, particularly over the last two years, is described in this section of the paper.

Revenue Canada, Taxation is seeking to create a future emphasizing excellence in service. In the Department's view, the ideal tax system is one where people are assured of prompt contact with the tax administration, whether it is to obtain information or to honour their tax obligations. In such a system, all obligations are understood and honoured, all entitlements are received and all taxpayers have confidence in the capability and integrity of the tax administration.

While the Department may never be able to fully achieve the ideal, the intention is to move much closer towards it over the next decade. In Revenue Canada Taxation's vision for the Canadian income tax system of tomorrow, taxpayers and other audiences will be considered as clients. Revenue Canada, Taxation is using strategic planning as an important tool for realizing a better future.

The Corporate Development Initiative

The first steps towards a major change in direction at Revenue Canada, Taxation were taken in January 1989, when the Department formally began a strategic exercise which later came to be known as Phase I of the Corporate Development Initiative. The Corporate Development Initiative represents a major effort towards realizing the hope of building Revenue Canada, Taxation into an organization which is more flexible, responsive and innovative.

Unlike many strategic planning exercises which begin by involving only the senior management team, to engage greater interest in the project, the Department sought to involve a wide audience right from the outset. Revenue Canada, Taxation accomplished this by holding a National Directors' Conference at which all directors from across the Department were invited to participate.

At the conference, participants were divided into discussion groups. Each group was asked to examine the external and internal environment and to identify areas for concrete action so that the Department's effectiveness as an organization could be improved.

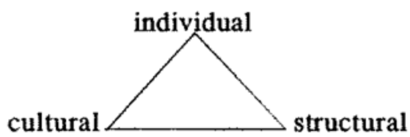
Following the conference, six **task forces were established.** Each was asked to further study one of the six topics which were identified by the conference discussion groups as most important to the future of the Department. The topics suggested for indepth review were:
- mission and corporate values;
- participative management;
- management development;
- employee and management resourcing;
- taxation centre work environment; and
- external communications.

The six task forces involved as team members, employees from all ranks of the Department and they consulted widely with people both within and outside the organization. The teams carried out their assignments over the course of the next year and their reports were examined by discussion groups at the January 1990 National Directors' Conference. Progress to date has been very encouraging. Five reports were generated and over 100 recommendations were made, the majority of which are already being implemented.

The Department continued with Phase II of the Corporate Development Initiative in 1990 and early 1991 by examining other important strategic issues:
- internal communications;
- program delivery; and
- organizational effectiveness.

The recommendations emanating from these tax forces will be dealt with over the course of 1991.

The process of making changes in the way the Department operates has only just begun but a carefully developed philosophy exists underlying the nature of the modifications to be made. There are three basic cornerstones to the types of changes needed if Revenue Canada, Taxation is to be effective as an organization:



Phase I of the Corporate Development Initiative mainly, but not exclusively, addressed the first two types of change through both the topics selected and the basic approach followed - by involving a large number of people in the exercise. Phase II is chiefly concerned with making structural modifications. To successfully introduce change, it is important to first, motivate people by trying to meet their needs as individuals and second, seeking to eliminate their resistance by creating a trusting climate. Failure to accomplish this will result in a weak foundation for making the structural transformations envisioned for the organization.

Defining the Mission of Revenue Canada, Taxation

There are many elements of the Revenue Canada, Taxation Corporate Development Initiative approach that differ significantly from the way other organizations might carry out such an exercise. One major difference is the manner in which preparing a Revenue Canada, Taxation mission statement was addressed. The Department chose to carry out the mission exercise in parallel with other Corporate Development Initiatives rather than in advance of them and a decision was made to involve the entire organization in the mission exercise.In carrying out its assignment to develop a draft mission statement, the **mission and corporate values** task force initially solicited the input of all managers and later continued to seek their comments at each stage as new draft mission statements were put forward. Even after senior management finally agreed on a version incorporating the views of the entire management team, the exercise was not complete. The draft mission statement was then deployed to the field so that the entire work force of more than 20,000 Revenue Canada, Taxation employees would have an opportunity to comment on it before finalization. The Department is still in the midst of carrying out this development strategy.

Developing a mission statement is not a simple exercise. Its main purpose is to focus everyone in the tax administration on a common purpose and help all members of the organization work together as a team. The exercise is fraught with the potential to be divisive rather than constructive if improperly handled.

> For a tax administration, the definition selected for the organization's mission can have important ramifications for the objectives to be pursued.

Some tax administrations will define their role as being reactive while others will assume a more proactive stance.

Fundamental questions will need to be addressed. Does the tax administration limit itself to taxcollection activities or does it have a role to play in tax policy formulation or in delivering social and economic benefits? As an enforcement agency, how does the organization balance firmness with fairness in administering the law? Based on agreed policies and operating principles, what is the tax administration's relationship with its clients and its employees?

In developing Revenue Canada, Taxation's mission statement, a great deal of controversy was experienced surrounding what is an appropriate balance between service and enforcement activities. Some believe, however, that a tax administration does not have to choose between the two. It is a widely held view that all program delivery activities are service related. For example, by carrying out enforcement activities, the tax administration indirectly provides service to the majority of honest taxpayers who honour their tax obligations. Enforcement activities play a major role in protecting the integrity of the self-assessment systems.

Some may argue that a mission statement is not necessary. This may true. Revenue Canada, Taxation has survived without one to date, relying instead on a legal mandate statement and a program objective which outline responsibilities in relation to administration of the Income Tax Act and other legislation. The Department has been further guided by an operational planning framework which describes the major planning areas and activities in which it is engaged.

The problem with using these statements to guide planning is that they are past rather than future oriented. They reflect what is being done rather than where the organization wants to proceed. There is the risk for any organization relying on these statements that it may find its future turning out to be an extension of the past rather than a departure from operating in the traditional way. Any study of future activities which begins without reference to a mission statement runs the risk of starting with a false premise. Planning the future should not start by analyzing the potential for change within existing programs but rather the rationale for even having such programs.

Another major problem is that members of the organization, in planning future activities based on program objectives, will focus on achieving the key operational objectives which fall within their area of responsibility and ignore the others.

Some areas of the organization may be viewed as competitors instead of members of the same team.

For example, if audit sees its objective as carrying out as many audits as possible without viewing their role within the broader context of achieving compliance, the result may be a greater number of appeals. In truth, a mission statement is not absolutely necessary but its absence will result in restricted options for the future and less constructive interaction among divisions.

The Corporate Plan

Now that the Corporate Development Initiative, Phases I an II are progressing well, Revenue Canada, Taxation is creating a corporate strategic plan which will bring together plans for the future under one comprehensive umbrella. Although operational plans will not form part of the corporate plan, the intention is that they will be guided by it and linked together with the common purpose of achieving the Department's mission.

A strategic planning committee, supported by a small staff group, is well advanced towards producing a corporate plan encompassing broad strategic directions for the Department. The staff unit presents environmental scanning information to the committee during different phases of the process and writes major parts of the plan to reflect the deliberations of the committee.

> In preparing the corporate plan for Revenue Canada, Taxation, it has been found that the strategic planning process itself is more important than the product.

Senior managers have been involved in its preparation and their commitment is crucial to its success. The intention is for the plan to be sufficiently flexible so that it can be easily revised as environmental information indicates a need for altering course.

> The key to any corporate plan's success is to keep it brief and general in nature to avoid the need for constant updating.

In the case of Revenue Canada, Taxation's corporate plan, detail on specific initiatives are to be left to operational planning. Such information will appear in the Department's Operational Planning System, in documents such as the Multi-Year Operational Plan (MYOP), the Human Resource Plan (MYHRP), the Communications Plan and the Information Management Plan (IMP).

The mission statement and corporate values embodied within the corporate plan are meant to provide the necessary focus. Strategic directions, of which the Department foresees less than ten, are in the process of being determined and will derive from the strategic planning committee's reading of environmental changes most likely to affect the future.

Although the strategic directions for Revenue Canada, Taxation are still in the process of being developed, some major themes are already emerging. These include the Department's commitment to being responsive to clients through improved accessibility and timeliness, the need for simplification of the administrative process balanced with the requirement for fairness, the continuing aim to enhance productivity and the Department's role in serving as an instrument for achieving government policy.

How a Tax Administration Carries Out Environmental Scanning

Ongoing or periodic environmental scannig is important to the strategic planning process. In addition to monitoring publications and analyzing quantitative information, consulting with taxpayers is an important way of tracking the environment. It is also a good way of obtaining feedback on how well the tax administration is meeting the needs of its clients. In tax administration, as in any successful enterprise, it is vital to listen to customers.

With this in mind, Revenue Canada, Taxation has established a number of consultative committees representing the key publics. For example, there is the **Minister's Advisory Committee on Tax Administration (MACTA),** established to bring to the Minister's and the Department's attention, the concerns of business and other groups represented on the committee. The Department also has separate committees for certain groups such as small business and the disabled and a committee representing senior citizens is currently being formed.

Minister's mail is an important gauge of public attitudes as to the fairness of tax programs.

> By carefully analyzing mail to the Minister and Deputy Minister, Revenue Canada, Taxation has become better able to assess the major concerns of taxpayers.

Public opinion research has also been employed the Department to provide feedback information for improving programs. Revenue Canada, Taxation conducts informal surveys as well.

For example, the Department monitors proceedings of the House of Commons and maintains a parliamentary liaison capability to keep abreast of political developments with potential implications. In addition client rating cards are available at district offices and other locations to be used by taxpayers and other clients to provide feedback on the services provided.

Telephone and mail-out surveys as well as face-to-face individual and focus group interviews of the general public or tax practitioners have yielded very useful information. For example, the Department has learned more about the level of taxpayer and other client satisfaction or dissatisfaction with particular services and new services that should be provided in the future.

At Revenue Canada, Taxation, district offices are equipped with modern telecommunications equipment which monitors the number of incoming telephone enquiries and the number of callers in queue awaiting service. This provides feedback on both the level of demand for telephone enquiries services and how well the Department is able to respond. A recent telephone survey of the public enquiries program involved telephoning district offices across Canada and posing representative tax questions to enquiries officers. Measures were taken of the accuracy of responses, courtesy and the level of service provided.

The following are examples of useful scanning information that Revenue Canada, Taxation has been able to obtain through taxpayer surveys.

Example 1.

During the course of a program evaluation study of individual and corporate tax returns carried out in 1988, two mail-out surveys of taxpayers (1713 responses) and tax practitioners (207 responses) were conducted.

Results from the tapayer survey indicate generally positive attitudes towards auditors: 85% of respondents found auditors to be courteous; 68% rated them as fair and impartial; 76% described auditors as knowledgeable; 70% throught auditors listen carefully to taxpayers. Differences in the response pattern between those who had and had not been audited in the past was marginal.

At the same time, 41% of those who had been audited were not satisfied that the audit change was correct, 55% of middle income earners felt they were paying more than their fair share in taxes and 77% of respondents had used an accounting firm or tax preparation service to prepare their 1986 return.

Example 2.

A 1986 attitude survey sampled 1714 adults who were not self-employed and who had taxable income in 1985 to determine if taxpayers are making greater use of tax professional. Findings include the fact that, for the first time in 1985, the number of non-self completers who were not self-employed and who used others to complete their return was over 50%, that this trend continued upward in 1986 (55%) and that 60% of non-self completers used a tax specialist.

Regarding taxpayer awareness, the percentage of respondents aware of their rights fell from 12% in the 1985 survey to 6% in 1986. On the ohter hand, the 1986 survey also found that one third of respondents believe the tax system does not treat everyone fairly, the level of criticism increases wast of Quebec and the number of respondents indicating that enquiries officers were easy to understand or able to provide the necesary information dropped about 9% from 1985.

Other interesting findings are that a high percentage of those sampled believe that tax evasion is a common practice (38%) and an even greater number believe that tax evaders are likely to be caught (74%). A follow-up survey conducted in June 1987 reported no major differences from the earlier study.

Example 3.

To explore issues and concerns related to tax reform as input to developing communications strategies for the 1989 filing year, 18 focus group interviews involving the general public, families/parents, seniors, small business and tax professionals were conducted in March 1989.

Complaints were registered by several of the focus groups on the speed and accuracy of the information provided by enquiries staff. Tax professionals expressed the view that the public would find tax reform less fair and more complex, particularly automobile expenses, meal/entertainment expenses, and capital gains. It would also encourage taxpayers to make greater use of tax professionals. Some interviews spontaneously indicated that tax reform may have adverse effects on compliance.

The Main Environmental Factors Relevant to a Tax Administration

The nature of the environment in which all tax administrations operate is constantly changing. Tax administrations today are witnessing the emergence of a global economy characterized by complex business structures and sophisticated transactions. Technology is progressing faster than most had envisioned and the public is demanding that tax administration systems keep pace with their expectations.

The emphasis on government deficit reduction and public pressures to control the size of the public service will continue to be major challenges. Other challenges include the growth in negative tax attitudes, the underground economy, the tax gap and increasing employee expectations for professional development, career advancement and improved working conditions.

Critical Issues, Trends and Implications

Turning from the broad perspective to a more focused approach, there are many factors which affect the administration of the Canadian Income Tax System. Revenue Canada, Taxation considers the major ones to be as follows:

- **The nature of the Department's clientele is changing. The role of tax preparers has gained greater significance in recent years and the number of small business (franchise) owners is growing. Immigration from diverse cultures continues, the population is greying and people are seeking greater influence in society.**

  Implications:

  The Department's clients have high expectations that their right will be respected and that they will be provided with an effective means of redress.

  Internal migration patterns may produce greater workloads in Ontario and British Columbia. Although Toronto, Montreal and Vancouver will be the hub of activity, there may be some shifts toward smaller population centres.

  The changing demographics will require a change in the location and nature of services required.

- **The Department's clients are demanding quality products and services. Excellence is becoming the standard for all organizations in the 1990s including tax administrations.**

  Implications:

  Revenue Canada, Taxation's client base is becoming more diverse. Some client groups are highly sophisticated thus facilitating the Department's relationship with them but rising illiteracy and innumeracy among other areas of the population require a different response mechanism.

  There is a shift generally towards the service sector from the manufacturing sector and this will affect client's expectations. They seek greater dialogue and are demanding more store-front operations, courteous treatment, promptness and, of course, accuracy.

  The general federal public sector movement toward greater service and consultation continues to evolve.

- **Complexity in tax administration is not abating. As the provinces continue to tax within their own jurisdiction, the volume and extent of tax legislation may increase the demands on the Department to explain, simplify, desmystify and enhance taxpayer understanding.**

  Implications:

  Increased complexity means additional workloads across the Department in areas such as enquiries, assessing and appeals.

  The public's demand for fairness and a more understandable income tax system is creating pressure for legislative simplification and clear communications from the Department.

- **There is a move towards a global financial community with the head offices of many multinational corporations located offshore. Witness the emergence of major trading blocs, negotiation of free trade agreements, international merges and acquisitions, Eastern Europe socio-political changes.**

  Implications:

  The move from income tax to consumption based tax systems across the world is a response consistent with the movement for freer trade world-wide.

  Tax administration auditors are experiencing increasingly sophisticated dealings with large multinationals and demands are being felt for greater international cooperation.

- **In growing numbers, Canadians are demanding a tax administration demonstrating integrity and an income tax system that is beyond reproach, where all Canadians honour their tax obligations and pay their fair share.**

  Implications:

  New Canadians have varying

perceptions of the income tax system and their attitudes will be shaped by the extent to which they believe they are being treated fairly. The Department's participation in the community as a good corporate citizen, its commitment to protecting the environment and its ethical conduct all contribute to securing the trust and cooperation of the Canadian public.

- **The role of technology in society and in tax administration continues to grow at an exponential rate. Advances are being made in artificial intelligence, electronic imaging, parallel processing, robotics, natural language processing, facsimile machines, cellular phones, local area networks (LANs).**

Implications:

Technology represents both an opportunity and a challenge for the Department - an opportunity to improve service and productivity and a challenge because it creates expectations for greater speed and improved accuracy. Technology will provide the means to re-configure workloads in many different ways. To keep pace there will be a continuing need to upgrade the skills of the workforce.

Society is rapidly becoming paperless. Electronic filing will mean faster, more accurate service but security problems will need to be overcome. The move towards a cashless society is accelerating. Debit cards will positively affect collections, accounts receivable and source deductions.

- **The composition of Revenue Canada, Taxation's workforce is changing. Consider flexible working hours, more women in management positions, widespread facility with personal computers.**

Implications:

The traditional management values are being challenged by the workforce. Employees are demanding greater autonomy, empowerment, more enriching jobs and rewarding careers.

- **In recent years both federal and provincial governments have used the income tax system as a public policy instrument for delivering government services outside the traditional scope of tax administration. This trend may well continue.**

Implications:

The traditional role of the Department in being reactive vis-a-vis the Department of Finance, other federal government departments and agencies and other levels of government may come under considerable pressure. Government policies have the potential for enormous impact on the tax system and the Department's involvement may need to become more proactive.

- **Fiscal restraint remains a policy of government. Continued pressure on public sector resources will restrict the options in seeking far reaching, costly changes in operations.**

Implications:

New programs for the Department to administer create new workloads often without additional resources being provided. It will require innovative solutions to accomplish more with the same or less.

The need for productivity gains through technological innovation and streamlining procedures will continue and managers will be challenged to find creative ways of doing more with less.

These are just a few of the environmental trends affecting the Canadian federal tax administration.

Specific Benefits for a Tax Administration in Carrying Out Strategic Planning

Even without a comprehensive corporate strategic plan, environmental scanning alone will permit a tax administration to make improvements in the way it operates. At Revenue Canada, Taxation, based on information related to taxpayer satisfaction with the level of service, the Department has sought to put in place new and expanded services.

There are some key examples:

Revenue Canada, Taxation has created a network of storefront operations located at shopping centres and other sites convenient to taxpayers. In 1989, **Seasonal Tax Assistance Centres** or **STACs** were established at 130 sites to make the Department accessible to taxpayers in remote areas.

The Department increased the number of community volunteers helping people to complete their returns. In 1989, the **Community Volunteer Program** experienced a 30% increase to 90,000 people helped and a 72% increase to 6,000 in the number of volunteers trained by the Department. In 1990, the number of volunteers jumped a further 19% to 7,180.

Revenue Canada, Taxation also provides an advanced rulling service. In 1990, Departmental staff provided over 2,700 written rulings and opinions to the public and over 20,000 verbal technical interpretations of the Income Tax Act to tax practitioners and other members of the public.

Last year, the Department offered extended hours of telephone service. Students were hired to provide telephone service between the hours of 5:00 p.m. and 9:00 p.m. Mondays through Thursdays during the peak filing period. A toll-free telephone line was set up for people who have vision or mobility impairments and wish to know what services are available to them.

Other Elements Contributing to Successful Strategic Planning

Management Information Systems

A management information system is required by a tax administration mainly to feed back operating information in a form suitable for senior management decision making. It is important to know when operational problems are occurring so that corrective action can be taken. A management information system, however, can also provide environmental scanning information useful for strategic planning.

At Revenue Canada, Taxation, management information systems are used extensively. The main components are a time/production system to measure productivity; a personnel management system; an expenditure reporting system; a resource management system; and functional reporting systems.

The Department is also currently developing an Executive Information System which will serve the information needs of the highest levels of management by electronically reporting on critical performance indicators.

The Contribution of Program Evaluation, Internal Audit and Monitoring Activities

Another important mechanism is the contribution of program monitoring, internal audit and program evaluation which, although separate tools, are highly interrelated.

Their main purpose is to provide feedback for operational planning purposes but findings of a strategic nature often result as well. In fact it may be advantageous to include, in the terms of reference of these studies when they are being planned, a search for strategic information.

Establishing linkages between the planning and implementation phases of the management process is needed to ensure that mistakes are discovered and not repeated in the future. Program monitoring will assist in this task by tracking performance on an ongoing basis during implementation to correct potential problems early on before they become magnified.

One form of monitoring carried out at Revenue Canada, Taxation is Program Review. This entails presentations at the Senior Management Committee, reporting on the recent performance of different taxation programs.

It is important to have a system for providing feedback at the conclusion or at critical phases of a project. Management tools such as internal audit and program evaluation can fill this need. The role of internal audit is to assess the health of the management systems in place throughout the organization by determining the effectiveness of these systems. Program evaluation concentrates on measuring effectiveness by probing into the rationale for a program and the results achieved, both intended and unintended. The results of the evaluations carried out are then feedback into the planning process to improve programs.

Instruments used during the course of a program evaluation include surveys; file reviews to determine the reasons behind the problems being experienced; focus group interviews involving groups of knowledgeable employees, taxpayers or tax practitioners; statistical analysis; and case studies.

External Checks and Balances

Another way of obtaining feedback is through external checks and balances. In Canada, the federal government has an Office of the Auditor General with a mandate to examine the efficiency and effectiveness of federal public sector operations.

Every year the Auditor General examine certain programs in Revenue Canada, Taxation and makes a report to the Government of Canada.

The Department has tended to view the Auditor General's audits as an opportunity for validating strategies and making improvements to existing programs based on an independent and objective review.

Building for the Future

Although the corporate strategic plan at Revenue Canada, Taxation is still in its early stages, much has already been accomplished. Through the efforts of task forces involved in the Corporate Development Initiative and by adjustments brought about by analyzing the implications of environmental scanning information, some very positive changes have occurred.

> More transformations are expected in all three areas forming the cornerstones of the Departmental change process - individual, cultural and structural.

Changes Related to the Individual within the Organization

Because a capable and committed workforce is a critical requirement to being an effective organization, all employees of a tax administration can positively influence public compliance with tax laws. At Revenue Canada, Taxation, perhaps as is the case in all tax administrations, people represent an important strength. Consequently, the Department is undertaking significant new initiatives to strengthen human resource management.

For example, to ensure an adequate supply of trained and capable managers for the Revenue Canada, Taxation of tomorrow, a Management Development Program has been initiated whereby candidates identified with leadership potential are selected for developmental assignments.

The Department will need these people as capable managers in the next decade as the organization becomes more streamlined, responsive and innovative.

Changes Related to Corporate Culture

There is always a better way of doing things and to have as many employees as possible searching for ways to improve operations, a participative style of management is being introduced at Revenue Canada, Taxation. Under participative management, employees are encouraged to come forward with ideas and are delegated authority to make more independent decisions. Along with this new found trust, however, comes accountability for actions taken by the empowered employee.

One example of this is the process for developing a mission statement. The Department is providing every one of its employees with an opportunity to discuss and contribute to the mission statement.

Changes Related to Organizational Structure

It is envisioned that, in the longer run, the organization will have fewer hierarchical levels. As tax administrations move further into the information age, technological innovation will permit more interaction among peers connected to each other and the mainframe using personal computers. This will mean a need for fewer levels of supervision and fewer supervisors at each level.

There will be more cross-fertilization of ideas and this should promote improved, less expensive ways of operating. As Revenue Canada, Taxation plans for today, the Department must not lose sight of the longer run.

A Vision: Excellence in Tax Administration

Taxes have made possible the modern society enjoyed in Canada today with its many universal and targeted social and economic benefits - the transportation infrastructure, public utilities, the educational and health care systems, national security and public law enforcement, cultural programs ... The Canadian federal tax system can be used as a social tool providing a safety net for those needing assistance.

It can be used to redistribute wealth in order to help lower income families, the elderly, students, persons with disabilities, charities ...

There is a vision for Revenue Canada, Taxation. In the next decade, the Department, as an organization, will become more participative and open to employee risk-taking and innovation. The Department will form partnerships with clients and listen to their suggestions.

Revenue Canada, Taxation intends to forge a more service-oriented, responsive and accessible tax administration. With the active participation of clients and employees that vision will be realized.

Translating the Department's vision into reality begins with the establishment of broad strategic directions followed by the development of concrete objectives and action plans. Revenue Canada, Taxation has only just begun this process yet enthusiasm for its success is high. For the people the Department employs, establishing strategic directions will provide guidance and focus their creative potential. For the people the Department serves, it will demonstrate a commitment to create a better future for tax administration in Cannada.