

IMPROVING PUBLIC SECTOR PERFORMANCE

THROUGH INNOVATION AND
INTER-AGENCY COORDINATION



CASE STUDY FROM THE GLOBAL REPORT

Putting 800,000 Officials to Work: China's State Administration of Taxation Implements a Performance Management Reform



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Overview

Beginning in 2014, China's State Administration of Taxation (SAT) implemented an organization-wide performance management reform. Rolling out the intervention was no easy task: the administration has approximately 800,000 employees, or about one-tenth of China's entire civil service. Identifying key performance indicators and monitoring progress helped the administration implement important tax reforms, such as switching business tax to a value-added tax in 2016. Surveys indicated that taxpayer satisfaction in their local tax bureaus increased after the performance management reform, and tax officials themselves also expressed satisfaction with the new system.



CHINA

POPULATION (July 2017 est.)¹
1.379 billion

GDP PER CAPITA (current US\$)²
8,123.20

INCOME GROUP³
Upper middle income

GOVERNMENT EFFECTIVENESS⁴
67.8%

¹CIA World Factbook, ²World Bank (2016),
³World Bank (2016), ⁴World Bank (2016)

Introduction

Implementing performance management within any government organization can be tough, but it is especially difficult to do in an organization as large and sprawling as China's SAT. The organization has about 800,000 employees working at 5 different levels. As of December 2017, China had 23 departments at its national headquarters, 71 provincial tax bureaus, 695 municipal tax bureaus, 6,123 county tax bureaus, and 26,940 local tax bureaus. Together, those agencies are responsible for collecting more than US\$1.5 trillion each year from about 43 million corporate taxpayers and more than 140 million individual taxpayers.¹³

Before 2013, the administration found it difficult to motivate performance across all five levels of the institution. "Job responsibilities and reward and penalty mechanisms were unclear," said Fu Shulin, Deputy Director General of the General Office of the SAT. "Everyone was treated the same, without any differentiation, no matter how they performed." As a result, Fu said, some employees underperformed, and upper management could not rely on staff to execute tax policies in a timely manner, if at all.

Poor performance affected taxpayers, who struggled to navigate the system. "From the perspective of the taxpayers, our performance of tax procedures was inconvenient and complicated, which resulted in low taxpayer satisfaction," Fu said.

In March 2013, Wang Jun, the former Vice-Minister of Finance, took over as Commissioner of the SAT. Wang had piloted a performance management reform at the finance ministry, and wanted to enact a similar initiative in his new role at the SAT. The central government had expressed a need to improve the efficiency of the tax administration, and Wang believed that introducing performance management within the agency could drive reforms across the whole organization.

To do so, the SAT had to clarify roles, introduce strong performance indicators, and motivate 800,000 tax officials around the country.

Response

After conducting studies throughout 2013, the SAT decided on a three-year plan to roll out a new system across the agency. First, it would roll out a pilot initiative in 2014. By 2015, it would take the pilot nationwide, in every bureau from the local level to the national level. In 2016, it would look at what improvements it could make to the system to improve effectiveness.

Building expertise

The first step was to set up a new office to oversee the performance management system. Officials with knowledge or experience in performance management were transferred to the new Performance Management Office in the General Office of the SAT. After setting up the new office, the SAT brought in a team of consultants to provide advice on how to set up the new system. The SAT recruited from universities around China, seeking to bring in the top performance management experts working across the country.

With the management team in place, the SAT began preparing its staff for the task ahead. The consultants trained the new team in performance management, and several went on education trips abroad to learn from other countries and government offices with their own performance management systems. The goal was to create a cadre of experts on performance management within the SAT.

The SAT already had a strong IT platform and a strict hierarchical structure in place, factors that were conducive to implementing performance management quickly. Those factors helped SAT management deploy performance management and allowed for automatic collection of performance data through the existing IT infrastructure. Through that system, top management could oversee performance management of the whole administration in real time.

The SAT built support for the initiative from the top down. Managers at each level were responsible for passing on information about the upcoming reform to the level below them. For example, officials at the provincial level explained to municipal officials about the system and the new responsibilities it implied.

In addition, the SAT held several performance management conferences to build awareness about the new initiative. The SAT publicized the effectiveness of performance management throughout the administration and introduced a new performance management operations manual.

Piloting the reform

The SAT decided to roll out a pilot with about a quarter of its workforce before taking the performance management system nationwide. The SAT selected tax bureaus at every level – from the local level to the national headquarters – to participate, including 22 national departments and nine provincial bureaus. Those selected included a mix of the more-developed eastern provinces and the less-developed central and western provinces.

New staff were brought on board at every pilot bureau to manage the introduction of the new system. The SAT hired three performance management staff for every pilot bureau at the national, provincial, municipal, county, and sub-county levels.

During the pilot period, the SAT also created a new group of individuals that had fully embraced the idea of performance management. The “Leading Group for Performance Management,” as the SAT named the new group, included representatives from every level, and held regular meetings to study major issues concerning performance management. Each pilot bureau also set up “appraisal committees,” which were responsible for reviewing and adjudicating any performance management issues that came up within their bureaus.

In late 2014, performance management was rolled out at all remaining bureaus and for all the 800,000 tax officials working around the country.

Establishing indicators

The SAT created a national performance plan based on its own strategic objectives and direction from the central government. From the national plan, individual bureaus formed their own plans, and individual performance indicators were based on those. “When formulating the performance indicators, we always

adhered to the strategic orientation and integrated the long-term planning and the annual targets one-by-one into performance indicators,” said Fu. “We clearly defined roadmaps, timetables, task books and responsibility statements, and clearly displayed them at all levels of the tax authorities.”

Performance indicators could be quantitative or qualitative and were based on time, quantity, quality, effectiveness, or other dimensions. Data sources to evaluate performance included original records of completed work and automatically generated computer data.

The leader of each bureau or department had performance indicators closely linked to his or her organization’s performance. Doing so, Fu said, encouraged “leaders to be the role model of the whole organization and dedicated to performance management.”

Monitoring and improvement

The SAT headquarters established a system that could monitor progress on indicators in real time, and identify and correct any problems that came up in the implementation process. The system showed a schedule of key tasks and allowed managers to follow up on any office lagging behind targets. “At present, the information system supports 23 departments at headquarters, 36 provincial state tax bureaus, 34 provincial local tax bureaus and 3 special regional offices,” said Fu in 2018. “The system contains 6 major functional modules, including performance planning, reporting review, assessment scoring, process monitoring, query analysis, and performance feedback.”

The information system allowed the SAT to follow progress toward targets, and that progress was used as the basis for performance evaluations. “We track the completion of work through the monitoring module of the information system,” said Fu. “Then we push the relevant information to the superior leaders through the system as the reference basis for performance evaluation.”

Any units or individuals lagging behind in terms of progress received special attention and guidance from the performance management office. “We

urge underperforming units to recognize their own gaps, and help them find out why they are out of line through performance feedback,” said Fu. “We also provide training and support to help individuals improve their performance.”

The appraisal units carried out assessments on the completion of performance indicators, and submitted performance reports to SAT headquarters. There, the performance management office conducted analysis on performance indicators, progress reports, and key tasks accomplished. From their macro analysis, the performance management office issued recommendations to optimize the functioning of the SAT’s performance management system as a whole. For example, analysis of the first full year of the system found that bureaus were creating too many performance indicators, and not enough of them were quantifiable. After input from the performance management office, “we drastically reduced non-critical indicators and focused more on key tasks,” said Fu. “We [also] significantly increased the quantitative indicators.”

The SAT also made adjustments to its information system to make the interface more user-friendly and add additional functions. “The main optimized upgrades have been the addition of functional modules and the strengthening of monitoring and analysis functions,” said Fu.

The system in practice

Having a strong performance management system in place helped the SAT in the implementation of major tax reforms. For example, on March 5, 2016, the central government announced that from May 1, China would be switching a business tax, collected by local tax bureaus, to a value added tax (VAT), collected centrally by national tax bureaus. Fu said that being given the challenge of implementing such a large reform in just 55 days was “a daunting task,” and that monitoring performance was critical to ensuring a smooth roll-out in the short timeframe.

To implement the VAT reform, the SAT quickly divided up the work required and added it to the performance management system. “We clearly defined the roadmap, timetable, task statement, and responsibilities for all departments at all levels

in the performance indicators,” said Fu. “We set performance indicators around key time nodes, such as issuing VAT invoices by May 1 and completing the VAT filing by June 1.”

The SAT increased monitoring of the system, and the performance management team held three meetings every day during the reform implementation period. “The morning meeting looked back on the previous day,” said Fu. “In the middle of the day, we had a video meeting which included every level of tax authorities, including grassroots ones, to check on the progress of everything. In the evening, we had a summary meeting of what had happened that day.” The evening meeting also served as a problem-solving meeting. The team identified any roadblocks to achieving key performance indicators across the country and took action immediately.

As an additional incentive for workers to follow through on the VAT reform, the SAT introduced special recognition for top performers. “In 2017, we awarded second-class merit to 30 individuals who made distinguished contributions to the reform, and awarded third-class merit to 30 units and 130 individuals who made significant contributions,” said Fu. “We also issued an order of commendation to a further 60 units and 350 individuals.”

Reflections

Along with the successful implementation of the VAT tax, the SAT pointed to reforms of state and local tax collection, implementation of preferential tax policies, and increased participation in international tax cooperation as evidence of the performance management reform’s impact. The SAT also said that the performance management reform had been a contributing factor to the government’s increased tax revenue. In 2015, the first full year of the reform, tax revenue collection increased 6.6%. In 2016, it increased a further 4.8%, and in 2017, a further 8.7%. Performance management indicators “played an important role in closing the loopholes in tax revenue and promoting tax revenue growth,” said Fu. “Of course, the most important factor in increasing tax revenue is the enhancement of China’s economic vitality. But at the same time, the utilization of tax information and the improvement

of tax collection and administration capacity are also important factors.”

The SAT commissioned the National Bureau of Statistics of Social Affairs and Public Opinion Survey to carry out surveys on the satisfaction of taxpayers, and the results showed that taxpayer satisfaction increased in both state and local tax bureaus. According to the World Bank’s Doing Business Project, the average time to prepare and pay taxes decreased from 261 hours in 2015, to 207 hours in 2017.¹⁴

Overall, tax bureaus and workers had a much clearer understanding of their responsibilities, and all of their tasks were tied to clear goals. “Now, a chain

of responsibility for implementing the strategy of ‘strategy-goal-execution-appraisal-improvement’ has been formed,” said Fu.

According to Fu, almost all workers in the SAT were highly satisfied with the performance management reform. “Some tax cadres initially had negative opinions on performance management, but through trainings and publicity... we gained their understanding and support,” said Fu. “For some more extreme opponents, we discussed and explained the reform to them one by one. The results of a third-party survey in 2016 showed that 95.76% of tax cadres agreed with the effectiveness of performance management.”

Success Drivers

China’s implementation of performance management at the State Administration of Taxation (SAT) reflects **four** of the five key dimensions for successful public sector innovation.

Political leadership at the head of the agency was the initial driver of the reform. Central government had expressed a desire to strengthen the efficiency of tax administration, but it was the new director of the agency who determined that this could be achieved through implementation of a new performance management system. Change management was essential to the reform’s success, and that required the agency leadership to progressively build support from stakeholders across from the vast organization, including regional offices.

Incentives were critical to the SAT’s ability to transform its performance. The newly established performance management system centered on the agency’s capacity to develop clear, measurable goals for each level of the institution and for each tax official. Performance could be tracked through various means, and managers relied on the results to inform their employee evaluations. To help motivate performance, special recognition was given to top-performing units and individuals.

Technology was an enabler for the reform. SAT already had a strong IT platform in place, and relied upon it for the automatic collection of data needed to assess performance. Developing quantifiable measures and tracking them for an institution the size of SAT would not have been possible without the technology to provide the foundation.

Institutional capacity building was an objective and outcome of the SAT reform. Support for the initiative was spearheaded by a new Performance Management Office in the General Office of the SAT that included the recruitment of consultants and top experts from across the country. Conferences and training programs were employed at various stages to help managers and staff understand how to contribute to the new direction for the agency. The success of the reform enabled the SAT to implement tax reforms efficiently and effectively.