

## **SOME ASPECTS OF TOTAL QUALITY MANAGEMENT: USING THE DEMING CYCLE IN THE MANAGEMENT OF TAXES**

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### **ABSTRACT**

*Activity for establishing, collecting and tracking collecting of taxes (AFECTCT) is important for public finances because the taxes provide most of the public funds, and, at the same time, they are important levers which the state influence the behavior of entrepreneurs and consumers.*

*Because the economic literature are few attempts to improve the activities in the taxes area through the Total Quality Management (TQM) by applying Deming model, in this paper, using the four sequential processes of this model, we try to find ways to improve taxes management in order to increase the public revenues and reduce the tax evasion trends.*

**KEYWORDS:** *Deming model, public administration, public services, taxes management, Total Quality Management.*

**JEL CLASSIFICATION:** *G38, H11, H20, H21, H26, H30.*

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### **1. INTRODUCTION**

Is best known that the theory of Total Quality Management(TQM) has been studied from different areas: formal evaluation models, quality leaders' ideas, empirical research. In 1982, W. Edwards Deming published "Quality, Productivity and Competitive Positions" that discussed the "14 points" model of quality management and reintroduced the concept of Total Quality Management to the U.S.A. This model examines all parts of an organization and applies creative use of human resources. W. Edwards Deming wrote about one specific management philosophy leading to higher quality, increased productivity and a more competitive position. For quality improvement, he proposed the Deming Cycle. The four stages of the Cycle are Plan, Do, Check and Act (Improve). There are concerns in economic literature to optimize the activities, processes, services, both in public and in private, by using the Deming model: in car industry-Toyota and Ford- used by W.E. Deming, in technology (Wagner,2004),in commerce (Vitalo,2003), in manufacturing (Rungtusanatham et al., 1998), in services (Douglas & Fredendall, 2004; Fisher et al., 2005),in sport tourism industry (Anderson et al.1994,2005), in certified firms (Tari el al., 2010),in medicine (A. Al- Hayani et al, 2010), in telecommunication industry (Khan, 2010) in specific government services (Roman,D.L. 2008,2009, 2010).

We appreciate that the Deming Cycle is particularly applicable also in improvement of government services quality. Because there is not always a better regulation of taxes, appropriate collection, a follow-up of their collection, because it's necessary a fiscal management to ensure revenue budget incomes in, we consider that the model Deming with its sequences can be used as a general framework of analysis in stages of management taxes. Thus, we extract conclusions and appropriate measures may be taken for the upgrade.

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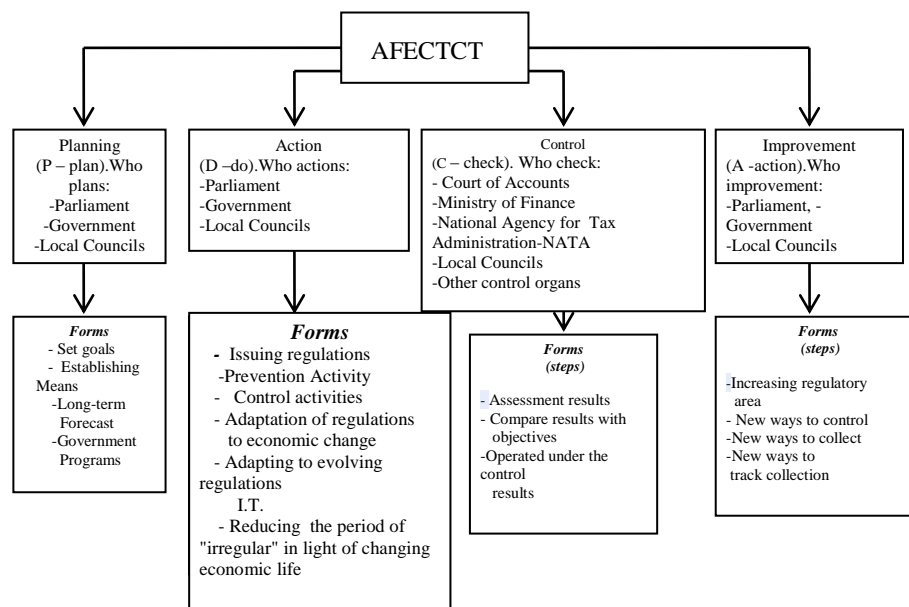
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## 2. THE DEMING MODEL - APPLIED IN TAXES MANAGEMENT

Being a competitive strategy, the quality applies to government and public services. The state wants to increase the efficiency of the activities for establishing, collecting and tracking collecting the taxes (AFECTCT), because of low number of possibilities for ensure financial revenue. In economic literature is presented the idea that the quality of public administration services (Dobrin, 2005, Moldoveanu, 2004) is influenced by several factors: a) the limited resources; b) the scope of public services in the economy, c) the need to meet citizens' expectations (2010, Roman D.L.).

In this paper, as an innovating aspect, which we do not meet in economic literature, we consider and analyze "the activities for establishing, collecting and tracking collecting the taxes"(AFECTCT) as a special public service because is provided at certain levels of the public area, at legislative and executive level. The results of AFECTCT are, at the same time, some of the objectives of financial, budgetary, fiscal policy influencing the level of budgetary revenue. In the process of quality management are important the prevention activities, the control of the processes and results and continuous improvement.

Considering the institutions with, part or full, responsibilities in public finance area (Parliament, Government, Court of Accounts, Ministry of Finance, National Agency for Tax Administration-NATA) and following the Deming model quality sequence we record the following stages for establishing, collecting and tracking collecting of taxes, according to the diagram in Figure 1.



**Figure 1. The quality sequences of the Deming model for AFECTCT**

*Source:* adapted from Roman, 2010, p. 645.

The NATA has the strategic goal of its taxes management for AFECTCT.

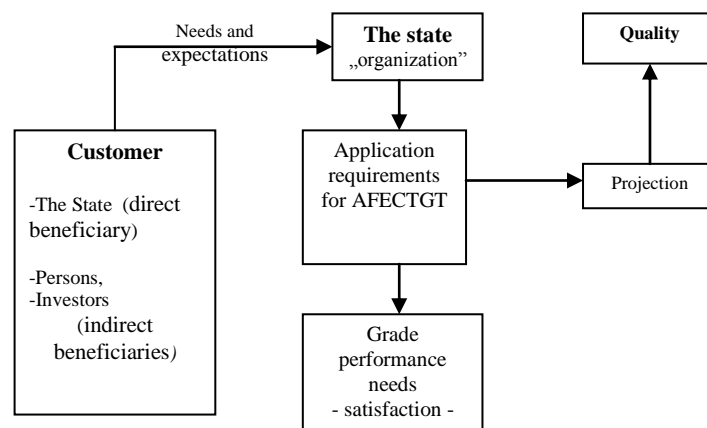
### 2.1. The Deming cycle: the quality planning

In order to determine the weaknesses in all public functions and activities of involved institutions we have tried to analyze AFECTCT using the Deming Cycle. Quality's planning, as stage in which be determined the goals and reveal the means by which they are met, should include: setting goals, determining customer needs, the presentation of product's characteristics such

as to satisfy customer needs, the projection and development processes that lead to achieving these characteristics, the transfer of the resulting plans of working compartments(2003, Nicolescu O., coordonator, 2007, Dobrin C.).

We consider that this stage of quality planning must be relieved, analyzed and developed on the macroeconomic level by the state as a public authority with the help of institutions and instruments, in order to increasing of financial revenue. Is well known that the customer is the beneficiary of public services. In the case of this special public service considering, the direct beneficiary is the state (which aims to increase the general consolidated budget revenue) and indirect beneficiaries are the individuals, but also entrepreneurs and other users of public goods and services. In this case, the state has two attributes: that of "customer" - the beneficiary of AFECTCT and that as the public authority (the "organization" in the specific terms of TQM (2010, Roman D.). We consider that he difference between those two attributes of the state is given by a) public institutions with responsibilities in the field: Parliament, Government, local public administrations, treasuries and b) the levels at which their activities (2009, Roman D.)

The quality projection of AFECTCT is shown in Figure 2.



**Figure 2 - The quality projection of AFECTCT**

*Source:* adapted from Roman, 2010, p. 647.

The state as an "organization" uses some specific ways to ensure the quality of AFECTCT. Thus, the state sets the goal of reducing tax rates and the pursuing of collecting through the executive organs, through the Ministry of Finance and NATA and establishes the domains of regulatory through law, all of them are approved by Parliament. In last twenty years and governmental programs and long-term prognoses reflects the same goals: the reduction of tax rates for income, the diminution of number of tax liabilities, tax incentives for certain categories of entrepreneurs and others. In terms of the quality planning of this special public service finding that it was materialized by enrolling in government programs and other measures under the tax laws that were developed in the last two decades, and through a series of regulations concerning the taxes, budgetary revenue, the functions of these public institutions (2010,2009, Roman D.L.). Major strategic objective of combating tax evasion remains, because this phenomenon strongly affects the business environment, reduce revenues, creates conditions for the proliferation of corruption. Also, are important and collection efficiency and dynamics, while reducing costs collected on national currency, and encouraging voluntary compliance, to ensure rapid collection at low cost.

About the stage for "determining customer needs" is envisaged the need to increase revenue to the budgets constituting the unitary system of budgeting. The projection of revenue and expenditure takes place annually in the budgetary process, and if exist multiannual progammms are envisaged the strategic objectives for the period. Higher incomes have collected not only faster, but also more

efficient, which means a very good voluntary compliance. About " the development of characteristics of the product / service such as to satisfy customer detected needs " appreciate that the considered example, in the first laws for profit taxation (the Law no. 12/1991 and the Government Decision no. 804/1991) have not been mentioned many quality characteristics, that more acts judged differently so that the law itself was a source of tax evasion, based on incomplete definitions that allowed different interpretations and the reduced area of coverage of acts complained of the law.

## **2.2. Deming Cycle: The Action –TO DO-**

About the second stage, " the action-to do", consider that the public institutions which have responsibilities in AFECTCT are the Parliament, Government, Local Councils through its specialized agencies: Ministry of Finance and NATA, the forms of action being: a) issuing regulations, b) prevention activities, c) control activities, d) adaptation of regulations to economic change, e) adapting to evolving regulations I.T., f) reducing the period of "irregular" in light of changing economic life.

In regulatory activity an important place it has the harmonization of indirect taxes with EU tax law, in particular as regards VAT and excise duties. About the regulatory prerogatives we consider that a negative feature of late issuance of the first law on local taxes in 1994 and Fiscal Code in 2003 when the economy was in a period produced the major changes that have moved a large part of the properties and funds from the state to private domain. We appreciate that the another form of action-to do- is to reduce the period of "irregular", depending on the evolution of the economy. We consider that a negative aspect, affecting the service's quality analysis in this respect, establishment of specialized institutions after a long period after the transfer of goods and funds from state to private domain. Thus, NATA was established only in 2003; started work partly in October 2003, and from 1 January 2004 worked in exercising all the power conferred by law: the exercise, monitoring, supervision and fiscal control within the national territory and the exercise of the unannounced operational control, the fiscal investigation, the action by specific means in order to preventing and combating tax evasion. The legislative changes have taken place to improve the collection of taxes, social contributions and that the control activity.

The attracted amounts to the budget as a result of tax audit increased from year to year, as well as the number of discovered tax evasion cases.

We appreciate that the state, as a public authority that manages the AFECTCT and as a direct beneficiary of the results of this activity is facing a contradiction, namely: the establishment, the collecting and tracking collected taxes - by some state institutions not are manifested at the same high quality's level like the other state's institutions - treasuries, ministry.

## **2.3. Deming Cycle: The Control**

The control is the third sequential process of quality as the Deming model and has three stages: 1) the assessment of actual results, 2) to compare these results with the objectives in the "planning" stage 3) the operation according to the consequences of these comparisons. We appreciate that it is difficult to control how the AFECTCT was conducted according to standards.

To establish, to collect and to track of collecting taxes through specialized public institution, the Ministry of Finances, NATA, have used various tools to increase the efficiency of control at all its control structures: i) extended use of risk analysis on which they are targeted to control taxpayers or area whose degree of probability implies a higher involvement in a fraudulent activity (trade, services, activities related to petroleum products, recyclable waste, alcohol and alcoholic beverages, constructions, timber), ii) increased fiscal discipline and encouraging voluntary compliance (practiced complex selection procedures and detailed controls). Risk analysis allows the resources of control institution that could be consumed with a low efficiency or without efficiency honest taxpayers by controlling, to be redirected to fraudsters.

Because there is this special character we consider that are several levels of control. Thus, (a) through late approval by legislative power of the law on taxes (Fiscal Code) some revenue were escaped from taxation. Court of Accounts as supreme audit institution was invested with responsibilities in relation to the state's and public sector's financial resources. This supreme audit institution does not control the legislative work of the Parliament. Generally, the legislative power is controlled by society, the negative signals being found in the views expressed in the press, economic and financial literature, direct criticism, and finally, the punishment can be expressed through the democratic vote of the population. Regarding (b) the control at the executive level (public institutions with responsibilities established by law) is carried out by the NATA and by the Ministry of Finance, aiming at the achievement of specific indicators, such as: additional income received from the budget, set and collected by category of income, the number of control acts sent to authorized institutions to further research, the average additional revenue raised from the state budget per person, average receipts per person during the inspection, the average penalties imposed on the person.

#### **2.4. Deming Cycle: Action-Improve**

It is possible that the fourth sequential process of quality of the Deming model - to act, to improve - can lead to higher efficiency of the previous one, if we consider the legislative and institutional changes. Thus, we consider that characteristics of AFECTCT have been improved by the new regulations occurred in 2003 and further years. Improvement of characteristics was done by: increasing regulatory area, new ways to control, new ways to collect, new ways to track collection, extending its area of the action, and that coverage of prevention activity, definition of specific terms in order to eliminate tendentious interpretation of legal texts. NATA assist taxpayers, on the one hand, by modern services - quality tax assistance, simplifying and modernizing procedures - and , on the other hand, by applying non-discriminatory treatment, thereby ensuring equality of citizens before tax and a healthy business environment.

We appreciate that NATA took measures for improvement its activity and, for this, had some proposed legislation regulations. These were adopted in order to improve the AFECTCT and these are:

- NATA intends to prioritize taxpayers check with significant potential for evasion and tax fraud, selected on the basis of risk analysis and monitoring and intervention in areas of high risk of tax evasion (excisable goods purchase),
- were approved modalities and procedures for achieving fiscal surveillance of production, storage, movement and importation of excise goods,
- the transportation and installation of IT infrastructure conditions were provided in crossing the state border and were issued access codes for commissioners of Financial Guard crossing the border.,
- were conducted spot checks and actions for controlling seasonal activities (inter-institutional nature) and thematic control actions carried out in collaboration with other institutions,
- was regulated unannounced checks / investigations on site to determine which affiliate relationships and transactions with affiliates amount to initiate verification file transfer prices,
- were organizational and legal prerequisites for control individuals with wealth / high income,
- a significantly increased level of computerization of inspection and control activities: was extensive use of electronic control methods have been improved databases and applications were purchased performance,
- a strategy was developed to identify the major risks that may affect compliance taxpayer registration, declaration and payment of work important tool for the prevention and fight against fiscal indiscipline.
- starting January 1, 2012 has been enhanced specialized management by segmenting large and medium taxpayers, in order to reduce the number of large taxpayers from 3,000 in 2011 to 2,000 and increasing the number of taxpayers medium from 21,887 in 2011 to 22,887,

- Financial Guard have been granted powers to establish precautions and prepare procedural documents which may constitute evidence to the prosecutor's request;
- was completed record fiscal registration by the situation of attracting solidar liability for the debtor declared bankrupt or insolvent and the situation in which the taxpayer is inactivity tax;
- has been incriminated smuggling as a crime, when the value of goods for customs purposes more than 20,000 lei, offense punishable by imprisonment for 2-7 years and prohibiting rights;
- were regulated to strengthen control measures in order to combat illicit transport of goods;
- was eliminated facility by which firms in insolvency enjoyed by reverse charge at VAT - the measure is applicable from January 2010;
- were developed procedures and conditions for registration of operators selling wholesale / retail the energy products.

We appreciate that the NATA adopted rules in order to support business environment that focused on support in difficult operators and combat tax avoid include:

- deferred payment of outstanding tax liabilities thanks to effect of economic and financial economic crisis ( 660 applications deferred payment obligations to the state companies, and approved 413 applications for a total burden of 210 million);
- reinstatement within payment facilities that have lost their validity since 30.09.2008, as a result of economic crisis -600 companies have received the approval to defer debt;
- improved resolving reimbursement of VAT management, including can transfer rights to reimbursement / refund the taxpayers (transfers were made in 2009 totaling 491.6 million);
- expanding on-line submission of tax returns;
- specialized management has improved: increased number of taxpayers major categories (from 1273 in 2008-1434 in 2009) and medium category (from 10,071 in 2008 to 19,114 in 2009);
- capitalization of seized goods by the auctioning was regulated under Fiscal Procedure Code.

## CONCLUSIONS

Besides the negative aspects mentioned in the paper, should also be noted that there are situations of regulatory delay important areas affecting the achievement of state revenues. Thus, the activity of money laundering has not been criminalized by law soon after 1990-1991, but in 1999 through the law on preventing and sanctioning money laundering with changes and further amended. Neither the corruption it is not shown a benefic interest income state. Law on Preventing and Investigating Corruption was adopted in 2000 as the starting point with corruption offenses under the Criminal Code, plus, if applicable, punishment increases according to statutory aggravating circumstances: the quality of public servant, serving the interests of criminal organizations, influencing of negotiations, trade, international investment.

We appreciate the performance management implemented by NAFA annual plans allows knowledge (information in the contract concluded with the regional reporting structure) and planning (setting targets in the short term at least, included in the Annual Performance Plan) of the AFECTCT. The check determined at any time the performance of the control state and that of revenue, making it necessary to intervene where deficiencies are found, leading to efficient use of material, financial and human resources.

In its work, as a positive note, NAFA aims important strategic objectives that are included in the governmental plans, in current and future actions:

- efficient and rapid collection and a equally treatment of taxpayers;
- suppression of any phenomenon of fiscal indiscipline, assuring a healthy business environment in which economic agents to charge a fair competition and laws of the market will not be distorted by taxpayers who did not meet their tax obligations;
- to prevent circumvention of taxes by taxpayers assisting and providing optimal terms for declaration and payment that will encourage voluntary compliance and will foster fiscal discipline.

In 2009, in an unfavorable macroeconomic context, NAFA passed several stages of organizational improvement, adaptation necessary to ensure the correspondence between the extension of its powers and management way.

It's necessary the continuous correlation of the regulations with economic activity evolution. Appreciate as being of particular importance the continuous modernization of IT tools in the prevention and control activities: computer systems to record of the taxpayers, providing free tax assistance programs by NAFA, uniform reporting systems, rehabilitation and continuous used forms.

Taking into consideration: a) the need for resources of the general consolidated budget, b) the fact that in this specially public service are involved participants from the central power level, from the executive power level to the local public administration level and too the taxpayers and c) the development of the economic activities can lead to new situations, negative influences can occur at each of the involved levels, which requires further analysis, that other changes in quality's characteristics of this public service.

This paper in a part of a large research work and we will continue to analyze in particularly many others aspects of the Deming model applied in taxes management and will use the results obtained in AFECTCT.

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