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#### TOOLS FOR REGIONAL TAX SYSTEM ASSESSMENT IN STRATEGIC MANAGEMENT

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#### *Abstract*

To determine the line of tax system development (TSD) is one of the important tasks in the system of strategic management of territories. The authors propose to look at the TSD from the perspective of dynamic capabilities concept elaborating the ideas of resource approach to the strategy formation. This approach has identified the TSD as a resource in regional strategic management, characterized by its inherent organizational and managerial processes regarding tax potential of the region and corresponding development pathway. The scale-invariant approach considers the tax as a basic fractal of the strategy accumulating these elements. Assessing tax system of the region, the authors focus on the interdependence of development pathway of positions on assets, organizational and management processes of taxes that form the budget of the region. To determine the degree of such dependence, the authors propose the use of: (a) matrix of evaluation for interdependence of components of TSD basic fractal according to three groups of relations through the method of pair comparisons: I {managerial and organizational processes, positions on assets}; II {position on assets, development pathway of the region}; III {development pathway of the region, management and organizational processes}; (b) the coefficient of basic fractal reciprocity is an indicator of basic fractal territorial strategy sustainability. Assessment of TSD within this approach enables identifying the condition of the region, determining its position in the tax system of the state, the vector of its development, based on the elaborated and applied in practice management measures and organisational arrangements.

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**Keywords:** Tax, regional tax system, management and organizational processes, development pathway, positions on assets, strategic management.



## 1. Introduction

Dynamically changing external environment and intensifying competition determine the need to develop an effective strategy for all economic entities including the region within the market economy. However, the strategy formation is associated with several problems, the main of which is the multiplicity of conceptual approaches, so it explains the lack of a unified conceptual and methodological apparatus. (Katkalo, Pitelis, & Teecey, 2010; Evstigneev & Viktorova, 2017) At the present stage of evolution of the strategic management theory, the resource approach to strategy formation is prevalent, the main thesis of which is that competitive advantages are due to unique resources strategizing of the object, they are the source of economic rents. The territory itself is a resource. The regions' strategy formation is determined by their specificity, increasing uncertainty of business environment and increasing differentiation of regions in all parameters of their development.

The territory acts as a basis for tax potential formation, accumulating tax bases for all taxes paid in the state. The strategic approach to the state's management of the territories' tax potential has a number of positive aspects. First, it is consolidation in the Tax Code of the Russian Federation of powers in the field of tax relations across the spectrum of power vertical in Russia. Second, a single supervisory body, i.e. the Federal Tax Service of Russia. Third, the possibility of providing tax credits and tax investment credits as a condition for stimulating activities important for the regions. Fourth, the Tax Code of the Russian Federation prescribes a mechanism for establishing benefits, which prohibits, inter alia, the provision of them on an individual basis (Pinskaya, 2015). On the other hand, the management of tax potential of the territories needs to address the following priorities:

- strengthening tax component in the budgets of all levels, especially in terms of regional and local taxes;
- encouraging taxpayers to participate in determining the tax systems pathway, especially at the regional and local levels;
- creation of relative financial autonomy for the territories, which, as a result, have the freedom to formulate development strategies and tax resources to implement them (Pinskaya, 2010; Musaeva, Suleimanov, Isaeva, & Pinskaya, 2015; Sharov, Pinskaya, & Bogachev, 2018).

To solve these tasks, it is necessary to assess the status of TSD, to develop a relevant tool for such an assessment, allowing us to draw conclusions about the prospects for TSD improving, which is the subject of this study.

## 2. Problem Statement

The relevance of the conceptual platform and methodological apparatus of the study contributes to the solution of territorial strategic tasks. Today, it is possible to ascertain the lack of research relating to TSD evaluation in context of territorial strategies diagnostics. There is a clear link between achievement of planned results of the strategy and availability of resources. Accumulating tax bases for all taxes established in the state, TSD is considered such a resource. Within the concept of dynamic capabilities in the resource approach to strategic management, the authors are Teece, Pisano and Shuen (Teece & Pisano, 1994; Teece, Pisano, & Shuen, 1997; Zollo & Winter, 2002), this involves the assessment of TSD through the prism of

the resource components as a dynamic capability, i.e. development pathway, positions on assets, organizational and managerial processes. To develop an adequate terminology, each component should be provided with a set of relevant features. This large-scale task is unsolvable. Tax in the terminology of the scale-invariant approach is a basic fractal of the strategy, it accumulates the same components, which enables identifying the strategy of the region and prospects for its implementation through determination of development pathway interdependence, organizational and management processes and positions on assets of the tax involved in the formation of the regional budget. Even more acute is the problem of choice, the development of tools for assessing such interdependence. It is worth noting that the theory of taxation has elaborated methodology and tools for assessing tax policy. However, their use solves other strategic tasks.

### **3. Research Questions**

From the point of view of the system paradigm proposed by Kleiner (2011, 2015) there are two fundamental features taken as the basis for the classification of systems: time and space. Highlighting four types of systems, i.e. design, process, environmental, object, the authors include a firm, and a region, and a state as a whole into the latter. Being object-type systems, they coincide in characteristics significant for managerial impact, which, in turn, makes it possible to use identical analytical and methodological apparatus in researching these systems. The basic characteristics of object-type systems are limitedness in space and unlimitedness in time. Unlimited in time systems are economically passive; limited in space, such systems are characterized as intensive in search for solutions to problems set to the system. Let us use this provision to study TSD, defining the strategy as a phenomenon having a fractal structure (Gorelova, 2013), the main characteristic of which is the similarity at all fractal levels. With regard to the TSD study, this provision makes it possible to use as a unit of analysis the tax as a dynamic capability of the region. The tax becomes an independent object of management, which requires its clear identification. In practice, this means taking into account multi-aspect relationships, vectors, structures, processes, application of clear terminology. Provisions of article 17 of the Tax Code of the Russian Federation allow considering the tax as a system for the reason that it "is considered established only when taxpayers and elements of taxation are determined...". Consideration of the tax through the prism of the dynamic capabilities concept enables evaluation of it through other elements: development pathway (1), organizational and management processes (2), positions on assets (3).

Development pathway is what allows considering the strategy in a certain context. Development pathway is determined by two components: pathway dependence and pathway capabilities. Pathway opportunities are determined by the tax potential of the region. Pathway dependence can be characterized by the maxim "History matters", all subsequent actions (inactions) of the object of strategizing are determined by past development. For tax, the development pathway can be considered as the history of tax in context of changes in all its elements – the object of taxation, tax base, tax period, tax rate, order of calculation, order and timing of payment of tax benefits. Management and organizational processes are ways of doing business, responsible for coordination, integration, training; reconfiguration. These include organizational routines, the current practice of doing business, technology training (Arpentieva, Duvalina, & Gorelova, 2017). From the point of view of management of regional tax system, such processes include

those that are responsible for practical implementation of taxation functions: fiscal, control, regulatory, distributive. Positions on assets are assets that are subject to organizational and management processes in the system. These are the assets that specify the competitive advantage of the region at any given moment of time. In relation to the regional tax system, such assets are the elements of taxation on taxes that form tax revenues of the regional budget. They form a tax potential. In article 131 of the Budget Code of the Russian Federation the concept of "tax base" is equated to the concept of "tax potential". Therefore, for purposes of the study, we will use the concept of "tax potential" as a set of elements of taxation on taxes that form tax revenues of the region, the powers to change which in terms of tax base formation are transferred to the regional level. We must consider the following: the list of taxes that ensure replenishment of the regional budget is specified in the Budget Code of the Russian Federation. Here comes the difficulty: numerous taxes at the federal level, for which regional authorities cannot implement the processes being studied, more than 50% are subject to enter budgets of the regions, and they are regulated by the federal authorities. Based on the above, we can define the regional tax system as a resource in the regional strategic management, characterized by its inherent organizational and managerial processes on tax potential of the region and corresponding development pathway.

#### **4. Purpose of the Study**

Elaboration of tools to assess TSD development pathway as an element of dynamic capabilities of the region in context of territorial strategic management.

#### **5. Research Methods**

The system, dialectical, process-oriented approaches were chosen as a basis for substantiation of theoretical provisions and conclusions in the study; the methods of structural-functional, comparative, morphological, economic analysis, graphic and logical modeling were used.

#### **6. Findings**

Establishing three groups of paired relations can help to determine the nature of relationship between basic fractal components: I {managerial and organizational processes, positions on assets}; II {position on assets, development pathway of the region}; III {development pathway of the region, managerial and organizational processes}. For each group of relations, there is a matrix of interdependence of features of each element of basic fractal. Table 1 presents an assessment tool for the first group of relations. Experts need to assess, using the method of paired comparisons, the level of conditionality of management and organizational processes (tax functions) and positions on assets (taxes, the powers to change which are transferred to the regional level). The evaluation algorithm is as follows: 0 – absence of mutual influence of features) on the implementation of the strategy, 1 – presence of mutual influence of features on the implementation of the strategy. The same procedure is repeated for the remaining relationship pairs (Gorelova, 2013).

**Table 01.** Matrix of determining the interdependence of organizational and managerial processes and positions on assets of the region through the method of paired comparisons

| <b>Taxes</b>      | <b>Fiscal function</b> | <b>Regulatory function</b> | <b>Control function</b> | <b>Stimulating function</b> | <b>Result</b> |
|-------------------|------------------------|----------------------------|-------------------------|-----------------------------|---------------|
| Elements of tax 1 |                        |                            |                         |                             |               |
| Elements of tax 2 |                        |                            |                         |                             |               |
| Elements of tax 3 |                        |                            |                         |                             |               |
| ...               |                        |                            |                         |                             |               |
| Result            |                        |                            |                         |                             |               |

Further, the authors propose to use the coefficient of reciprocity (interdependence) as a tool for assessing TSD in context of solving territorial strategic problems, which can be defined as an indicator reflecting the degree of stability of the features' interconnection in each pair of relations. Based on (Gorelova, 2013), we determine that the coefficient of reciprocity for all pairs of relations features "positions on assets – organizational management processes" for taxes, which are regulated in the region amounted to 0.4. This is how TSD uses the tax potential of the Volgograd region. Regulatory function of taxation is a weak link in the management of tax system at the regional level (Ivanov, Lvova, Pokrovskaja, & Naumenkova, 2018).

On the basis of derived three indicators of reciprocity (by the number of pairs of relations in basic fractal of the strategy), the coefficient of reciprocity of the basic fractal is calculated – the index of stability of the basic fractal of the territorial strategy, calculated as the arithmetic mean of stability indicators for all pairs of relations within the basic fractal of the strategy. As for the tax as a basic fractal of the strategy, this indicator shows the degree of congruence of its components.

Practice in the field of taxation has developed other tools for assessing TSD in context of the region's tax policy (Zemlyanskaya, Chub, & Shindyalova, 2018). In particular, SWOT analysis of TSD has been undeservedly forgotten. In conjunction with the proposed methodology, these assessments will clearly identify the status of regional tax system, more accurately determine the vector of its development, and, consequently, competently formulate a list of measures and actions necessary for the management of TSD and achievement of strategic development goals in the region. Firstly, this assessment will designate the development pathway of the regional tax system, and secondly, will identify problem points in management processes regarding tax potential of the region, as well as formulate competent recommendations on the degree of TSD participation in the strategic management of the region. Characteristics of the regional tax system specified in the table could form the basis of the matrix of assessment of the development pathway of the regional tax system elaborated by the author. With this matrix regional authorities could develop a competent tax policy, necessary measures to redirect the development pathway of the regional tax system in the right direction to ensure the solution of strategic tasks set for the region.

Assessment of TSD in terms of the author's methodology will neutralize the emotional message, unprofessionalism, which is contained in a number of techniques that assess the potential of TSD and territorial strategies. PwC, which provides audit and business advisory services, tax and legal services, annually makes its rating of the regional tax policy effectiveness of the Russian Federation subjects. In

2017, the Volgograd region won 77th place with a score of 89.1 points (RosStat, 2018). The research methodology is of special interest, as it is based, in fact, on the assessment of organizational and management processes. Thus, according to the methodology, the Volgograd region lost points due to the fact that it postponed the transition to calculation of property tax of organizations and property tax of individuals from the cadastral value of objects, that is, practically, for the choice in favor of taxation regulatory function. The authors consider this approach unacceptable. A matrix for assessing the regional tax system and determining the vector of its development pathway should be the next stage in the development of provisions of the authors' methodology; it contains characteristics of the region's tax system condition and identifies the vector of development of tax relations, as well as the system of conditions – levels of tax security in the region from a high level (stability of TSD) to a catastrophic level (instability of TSD"↓").

## 7. Conclusion

Theoretical studies do not always keep up with the practice in a particular sphere of human activity. Research into tax systems is no exception. Lack of definition of the concepts within the research process of these systems complicates the search for solutions to the tasks set before the researchers. Today we require competent and verified by application in the legislation interpretation of the concepts "region", "strategy", "tax system", "regional tax system", "tax policy".

In search of a conceptual platform to substantiate provisions on strategic management of TSD, it is possible to use the system paradigm defining the region as an object- type system, basic characteristics of which are limitedness in space and unlimitedness in time (Kleiner, 2011, 2015). This made it possible to apply the provisions of the theory of strategic management to the region as an object of strategizing in line with the resource approach. In turn, to assess the TSD development pathway, we used the concept of dynamic capabilities, which enabled determining TSD as a resource in regional strategic management, characterized by its inherent organizational and managerial processes regarding tax potential of the region and corresponding development pathway.

Assessing TSD through congruence of the development pathway, positions on assets of organizational and managerial processes as components of dynamic capabilities of this system, the authors identified the latter through theoretically based functions of taxation – the fiscal function, control function, regulatory function, stimulating function. Positions on assets in the concept of dynamic capabilities are assets involving the above organizational and management processes. The study highlights the elements of taxation for each tax, forming the tax potential in the meaning given to it by the Budget code of the Russian Federation – a set of tax bases for taxes forming the budget of the subject of the Federation.

In the study, the following tools are proposed and tested to assess the TSD development pathway as a strategic resource in the management of the region: (a) matrix of evaluation for interdependence of components of TSD basic fractal according to three groups of relations through the method of pair comparisons: I {management and organizational processes, positions on assets}; II {positions on assets, development pathway of the region}; III {development pathway of the region, management and organizational processes}; (b) coefficient of reciprocity of basic fractal – an indicator of stability of basic

fractal of the territorial strategy, calculated as the arithmetic mean of stability indicators for all pairs of relations within the basic fractal strategy.

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