Leading Effective Digitalization Processes

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Introduction

The goals of digitalization are often framed around digitalization *per se*, or vague potential benefits. This can obscure reform needs, reduce incentives for holistic and effective reform and undermine monitoring of success/impact.

A key goal of those leading reform should be to provide clear strategic direction and meaning during reform. Describing specific priority problems to be addressed, and reform goals, can guide reform planning, implementation and assessment – while generating clear motivation and expectations for staff.

Such a problem-focused approach to reform can offer an entry point to making reform planning discussions inclusive, and fostering broad ownership. Instead of reform being framed as a problem of technology, led by IT experts, technology can be framed as part of a broader reform process, with consultation to guide assessment of broader reform requirements and goals.

The Case of Data Sharing

- Data sharing with tax agencies, and across government, is a foundational potential benefits from digitalization, to enable deeper and more sophisticated analytics and enforcement, but often falls short of expectations.
- There are a variety of distinct specific types of, and benefits from, data sharing, and distinct potential barriers to improved outcomes: Technical limitation, legal restrictions, data limitations, administrative/institutional challenges, political interference.
- Yet we often overlook those subtleties: many examples of agencies that have undergone digitalization reform but then find that (a) data sharing is hindered by the legal framework, (b) data sharing is hindered by institutional rivalries or political blockages, or (c) data is not used effectively, owing to a lack of capacity or outside interference.
- Leaders help to drive change by defining strategic goals and challenges:
    - defining what data sharing is the central objective, and for what purposes,
    - identifying, with their team, the key barriers to success,
    - working with teams to devise a holistic strategy that is widely owned.

Electronic Fiscal Devices and Digital Payments

Over the past decade many administrations have introduced electronic fiscal devices to record transaction information to use for VAT compliance – and potentially other compliance as well. More recently governments have expanded interest in encouraging digital merchant payments for broadly the same reasons.

Yet research offers a mixed picture on how effective reforms are in improving outcomes. This seems to reflect:

- Non-adoption of electronic fiscal devices or digital payments
- Taxpayers shift tax avoidance or evasion to other margins, notably expenses, owing to weak enforcement capacity
- Tax administrations fail to make use of available data, either for VAT specifically or, even more likely, for comparisons with other taxes

Reform leader can play a role in interrogating the full range of factors needed for success – technology, adoption, audit and cooperation – and work with teams to build holistic reform strategies, including strategies for monitoring where success is, or is not, happening

Data Migration and Cleaning

When new systems are adopted cleaning and migrating old taxpayer data can be a major challenge – while maintain a clean taxpayer register over time can be equally challenging. Both are, however, essential: most risk management strategies depend critically on data quality.

This raises key strategic questions:

- Is it worth investing in validating and cleaning all existing data, even for small taxpayers, or in some cases might a ‘clean start’ be a more practical and effective deployment of resources?
- What strategies will be put in place for managing the taxpayer register over time, to ensure system effectiveness?

System Design

Across all of these areas a common question for system selection and design: what are the core objectives, and what functionality is actually needed?

Broadly this is likely to depend on (a) strategic priorities, (b) realistic capacity, and (c) the desire to minimize complexity.

Having a clear vision for the overall system, from which to engage with external partners and vendors about system needs, is critically important - but in practice processes have often been externally driven.

In Zambia they have recently turned the development a domestically developed tax IT system precisely to allow for incremental development of functionality related to specific needs and priorities.

It is clear from the case studies that leaders can make a difference in times of change, be this change triggered by the digital transformation, changes in society or need for structural reform after setbacks. In your view and experience, what are the three most important skills needed for successful leadership in times of change?

Key characteristics

Following from the leadership priorities I have described so far, I would highlight three:

Ability to develop and communicate a problem-driven vision: The leader does not need to have all the answers, but needs to be able to learn collaboratively, and then crystallize and collaborate, what the key problem to be addressed is, and what the strategy is for doing so.

An ability to facilitate and listen in understanding core challenges and building reform strategies: Once the problem is clear there is a need to engage teams to understand potential challenges – both problems to be solved and potential drivers of staff resistance. That insight can then inform reform strategies.

Identifying opportunities and risks arising from digitalization reform. Digitalization reform can present unexpected risks: administrative resistance, institutional resistance, political interference. It can also present opportunities, but open the door to parallel reform – e.g. legal reforms for data sharing, breaking institutional silos etc…