Review

Integral management approach: Business ethics and tax accounting as important enterprise success factors

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Modern enterprise ethical behaviour demands conscious and positive attitude towards the planning of enterprise core values, culture, ethics, norms, and climate in a way that stimulates such tax accounting, which will importantly influence enterprise's long-term development and success. This way, the enterprises' policies will be more social oriented with reflection of their ecological and social role in the environment of their functioning. Consequently, the enterprises with a high level of social awareness will not tend to minimize tax liability in their business operations since they will perceive the payment of taxes as a compensation for the provision of greater prosperity and quality of the society - meaning for the higher level of our wellbeing.

Key words: Integral management, business ethics, corporate governance, tax accounting.

INTRODUCTION

Several discussions and researches support the importance of considering the ethical behaviour in enterprise functioning. Some authors even argue the linkage between ethics and world financial crisis in 2008 as a consequence of the neoliberal neglecting of the requisite holistic behaviour concerning innovation (Belak et al., 2010; Mulej et al., 2009a; Duh et al., 2009). The aforementioned crisis can therefore be considered as a reason for innovation of planning and management within the strategy including (corporate) social responsibility and requisite holism of human behaviour (Belak et al., 2010; Mulej et al., 2009b).

Enterprises are increasingly obliged to incorporate ethical orientation in their functioning. Business ethics is also taught at many faculties and universities, although we cannot refer to the existence of universal business ethics (Belak et al., 2010; Kajzer, 2004). Consequently, authors we closely studied (Steinmann, 1991; Homann, 1994; Ulrich, 1997; Kajzer, 2004) due to their focus on problems of business ethics, have different opinions and comprehension of the fundamental instruments and levels (micro, mezzo, macro) at which enterprises should be guided towards contemporary ethical functioning and towards the awareness of it as one of the most important factors of the long-term success of an enterprise. By ethical behavior, only the enterprise can obtain the status of a credible and trustworthy partner, which in a long-run ensures the enterprise’s success. Credibility is also that very fundamental characteristic of an enterprise without which the enterprise cannot introduce and realize its business ethics (Belak, 2002, 2003).

In this contribution, we argue the importance of the impact of the enterprise key stakeholders (that is, owners and top management) in the business ethics planning and implementation of such tax accounting that will foster enterprises long-term development and success. The main argument we make is: when the key stakeholders of an enterprise support and enforce the modern ethics by core values, they will importantly influence the planning of such type of enterprise culture and climate that will support and enable the planning and implementation of such tax accounting that will foster enterprises long-term development and success. Therefore, the modern enterprise ethical behaviour demands conscious and positive attitude towards the planning of enterprise core values, culture, ethics, norms, and climate in a way that stimulates such tax accounting, which will importantly influence enterprise’s long-term development and success. Based on this argument, the concept of the requisite holistic planning of constitutional elements of enterprise ethics

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and tax accounting is proposed and presented here.

PLANNING OF CORE VALUES, CULTURE, CLIMATE, INFORMAL AS WELL AS FORMAL MEASURES OF BUSINESS ETHICS

The idea of an ethical enterprise strongly depends on enterprise’s key stakeholders - owners and top management. It embraces the activities of ethics and credibility initiation in an enterprise’s vision, enterprise’s policy (defined by Belak 2002, 2003 as the mission, purposes, and fundamental goals), strategy, and finally in the processes and structures needed for the realization of this idea (Belak et al., 2010; Kajzer, 1997).

On the basis of MER Model of Integral Management (Belak, 2010), several researches were carried out to examine enterprise core values, culture and ethical climate (considered as constitutional elements of enterprise ethical behaviour by MER Model of Integral Management) in relation to enterprise success.

In their research, Belak et al. (2010) argued that in order to achieve the optimal effectiveness level of business by ethical behaviour, the initiated measures of business ethics should never be implemented as isolated tools, but only in the frame of a full and complete ethics program. The initiated business ethics measures have to be correctly adjusted and coordinated, as well as integrated, in a common business ethics concept, program or plan. An enterprise’s top management can be considered as the “agent” responsible for harmonization of stakeholders’ interests (as well as different cultures); therefore, we argue that formulation and implementation of an ethics program strongly depend on top management. In our opinion, the top management can also be considered as the executor of the enterprise’s culture (values and norms initiated by the enterprise owners), which represents one of the most important elements in the context of an enterprise’s ethical behaviour.

For successful implementation of the ethics program or plan, it is important that it is internalized by all (especially internal) stakeholders within the enterprise (owners, managers on all management levels, experts and all other co-workers). We have shown that credibility and ethical behaviour of an enterprise can be achieved only through requisitely holistic enterprise planning (Belak et al., 2010). It should be implemented from top to bottom, starting with the enterprise owners’ values that influence enterprise’s vision and enterprise’s policy (Thommen, 2003) and to the fundamental (basic) – realization process and in all of its own pore incorporated also in enterprise environment. One of the important authors’ (Belak et al., 2010) argumentation is also that the proposed concept of the requisitely holistic planning of constitutional elements and implementation measures of enterprise ethics has a major impact to the environment of an enterprise functioning and vice versa.

Following the described theoretical background, Duh et al. (2010) carried out a research which examined the association between the degree of family involvement in an enterprise and its influence on the enterprise’s core values, culture and ethical climate as the constitutional elements of enterprise ethical behaviour. The research demonstrated that the majority of the enterprises examined have a positive attitude towards core values related to ethical content. These research cognitions indicate that the key stakeholders of the examined enterprises are aware of the importance of the ethical core values and of the fact that – without such a positive attitude – the ethical behaviour of the enterprise or the credible status of the enterprise at the market is impossible. Therefore, the key stakeholders of the examined enterprises link their positive attitude towards ethical core values with the success of the enterprises. The research revealed no significant differences between family and nonfamily enterprises. Such research cognitions can be supported also by the research carried out by Duh and Belak (2009).

In regard to the type of enterprise culture, the research results (Duh et al., 2010) demonstrated a stronger presence of clan culture characteristics in family than in non-family enterprises. In other words, family enterprises are more personal, in which employees act and feel like part of the family; leadership is considered to be mentoring. The management in the enterprises observed was characterized by teamwork and participation; employees showed a high level of mutual trust and commitment to their enterprises. The studied family enterprises emphasized human development, trust and openness.

Since the research results (Duh et al., 2010) show a stronger presence of hierarchical and market culture characteristics in non-family enterprises (albeit not at statistically significant levels in the case of hierarchical culture), non-family enterprises appeared to be more dynamic in the entrepreneurial sense: people are willing to take higher risks, are more competitive, and are achievement oriented. Although a high degree of ‘care for people’ is present in non-family enterprises, these enterprises showed a strong tendency for innovation and risk taking, market aggression and orientation towards results. The management in these enterprises expressed high demands and achievements. The research findings indicate that people in these enterprises trusted one another, but based on their significant commitment to innovation and goal accomplishment. Therefore, new challenges and prospects for new opportunities in these enterprises are very important. According to their desire for success, their primary goal is the domination at the marketplace. The results also point to a stronger culture in family businesses than in non-family ones. Although the difference is not statistically significant, the results are very similar to those of Vallejo (2008), demonstrating that in family businesses, the level of Core values, culture and ethical climate adoption and acceptance of the values
and norms is higher. Furthermore, the level of compatibility of values and norms within the examined enterprises (for example, between various departments) as well as the level of compatibility of values and norms between enterprises and the environment of their functioning is higher in family businesses than in non-family ones.

The results (Duh et al., 2010) also highlighted that family enterprises are more caring than non-family ones; indeed, the characteristics of the caring climate are more present. As expected, the characteristics of the independence climate are also more present in family than in non-family enterprises. However, the law and code climate characteristics are unexpectedly more evident in family than in non-family enterprises. These research results in regard to ethical climate concur with Victor and Cullen’s (1988) argument that climates in organizations reflect in part, institutionalized societal norms. In other words, according to their research results, the presence of the caring climate implies that societal norms require organizations to develop at least a minimal caring environment. However, the results indicate that a caring climate is much more present in family than in non-family businesses, which suggests that benevolence (utilitarianism) prevails in family businesses. In a benevolent climate, the expectation is that members of the organization are concerned with the well-being of each other both within and outside the organization. The group process characteristics typical of a benevolent climate may establish a positive affective tone among organizational members, which may result in behaviours such as the spreading goodwill and good information about the organization and protecting the organization against threats to its proper functioning, which are indicative of higher commitment (Cullen et al., 2003). The prevailing benevolent climate in family businesses could thus be explained as well with the presence of middle-to-strong organizational culture to a greater extent than in non-family business, where businesses with weak culture were also found (although differences were not statistically significant).

Considering the research cognitions (Duh et al., 2010), we can conclude that some differences in ethical core values, climate and culture exist between family and non-family enterprises. As such, we argue that the functioning of non-family enterprises indicates a lower level of connection among co-workers, top management, and employees as well as less loyalty, anchoring of enterprise values and norms, and capacity for innovative behaviour, which can be considered one of the key success factors in business. Our research (Belak and Mulej, 2009) raises important issues regarding the enterprises in mature stage or turn-over stage, which are neither able to tolerate differences among employees as well as between all stakeholders nor prepared to stimulate or use individuals’ talents in accordance with the enterprises’ visions, missions and policies. The alienation between top management and employees as well as the level of compatibility of values and norms within the examined enterprises (for example, between various departments) as well as between all stakeholders nor prepared to stimulate or use individuals’ talents in accordance with the enterprises’ visions, missions and policies. The alienation between top management and employees can have an important further implication, such as alienation between the enterprise and its environment, which can make the enterprise incapable of efficiency and effectiveness. Thus, these enterprises should implement all measures – informal as well as formal – of business ethics to foster, support, and transform the ethical core values in the higher presence of the clan culture and caring climate characteristics and achieve consistency among mission, vision, enterprise values and culture, which is of essential meaning for enterprise’s long run success.

In their research, Belak and Mulej (2009) revealed some differences in enterprise ethical climate per enterprise life cycle stages. The research indicated movement towards a more and more bureaucratic method of enterprise functioning, as an enterprise moves from the pioneer stage towards the stage of turn-over. This pattern of functioning can also indicate a lower level of connection between co-workers, top-management and employees, as well as less loyalty, anchoring of enterprise values and norms, and capacity for innovative behaviour, which can be considered as one of the key success factors in business. Our research (Belak and Mulej, 2009) raises important issues regarding the enterprises in mature stage or turn-over stage, which are neither able to tolerate differences among employees as well as between all stakeholders nor prepared to stimulate or use the individuals’ talents in accordance with the enterprises’ visions, missions and policies. The alienation between top management and employees can have an important further implication such as alienation between the enterprise and its environment, which can make enterprise incapable of efficiency and effectiveness. Several authors also argue (Diener and Seligman, 2004) that the basis for creative work is trust among employees. Furthermore, by various authors, trust is considered as the constitutional element of enterprise’s ethical behaviour and constitutional basis for enterprise’s ethical climate (Victor and Cullen, 1988; Kaptein, 1998). The aforementioned enterprises should therefore implement all measures, institutional as well as structural, which would foster and support trust in their enterprises. Thus, the climate can provide for innovative behaviour.

The research cognitions about the enterprise climate type (Belak and Mulej, 2009) can also be supported by the research cognitions about the enterprise culture type (Belak, 2009). Those research findings show that, through the life cycle stages, enterprises make a transition from a “clan” culture, where a very personal and familiar way of functioning can be observed, towards a “hierarchy” culture, where formal structures and procedures are in focus. Besides, the dependency of an enterprise’s culture type on its life cycle stage, the research indicated that the culture strength depends on the life cycle stage, as well. In the enterprise life cycle transition (from pioneer enterprise towards the enterprise in turn-over), the culture strength changes from strong
towards weak, as well. The research results showed that pioneer and growing enterprises are more successful in implementing the enterprise's norms, values, vision, mission and strategic goals through the entire management and governance process (from the owners through the top and middle management to the operational level of the enterprise) than are mature enterprises and enterprises in turn-over. These results also reveal that the pioneer and growth enterprise culture is more compatible with the culture of the environment where they function than the culture in mature enterprises and enterprises in turn-over.

In a frame of business culture, Belak and Milfelner (2011) carried out the research on culture as enterprise's key success factor, which showed that enterprises that are more customer (externally) oriented, show better market performance as well as better financial performance. The cognitions also show that more employee (internally) oriented enterprises, show positive impact to their market as well as to their financial performance. These cognitions also partly confirm the theoretical argument that enterprise long term success can be ensured only by practicing the external (effectiveness) as well as internal (efficiency) orientation of enterprise, both together.

The research cognitions (Belak and Milfelner, 2011) on informal and formal institutional measure of business ethics implementation (in relation to enterprise life cycle) revealed only one statistically significant difference regarding informal and formal measures of business ethics implementation, which is manager concern/role-modelling. The role-modelling is present more greatly in the pioneer and growing enterprises than in the mature enterprises and enterprises in turn-over.

Despite this fact, as regards the informal institutional measures of business ethics implementation, the research (Belak and Milfelner, 2011) has shown that manager role-modelling and reward systems based on ethical standards are to some extent more present in enterprises in early (pioneer and growing) life cycle stages than in enterprises in late (mature and turn over) life cycle stages. As regards the role-modelling, the results are understandable since the demonstration of ethical behaviour by the management is above all, important in early phases of organizational culture creation. In that phase, enterprises are usually smaller and the contacts between employees and management are more frequent. In addition, we can assume that there is a general lack of material for stories about ethical or unethical employees. Higher revenues in the growing phase of the life cycle enable management to develop adequate reward systems to stimulate the desired ethical behaviour.

Candid ethical communication on the other hand is most frequent in enterprises in the mature life cycle stage. Such enterprises more often use communication of stories about ethical or unethical employees in order to foster ethical behaviour. The last two measures are very important since they can both be placed under the concept of corporate culture.

Concerning the formal institutional measures of business ethics implementation, a mission statement is mostly present in growing and mature enterprises and only quite rarely in pioneer enterprises. This finding is to some extent surprising, since one would expect that smaller enterprises in pioneer life cycle would also have a clear vision and mission, which would enable them to clarify and develop proper objectives. Concerning compliance manual development, research results also showed that the vast majority of companies in Slovenia, especially those in late life cycle stages, are not well acquainted with ethical standards. This is above all, true for European ethical standards.

Ethical behaviour, ethical climate and informal and formal measures are important predecessors of enterprise culture and various lessons for managers can be learned from above described studies how to implement the needed cultural elements. However, less is known about how cultural elements impact enterprise performance in developing industries and if enterprises with higher presence of different cultural elements are in fact more successful. The present research is based on the premise that by ensuring their success, the enterprises have to be oriented towards the external environment of its functioning as well as towards the internal environment of its functioning in order to be able to disclose and fulfil the real needs of the environment (market) and to realize and fulfil the needs of the employees (as well as other internal stakeholders) in order to motivate and stimulate their innovative behaviour as much as possible. Only this way will the long term success of the enterprise be assured.

Considering MER Model of integral management planning, organizing, directing, and controlling are defined as the basic functions of governance and management process (Belak, 2002, 2010). They are of the great importance in the whole process of the realization of the idea of an ethical enterprise. In this contribution, we limit our discussion to the function of planning of the holistic enterprise ethics. Firstly, the idea of an ethical and credible enterprise should be manifested by the enterprise owners in its policy that is based on the vision of an ethical enterprise. Its mission, purposes and fundamental goals should be defined in accordance with its vision to be an ethical and credible enterprise. According to Bleicher (1994), the vision of such an enterprise must be supported by the enterprise's responsible policy and philosophy. We should emphasize that the enterprise's policy strongly depend on the enterprise owners' (and top managers') values and norms, which are expressed by enterprise culture (Rüegg-Stüm, 2002; Belak and Duh, 2004; Snoj et al., 2007). Stated policy strongly influence manager's decisions on whether to act ethically or unethically and affects the enterprise's ethical climate
At the strategic management level, the process of planning the strategies and the strategic allocation of resources take place for realizing the vision, mission and goals of becoming an ethical enterprise. The enterprise top management holds the main responsibility for making decisions on strategies and strategic allocation of resources (in Figure 1). It is top management’s responsibility to find the most appropriate strategy for realization of the vision, mission, and goals to be an ethical enterprise.

This leads us to the question of corporate governance and different value perspectives (shareholder and stakeholder value perspectives). We could argue that both perspectives are at some point correct. The enterprise’s long-term success depends on the successful harmonization of the stakeholders’ interests (Orlikof and Totten, 2004). If the enterprise’s vision and enterprise’s policy, influenced and created by the owners, are not in the interest of all stakeholders, the latter will simply not participate in the future business activities. Therefore, it is in the owners’ main interest to consider the interests of all stakeholders, which would consequently result in the enterprise’s ethical behaviour.

For successful implementation of strategies, it is of great importance to develop an ethics program by defining the activities and the responsible performers as well as needed resources of these activities for successful implementation of such program. The purpose of such ethics program is to make strategies action-oriented. The responsibility of implementation of such ethics program lies also at the operational management level (Figure 1).

In order to successfully realize the planning process at all hierarchical levels, adequate planning instruments should be developed among which planning methods are of great importance (Belak 2002, 2003). Whether these should be completely new methods or some of the existing methods could be adopted (Bleicher, 2004; David, 2008; Hinterhuber, 2004; Kajzer et al., 2008; Wheelen and Hunger, 2009a, b) should be theoretically as well as empirically studied in the future. The institutional dimension within the proposed concept of holistic planning model describe the responsibilities of different stakeholders within the enterprise (that is, owners and managers) regarding decision making in the planning process as well as experts and other co-workers that are in accordance with enterprise owners and managers responsible for enterprise ethical implementation and behaviour.

We can therefore argue, that in a sense of enterprise long-term development and success, the enterprises’ key stakeholders have to attain and maintain such enterprise’s core values, culture and climate, which will support tax accounting that will enable relocation of enterprise’s profits in favour of enterprise’s long-term development and success. Considering this debate, the aim for enterprise’s long-term development and success can today be treated as ethical behaviour only since this way, an enterprise is trying to fulfil the interest of all stakeholders. For such ethical behaviour, the tax accounting and relocation of enterprise’s profits plays the important role and as such, it importantly influences enterprise’s ethical behaviour, its long-term development and success. For successful tax accounting policy and relocation of enterprise’s profits, the enterprise key stakeholders should follow the hierarchical nature of enterprise governance and management process as described in MER Model of integral management (Figures 1 and 2). The appropriate and correct tax accounting policy and relocation of enterprise’s profits will foster and support the emergence and implementation of enterprise’s core values, culture, climate, informal as well as formal measures of business ethics implementation and therefore enterprise’s ethical behaviour, which will result in attaining enterprise’s status of credible partner in the environment of enterprise’s functioning. Such ethical behaviour with the appropriate and correct tax accounting policy and relocation of enterprise’s profits can result also in enterprise’s care for human capital elements of the entrepreneurs such as environment, education, age, work history, role models, and support networks, which have been identified to contribute to the business venture success (Sobhani et al., 2011; Witbooi et al., 2011).

THE IMPORTANCE OF TAX ACCOUNTING AT THE POLITICAL LEVEL OF THE GOVERNANCE AND MANAGEMENT PROCESS

Taxes are an important factor in setting the enterprise’s goals. Bogen (1994: 30) claims that taxes can be incorporated into the comprehensive system of corporate goals in two ways. The first option allows taxes to be included in the process of defining the goals, which means that the (economic) goals before tax inclusion are transformed into the (tax-economic) goals after taxes (for example, the objective of maximizing the profit is changed into the maximization of net profit). The second possibility is that the enterprise sets out from the very beginning the independent tax goals (for example, the minimization of tax burden). Tax goals at the political level arise from the vision, mission and fundamental goals of the enterprise. That is, the enterprise policy determines the fundamental tax goals, from which further strategic tax goals and operational tax goals are formed. According to Bleicher (1994), four dimensions must be taken into consideration in order to define the fundamental goals. These are the orientation of goals to interested participants, the development orientation, the economic orientation and the social orientation of goals.

In terms of the orientation of the goals towards the related stakeholders, it should be taken into account that the owners and the top management make the necessary decisions at the policy level if this is within their
competence. The organization and the competences of top management are bound by the enterprise’s legal form and the activity which, in turn, restricts the space for defining the fundamental goals. The owners and the top management invest their assets in the enterprise in order to increase or at least maintain their level, and their interests are realized through their participation in the management of the enterprise. The experts and the employees sustain their existence and development by working for the enterprise. The external stakeholders of the enterprise neither create the policy of the enterprise directly nor decide about it, but they have an indirect influence on it or they adjust to it (Belak, 1999, 2000). Therefore, different tax interests of internal stakeholders (that is, the owners, the management and the employees) and external stakeholders (that is, market participants, financial and business participants, the state, the society and the wider public) are met within the enterprise in order to influence the formulation of tax goals.

Tax goals of the internal stakeholders/participants in the enterprise are limited by the legal form of the company, its location of business operations and other legal and economic restrictions. The two most important tax goals of internal stakeholders/participants are the increase in the net value of their assets and profits. Taxes reduce their values since taxes are by their nature cash expenditures which are subject to the payment of internal participants. Furthermore, they do not provide a direct compensation for the services offered by the state. That is, there is no correlation between government expenditure (which is covered by taxes) and the benefits held by the internal stakeholders/participants and the enterprise. This, in turn, implies that the internal participants primarily tend to reduce tax liability (tax base). However, the tax interests of internal participants are slightly different. The taxable interest of the owners is that the enterprise increases its net assets and its market value. Thus, the maximization of the value of net assets of an enterprise can be achieved by the minimization of the tax burden (they follow the appropriate allocation of profits in the form of dividends or the share in the profits) (Hauptman, 2003 a, b, 2004a, b).

The management, which is supposed to protect the enterprise’s interests, often puts its own interests to the fore. They strive to make sufficient retained earnings for business development, to increase net assets and to maximize the payments of rewards for good performance and the resources for personal development (salaries, profit sharing, favourable purchase of shares, additional pension scheme, etc.). When its own interests prevail over the interests of the enterprise, the management does not strive for the optimal tax burden of the business but rather for its own maximum benefits (regardless of
One could argue that good corporate governance would result in strong alignment of interests of shareholders and managers and therefore managers would behave in the interest of the shareholders minimizing the corporate tax burden through the use of aggressive tax planning strategies. Sartori (2009) asserts that this argument is weak for at least three reasons: 1) recent studies regarding corporate social responsibility have shown as public shareholders view corporate tax obligations as a corporate social responsibility and therefore they do not want managers to engage in aggressive tax planning; 2) good corporate governance results in a high level of transparency and such transparency would therefore indirectly prevent managers from engaging in strategic tax behaviours; 3) since shareholders diversify the risk holding diversified portfolios based on the assumption that corporations are riskneutral therefore enterprise should always behave as if they are risk neutral and an alignment of interests, given by good corporate governance principles, would induce managers to behave as risk-neutral persons managing the corporation’s business.

As regards the time orientation of the goals, taxes affect the formulation of short-term goals in terms of a legal, fast and situation-based exploitation of tax opportunities. Therefore, the enterprise sets the short-term tax goals in order to achieve certain tax savings or to achieve their deferral. Taxes may have a significant impact on long-term business decisions, such as the choice of legal form or the restructuring of the business, the choice of the business operations location as well as the
development, investment and financial decisions.

From the substantive aspect, the goals can be divided into material and formal goals. Material goals define the quantitative and qualitative aspects of the enterprise’s operations whereas formal goals define the economic effectiveness and efficiency of operations. In most profit-oriented enterprises, formal goals are at the forefront, while in non-profit enterprises the primary role goes to realistic goals and formal goals are in a subordinate position (Melavc, 1995, 2000). Taxes reduce the net asset value and affect the profitability of the entire company as well as the profitability of a particular financial goal. They represent a negative component of (fundamental) financial goals as they decrease the goals’ value. Therefore, the taxes have a double role when setting the fundamental goals: they are 1) the goal and 2) the criterion.

According to Urlich (1990), the fundamental financial goals at the policy level are the goals related to the solvency, the profitability and the economy of the enterprise. Kappler (2001) additionally defines two fundamental tax goals, that is, the maximization of the final value of the net asset and the maximization of profit. The enterprise can achieve both fundamental tax goals by minimizing the tax burden. Kappler (2001, 1998) states that the goal of minimizing the tax burden at the company policy level is complementary to the maximization of the final value of the net asset and profits; therefore, at this level it cannot be achieved in absolute terms but only in relative terms.

The social orientation of the goals is reflected in their ecological and social role. With its own definition of social (tax) goals, an enterprise defines its attitude to the state, to the government tax policies and other external actors. Furthermore, it defines the tax morality of internal participants and the tax morality of the enterprise in the relation to the external environment. The enterprise’s social tax orientation largely depends on the tax interests of its internal participants. By defining the attitude of internal participants towards a variety of internal (tax) factors, the enterprise defines the current (tax) value system of the internal participants, since these values express the participants’ attitude to taxes, tax policy, tax legislation and tax authorities, that is, the tax system of each country. In short, the individual’s tax values reflect the tax mentality and morality of each individual.

Therefore, the enterprises which are highly socially aware do not see and accept taxes as coercive, but as a means of ensuring the implementation of fiscal policies of the state in accordance with the accepted tax principles. A country may encourage enterprises towards social orientation by tax incentives, tax recognition of expenses for sponsorships, donations and the recognition of investment incentives. Some tax systems have already introduced new forms of taxes, for example, the ecological tax, which encourages enterprise ecological orientation, or have adopted a regional tax policy, which affects the choice of the enterprises’ locations. An enterprise with a high level of social awareness will not tend to minimize tax liability in its business operations since it will perceive the payment of taxes as a compensation for the provision of greater prosperity and quality of the society. The enterprises that tend to minimize tax liabilities take taxes as a constraint, a cash expenditure, the payment of which does not bring the expected benefits to them.

THE IMPORTANCE OF TAX ACCOUNTING AT THE STRATEGIC LEVEL OF THE GOVERNANCE AND MANAGEMENT PROCESS

Strategic tax goals are set in order to assure the achievement of fundamental (tax) goals and to define the ways of and the resources for their attainment. Since taxes are, by their nature, expenditures, they represent a negative component of the goals because they decrease their value. Therefore, by defining corporate strategic tax goals under the tax and tax accounting policy, the enterprise strives to minimize the value of taxes per a given goal. Belak (1999) and Kralj (1993) categorise tax policy as a special and partial enterprise’s policy, which places it into the management process. In this context, tax policy (Kokotec-Novak, 2001) can be understood as the enterprise’s decisions regarding the achievement of tax goals in order to minimize the quantitative components of the tax burden by taking into account the economic and legal constraints. Within tax policy, tax accounting policy is an instrument for the realization of business objectives through a planned utilization of various forms of evaluation and other forms of measurement of economic categories in preparing a tax balance sheet (Kokotec-Novak, 2001). Strategic tax goals, therefore, include both the tax policy goals and the tax accounting policy goals. Kokotec-Novak (2001) defines tax accounting goals established within tax accounting as:

i. the minimization of tax expenses during the unchanged business process performance;
ii. the maximization of deferral (odložitev) of profits if the tax parameters do not change in the long run (for example, tax rates);
iii. the principle of the normal line if the tax parameters change in the long run;
iv. an active development of tax balance sheet and the influence on the dissemination in time and the amount of tax expenditures (Kappler 2001).

An enterprise can achieve these tax accounting goals by defining its tax accounting principles, tax measurement and recognition as well as other principles that allow the enterprise to attain its fundamental goals.

At the core of the strategic management planning, we find the strategic potentials and the enterprise’s strategy
(Belak, 2000: 33). The foundation and development planning at strategic management level comprise three steps (Belak, 1999): 1) the activities of searching for strategic options and strategies, 2) economic valuation and the selection of strategies, and 3) the programming of the realization of a planned establishment and development of an enterprise. Taxes affect all stages of strategy planning.

We believe that it is more appropriate to adopt a tax planning of strategy approach (as the pre-tax analysis of strategy implementation) than the approach in which the enterprise includes taxes in its strategy (that is, the taxes being the criterion for the choice of strategy). This means that, based on a certain state, the enterprise formulates a tax arrangement (saving tax model) which would allow a legal reduction of tax payment, deferral of payment or, at least, the optimization of tax payments. Therefore, tax planning of strategies can be understood as tax planning of the enterprise’s tax policy implementation in the form of a tax arrangement. When searching for and selecting the strategies, the enterprise thus formulates the models of tax saving, which are not universal, but are adapted to an individual enterprise and situation. Since a good knowledge of different tax systems (that is, different tax rates, tax deductions, tax bases), tax and other legislation is the prerequisite for strategic planning, taxes complicate the selection of strategies. The strategies are assessed from the economic viewpoint by the application of the expert selection criteria. Since the strategy’s profitability represents one of its most important economic characteristics, it can be seen also as the tax strategy. As expenses, taxes reduce the profitability of the strategy. If the enterprise adopts the economic tax valuation of strategies, it should first make an assessment whether it is reasonable to consider the tax as the elimination criterion. In case the enterprise decides to take the tax into consideration, it should develop a tax arrangement for each strategy, enabling it to legally optimize the taxes. When planning the establishment and the development of the enterprise as well as assessing the strategies, it is necessary to consider tax uncertainty and tax risk (Hauptman, 2011). According to Zimmermann (1997), the latter is the consequence of the changes in tax legislation in the planned period, of the effects of the existing tax legislation and the effects of the unchanged tax legislation. Rose (1992) sees the causes of tax risks in the complexity of taxation, the indefiniteness of tax norms as well as the lack of constancy in tax norms and their interpretations. In addition, a differentiation can be made between the limited and the unlimited uncertainty of tax legislation as well as the uncertainty that stems from either tax information or non-tax information.

The realization of the chosen strategies is the basis for a direct integration of strategic management with the operational management at the tactical and operational levels. The planned strategy is implemented at a lower level in the operational process.

THE IMPORTANCE OF TAX ACCOUNTING AT THE OPERATIONAL LEVEL OF THE GOVERNANCE AND MANAGEMENT PROCESS

Operational goals enable the realization of strategic tax goals and must be defined within tax tactics and tax accounting tactics. Tax tactics are a legal, situation-based exploitation of opportunities in order to save on taxes or to defer their payment. Tax accounting tactics, as the most significant part of tax tactics, represent the modification of a tax base by applying a different valuation approach. Both tax tactics and tax accounting tactics are implemented within tax accounting.

At the operational level, tax goals can be divided into two groups, that is, 1) the goals of tax and tax accounting tactics, both of which stem from the tax policy goals and the tax accounting policy, and 2) the tax goals originating from other company policies (for example, financial, investment, human resource, manufacturing and sales policy). According to Kokotec-Novak (2001), operational tax costs are defined as:

i. the goals of tax tactics, which comprise the setting of the time of balancing, the definition of the adequate structure of assets and liabilities for tax purposes at the year end, the implementation of various potential write-offs for tax purposes, the creation of reserves and provisions, using tax relief, reporting policy;
ii. other tax goals, which include tax goals related to the company’s financial policy (optimal tax financing, structure of capital, reserves, liabilities and assets, methods of financing investments, maximization of grants), investment policy (taxes as a selection criterion of investment alternatives, recognitions of investment reserves, use of tax incentives for investment in the company’s assets), human resources policy (new recruits and trainees and people with disabilities and the associated benefit of tax relief), purchasing, manufacturing and sales policy (the choice of suppliers, the optimal amount of purchases, sales markets)

Tax planning at the operational level includes the operation process planning and the required capacities for its implementation and involves a) tax planning of the results and business behaviour, b) tax aspects of planning the required engagement of business, and c) tax planning of the company’s behaviour with the expected results.

Tax planning of the results of business operations and business behaviour carried out within tax accounting comprises tax planning of income, expenses and of profit or loss as well as tax planning of financial results and tax planning of assets and liabilities. Such tax planning may be carried out only if business planning is carried out as well, due to their interdependence since tax planning presupposes the inclusion of tax legislation and tax barriers into business planning. The company obtains the
necessary information for tax planning from its environment as well as from its own internal sources. Therefore, tax planning comprises the acquisition and planning of both tax and non-tax information. Tax aspects of planning the necessary engagement of a company include the planning of the company’s partial policies (that is, marketing, production and purchasing, human resources, investments and financing).

Tax planning of the company’s operations with the expected outcomes takes into consideration tax planning of profit-sharing and the impact of the allocation of net profit to capital. The prevailing practice in the majority of tax systems is that the profit is taxed before distribution. For that reason, tax accounting can affect tax liability only before preparing a tax return. As regards the distribution of profit, the company must plan its dividend policy, which means planning the decisions on the retention of profit or the payment of profit as dividends. The decisions concerning the redistribution of profit are adopted by the top management in line with the company’s policy and strategic management.

CONCLUSIONS

Our contribution clearly shows that enterprises’ key stakeholders’ core values, culture and ethics, strongly impacts the enterprises’ core values, culture and ethics and also, enterprises’ ethical behaviour. Without enterprises’ ethical behaviour, their long term existence and success is endangered since such behaviour has to consider the fulfilment of all enterprise stakeholders’ interests - meaning internal (that is, the owners, the management and the employees) as well as external stakeholders (that is, market participants, financial and business participants, the state, the society and the wider public). Following such (responsible) philosophy, the enterprises’ policies will be more social oriented with reflection of their ecological and social role in the environment of their functioning. Previous research has not paid sufficient attention to the economic factor tax, especially since good corporate governance dynamics have a positive impact on tax compliance, discouraging enterprises from engaging in aggressive tax planning strategies. Consequently, the enterprises with a high level of social awareness will not always tend to minimize tax liability in their business operations since they will perceive the payment of taxes as a compensation for the provision of greater prosperity and quality of the society - this way, world’s enterprises will contribute to a higher level of our wellbeing. Therefore, our proposition for further research is in a main focus to understand the impact and influences to the enterprises key stakeholders’ values, culture and ethics to achieve real stimulation for such tax accounting planning, which would, through set enterprises’ fundamental goals and tax policies, actually put the world’s wellbeing to a higher level.

REFERENCES


