

TAX ADMINISTRATION REFORM AND THE SOCIETY IN INDONESIA: SOME LESSONS LEARNT

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ABSTRACT

This study analyses the features of the IMF-led tax administration reform project in Indonesia in 2000s that may contribute to its success. For this purpose, in-depth interviews were conducted with participants who held various roles in that project. This study reveals that the project reform succeeded because the people in that project already had intention to change. Further, this research highlights the importance of internal factors such as leadership, reward, and punishment to foster militancy and working environment identified in that project. This study therefore sheds light on how the project was managed and hence provides lessons for the current tax administration.

Keyword: taxation, administration, leadership, change, reform

I BACKGROUND

Indonesia started preparing the first major tax reform in 1981. In that year, the World Bank noted that Indonesia's GDP was USD 92.47 billion (2013 GDP was USD 868.35 billion) with industry holding the largest share (41.21%) followed by services (35.43%) and agriculture (23.36%).¹ At that time, Indonesia used a tax system inherited from the Dutch administration. Typical for a developing country, the system was considered inefficient as a result of a limited number of taxpayers, lack of modern administration, and – in Indonesia's case – a high level of avoidance.² The system was also outdated, complicated, and its collection procedure was poor.³ Hence, compliance and tax-return lodgement rate were low, and there was an increasing amount of uncollected taxes.⁴ As a result, proceeds outside oil taxation were limited.⁵ Overall, the tax system was seen to be inefficient, unproductive, ineffective in income redistribution, and prone to manipulation.⁶

This paper starts with a description of the historical context of tax reforms in Indonesia. It is then followed by an identification of a potential problem that lies at the administration side of the reform. Afterwards, a discussion of findings that may alleviate the problems is presented. This paper concludes with an identification of potential research to be pursued further.

A. First Major Reform

The first major reform which began with the introduction of income tax law, in force as of 1 January 1984, repealed income-based tax legislation inherited from the Dutch era. The objective of this reform was to increase non-oil revenue, create more effective income distribution, increase efficiency, and reduce transaction costs by limiting the opportunity for corruption.⁷ Its main feature was simplification.⁸ Various tax incentives were removed, the tax base was broadened and tax rates were reduced to a maximum 35% from an initially of 50% for individuals and 45% for firms. A single tax identification number was introduced. Additionally, the low-income threshold was increased, causing most Indonesians to not be subject to income taxation. Also, companies were required to withhold taxes on salary and wages and taxes on investment income. Taxpayers earning only employment income were not required to lodge tax returns.

In addition, Value Added Tax (VAT) legislation was enacted replacing sales tax and turnover tax. The VAT used the credit method and generally followed the destination principle applied in Europe. For simplicity reasons, a single rate of 10% was used with no exemptions. Further simplification was obtained by exempting small

¹ World Bank, *World Development Indicators* <<http://api.worldbank.org/v2/en/country/idn?downloadformat=excel>>.

² Hidayat Amir, John Asafu-Adjaye and Tien Ducpham, 'The Impact of the Indonesian Income Tax Reform: a CGE Analysis' (2013) 31(0) *Economic Modelling* 492.

³ Malcolm Gillis, 'Micro and Macroeconomics of Tax Reform: Indonesia' (1985) 19(3) *Journal of Development Economics* 221.

⁴ Gitte Heij, *Tax Administration and Compliance in Indonesia*, Policy paper / Asia Research Centre on Social, Political, and Economic Change, Murdoch University, (Asia Research Centre on Social, Political, and Economic Change, Murdoch University, 1993).

⁵ Gillis, above n 3.

⁶ Ibid.

⁷ Ibid.

⁸ Arnold C Harberger, 'Lessons of Tax Reform from the Experiences of Uruguay, Indonesia, and Chile' in Malcolm Gillis (ed), *Tax Reform in Developing Countries* (Duke University Press, 1989) 27.

businesses from VAT. Lastly, land and building tax and stamp duty laws were introduced later. These taxes are the only taxes administered by the Directorate General of Taxes (DGT) until today and have been the major contributors of national revenue.

The DGT's organisation in this era generally followed the type of tax approach. Income tax and VAT were administered by Kantor Pelayanan Pajak (KPP/District Tax Office) while Land and Building Tax was managed by Kantor Pelayanan Pajak Bumi dan Bangunan (KP PBB/Land and Building Tax Office). Additionally, there was Kantor Pemeriksaan dan Penyidikan Pajak (Karikpa/Tax Auditor Office) that dealt with tax auditing.

This reform was assisted by foreign advisors under the Harvard Institute for International Development who appeared to dominate the reform process.⁹ They were predominantly Americans or had an American background and this influenced their approach.¹⁰ The income tax law, for instance, featured the western view of a good tax system, such as simplicity and low tax rates, as found in the US and Britain in that era.

Although this reform was viewed as a success in increasing non-oil tax revenue,¹¹ which mainly contributed by growth in non-oil tax base as well as an extensive use of withholding mechanism,¹² it was considered unable to improve its overall administration.¹³ Nonetheless, tax revenue to GDP ratio increased from 5% in 1980-1981 to 9.9% in 1995-1996.¹⁴ The number of taxpayers also rose sharply between 1983 and 1986. Strong growth too was evidenced in businesses registered for VAT in 1985-1990.¹⁵ By 2015, total taxpayers reached more than 30 million.¹⁶ Further, the reform was also seen to be a success in introducing VAT without affecting economic stability.¹⁷

B. Second Major Reform

Following the economic crises in the 1990s, the Indonesian government overhauled its tax administration as part of the IMF's restructuring program.¹⁸ Indonesia was required to establish a large taxpayer office (LTO) in June 2002 to strengthen tax administration and improve revenue.¹⁹ This new office featured a function-based organisation, service-oriented system, accelerated-refund process, and an effective enforcement.²⁰ The move towards LTO is not surprising as the IMF has been playing a major role in the worldwide large taxpayer unit (LTU) adoption.²¹ The decision to use a function-based organisation also follows the IMF's view that an LTU be mandated to administer all major national taxes, which was a departure from what was practised in Indonesia in that era.²² This organisational type is also believed to be able to improve taxpayer services.²³

The main reason for using an LTU generally is to secure revenue²⁴ by ensuring taxpayer compliance through on-time filing and tax payment.²⁵ It is believed that such a unit increases compliance and improves administration effectiveness.²⁶ Nevertheless, LTUs may fail if the general tax reform agenda is not based on a gradual process,

⁹ Gitte Heij, 'The 1981-83 Indonesian Income Tax Reform Process: Who Pulled The Strings?' (2001) 37(2) *Bulletin of Indonesian Economic Studies* 233.

¹⁰ Ibid.

¹¹ Fuad Bawazier, 'Reformasi Pajak di Indonesia' (2011) 8(1) *Jurnal Legislasi Indonesia* 1.

¹² Mohamad Ikhsan, Ledi Trialdi and Syarif Syahril, 'Indonesia's New Tax Reform: Potential and Direction' (2005) 16(6) *Journal of Asian Economics* 1029.

¹³ Malcolm Gillis, 'Comprehensive Tax Reform: The Indonesian Experience, 1981-1988' in Malcolm Gillis (ed), *Tax Reform in Developing Countries* (Duke University Press, 1989) 79.

¹⁴ Amir, Asafu-Adjaye and Ducpham, above n 2.

¹⁵ Wing Thye Woo, Bruce Glassburner and Anwar Nasution, *Macroeconomic Policies, Crises, and Long-Term Growth in Indonesia, 1965-90*, World Bank Comparative Macroeconomic Studies (World Bank, 1994).

¹⁶ *Refleksi Tingkat Kepatuhan Wajib Pajak* (23 March 2016) <<http://www.pajak.go.id/content/article/refleksi-tingkat-kepatuhan-wajib-pajak>>.

¹⁷ Gillis, above n 13.

¹⁸ GoI, *Letter of Intent of the Government of Indonesia and Memorandum of Economic and Financial Policies* <<http://www.imf.org/external/np/loi/2000/idn/01/>>.

¹⁹ GoI, *Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding* <<http://www.imf.org/external/np/loi/2002/idn/01/index.htm>>.

²⁰ John Brondolo et al, 'Tax Administration Reform and Fiscal Adjustment: the Case of Indonesia (2001-07)' (2008) *IMF Working Paper No WP/08/129*.

²¹ Roy W Bahl and Richard M Bird, 'Tax Policy in Developing Countries: Looking Back—and Forward' (2008) LXI(2) *National Tax Journal* 279.

²² Katherine Baer, Olivier P Benon and Juan Toro R, *Improving Large Taxpayers' Compliance: A Review of Country Experience* (IMF, 2002).

²³ William McCarten, 'The Role of Organizational Design in the Revenue Strategies of Developing Countries: Benchmarking with VAT Performance' in James Alm, Jorge Martinez-Vazquez and Mark Rider (eds), *The Challenges of Tax Reform in a Global Economy* (New York : Springer, 2006) 413.

²⁴ Baer, Benon and R, above n 22.

²⁵ Charles L Vehorn, 'Fiscal Adjustment in Developing Countries Through Tax Administration Reform' (2011) 45(1) *The Journal of Developing Areas* 323.

²⁶ Baer, Benon and R, above n 22.

strong political will, and an emphasis on simplicity.²⁷ Once an LTU is functioning well, its design can then be applied nationally. It therefore can act as a catalyst for a wider reform process.²⁸

In Indonesia, the pilot project for tax administration modernisation took an incremental approach. It was initiated by, as has been mentioned, the establishment of the LTO in 2002 and, subsequently, its design was tested in Central Jakarta for medium taxpayers (Medium Taxpayer Office/MTO) and small taxpayers (Small Taxpayer Office/STO) in 2004.²⁹ The results of these pilot offices were promising. They obtained a high taxpayer satisfaction score in the AC Nielsen's eQ survey.³⁰ Each pilot office – LTO, MTO, and STO – respectively obtained a score of 81, 78, and 74, which was higher compared to the overall score in Australia (66), Hong Kong (75), and Singapore (76). This survey revealed that the strengths of these offices were in their integrity, services, simplicity-efficiency, and informational resources. They also demonstrated stronger revenue performance. The LTO for instance, showed an increase in revenue collection from 1.54% of GDP in 2002 to 1.80% of GDP in 2003, while revenue of non-modernised offices for the same period stayed at 7.2% of GDP. Most revenue (1.52% of GDP in 2002 and 1.76% of GDP in 2003 respectively) was contributed to by voluntary payments. LTO's revenue continued to grow to 2.34% of GDP in 2005. By contrast, the non-modernised office showed a decrease from 7.2% of GDP in 2003 to 4.1% of GDP in 2005. It was thus concluded that the increase of compliance that led to the revenue rise at these offices was mostly associated with the administration reform.³¹

The system applied in the pilot offices was adopted nationally under the tax administration modernisation programme starting in 2007. The focus was on improving voluntary compliance, taxpayer trust, and tax officials' productivity through improved service quality and the taxpayer monitoring system.³² In this context, several changes were introduced, including:

1. Organisational changes

The focus of the reform was to increase taxpayer service and monitoring using a customer-oriented approach. To achieve this, several changes were introduced, including:

The unification of three types of tax offices – KPP, KP PBB, and Karikpa – into a single office following the model at the pilot offices. It was expected that taxpayer service increased as taxpayers would only need to visit one – rather than three – offices. This reorganisation was completed nationally in 2008.

The introduction of an account representative role. The main duties of an account representative are providing consultation to taxpayers, informing the latest tax rules to taxpayers, and conducting taxpayer compliance monitoring. It is designed so that the tax office 'knows their taxpayers'.

2. Business process changes

Business process changes are aimed at implementing an automation system – particularly for clerical jobs – thereby increasing efficiency and effectiveness. In this process, standard operating procedures started to be written in 2007. Another change was the introduction of an electronic system. This included the e-filing and e-registration system for taxpayers and Sistem Informasi DJP/DGT Information System for tax administration purposes. Also, a limited electronic tax payment was later introduced in 2013.

3. Human resource management changes

In the human resources context, the administration reform introduced employee competence assessment, a customer-driven approach, and continuous improvement. A code of conduct was also made compulsory.

C. Organisational Performance

The second major reform has brought a number of recognitions. These include for example:³³

1. Being awarded as the most innovative public service provider by MarkPlus Insight – an Indonesian marketing consulting firm – in 2009.

²⁷ Vehorn, above n 25.

²⁸ McCarten, above n 23.

²⁹ Ministry of Finance Regulation No 65/KMK.01/2002.

³⁰ Brondolo et al, above n 20.

³¹ Ibid.

³² Liberti Pandiangan and Rayendra L Toruan, *Modernisasi & Refomasi Pelayanan Perpajakan Berdasarkan UU Terbaru* (Elex Media Komputindo, 2008).

³³ DGT, 'Harmonization in Building the Nation (2012 Annual Report)' (Directorate General of Taxes, 2012) <<http://www.pajak.go.id/sites/default/files/AR%20DJP%202012-Eng%20%28Lowres%29.pdf>>.

2. Achieving a high Anti-Corruption Initiatives Assessment score of 8.18 from the Indonesian Corruption Eradication Commission in 2011.
3. Winning various medals in the 2012 international contact centre competition.

National revenue, however, does not show a similar positive trend as found in the pilot offices. Despite the continuous GDP increase, the tax to GDP ratio fell from 12% in 2006 to 10% in 2015 ([Figure 1](#)).

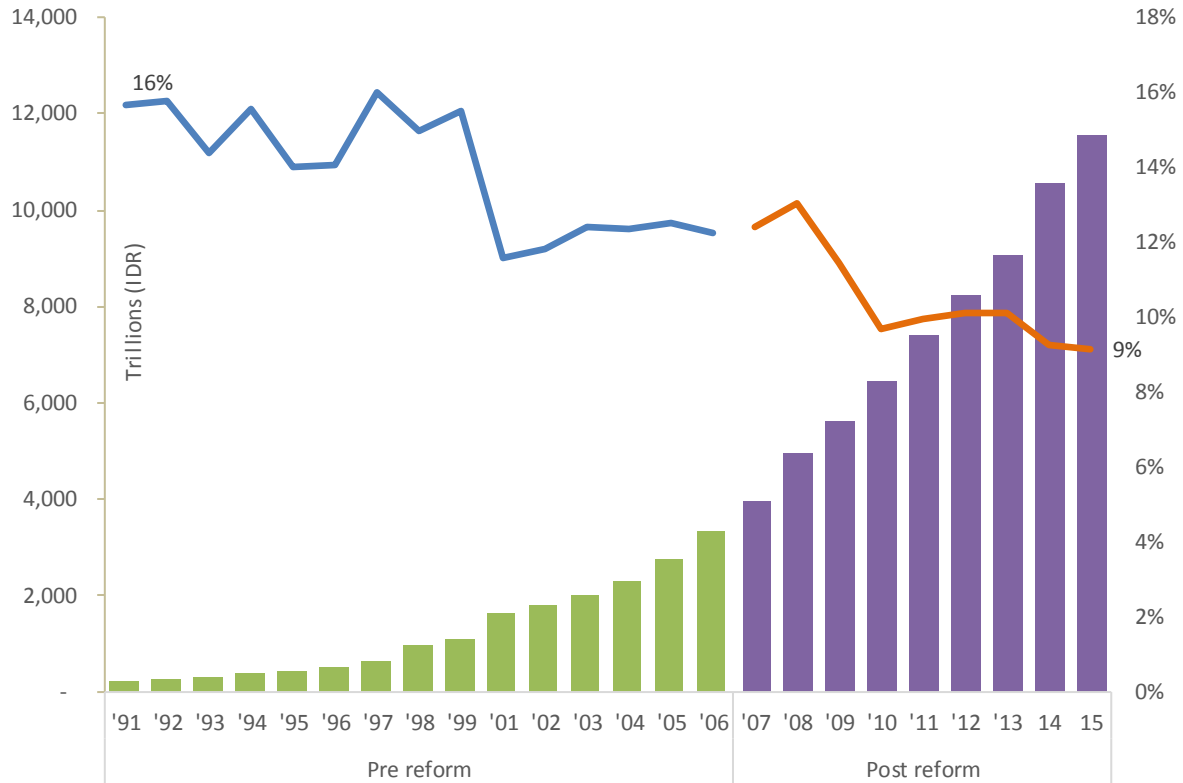


Figure 1 Tax revenue to DGP ratio continues to decrease³⁴

A higher ratio can be seen in 2008 possibly due to the revenue increase as a result of tax amnesty in that year. Overall, in 2007-2015, the average of tax revenue to GDP ratio dropped to 11% from 13% average in 1999-2006. Further, in 2007-2012, the ratio average is lower compared to that of neighbouring countries ([Figure 2](#)).

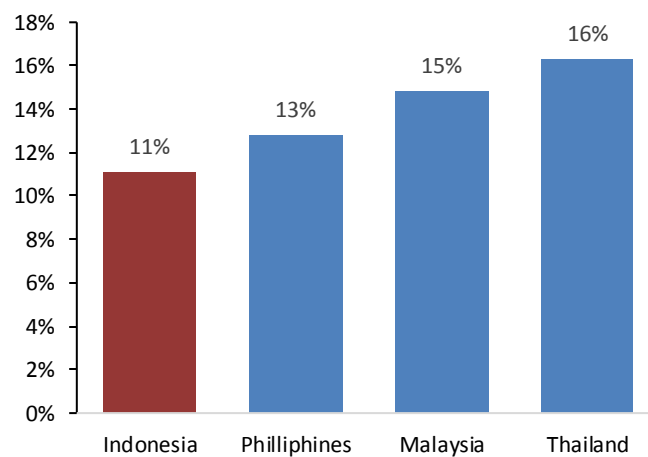


Figure 2 Indonesia's tax to GDP ratio average in 2007-2012 is lower³⁵

³⁴ The chart is based on data obtained from the World Bank's World Development Indicator and the Central Government of Indonesia's financial statements 2012-2015 (audited).

³⁵ The chart is based on data obtained from the World Bank's World Development Indicator.

Another indication of revenue performance can be seen from Indonesia's tax effort. Tax effort basically refers to the ratio between the real tax collection and its tax capacity, which is the maximum tax revenue that can be collected. It is estimated that – based on 1991-2006 data – Indonesia raised 59.8% of its full taxing capacity.³⁶ This proportion has decreased to 47% for 2011.³⁷ As such – based on 1994 to 2009 data – a World Bank study classified Indonesia as a country with low tax effort and tax collection.³⁸ This means that revenue is collected below maximum capacity and the agency suggests that more emphasis should be put on revenue enhancement through policy and administration reforms. Another indication, since 2007, is that the DGT was only just able to meet the legislated tax revenue target in 2008 (Figure 3), possibly due to the tax amnesty mentioned earlier. Although one could question how these targets are set, this trend may suggest the DGT's limited capacity.

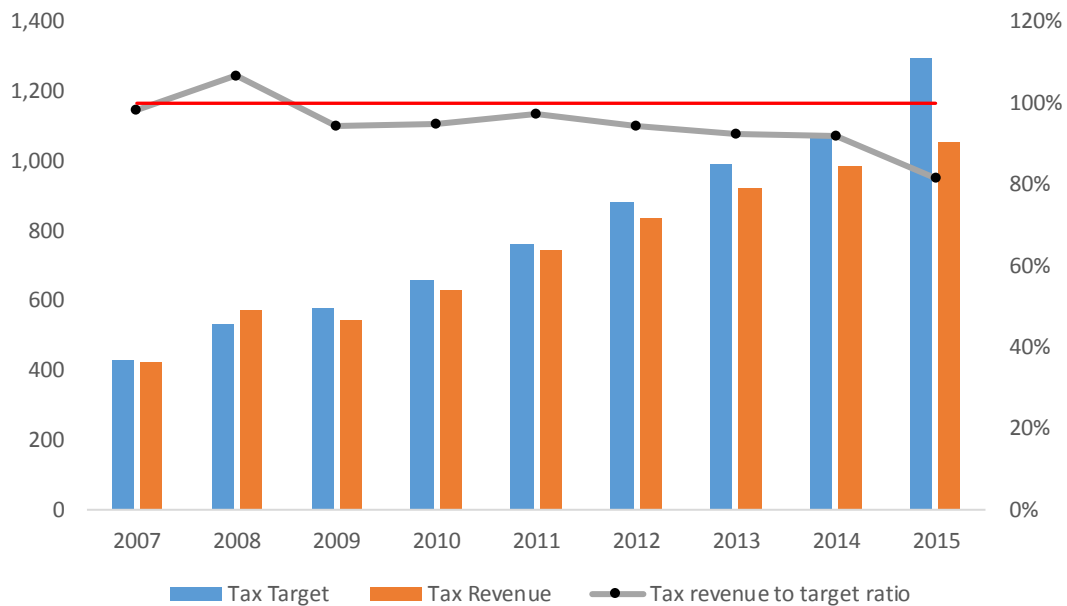


Figure 3 Legislated target was met only in 2008³⁹

This fact is alarming as taxation has a major contribution to Indonesia's revenue (Figure 4).

³⁶ Ricardo Fenochietto and Carola Pessino, 'Understanding Countries' Tax Effort' (2013) *IMF Working Paper No WP/13/244*.

³⁷ OECD, *OECD Economic Surveys: Indonesia 2016* (OECD Publishing).

³⁸ Tuan Minh Le, Blanca Moreno-Dodson and Nihal Bayraktar, 'Tax Capacity and Tax Effort: Extended Cross-Country Analysis from 1994 to 2009' (2012) *Policy Research Working Paper No 6252*.

³⁹ The chart is based on data obtained from the Central Government of Indonesia's financial statements 2012-2015 (audited).

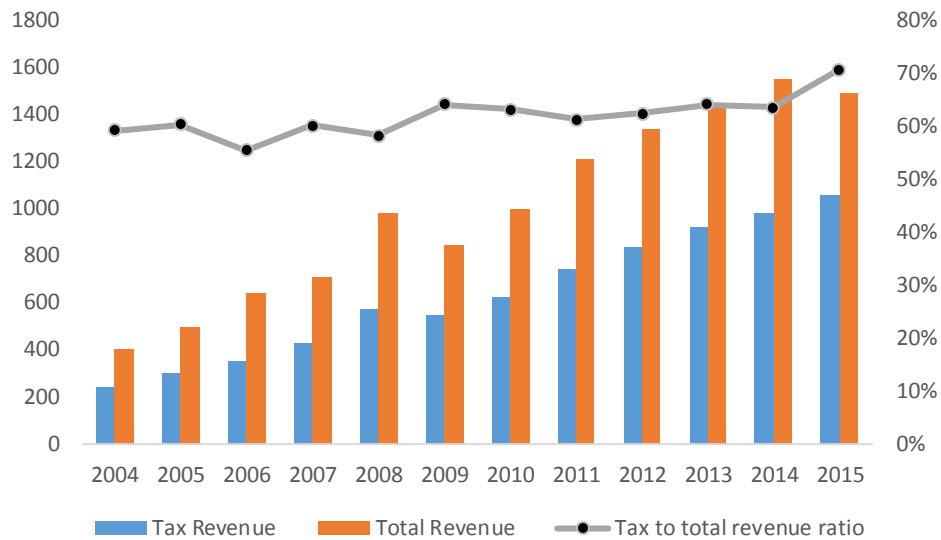


Figure 4 Taxation provides a significant contribution to national revenue⁴⁰

Further, compliance level was also low, a problem already noted by the World Bank in the 1990s.⁴¹ As an indication – in 2012 – approximately only half of taxpayers who were obliged to lodge income tax return did so (Figure 5Figure 5Figure 5).

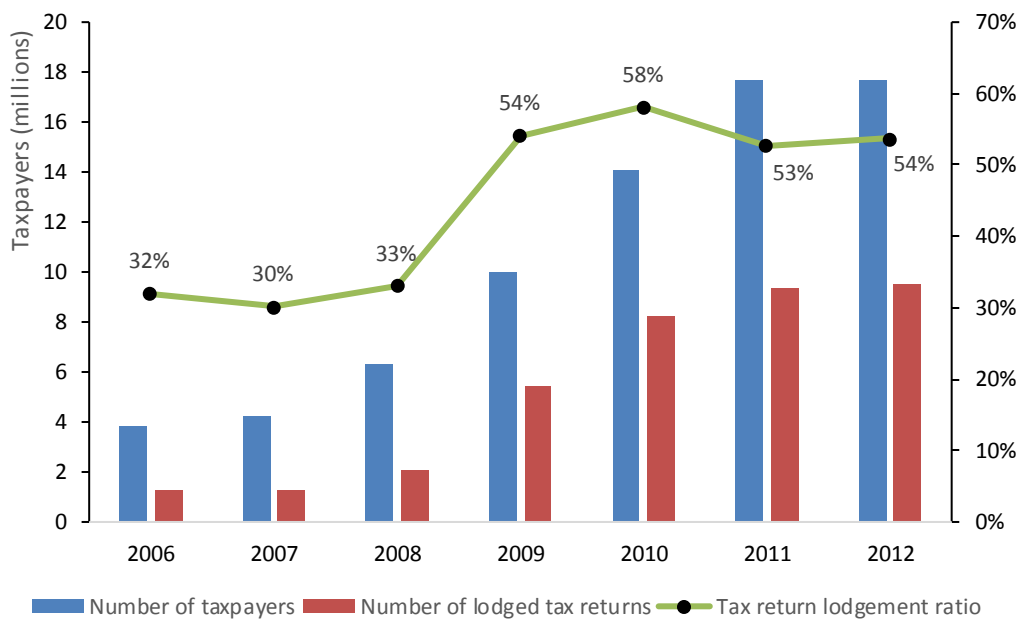


Figure 5 Tax return lodgement ratio remains low⁴²

It can be seen in Figure 5Figure 5Figure 5 that following the tax amnesty in 2008, there was a rise in the tax return lodgement ratio – and it continued to increase until 2010 – although the average lodgement ratio in 2006-2012 remained below 50%. It is however interesting to note that when the tax return lodgement ratio showed an increasing pattern in 2008-2010, the revenue performance in the same period moved to the opposite direction (Figure 1Figure 1Figure 1).

It is to be noted that the self-assessment system as applied in Indonesia relies on voluntary compliance. Theoretically, voluntary compliance is likely to exist if the revenue authority is able to demonstrate a service-

⁴⁰ The chart is based on data obtained from the Central Government of Indonesia's financial statements 2012-2015 (audited).

⁴¹ Woo, Glassburner and Nasution, above n 15.

⁴² Chart is based on data obtained from the DGT's annual report 2010-2012.

client attitude resulting in an increased trust in the authority.⁴³ The findings of the AC Nielsen survey from the initial pilot offices – the LTO, MTO, and STO projects – seem to be consistent with this.

Although currently the DGT’s commitment to adopting a client-oriented attitude is evident, as described earlier, in terms of revenue, however, the strong growth that was seen in the pilot offices does not seem to be evident once the administration style from the pilot project adopted nationally, despite the fact that there is a continuous GDP rise. This is perhaps related to the low compliance level indicated in [Figure 5](#)~~Figure 5~~~~Figure 5~~.

D. Research Concerns

The purpose of this study is to shed light on the tax office management in the pilot offices. To do this, it relied the experiences of a group of tax officials who were involved in that project using their own concepts and words. The pilot project was chosen as a starting point due to its success in that several branch offices were recognised as having a high degree of integrity and a strong revenue growth in an institution which – at that time – was seen to be a largely corrupt public office.⁴⁴ This unusual case provides lessons to improve the current Indonesian tax administration environment.⁴⁵ It is expected that this would uncover a variety of strategies employed during the pilot project that may explain its success.

II METHODOLOGY

A. Qualitative Analysis

The overall strategy for the study generally follows [Figure 6](#)~~Figure 6~~~~Figure 6~~.

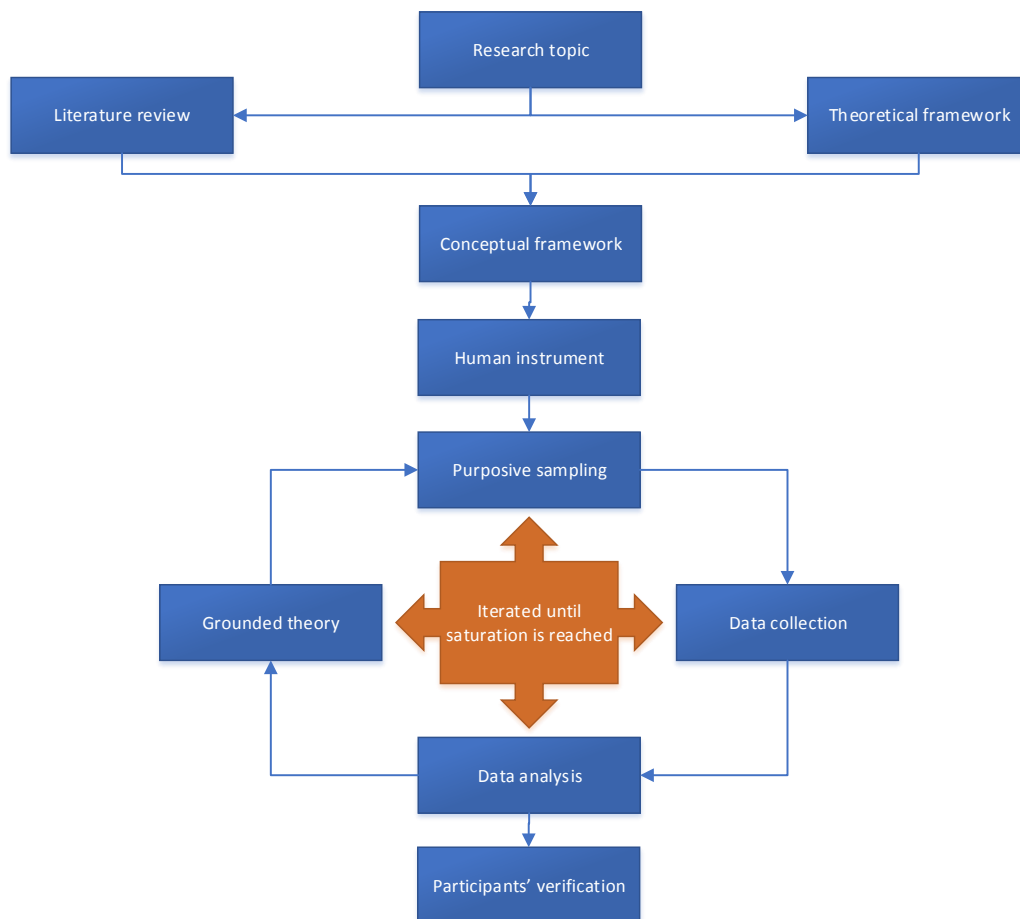


Figure 6 Research strategy⁴⁶

⁴³ Erich Kirchler, Erik Hoelzl and Ingrid Wahl, 'Enforced Versus Voluntary Tax Compliance: the "Slippery Slope" Framework' (2008) 29(2) *Journal of Economic Psychology* 210.

⁴⁴ Mudrajad Kuncoro, 'Mafia Pajak dan Kegagalan Reformasi Birokrasi', *Kompas* (Jakarta), 12 March 2012 <<http://cetak.kompas.com/read/2012/03/12/02314936/Mafia.Pajak.dan.Kegagalan.Reformasi.Birokrasi>>.

⁴⁵ Michael Quinn Patton, *Qualitative Research and Evaluation Methods* (SAGE Publications, 3rd ed, 2002).52.

⁴⁶ Adapted from Alison Jane Pickard, *Research Methods in Information* (Facet, 2nd ed, 2013).

As this research relies on personal experiences of the participants, qualitative approach is preferred. In this case, the research participants are encouraged to use their own words and perspectives in discussing their experience at the pilot office. The goal is, therefore, to provide a thick description⁴⁷ that provides an explanation of the world in which the participants live. This description can then be analysed to arrive at certain concepts that reflect the understanding of that world. These concepts can be used to develop a particular theory grounded to the data.⁴⁸

The data analysis commenced with assigning codes ~~to a set of data~~.⁴⁹ The interview transcripts in particular, comprise of texts where participants' subjectivity and their understanding ~~on upon~~ the ~~topic phenomenon~~ being investigated are contained. The analysis then progressed into identifying relationship between concepts. Using memos, the author noted his reflection ~~on the data~~ and proposed generalisations which were compared with the existing literature to form a data-driven theory.

~~In this context, As it deals with personal experiences,~~ it is important to acknowledge the author's subjectivity, ~~which may influence the conduct of the research. In this regard, it is to be noted that t~~The author is a former employee of the DGT and ~~he~~ knows most of the research participants ~~professionally and sometimes, personally~~. Consequently, the author has an emotional and historical relationship with both the DGT and most of the participants. This may ~~have~~ influence ~~on~~ the way the research is conducted and how findings are formulated. Furthermore, ~~inevitably,~~ the findings ~~of this research~~ reflect the author's view ~~to some extent~~.⁵⁰ ~~As such~~In light of this, ~~therefore,~~ it is possible that a different researcher may arrive at a different explanation on the same set of data.⁵¹

B. Research Participants

The main criteria in selecting participant is one that possesses a rich information about a certain topic.⁵² As such, the participants were recruited based on a condition that the potential participants were involved in the pilot offices. The recruitment process turns to be a challenge for several reasons. Firstly, the pilot project was concluded more than a decade ago and hence, their key personnel are quite difficult to be contacted as they either have left the DGT or retired. Secondly, those who remain at the DGT quite often now hold high positions and therefore, it makes it difficult to be contacted due to their full activities. In addition, they sometimes work in offices that geographically is more difficult to reach and organise a face-to-face interview.

The main technique to deal with this issue is the snowball sampling where the recruitment began only with one person who has an overall knowledge on the pilot project initiative.⁵³ The recruitment started with a participant who were conveniently known by the author on his involvement in the early stages of the project. Although this may be neither purposeful nor strategic,⁵⁴ and hence could have a low credibility,⁵⁵ for the purpose of this research, identifying such 'expert' is crucial to get started⁵⁶ and obtain the general overview the whole process.⁵⁷

Once the general overview is identified, subsequent participants were recruited purposefully.⁵⁸ In this case, the first participant nominated a person whom he knew to be knowledgeable in a certain topic. For example, he believed that the staff recruitment was significant, but he acknowledged that he did not know much about the selection process. He then named another person who was directly in charge of that process and provided a suggestion on how that person might be contacted. Afterwards, similar process was continued where the author intentionally recruited participants based on an issue raised by a particular person. The newly-recruited participant was then asked to present their views and hence added to the existing data set. For instance, a participant described that punishment during the project was carried out carefully. To obtain further details, another participant who was involved in delivering such punishment was interviewed and as such, adding to the depth of the data.

⁴⁷ Clifford Geertz, *The Interpretation of Cultures: Selected Essays by Clifford Geertz* (Basic Books, 1973).

⁴⁸ Juliet M. Corbin and Anselm L. Strauss, *Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory* (SAGE Publications, 4th. ed, 2015).51.

⁴⁹ Matthew B Miles, A Michael Huberman and Johny Saldana, *Qualitative Data Analysis: a Methods Sourcebook* (SAGE Publications, 3rd ed, 2013).

⁵⁰ Merry-Jo D Levers, 'Philosophical Paradigms, Grounded Theory, and Perspectives on Emergence' (2013) 3(4) *SAGE Open* 1.

⁵¹ Corbin and Strauss, above n 48.

⁵² Patton, above n 45.

⁵³ Barney G. Glaser and Anselm L. Strauss, *The Discovery of Grounded Theory: Strategies for Qualitative Research*, Observations (Weidenfeld and Nicholson, 1967).

⁵⁴ Patton, above n 52.

⁵⁵ David E Gray, *Doing Research in The Real World* (SAGE, 3rd ed, 2014).

⁵⁶ Kathy Charmaz, *Constructing Grounded Theory*, Introducing Qualitative Methods (SAGE, 2nd ed, 2014).

⁵⁷ Janice M. Morse, 'Sampling in Grounded Theory' in Antony Bryant and Kathy Charmaz (eds), *The SAGE Handbook of Grounded Theory*

(SAGE Publications, 2007) 229-~~Error! Bookmark not defined.~~

⁵⁸ Ibid.

Sometimes, the new participant was also asked to verify what was stated by another participant. The purpose of adding more participants is thus aimed at sharpening a concept as rather than at increasing sample size.⁵⁹

Another important aspect on the participant recruitment process was when there was a participant that provided an account that seemed to be a negative case⁶⁰ such as when a participant mentioned illegal payments made to a one of his colleagues. This fact is important as it added a different perspective on the generally-accepted view that the pilot office was of high integrity. Eventually, the participant recruitment process was terminated when the newly-recruited participants revealed ideas similar to the concepts raised by participants interviewed earlier.⁶¹

Using this technique, twelve participants with various positions ([Table 1](#)) were recruited. Three participants had left the DGT. The remaining participants are still in active duty at the DGT. The variety of their roles during the pilot project is useful in obtaining different perspectives and identify common patterns.⁶²

Table 1 Participants had diverse role

Role	N	%
1. Head of a tax office	2	16.7
2. Appeal officer	2	16.7
3. Account representative	2	16.7
4. IT officer	1	8.3
5. Tax auditing division officer	2	16.7
6. Tax collection officer	2	16.7
7. Taxpayer consultation officer	1	8.3
Total	12	100.0

Although the number of willing participants seems to be small, it has to be noted that in the end – as part of a way to establish rigour (discussed in IIE) – it is quite often for a participant to be interviewed twice. In the end, the data presented by these participants seems to have reached sufficiency in explaining the Indonesian tax administration pilot project reform phenomenon.⁶³ Nevertheless, it has been suggested in the literature that twelve⁶⁴ or fifteen⁶⁵ interviews may have been sufficient to achieve theoretical sufficiency.

C. Data Collection

The data for this research is mostly collected through in-depth interviews as it allows the participants to freely express their experiences. As it turned out, these experiences are deeply emotional for some participants. As they reflect their time during the pilot project, they recognise that the experiences were life changing. Most participants acknowledged that the moment they decided to join the pilot project, they realised that it was their ‘opportunity to change.’ The tax office was recognised as one of the most corrupt public office in Indonesia, and they believed that the pilot project was their way to escape from the corrupt practice. The appropriate way to capture the essence of such experience is by using an unstructured interview as it is able to capture the rich and detailed account of the experience⁶⁶ and therefore, the technique is best at exploring a participant’s stories and understanding.⁶⁷ Following this, the interviews were conducted using conversational style ([Figure 7](#)).

⁵⁹ Kathy Chamaz, 'Grounded Theory: Objectivist and Constructivist Methods' in Norman K. Denzin and Yvonna S. Lincoln (eds), *The Handbook of Qualitative Research* (SAGE Publications, 2nd ed, 2000) 509.

⁶⁰ Corbin and Strauss, above n 51.

⁶¹ Morse, above n 57.

⁶² Patton, above n 52.

⁶³ Ian Dey, *Grounding Grounded Theory: Guidelines for Qualitative Inquiry* (Academic Press, 1999).

⁶⁴ Greg Guest, Arwen Bunce and Laura Johnson, 'How Many Interviews are Enough? An Experiment With Data Saturation and Variability' (2006) 18(1) *Field Methods* 59.

⁶⁵ Daniel Bertaux, 'From the Life-History Approach to the Transformation of Sociological Practice' in Daniel Bertaux (ed), *Biography and Society: The Life History Approach In The Social Sciences* (Sage Publication, Inc, 1981) 29.

⁶⁶ Alan Bryman, *Social Research Methods* (Oxford University Press, 4th ed, 2012).

⁶⁷ Hilary Arksey and Peter T. Knight, *Interviewing for Social Scientists: an Introductory Resource with Examples* (SAGE Publications, 1999).

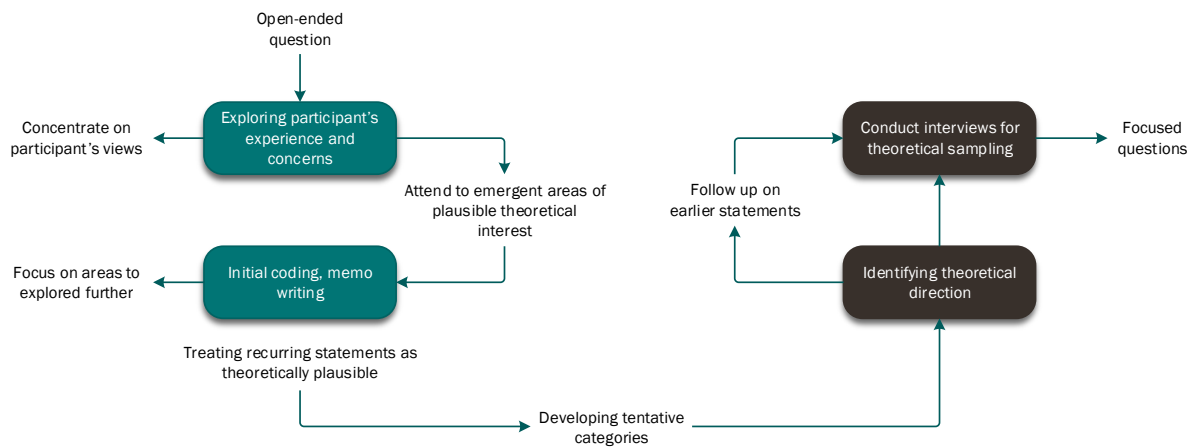


Figure 7 Interview strategy⁶⁸

This back and forth strategy made the author having twice – sometimes more – meetings with the participants. In general, two meetings were conducted with each participant. The first meeting was the main interview session intended to achieve two goals: to establish rapport and to obtain participants' detailed account on their experiences at the pilot project. The first interview was started by having the digital recorders ready. Two recording devices – from Sony and Olympus – were used to ensure proper recordings and prevent errors. Using information sheet and consent form, a permission to record the interview was then asked and confidentiality and anonymity issues were explained. These devices were used in particular to allow free interaction with the research participant and show full attention to what the participants say without being distracted by note-taking activities.⁶⁹ It also enables to record the interview verbatim and shows to the participants that their responses are taken seriously.⁷⁰

Although audiotaping might make the participant to be more nervous and reduce their openness,⁷¹ during the interview for this research, the participants did not seem to be affected severely. Generally, their first impression was to glance at the recording device briefly but then seemed to ignore it afterwards. Some of the participants asked if they could be identified later in the process. Once it was assured on their anonymity, they did not show any objection. One participant, however, refused to be taped although he was willing to sign the consent form. Nevertheless, he later recognised the importance of having the interview taped.

The interviews approximately lasted between one and a quarter to three hours, a duration which was considered sufficient.⁷² The interviews overall went much like what Arksey and Knight⁷³ denoted as 'a jazz musician in a jam session' where – when an initial theme was set and deemed necessary – the interview guide may be thrown away. The general strategy was to invite the participant to reflect on their experiences at the pilot project and the author mostly took a passive role and remained in the background. Initially, the participant was asked to provide an account on their role during that project. This includes for instance their day-to-day job or activities. Afterwards, the conversation was flowing based on the participant's memory, reflecting their role at the project. As a result, what was expressed contains different point of views, and thereby, provides a rich data based on various angles. If there were issues that needed to be conformed or explored further, the author then took a more active position and asked more focused questions.

While the first interview was the main data collection activity, the subsequent interviews, on the other hand, mainly was a follow-up session. Here, the participant was presented with the author's initial interpretation on the first interview and asked if it was able to reflect their experience accurately. The participant was also asked to make comments or feedback, if any, on the author's interpretation. Some participants even use this opportunity to offer new information that ultimately add the richness of the existing data.

⁶⁸ Adapted from Charmaz, above n 56.

⁶⁹ Tim Rapley, 'Interviews' in Clive Seale et al (eds), *Qualitative Research Practice* (SAGE Publications, 2007) 15.

⁷⁰ Arksey and Knight, above n 67.

⁷¹ Ibid.

⁷² Pranee Liamputtong and Douglas Ezzy, *Qualitative Research Methods* (Oxford University Press, 2nd ed, 2005).

⁷³ Arksey and Knight, above n 67.

D. Data Analysis

In this study, the data analysis moves from lower level of data in the form of texts to concept identification, and ultimately, to a more general narrative.⁷⁴ The actual procedures however was conducted in a back and forth manner to reflect the author's evolving understanding when new data is obtained.⁷⁵

The data analysis started as soon as the first interview was completed and transcribed. The author listened to the interview recording a few times to have a general idea on the interview. During this time, the main concepts emerging from the interview relevant to the research concern were identified. Here, important keywords or phrases considered significant by the participants were highlighted. These keywords guided subsequent participant recruitment and provide direction on concepts to be explored further. As an example, a participant mentioned that those who were registered voluntarily to the pilot project shared similar characteristics as persons looking for an escape from the corrupt practice. As it indicates the importance of the recruitment process, in a subsequent interview, a participant that was in charge of the recruitment was interviewed.

Keywords that reflect similar are grouped under the same heading. For example, a number of participants mentioned that maintaining a close relation among staff were essential. Keywords that belong to this theme are then grouped under the *togetherness* heading. Next, the concept-level analysis was conducted in a similar fashion. In this case, the author did not work at the text level but instead, the analysis looked at the headings identified previously in the text-based analysis. For instance, the text-level analysis produced several headings such as *togetherness*, *teamwork*, or *considerate closeness*. These headings are then grouped under the *conducive working environment* at the concept-level analysis. This procedure is continued until it reaches an overarching theme encompassing the whole process, named in this study as *the reform spirit* (Table 2, see also appendix for a visual representation).

Table 2 Concept hierarchy: the reform spirit

<ul style="list-style-type: none"> I. Non-operative militancy <ul style="list-style-type: none"> A. Recruitment B. Non-operative militancy II. Internal Factors <ul style="list-style-type: none"> A. Reward <ul style="list-style-type: none"> 1. Pay rise 2. Further education B. Thorough examination in punishment C. Supportive superior <ul style="list-style-type: none"> 1. Exemplary actions 2. Caring D. Conducive working environment <ul style="list-style-type: none"> 1. Innovation 2. Togetherness 3. Considerate closeness 4. Team work 5. Religious belief III. External factors <ul style="list-style-type: none"> A. IMF's role

To aid the analysis, memos and diagrams were used.⁷⁶ Memos are written to document the author's perception and interpretation once an interview was completed and how it contributes to the author's understanding and interpretation,⁷⁷ while diagrams were used to illustrate the relationships between emerging concepts. The overall data analysis is conducted with the aid of NVivo 11 and Visio 2016 for creating illustrations.

⁷⁴ Carl F. Auerbach and Louise B. Silverstein, *Qualitative Data: an Introduction to Coding and Analysis*, Qualitative Studies in Psychology (New York University Press, 2003).

⁷⁵ Jörg Strübing, 'Research as Pragmatic Problem-solving: The Pragmatist Roots of Empirically-grounded Theorizing' in Antony Bryant and Kathy Charmaz (eds), *The SAGE Handbook of Grounded Theory* (SAGE Publications, 2007) 580.

⁷⁶ Corbin and Strauss, above n 51.

⁷⁷ Pickard, above n 46.

E. Rigour

The standard in showing that a research has been conducted in a rigorous manner remains a controversy⁷⁸ although establishing rigour is essential for the result of a research to be trustworthy.⁷⁹ In this research, the pursuit for rigour is conducted following Figure 8.

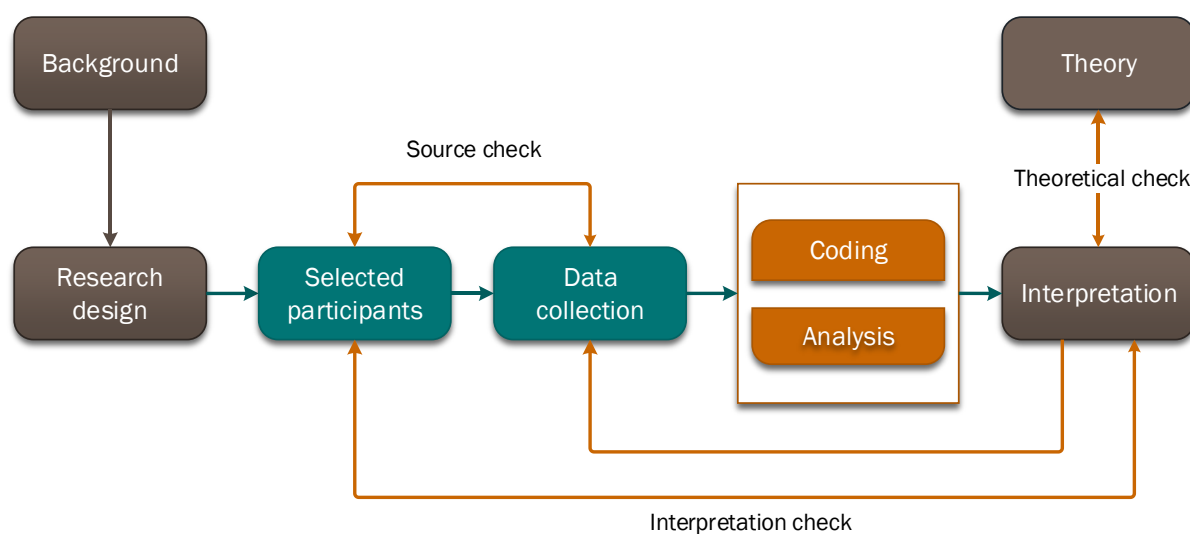


Figure 8 Establishing rigour⁸⁰

As the research progresses, what is stated by a participant is checked with another participant. The fact that the participants are of diverse background (Table 1Table 1Table 4) is useful as it provides multiple views on a certain issue. A number of documents are also consulted to add another layer of verification. As a consequence, data collection is conducted in alternate with data analysis. During data analysis, this research uses a top-down approach whereby several theories are used as a guide to understand the participants' narration. Hence, the emerging concepts are rooted from the validated views of the participants, which – in a sense – signifies a bottom-up approach.

III FINDINGS

This section discusses the concepts and categories derived from the data (Table 2Table 2Table 2). The relationships between these concepts and categories are presented in the Appendix.

A. Recruitment

Staff *recruitment* is the key starting point in the administration reform project. The main concern at that time was how to select 'the most appropriate' staff. In Goffman's words, this means separating the sincere from the cynics.⁸¹ For this purpose, a written assessment were administered by a third party under contract from the tax office. A participant mentioned that during the selection, he observed that those who decided to do the written assessment were ones whom he believed to be simple-non-wealthy staff and not those whom he knew to be otherwise.

*...the persons who took the assessment were those who basically were in lower-level of income.*⁸²

Those on the other end of the income scale, he recalled, mostly decided not to join the pilot office.

...they stepped aside for certain, yes, it's better ... not to join [the pilot office], maybe later.

It is to be noted that at the time when the pilot office took place, the Indonesian tax office was one of the most corrupt public office in Indonesia.⁸³ In fact, it has been indicated that some tax officials had significant income

⁷⁸ Corbin and Strauss, above n 51.

⁷⁹ Matt Bradshaw and Elaine Stratford, 'Qualitative Research Design and Rigour' in Iain Hay (ed), *Qualitative Research Methods in Human Geography* (Oxford University Press, 3rd ed, 2010) 69.

⁸⁰ Adapted from Bradshaw and Stratford, *ibid*.

⁸¹ Erving Goffman, *The Presentation of Self in Everyday Life* (Allen Lane, 1969).

⁸² The interviews were conducted in Bahasa Indonesia. For presentation in this paper, excerpts from these interviews are translated into English.

⁸³ J Danang Widoyoko, 'Pola-Pola Korupsi Pajak', *Koran Tempo* (Jakarta), 13 April 2005 <<http://www.antikorupsi.org/en/content/pola-pola-korupsi-pajak>>.

sourced from bribery.⁸⁴ The tax office staff could generally be divided in two groups: the wealthy and the non-wealthy. The wealthy staff were those who worked in places often referred to as *technical units*. This usually implied a unit with intense contact with taxpayers and therefore, providing wider opportunity to obtain – most likely illegal – payments from taxpayers. These units include – sorted from the most desirable unit – the auditing office, VAT section, corporate income tax section, individual income tax section, and withholding tax section. As such, these units generally – to most staff – were more desirable. On the other hand, the non-wealthy officials were those in supporting divisions such as data processing and filing or taxpayer’s administration section.

Having said this, therefore, the true selection was not the formal-written assessment but rather, it took place at the time when a particular staff decided whether he chose to register for the assessment or not (and therefore, stay with the existing system). A participant acknowledged this fact.

Yes, [the selection] was when you decided to take the assessment or not.

When this was mentioned to a different participant who was interviewed later, he exclaimed with excitement ‘*Itu!!*’ (That’s it!) confirming that it was indeed the key puzzle. He confessed that the formal written assessment was only used as a means to reduce the number of applicants to fit the number of vacant positions.

The point is that it was only a formality, just as a mean to do a shortlisting.

The key therefore was that it was able to select people who had strong desire to change, as recalled by a participant.

... [T]hat people had a strong desire to change.

and that they

[i]nternally, there was already an intention to change.

The selection process was cleverly able to select such people by relying on a voluntary registration system. This resulted in a condition that separated the sincere (registered) from the cynics (who did not register).

Another route to work at the pilot office was through education. One of the participants remembered that he was assigned at one of the LTOs soon after graduating from college – as one of the top students – and did not need to sit on any assessment test.

... [I]nitially in 2003 I started working at the LTO from when it was established just after graduating from DIV [a bachelor-level degree awarded by the Government College of Accounting]. At that time, there were ten people assigned to the LTO by Mr ... [who] at that time he was in charge at the human resource department. So, there were ten of us, four in LTO II, four LTO I, and two in the regional office. I was in LTO II. So, [my assignment at that office] was based on the official order made by the HR department, without doing any assessment. It was [basically based on our rank at college] as those ten graduates had GPA average of around 3.4.

As a result, the recruitment process was able to select tax officials who potentially had an intention to leave the negative behaviour widely known at the tax office at that time and also those with good academic skills.

B. Non-operative militancy

As has been mentioned in IIIA, there was already an intention to leave the corrupt practice in some tax officials. However, that intention was not able to surface as it was considered not politically desired. As noted by Widoyoko,⁸⁵ at that time, it was acceptable for one to be honest so long as one was silent as being otherwise would most likely mean being excluded. As a result, the desire was relatively dormant. A participant believed that the intention was already there waiting for a correct moment to surface.

But just as the Indonesia’s condition, at that time it was politics that played a major role. So, when it [the intention to change] was up to reach the surface...it simply failed, came down again. But actually, internally, it was already there. It was waiting ...what...the door to open.

The IMF’s initiative to start the pilot office was a moment when *the door opens up*. The selection process described in IIIA was able to select those who were willing to use *the door*, as noted by a participant.

⁸⁴ Heij, above n 4.

⁸⁵ Widoyoko, above n 83.

Those who first joined were those who commit, which meant...well, I am just looking for a place where I can just do my job, just like that.

It is to be noted that this participant described an event taking place in a corrupt situation. At the time when the pilot project was initiated, it was considered a normal practice for a tax official to obtain illicit payments through either autogenic-extortive or transactive-autogenic pattern.⁸⁶ An autogenic-extortive corruption takes place when a tax officials demand illegal payments for official services under their authority. This for example happens when a tax official provides a more favourable treatment to a certain taxpayer in exchange for a monetary benefit. The transactive-autogenic pattern, on the other hand, takes place when a tax official negotiates with a taxpayer to reduce their tax liability – normally during audits – in exchange for a certain sum of personal benefits.

Another pattern of corruption is the transactive-nepotic pattern where a tax official and a human resource official obtain an understanding on the unit of placement of that tax official in exchange for a monetary benefit. This includes a placement in a ‘lucrative unit’, which means a unit, preferably technical divisions, in a tax office with many large taxpayers (with whom other patterns of corruptions can be exercised later), or a placement in a non-remote area.

It is in this context that *...those who first joined were those who commit...* quoted in IIIA is made. That participant was referring to a situation where there were tax officials who continuously taking illegal payments and at the same time, there were also others who had enough and wanted to leave that practice. The latter saw the pilot office as an escape route. This type of officials is what that participant denoted as *...those who commit*. Nevertheless, because they stayed silent, perhaps for fear of being excluded or facing the possibility to be transferred to a remote office,⁸⁷ the intention to leave the negative behaviour stayed dormant. A participant noted that some tax officials who disliked the corrupt behaviour remained silent and did not have the courage to voice their concern as they were minority. This is what is referred to as *politically undesirable* by a participant quoted earlier.

Perhaps among those, those people, there were some who were not happy with the old [corrupt] behaviour. The thing is, they did not have the courage to scream, to express [their concerns], as perhaps to be considered as those who did not take [the bribe], or become a minority.

Once the pilot office started the recruitment process, those *unhappy officials* saw it as a *door that opens*. Another participant referring to this as a *hijrah* (*hegira* in Latin), which – in a Muslim tradition – signifies the act of leaving the bad deeds or sins into the way of God.⁸⁸

Well, errr, I think, perhaps how should I say it, right, this was the end, in our word, our daily word. Because it was, that was it, now we do hijrah, if this word is to be used. We do hijrah, we do the best, without asking anything unusual, we provide the best service.

In short, at that time there was already an intention to change from part of the officials although it failed to reach the surface due to mostly political reasons in the form of fear for being excluded or facing a possibility to be transferred to a remote area. As a result, this urge stayed dormant, waiting for *the door to open*. This door was indeed opened later when the registration to join the pilot office was announced.

C. Reward

1. Pay Rise

Following the economic crisis in early 2000s, the Indonesian authority assisted by the IMF used a series of fiscal adjustments to help improve its economic conditions.⁸⁹ Tax administration reform was seen as a key component in generating revenue by helping taxpayers to comply and enforcing tax rules to those who fail to do so.⁹⁰ In Indonesia, the modernisation of the tax office was considered significant in increasing tax yield and promoting investment climate. In this context, the Indonesian government in a Letter of Intent (LoI) sent to the IMF outlined a plan to establish a special unit to administer their large taxpayers by June 2002.⁹¹ These taxpayers were of interest as they were not only the largest source of tax revenue, but also quite often are the largest investors.⁹²

The pilot office (the LTO was part of this project) was designed to provide a showcase on how to improve the overall tax administration. A participant who was involved in the LTO’s establishment provided an account that the idea to reform the tax office was top-down from the ministerial level.

⁸⁶ Ibid.

⁸⁷ Ibid.

⁸⁸ Aswadi, 'Refomulasi Epistemologi Hijrah dalam Dakwah' (2011) 5(2) *ISLAMICA: Jurnal Studi Keislaman* 339.

⁸⁹ Brondolo et al, above n 20.

⁹⁰ Matthijs Alink and Victor van Kommer, *Handbook on Tax Administration* (International Bureau of Fiscal Documentation, 2011).

⁹¹ GoI, above n 19.

⁹² Brondolo et al, above n 20.

I'd like to look at the background that at that time, the initial idea was actually from Mr ... at that time he was the Minister of Finance, but it was at the top level, so there was probably, it seemed, an intention to ... how to reform the Directorate General of Taxes.

The idea was to have an office to provide a showcase where a service excellence can be provided. A participant who was at that time a member of the team tasked with organisational reform recalled that:

... errr one of the sub teams was tasked to think about organisation. I was a member of that sub team. Among other things. What was thought, it was thought, and perhaps originated from brainstorming and other things, to have a unit as a pilot project that tries to start providing an excellent service.

As part of providing excellent service and promoting investment climate, the pilot office introduced strict code of conducts to help improve tax officials' integrity.⁹³ On the other hand, the salary for civil servants – including tax officials – was barely sufficient to cover their basic needs. As such, it was recognised that improving the salary of tax officials at the pilot office was of importance. One of the participants in a discussion with the Minister of Finance and other high officials commented that it would not make any sense to make those officials act honestly and maintain their integrity if what they earn was not sufficient to cover their basic needs. As such, a pay-rise was proposed.

A year later [after the pilot project was officially commenced], I said to Mr ..., Sir I think it'd be a nonsense if we were to be honest but at the same time, our take-home pay can barely sufficient to cover our first two-week basic expenses. They need to survive Sir. Where can they get the money to cover the remaining two weeks?

"That is rather confusing."

"Indeed, Sir."

"The problem is that our salary system is already set that way. Could you please think of a work around?"

In the end, came an idea to provide an allowance only for the staffs at the Ministry of Finance. And for special case was only for... Can you please do a calculation? I was then doing the math. We had at that time grade IV, grade III, grade II, and grade I, but apparently we did not have [staffs that belonged to] grade I. Then we tried to do a simple calculation based on ... errr ... minimum standard of living. How much for grade II, grade III, grade IV. This standard was not a luxury at all. We made assumptions on the number of children, education cost, and so forth and how much for eating, education, health, transportation, those kind of stuffs. Grade II took the train, grade III took ... it was like that, approximately. It was ... then we averaged ... grade IV a, b, c, d we averaged. And then I asked, how much money you currently make? Well, apparently there was quite a large gap. This gap was closed. Like that. It was a rather large sum of money at that time.

Pay rise was seen as one of the main incentives to work at the pilot office. A participant noted that initially, she was interested to apply because she heard that the salary was much higher than to what she already earned. In her case, she needed the money to cover the renovation costs of her house.

Why I was interested [to apply]? Because at that time people told me that the salary would be higher. I wanted to fix my house, I did not have any money. In the end I chose...maybe it was one of my solutions so that I could have a better salary and fix my house. Because my house was...well...like that.

Generally, the pay rise was realised as a fair consequence of the strict application of code of conduct and the necessity to provide an excellent service, although the decision was not without objection. In the end, a support from a higher decision maker is required to deal with the objection. A participant mentioned this when he described a meeting he attended to.

Then I did a presentation [on pay-rise] to the Director General of State Budget, at that time Mr ..., Mr Secretary General, Mr ..., who else [were there too]. I was still head of the... It was a five-minute presentation. Then Mr ... [said], "Actually that amount is not so...is it? It is logical, isn't it?"

Afterwards, Mr ... [from the state budget office] said, "Well, yes, but it cannot be done."

⁹³ Ibid.

"Why is that Sir?"

"What is going to happen to the others? If this only for the tax office, for the LTO only, and not for the whole tax office."

But I already mentioned that if this is going to be a continuous program, then it is a good starting point. Later, if someone else wants to make similar program, change first, [they have to] change themselves first. [They can] Use us as a model.

Then they were all confused. There was no objection on the monetary value, as they said it was ... fair.

And then Mr ... said, "Okay, agreed. And draft a Minister of Finance regulation [on this issue]."

Mr ... who was the head of the regional tax office was later called [to a meeting], "Mr... I already signed this [Minister of Finance Regulation on the pay rise]. The state cannot afford to offer higher than this. But I entrusted it to you so that they [tax officials at the LTO] understand their integrity."

In this context, it can be seen that it was recognised that lower public sector wages was assumed to be one of the main causes of corruption, which was rampant at the tax office at that time.⁹⁴ Corruption was generally believed to have a negative effect on foreign direct investment,⁹⁵ and such investment was urgently needed to reduce the effect of the economic crisis. Corruption itself, according to Becker and Stigler, occurs when the future benefits of corruption exceed the total perceived or actual penalties.⁹⁶ Hence, accordingly, corruption can be reduced by either increasing wages or penalties. In this context, Akerloff and Yellen claim that a worker has a sense of fair amount of wage.⁹⁷ If one's income is less than this notion of fair wage, then one will try to maximise the benefit of corruption. This view however was apparently rejected by some participants when they described expressions such as *...without asking anything unusual...* or *...just do [my] job [professionally]...* when they described the persons who joined the pilot office (see IIB). Nonetheless, a pay reform, as part of a more comprehensive civil service reform, has been viewed as a way to decrease corruption.⁹⁸

In the tax administration context in Indonesia, the idea to increase salary as part of an effort to decrease corruption has been suggested in early 1990s.⁹⁹ However, the idea was generally unwanted as it carried the consequence of improving the administration of tax law and thereby reducing the possibility of obtaining income from shady sources. In the end, it is viewed that a pay rise is important to help the tax officers at the pilot office cover their living costs and in turn, is essential to encourage them to work professionally.

2. Further Education

Another aspect that was considered important was that there were avenues for the staff to develop their knowledge. The pilot project was able to attract staff who had commitment to do *hijrah* (leaving the bad practice) and those who *commit*. In short, it was able to select staffs who chose only to do their job professionally without *without asking anything unusual* (see IIB). It also absorbed graduates who academically were outstanding. Then, it was seen that providing a correct form of incentives was important. A participant acknowledged that this was necessary to maintain their working spirit, provided that the incentives were given honestly.

[Their] Superiors had to be honest [on] who needed to be rewarded, who [needed to be given an opportunity to] study further...was awarded a reward, incentives, to maintain their working spirit.

In this case, a general incentive in the form of a pay rise, as described in IIIC.1 above, was provided. In addition, for certain staff who had exceptional performance, a different type of incentive was given. A participant recalled that when she was able to settle a significant amount of arrears, she was given with an opportunity to study overseas.

You could imagine; I was one of those staffs who was awarded with such incentive. It was perhaps, I apologise, we went overseas at that time. I was, well, because I was able to obtain a settlement on significant amount of tax arrears, I was awarded the opportunity to go overseas to study.

⁹⁴ Widoyoko, above n 83.

⁹⁵ Shang-Jin Wei, 'How Taxing is Corruption on International Investors?' (2000) 82(1) *Review of Economics & Statistics* 1.

⁹⁶ Gary S. Becker and George J. Stigler, 'Law Enforcement, Malfeasance, and Compensation of Enforcers' (1974) 3(1) *The Journal of Legal Studies* 1.

⁹⁷ George A. Akerlof and Janet L. Yellen, 'The Fair Wage-Effort Hypothesis and Unemployment' (1990) 105(2) *Quarterly Journal of Economics* 255.

⁹⁸ Ferry Ardiyanto, *Foreign Direct Investment and Corruption* (Doctor of Philosophy Thesis, Colorado State University, 2012) <https://dspace.library.colostate.edu/bitstream/handle/10217/71542/Ardiyanto_colostate_0053A_11539.pdf?sequence=1>.

⁹⁹ Heij, above n 4.

Similar opportunities were apparently provided for other staffs, for instance to do trainings.

AR-AR [account representatives] were given opportunities to participate in trainings.

In addition to study opportunities provided as part of incentives, the IMF was relatively generous in facilitating in-house trainings.

I kind of liked it too, the IMF was very accommodative regardless their motives. What kind of trainings do you need? They invited the experts to come, experts in the oil industry, in mining, all paid for by the IMF. This enabled us to know that to have oil ready, to have coal, it required such a long process. And then banking industry, what kind of business related to that industry.

The knowledge obtained by these staffs were then disseminated to others through routine meetings.

It was routine, it was a monthly agenda, at the LTO, knowledge sharing. Why? Because it was those ARs who had that knowledge. Knowledge sharing about tobacco...in the end the head office [of the tax office] made a ruling whether [based on this] it was to be tax as a final tax or not.

If the relevant incentive scheme such as this was given, the staffs were apparently motivated to act fast. A participant reported her fascination that a less experienced staff was able to do a comprehensive mapping on taxpayers' business.

That, for me, was fascinating. When the superior, how should I say it, gave incentive, the fact was, in the field, those kids acted much faster than what I initially thought. I was in one of the sessions, and was wow, this guy was very good. A junior staff who was, I must apologise, had much less experience compared to myself, but he was able to do mapping on all of those things so quickly. Where did you get all the information? He apparently did a google search and other searches everywhere. That was only the beginning.

Hence, it can be seen that when the pilot office was able to have qualified and motivated staffs and then provided a correct blend of incentives, it stimulated the staffs to do their jobs more professionally. In this case, the role of superiors is essential to instil a situation in which knowledge sharing can take place. It causes not only a better qualified staff, but also a staff willing to share their knowledge with others making it possible for a success story in a certain place is replicated elsewhere. Here, it can be seen that providing monetary benefit is apparently not sufficient to bring the best out of people. In this case, in addition to pay-rise, performance recognition is given in the form of opportunities to study overseas. Recognition, after all, has been seen as more important than money in motivating employees.¹⁰⁰

D. Thorough examination in punishment

Another aspect that is of interest is punishment. It has been long recognised that punishment comes together with reward. These two factors are part of the key issues in the success of the pilot project. Reward, in the form of pay rise and further education, has been discussed in II.A above. This section, in turn, discusses punishment.

One of the key aspects that is worth noting is that in giving punishment, a thorough investigation on the causes of the breach was carried out. A participant remembered her experience when she was involved in an investigation on an alleged misconduct. In this particular case, a tax officer was found to breach a certain procedure.

A taxpayer lodged a tax return and claimed a refund... The thing is, at that time, if there is a Notice of Tax Overpayment Assessment, who is authorised to post it: the AR or the general affair division? Because there was no standard operating procedure, the AR contacted that taxpayer ... Sir, your refund has been completed. Would you like to collect [the assessment notice] or would like me to send it to you? In the end, the taxpayer collected the notice but it was too late. Under the applicable rule, that AR was clearly wrong [because the taxpayer received the assessment late] and punishment should be imposed. But it was because the inability of the organisation to provide tools and this resulted in a tax officer being in a disadvantaged position. In the end we communicated this with the Internal Affairs. Legally, this person [the AR] was guilty, but it was not he that started it. It was the organisation's mistake that failed to provide a clear procedure and in the end, the case was concluded with a mutual understanding...[and] punishment was not imposed on that particular officer.

Here, it can be seen that before punishment is imposed, a thorough investigation on the causes of the alleged wrongdoing is conducted. In this case, it was concluded that although a wrongdoing was committed, it was

¹⁰⁰ Marcus Buckingham, 'What Great Managers Do' (2015) (Fall 2015) *Harvard Business Review OnPoint* 44.

however caused by an inevitable condition that made the procedure unclear. This allowed the investigation to be regarded as fair.

E. Supportive superior

1. Exemplary actions

One of the factors that has been identified as a key instrument during the pilot project was the ability of a superior to show exemplary behaviour. A participant who at a time was acting as a head of one of the pilot offices remembered that his office was seen by some as *a thorn in the flesh* as it did not do the practice other normally did. He one day remembered being approached by one of his auditors. The auditor was raising an issue on a possibility to obtain illicit payments from large taxpayers.

Some said that the tax office had changed or, on the contrary, some may see it as a thorn in one's flesh, so to speak. Seen as not being together with others. Between quotes, of course. So I'd say that it was not ... not ... not ... what do you call it? It was not an easy journey. Even in two, three years later [after the pilot office was officially established], people started to cast doubt. Because perhaps they saw their colleagues were still doing that [corruption] meanwhile we did not. Whereas "Mr ..., we got big fish." It was how they expressed it.

And then I said to them, "Now, let me ask you something, just once."

"It is up to you sir, just you. Just say the word GO, come on sir."

They were open [to me]. And then I asked them.

"In that case, I'll ask you. Have you been feeling doing a sacrifice?"

"Absolutely, sir. We've been fasting for a long time. Never have an Eid celebration [Eid is a day that Muslims celebrate after completing a one-month fasting period during Ramadhan. This the time when they are allowed to have meals during the day again. Here, fasting is referred to as not taking monies from taxpayers, and Eid, therefore, as start doing it again]."

...

I said, "If you've been doing a sacrifice, all these years, and then you'll only waste it [for nothing], on this very day. If you really want to do that, why didn't you do it early on. If I say, that is the sacrifice."

In this example, the auditors asked a permission from his superior – who happened to be the participant in this research – to start working on large taxpayers to obtain personal gain, a behaviour that was seen happening everywhere except in his office. The participant maintained that he would not allow that as it would make the all hard work that they did – referred to in the quote as *sacrifice* – would be in vain.

What is interesting in this quote is that the auditor saw it important to seek a permission from his superior, noting the important role of a superior. In this context, as the Indonesian bureaucracy is basically a top-down system, a superior-subordinate relation is often seen to resemble a father-son relation. As such, superiors hold a key position as they provide certain protection and jobs, as a father does, for the subordinates. Subordinates, as a consequence, are obliged to comply to the requests of their superior.¹⁰¹ It is in this context that an ability of a superior to set good examples is crucial to maintain the pilot project in the correct path.

2. Caring

One factor that was also highlighted is having a superior that cares. This can be seen for instance when one of the participants was grateful at the time she had a superior who believed that it was fine for an employee to not know about a certain technical issue.

I was lucky that I was assigned to an office that was led by a person and head of sections that made a certain condition where if you do not know anything, it is not a sin. You're not doing a wrongdoing. If you ask questions, you're a great person. If you cannot do something, then ask, that is good. Hence, in-house trainings went fine. There were no account representatives who felt too proud to ask questions to their colleagues...Between sections, the relationship was quite close.

¹⁰¹ Agus Dwiyanto and Bevaola Kusumasari, 'Paternalism in Public Service Bureaucracy' (2001) 02/PB/2001 Policy Brief, Center for Population and Policy Studies, UGM, Yogyakarta

In this quote, it can be seen that a superior who understands his subordinate's condition – who felt rather nervous as she felt not as skilful as her colleagues – sparked a condition that made it possible for employees to exchange knowledge. This resulted in an idea exchange that was acknowledged by that participant was able to help her improve her performance. She admitted that she initially only knew income tax although her job requires her to have familiarity with other types of taxes as well. The belief embraced by her superiors encourage her to learn from her colleagues on issues that she felt she was lacking from.

... I was Waskon I [Waskon refers to the name of a section in the Indonesian tax office], I learnt from Waskon III, learnt from Waskon IV. For revenue optimisation I learnt from Waskon IV. To learn IT ... learning how to sort data, selecting which taxpayer to be visited effectively, I learnt from Waskon II. To analyse large taxpayers ... I learnt from Waskon III.

A trait of caring is also seen by another participant as essential. She remembered the time when the pay rise (see IIIC.1 above) was not received as initially. She witnessed that her superiors were willing to go beyond what was considered normal official business matters, such as having informal lunches with high-ranked officials at the Ministry of Finance.

... [T]hey did certain lobbies through having lunches with certain key officials at the state budget office.

F. Conducive working environment

Having supportive superiors, a fair punishment system, and a good reward scheme in turn facilitate a conducive working environment. This concept encompasses concepts such as innovation, considerate closeness, good teamwork, and a sense of togetherness. This section discusses these issues.

1. Innovation

In IIIC.2 above, it has been discussed that recognising staffs' achievement by providing high achiever opportunities to do further education was able to increase their working motivation at the pilot office. As has been described, those who had been doing a course were then disseminated what they obtained to their colleagues. These trainings and knowledge-sharing sessions had enabled those staffs to innovate further.

A participant as an example recognised a training event she attended. This event was facilitated by the IMF, inviting a Singaporean expert in the oil industry. She remembered that following the event, one of the ARs wrote a guideline on business process in that industry and its taxation.

We tend to be narrow-minded, you lied to us, because that was, well our paradigm that taxpayers will never be honest. Now, we just realised that, oh that was the case, then they also invited, I was really moved, when a particular AR being after enlightened [in a training session delivered] by an expert invited by the IMF, he was a Singaporean, he was from Singapore, I remember his name was Professor Ong, he talked about the process in the oil industry that it was not easy. An AR was later able to identify the business process in the CPO industry. That was the beginning that tax office learnt that CPO could lead to a number of products...that for me was fascinating.

Another innovation at the LTO was the refund process. In this case, the pilot project introduced an accelerated tax refund program for selected highly-compliant taxpayers.¹⁰² It was recognised that one of the problems in the Indonesian tax administration that all refunds are subject to audit regardless of the taxpayer's compliance track record. This was seen as an undesirable condition especially for exporters. These taxpayers then were provided with a simplified refund program, thereby improving taxpayer's cash flow and at the same, reducing the excessive resources allocated for such routine audits. This innovation was later codified into the Indonesian tax administration law as article 17C of Law No 16 of 2009.

2. Togetherness

One of the key aspects at the pilot office was that it was realised that they success of the project laid on the willingness of their superiors to 'open their doors' to everyone else at the office. This nevertheless is difficult to attain in a non-modernised office because it relies on a hierarchical top-down approach, as commonly found in most Indonesian public administration office.¹⁰³ In this context, a participant noted that before he was assigned at the pilot office, he felt there were invisible barriers between staffs and their superiors. He believes that this is something that needs to go.

¹⁰² Brondolo et al, above n 20.

¹⁰³ Azhar Kasim, 'Bureaucratic Reform and Dynamic Governance for Combating Corruption: the Challenge for Indonesia' (2013) 20(1) *Bisnis & Birokrasi* 18.

... we felt that to meet the head of a regional office was like [unthinkable] ...it used to be like that. So a staff could only meet head of his section. A head of section could only meet his direct superior; it was like that. And that was perhaps something that needed to be addressed.

This type of relationship is apparently common in the Indonesian public service bureaucracy as a result of a strong influence of Javanese culture.¹⁰⁴ Here, the superior-subordinate relationship is frequently seen analogues to father-son relationship. As a consequence, a superior holds a key position in an organisation as employees are often seen as a mere tool who complies with his superior's direction. It also carries a consequence that a superior provides certain protection – as a father does – for the employees. This causes a feeling of submissiveness which was driven out of fear as his work or behaviour is constantly assessed by his superior. Unfortunately, it also results in a lack of upward feedback for decision makers.¹⁰⁵

This submissiveness apparently causes the barriers identified by that participant. Therefore, when he was assigned at one of the pilot office, the first thing he did was trying to reduce those barriers. The key to having a successful office, he believed, rested on the willingness a person to help one another and that everyone needed to feel that they were *in the same boat*. As such, he asserted, there should be no barriers between staffs and their superior.

I always said that in these jobs, if this language is to be used, I never set myself differently as a head of the office, or head of a section. These barriers needed to go. Or I said, what if we got rid of these barriers. Sometimes, they [the barriers] made us arrogant, they made us feel like a super person. But when they were open ... bam ... I meant not that we opened physically. It was deep in our heart that needed to open. That the success of our job depended solely on ourselves. Who are we? You, I, and everyone else. Because I was nothing without all of you. That what was needed to be understood so that everyone felt that ... and if we talked about this we always referred to the whole office. Just imagine if a mistake was made [at the office] then it was the mistake of the whole office. Hence, I said, we all had to be good persons. I kept saying that... Secondly, we tried to get rid of those barriers, so that a general staff could go into my office directly. We even had sport games after Friday prayer, playing games together, badminton, all of those things ... [s]o that we were one.

A participant mentioned that her superior shared current events relating to the development of the pilot office. Such a close relation with her superior made her feel happy resulting a sense of being involved.

In that common room we shared [what we knew], and being updated by our superior regarding the current development up to that point in time... What made us happy was that every single development was informed to us.

Another participant remembered that during her time at one of the small tax offices, she felt that barriers between division at her office were basically non-existent.

I felt at home at all sections. I was everywhere... meaning what? I needed everyone. It was beneficial for me and I felt it was just fair when... like it was the job of the data processing to record tax returns. Then I said, "Do you still have many tax returns to record?" I needed it too because I don't want to see my computer screen blank because tax returns had not been inputted into the database. So when they distributed the tax returns [to be recorded] I volunteered and was given a full trolley.... Afterwards, the effects did not stop there. There were many benefits for me. Like when those guys found a particular data [concerning one of my taxpayers], I was personally called. Here I have data about your taxpayer. I once was able to obtain four billion from event like this.

The sense of togetherness was apparently contributed by the fact that at that time facilities were limited, causing a feeling that they were *in the same boat*.

...there was a building but the facilities were virtually very limited. There was a point where we discussed about recruiting cleaners, security officers, and a secretary facing a round table as we did not have any other room except a room with a size of 4 x 4. There, echelon III, echelon IV gathered... It was a bit sad as we had only such a small space, but we were happy. This was because the atmosphere was very conducive. All parts were united. From auditors, staffs, our superiors, there was virtually no gap. If there was an event, we discussed it sitting on the floor in the common room. Every month a meeting was held, there was a kind of... sharing session. Until what was fascinating for me was that there was no communication gap at all, no barriers between staffs all the way up to the echelon II [head of the regional office].

¹⁰⁴ Dwiyanto and Kusumasari, above n 101.

¹⁰⁵ Kasim, above n 103.

It can be seen here that the strategy of removing barriers, referred to as gap by this participant, between superiors and staffs were applied. This results in a sense of togetherness and at the same time, promoted a sense of unity. This was mainly caused by the willingness of a superior to accept his subordinates, thereby creating a sense of being welcomed. A participant mentioned that her superior was willing to accept her to come to him with or without official issues to discuss. The sense of togetherness seems to be intense that its effect on these staffs can still be seen now.

My superior was very open, ready to accept us with or without any problems, yes, very welcome. I think until now, if you want to check, the alumni of old LTO will never forget, that we were very attached to each other, no differences at all. So sometimes the regional office went to the tax office and the tax office went to the regional office if there was any issue, no gap at all. Perhaps it was because we started as persons who wanted to have a commitment...Up until today, you can ask to the alumni of old LTO who have been promoted they also felt that conduciveness until today.

Another participant from a small tax office remembers that for her, togetherness was of a crucial matter.

So, it was of a great influence to me. A working environment that was comfortable, where ARs and auditors were basically very united. There were many auditing processes resulted in additional tax revenue because of what we found and then we forwarded to the auditors.

This participant noted that this situation was caused by the fact that she had a supportive superior so that ... *between sections, we were quite close.*

Here, it can be inferred that one of the key issues is a sense togetherness. This sense is mainly instilled by the willingness of the superior to welcome the staffs. As a consequence, the barriers between staff and superior often felt to be existed in the non-modernised offices are limited. Such togetherness is important to facilitate willingness to share knowledge (discussed in IIC.2) and teamwork (discussed in IIIF.4). However, the concept of togetherness described in this section has to be viewed in the context of considerate closeness to be discussed in IIIF.3 below.

3. Considerate Closeness

As noted in IID.2, togetherness is considered important in minimising the gap between superiors and subordinates. It is to be noted that however, this sense of togetherness does not mean that staffs can treat their superiors as if they were their friends. A participant noted that his subordinates were still required to approach him with a degree of respect.

[I]t did not mean that they lost respect [for their superiors], they still maintained it.

Similarly, a different participant recalled that although she felt very welcomed by her superior, she knew that there were limits that she needed to observe.

[Our] Superior was very open ... he was ready to accept us ... but then we also knew our position as subordinates, at the boundaries at which point we could freely get our messages across and at which point we should not do that.

These participants identified that although they felt welcome – and it was intended that way – they felt that the freedom has to be embraced in a considerate manner. This concept of considerate closeness is aligned with the general Indonesian bureaucracy where it is generally follows the top-down approach,¹⁰⁶ particularly that of the Javanese cultural system. Interestingly – although described by participants who are known by the researcher not from the Javanese tribe – respect (*urmat, adji*) is the key value normally found in Javanese culture.¹⁰⁷ This supports the notion Indonesian bureaucracy is influenced by the traditional values in which the paternalistic Javanese system carries the strongest influence.¹⁰⁸

In a Javanese community, the concept of hierarchical seniority is put in the forefront. Those who are considered older – being older does not always mean in term of age but also in term of social status, family, and more importantly, in an employment context – are expected to practice *ngemong* (provide guidance) to those who are seen as younger.¹⁰⁹ In this context, a superior-subordinate relation is seen as analogue to a father-son relation.¹¹⁰

¹⁰⁶ Ibid.

¹⁰⁷ Hildred Geertz, *The Javanese Family: A Study of Kinship and Socialization* (Free Press of Glencoe, 1961).

¹⁰⁸ Yudi Setianto, 'Birokrasi Tradisional di Jawa Dalam Perspektif Sejarah' (2010) 20(2) *Paramita: Historical Studies Journal* 169.

¹⁰⁹ Mochammad Abdul Hakim et al, 'The Basis of Children's Trust Towards Their Parents In Java, Ngemong: Indigenous Psychological Analysis' (2012) 1(2) *International Journal of Research Studies in Psychology* 3.

¹¹⁰ Dwiyanto and Kusumasari, above n 101.

It is to be noted that traditionally – in a Javanese family – older children are expected to maintain a respectful distance from their father and approach their father on a formal basis,¹¹¹ as opposed to an equal relation often found in a western – particularly American – culture.¹¹² These children are required to speak to their father in a cautious and soft tone fashion because a father is of a distant figure and model for imitation. As such, a father needs to be treated in a respectful manner.¹¹³ As a model for imitation, a father therefore has an emphasis on the *asah* (teaching and modelling) aspect of his children.¹¹⁴ This results in a condition where a child has a sense of submissiveness to acknowledge a father as a person of authority. When applied to a bureaucracy system, this approach results in a top-down system that unfortunately lacks of feedback flowing from subordinates to decision makers as there is a certain distance that separates the two.¹¹⁵

In the case of the pilot project – although togetherness was seen as an important factor – yet it was considered important to maintain a particular level of reserve to distance one from one's superior. This is referred to by the participants as *having respect* or *maintaining boundary*. This reservedness – retained perhaps for cultural reasons – is transformed in such a way – predominantly by promoting togetherness (section II.D.2) – so that feedback could still be exchanged bi-directionally between superiors and subordinates. This results in a system that maintains a balance between having respect and retaining closeness at the same time.

4. Teamwork

It has been outlined in previous sections that the Indonesian bureaucracy – including that of the tax office – uses the hierarchical top-down approach, resulting in gaps between superiors-subordinates. This is because there is a sense of reluctance as a result of a formal distance that needed to be maintained by subordinates to their superior, as practiced by a son to his father in a Javanese tradition. Therefore, in a non-modernised tax office it was uncommon for staffs to directly raised their opinion to their superior. In III.F.2 above, it has been outlined that this situation addressed at the pilot office by promoting togetherness. Promoting togetherness – by reducing gaps – is considered important to encourage teamwork, which is then essential in improving productivity¹¹⁶ and ultimately, increase organisational performance.¹¹⁷ Here, teamwork can be viewed as a collaborative activity to attain a certain goal¹¹⁸ where team members support one another.¹¹⁹

The usefulness of teamwork was recognised as essential in increasing a staff's performance at the pilot office. A participant recalled that teamwork was often relied on in one of the pilot offices where she worked as an AR as a way to improve performance.

Teamwork was not just what was written on banners. ... As an example, I was not good at property tax. To learn it, it was impossible for me ... I had to do tax revenue optimisation. I needed to know only the basics ... [Then I asked] Sister, could you help me with property tax? ... You had a good knowledge on property tax, if my taxpayers [referring to taxpayers under her care] had issues with property tax, could you please handle it? Just to be sure that they would be in good hands. In exchange, did you have taxpayer data to be analysed? Financial statements for income tax, let me do the analysis. Under whose name was it? Hers [referring to her colleague's name]. No problem, she helped me out [with property tax]. If she obtained tax revenue because of the analysis that I did for her, it would be under her name, and that was absolutely fine because if she did not help my taxpayers, my work would have been a mess.

She also noted that although she was assigned in a particular section, she could go freely to other sections to learn.

It can be seen here that what was regarded as teamwork at the pilot office does not have to be necessarily a formal team. In the quote above for example, the participant referred teamwork as a simple act of helping each other out.¹²⁰ This approach was felt by that participant to be more productive.

¹¹¹ Ratna Megawangi, Marian F. Zeitlin and Nancy D. Colletta, 'The Javanese Family' in Marian F. Zeitlin et al (eds), *Strengthening the Family: Implications for International Development* (United Nations University Press, 1995) 95.

¹¹² Shi Lizhi, 'Differences Between Chinese and American Family Values in Pushing Hands' (2015) 11(5) *Cross-Cultural Communication* 50.

¹¹³ Geertz, above n 107.

¹¹⁴ Hakim et al, above n 109.

¹¹⁵ Kasim, above n 103.

¹¹⁶ Jalal Hanaysha and Putri Rozita Tahir, 'Examining the Effects of Employee Empowerment, Teamwork, and Employee Training on Job Satisfaction' (2016) 219 *Procedia - Social and Behavioral Sciences* 272.

¹¹⁷ Mafini Chengedzai and David R. I. Poole, 'The Relationship Between Employee Satisfaction and Organisational Performance: Evidence from a South African Government Department' (2013) 39(1) *South African Journal of Industrial Psychology* 1.

¹¹⁸ Mai Ngoc Khuong and Bui Diem Tien, 'Factors Influencing Employee Loyalty Directly and Indirectly Through Job Satisfaction – A Study of Banking Sector in Ho Chi Minh City' (2013) 1(4) *International Journal of Current Research and Academic Review* 81.

¹¹⁹ Beatrice J Kalisch and Hyunhwa Lee, 'Nursing Teamwork, Staff Characteristics, Work Schedules, and Staffing' (2009) 34(4) *Health Care Management Review* 323.

¹²⁰ Ibid.

As a result, we knew each other. And I then knew ... oh, in my case I did not have that kind of taxpayer. My taxpayers were mostly merchants, but this was service, so then I learnt that taxpayers in service industry had different characteristics. And this helped a lot and I did my job in the second year, I did that in my second year [as an AR], more effectively.

A participant remembered when she relied on one of her colleagues to help her prepare a certain report. She was not good with computer and teamwork helped her do her job more effectively.

Hey bro, could you help me do this report? Do you have taxpayers that you need to visit for VAT re-registration? Then when I went out, I visited his taxpayer for him. Oh good, thanks, and in the meantime, have you visited your taxpayer for GST purposes? Oh, no, not yet ... it's too hot out there. Let me do it for you but you do this report for me. My report was finished on time, my property tax [issues for my taxpayers] was also clear... That colleague of mine who was a computer wizard felt happy too. You're sure you're OK doing my report? ... For your information, the time I needed to do my own report was the same as doing the same thing for 40 of us. It was the computer who did the hard work, not me.

This participant's experience supports the notion that a good teamwork fosters knowledge exchange and hence, can lead to an improved productivity.¹²¹ In this case, that participant was willing to show her colleague – who did not have a full understanding in interpreting financial statement – how to do a financial statement analysis. In exchange, that participant obtained a basic knowledge in property tax from that colleague. In addition, the participant's taxpayers' issues on property tax were handled properly. Therefore, there was a knowledge exchange between the two parties resulting in an increased productivity. This is in line with what is outlined in IIIC.2, although the knowledge sharing – that took place informally here – was formalised as regular meetings where sometimes, external speakers were invited.

5. Religious Belief

One important factor to be considered is the importance of religion. A participant noted when her performance was poor, she saw religion as a missing factor.

For me, tax revenue intensification and being able to add money to the state revenue account ... I considered them charity. Now, my intention to add a sum of IDR 1000 to the state revenue account is like doing charity for 250 million Indonesians. My criticism for myself during my first year as an account representative, where I could only obtain 75% [of the revenue target assigned to me] because when I worked ... official business ... I did anything ... I did those things by leaving God behind. I never asked God to come with me when I attended meetings ... I never had a chat with God, never asked for help, not one bit. I felt that I was smart, that I could do it. ... In my second year, I tried to ... Oh God, please be with me, I'm going to issue Tax Collection Letter ... I still needed to collect several billion, but all I am doing now is issuing letters to worth only hundreds of thousands ... Give me your blessing... There was this particular letter, only worth IDR 100 thousand [of tax revenue]. Long story short, that particular taxpayer claimed a tax credit of only IDR 100 thousand but it resulted in a tax refund. Consequently, that taxpayer was subject to an audit under article 17 [basically all taxpayers claiming refund in Indonesia are subject to audit, which needs to be completed within one year]. That audit resulted in an assessment of more than IDR 1 billion. That taxpayer came to me a few times trying to negotiate if the assessment could be reduced [illegally]. Thank God we decided [not to take] that initiative. In the end, he paid the tax assessment [in full]. It was all because of only IDR 100 thousand.

It has been argued that generally workers bring their entire selves to work.¹²² As a result, religion is often considered important in an organisational context. This can be seen for instance in Weber's work where he argues that Protestants are more work-oriented and that non-Protestants are generally unable to embrace the spirit of capitalism.¹²³ The factors to be taken into account in Weber's model include hard work, use of time, saving, innovation, and honesty.¹²⁴

These principles are similar to that of the Islamic tradition, the religion embraced by the participant quoted above. The Islamic work ethic – originally sourced from the Quran and sayings and practice of Prophet Mohammad – praises hard work and puts emphasis on cooperation. It stresses that consultation is essential to avoid mistakes

¹²¹ Hanaysha and Tahir, above n 116.

¹²² Monty L Lynn, Michael J Naughton and Steve VanderVeen, 'Connecting Religion and Work: Patterns and Influences of Work-Faith Integration' (2011) 64(5) (May 1, 2011) *Human Relations* 675.

¹²³ M. Arslan, 'The Work Ethic Values of Protestant British, Catholic Irish and Muslim Turkish Managers' (2001) 31(4) *Journal of Business Ethics* 321.

¹²⁴ Harold B. Jones, 'The Protestant Ethic: Weber's Model and the Empirical Literature' (1997) 50(7) (July 1, 1997) *Human Relations* 757.

and alleviate problems.¹²⁵ In this tradition, the value of a particular work is judged based on the intention of doing it as opposed to the results.¹²⁶ As such, the Islamic work ethic is found to have a positive effect towards organisational commitment.¹²⁷ This commitment includes – according to Buchanan as cited by Cook and Wall¹²⁸ – identification (pride in the organisation), loyalty (a sense of belongingness), and involvement (absorbing one's role). Hence, it can be seen here that the participant's religiosity may have caused her to have a stronger commitment towards her work.

In this context, therefore, it can be understood that the participant's faith had led her into a sense of pride towards her work as she saw her job as her way to do the teachings of her religion. This is illustrated in the situation where she would not mind paying her work expenses using her own personal money without being reimbursed.

At that time, there was no SOP [standard operating procedure]. This means inputting tax return [into the database] ... printing out tax assessment letter and tax collection letter [manually] ... one phone line for 40 people, so it was often [I] used [my] personal phone credit. But this was no problem. ... [In a] month I could pay phone credit of a hundred thousand to five hundred thousand [in Indonesian currency]. Facilities were not perfect, but [I] enjoyed the job very much.

It has to be noted that the quote took place at the time when the pay rise (section IIIC.1) had not been provided. When the participant was asked if her willingness to use her own personal money took place at the time when the pay rise was not provided, she admitted that it was the case.

Researcher : ... When you paid the phone credit personally, was it before you received what was promised [pay rise]?

Participant : Yes, not yet.

Researcher : And yet you did not mind?

Participant : Not a problem at all.

This also provides an evidence on sincerity as identified as one of the key components discussed in IIIA. Further, it also relates to the theme of teamwork and knowledge sharing (discussed in IIIF.4 above) as the Islamic teachings that she embraces promote cooperation as a way to minimise problems. She did not mind collaborating with her colleagues as she knew that this is taught in the Islamic teachings that she embraces. This resulted – she believed – in an improved performance in her subsequent year at the tax pilot project.

G. IMF's Role

Lastly, without an international pressure from the IMF, the pilot project could not proceed well. This project is part of the overall financial restructuring program to assist Indonesia in dealing with the financial crises (that ultimately led to a political catastrophe). In a Letter of Intent sent to the IMF in January 2000, the Indonesian government expressed the importance to overhaul the tax administration.¹²⁹ The strengthening of the tax administration – as well as reducing evasion and avoidance – was seen as a one of the key factors in mobilising revenue to support the economic recovery. For this purpose – in a Letter of Intent sent in December 2001 – the Indonesian government committed to establish a special tax office catering only large taxpayers would be established by the end of mid-2002.¹³⁰ This office later became the first of a series as part of the pilot project. This letter also provides details on the milestones that needed to be met by the Indonesian government. This includes for instance the time of the issuance of regulations related to the tax office's code of conduct, tax return lodgement procedures, and when the office officially commenced its operation.

It can be seen here that improving the tax administration was seen as a key factor in the overall restructuring program. Therefore, it was closely monitored. According one of the participants that was involved in the early stage of the pilot project, the IMF's presence was a *bitter sweet* experience. On one hand, it brought the money that ultimately useful for the Indonesia's economic recovery, but on the other hand, it closely monitored the

¹²⁵ Darwish A. Yousef, 'Organizational Commitment as a Mediator of the Relationship between Islamic Work Ethic and Attitudes toward Organizational Change' (2000) 53(4) (April 1, 2000) *Human Relations* 513.

¹²⁶ Abbas Ali, 'Scaling an Islamic Work Ethic' (1988) 128(5) *Journal of Social Psychology* 575.

¹²⁷ Hooi Hooi Lean et al, 'The Effect of Islamic Work Ethics on Organizational Commitment' (2016) 35 (2016/01/01) *Procedia Economics and Finance* 582.

¹²⁸ John Cook and Toby Wall, 'New Work Attitude Measures of Trust, Organizational Commitment and Personal Need Non-Fulfilment' (1980) 53(1) *Journal of Occupational Psychology* 39.

¹²⁹ GoI, above n 18.

¹³⁰ GoI, *Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding* <<https://www.imf.org/external/np/loi/2001/idn/02/index.htm>>.

progress of the reform project. This includes imposing a strong pressure to make a certain thing completed on time. He remembered the time when he was not allowed to leave a hotel facility to work on a certain document required by the IMF.

Every week, [the IMF] had people [to monitor us], to see what was needed, this, that, many things. We even had a time schedule where today we needed to make a certain thing. And then [the IMF] asked if this has been completed; I was once confined at the Grand Hyatt, Saturday Sunday, to have things done by Monday.

This also meant that the hierarchical procedures within the tax office was often bypassed – or at least relaxed – to meet the tight monitoring requirements and hence, speed up the otherwise slower process.

If we needed to draft a Ministry of Finance regulation for instance, on organisational matters, then it was drafted, written, it was not through the Director General, that mechanism was not used, [instead] we directly went to the Minister of Finance. So it was a blessing [in this regard]. Although sometimes we had disagreements [with the IMF] that there were certain things [that they demanded] were just not implementable [in Indonesia].

In addition, the IMF also had a function to act as a catalyst for the reform project. As has been noted in IIIB above, the key factor in the reform is the intention to change, which, unfortunately, was suppressed by the political situation at that time.

However, although the reform was already initiated, there was still an expectation to maintain the corruptive behaviour. For example, a participant remembered that he had made enemies because of his involvement in the pilot project. He mentioned that there attempts to remove a certain taxpayer from being listed as one of the taxpayers to be managed by the pilot office. He noticed that there was an intention to go back to the corrupt environment at a later time.

One thing for certain that it was the environment ... like this. It made us have many enemies. Firstly, our own colleagues. Sometimes we phoned each other, 'Hi, can you do it [referring to the corruption in dealing with taxpayers] again there?'. This is because it is their expectation, the expectations of our friends out there, to go back [to the corruptive behaviour] sometimes later, and then they will go together. That's the first. Secondly, from the taxpayer's side. Not everyone was happy [about being included in the pilot office]. There was someone, I know this for a fact, when the number of taxpayers [to be managed by the pilot office] was going to be increased, [that person strongly] raised his objection. And then someone was trying to make a deal, but I say this only for you. Don't let this information ... I mean please just don't ... There were our own colleagues tried to persuade 'Please Mr..., don't add [this taxpayer].' And this had become a commodity [for sale]. To draw a strikethrough, it had become a new business, not to include [a certain taxpayer] in the pilot office.

In this context, the IMF presence therefore provided a certain degree of protection to enable the reform project to proceed. It can be seen for instance in a participant's remark as follows:

And therefore I say that the IMF opened, what, the formality process so people was not even dare to interfere [with the reform project]. Quote unquote, including those from within. Because it was already outlined in the letter of intent. Hence, we can use [IMF's name], this was [to meet] the IMF's demands, the IMF's requests. So that at that time, I must apologise, I was at the HR department, under the DGT secretary, at that time it was Mr So, Mr ... often said, "If it is about the LTO or anything else, don't bother asking me, [ask] Mr ... [instead]."

Hence, it can be seen here that the IMF's presence was an important to speed up the reform process and to provide a certain degree of protection to ensure the continuity of the reform project.

IV DISCUSSION

The section organises the concepts identified in section III above to arrive at a theoretical construct that sheds light on the administration reform. This research takes both a top-down and a bottom-up view. It uses a top-down view because literatures are used as a guide to understand what was revealed by the participants and then arrive at a concept. It also takes a bottom-up approach as these concepts are derived from the views of the participants. This research identifies three key concepts, namely non-operative militancy, internal factors, and external factors. The combination of these three concepts – referred to as the reform spirit – is essential during the reform.

A. Non-Operative Militancy

The administration reform took place when the Indonesian overall economy was in recession and the tax office was in a corrupt environment. At that time, if one was not part of the (corrupt) system, then one would be considered an outcast. It was an 'either you are with us or against us' situation that often put such person in a *politically difficult* condition. A participant – who later hold a top position at the tax office – admitted that if he was not with the system (at that time), then quite possibly he would not become what he is today.

Nonetheless, those who were not happy with that situation – although they were in the system or went along with it – were not comfortable about it. Their real intention was not to be part of the corrupt environment, but as it was politically difficult to do otherwise, they remained in the system. If there was a chance to not to be part of it, they would surely use it. They loved the tax office although they did not enjoy being part of the existing system. They had what I refer to as non-operative militancy. This concepts in essence describes staffs with intention to change.¹³¹ Borrowing Goffman's word, these persons are those who are sincere.¹³² However, as the intention is dormant, it needs to be triggered.

This trigger came with the IMF's financial restructuring program. As part of this program, the Indonesian government was required to reform their tax administration system. Under the IMF's tax administration reform project, an LTO was established and was used as an experiment to improve the tax administration practice. One of the key issues in this regard is the staff selection. During the early stage, the selection started with the persons who were known not to be part of the corrupt practice. When the project was later expanded to cover middle-size and small-size taxpayers, the selection process became fully voluntary. This voluntary system has an advantage that it is able to separate the sincere from the cynics as the cynics mostly decide not to join the pilot project.

B. Internal Factors

As has been mentioned, the selection process basically separates the sincere from the cynics. The cynics saw that the new office would not allow them to continue working in their current corrupt ways, so most of them steered away from the selection. On the other hand, those who were sincere saw it as an opportunity. Although it inevitably also attracted those who simply wish to avoid a transfer away from Jakarta, nevertheless it was believed that the majority of those who opted in the process were good and sincere staffs. Some were also attracted by the promised-pay rise that was provided as a compensation for not taking monies from taxpayers. However, as the pay rise was actually much smaller compared to what they could have earned by doing things corruptively, the financial incentive was possibly not that important. In this case, religious belief may play a significant role.

The selection process resulted in staffs who were willing to give up their traditional ways of doing business and change. The new office did not require a significant change in technical taxation skill. A participant reflected that his staffs were technically knowledgeable. He did not need to tell them what to do, only to remind them repeatedly that they basically did the same things but in different ways. His encounters with his staffs were not about technical things, but mostly were about listening to their concerns, giving encouragement, and building team work. Therefore, the role as a superior concerns more about improving staffs' motivation and team work.

In this context, it is also important for superiors to be *caring* and setting *good examples*. A participant for instance admitted that although there might be certain staffs not being committed to the agreed code of conduct, he tried to provide examples and be true to his words. This was his only way to uphold the integrity as he was unable to supervise every staffs closely. This for example can be seen where he was approached by an auditor to give him permission to obtain illegal financial benefits from a particular taxpayer. Another participant remembered that she knew her superiors lobbied the officials who were responsible for providing the increased allowance by taking them to private functions quite possibly using their own pocket expenses.

A caring and exemplary superior is essential in forming a conducive working environment, a situation that fosters innovation, togetherness, and team work. This is made possible by the willingness of a superior to reduce boundaries often set in the traditional Indonesian bureaucratic system. A strong cohesiveness as a result of team work and togetherness is an important prerequisite of knowledge exchange that leads to innovation. Interestingly, although most participants support this view, however, they acknowledge that there are boundaries not to be crossed. These boundaries help them establish a close relationship with their superior but at the same time, the relationship is approached with respect.

These factors – collectively referred to as internal factors – improve staffs' morale and performance. Having exposed to such internal factors, non-operative militancy now transformed into an operative militancy. The

¹³¹ Icek Ajzen, 'From Intentions to Actions: A Theory of Planned Behavior' in Julius Kuhl and Jürgen Beckmann (eds), *Action Control: From Cognition to Behavior* (Springer Berlin Heidelberg, 1985) 11.

¹³² Goffman, above n 81.

intention to change materialised into a successful change behaviour. In Ajzen's word,¹³³ the internal factors help to provide the newly-recruited staffs a control they need to have for the behavioural change to occur. This control includes for example skill – as in the case of further education – and more importantly, will power as facilitated by conducive working environment. The internal factors help strengthen the staffs' effort so that the transformation can take place successfully.

C. External Intervention

Also important in this case is the role played by the IMF. This institution, referred to as external intervention, acts as a catalyst that facilitates and provides the time and opportunity for the transformation to take place. This external intervention help increasing the overall performance of the pilot offices as a whole.

V IMPLICATIONS FOR FURTHER RESEARCH

This study reveals the importance of a reform spirit during the pilot project. This concept then relates to other categories such as leadership, good working environment, reward, and fair punishment. The immediate research topic that follows is how these results relate with the current tax administration. Hence, it is possible to use the results from this study to assess against the administration as currently practiced at the Indonesian tax office. Another possible topic to be pursued is the applicability of these results in other institutions outside the tax office. This is because the core principles derived from this study do not specifically relate only to the Indonesian tax office. They in fact constitute concepts that can see their immediate application in different contexts.

VI LIMITATIONS

This study has several limitations. Firstly, the data was collected using interviews. Although this enables the participants reveal their experience freely, it limits the ability of the participants in reflecting their experiences. The project is an event taking place more than a decade ago and as such, it is possible that a number of events are missed or forgotten. If the data collection was performed in a group discussions format, such limitation may be reduced as other participant may add to comments made by a certain participant.

Secondly, this research involved only a small number of participants due to difficulties in finding willing participants. Whilst the participants are of diverse backgrounds, this research would benefit from additional participants particularly in exploring sensitive issues such as corruption or punishment.

Thirdly, this study is based on self-reported data. Hence, it is subject to possible errors where a participant said an event that did not happen. Although the author limits its effect by cross-referencing a participant's account with that of a different participant, it is possible that it may still have a negative impact on the overall study.

VII CONCLUSIONS

This paper starts with a concern that despite an increasing rate of GDP and the tax administration modernisation, the tax to GDP ratio shows a decreasing rate. As a way to obtain an answer to this concern, the research goes back to the pilot project reform. This project is of interest because firstly, the administration principles currently applied are derived from that project and secondly, that project is able to result in an increasing tax revenue level at the time of a less favourable environment in term of corruption and overall economic condition.

The main lesson from this research is that an intention to change is essential. As those who have such intention predominantly are silent, this paper refers to it as a non-operative militancy. It is the ability to recruit such people that provide a good starting point. This research also reveals that reward, fair punishment, and supportive superior are essential in creating a conducive working environment. These factors work together to transform the staffs' silent militancy into operative efforts by changing the intention change into an actual change. It is such spirit of reform that later help improve the overall performance. Nonetheless – particularly in a less favourable environment – an external intervention – such as the IMF – is required to provide a certain degree of pressure and protection. This then acts as a catalyst so that the change process can proceed. Collectively, these concepts are referred to as the reform spirit, which is essential for a reform to succeed.

¹³³ Ajzen, above n 131.

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Appendix

The Relationship Between Concepts and Categories: The Reform Spirit

