

# **DEVELOPING A MODEL FOR ENHANCING THE INDONESIAN TAX ADMINISTRATION SYSTEM**

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## **ABSTRACT**

This paper reports findings from a study conducted into the current Indonesian tax administration. This study involved twenty one interviews conducted with a cohort of seventeen participants from multiple settings. This includes the Indonesian tax officials, taxpayers, tax trainer, academia, and a non-governmental organisation focusing on Indonesian taxation. Findings here reveal that there are several gaps that are considered important to improve the Indonesian tax office's organisational performance. These gaps, identified as the internal and external gaps, are evidenced in the operations of the Indonesian tax office that may undermine their performance. The internal gap includes a communication gap and two expectation gaps while the external gap covers an expectation gap between taxpayers and the tax office. These gaps imply that there are additional avenues that can be used by the Indonesian tax office to improve their effectiveness in optimising revenue collection on top of traditional undertakings such as conducting audits or imposing penalties.

Keyword: taxation, administration, gap, revenue

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## I INTRODUCTION

Indonesia started preparing its first major tax reform in 1981. In that year, the World Bank noted that Indonesia's GDP was USD 92.47 billion (2016 GDP according to the World Bank database was USD 932.26 billion) with the industry sector holding the largest share (41.21%) followed by services (35.43%) and agriculture sector (23.36%).<sup>1</sup> At that time, Indonesia used a tax system adopted from the previous Dutch administration although it was considered inefficient as a result of a limited number of taxpayers in its base, lack of modern administration, and high level of avoidance.<sup>2</sup> It was also outdated, complicated, and level of collection was poor.<sup>3</sup> Hence, compliance was low, and there was an increasing amount of uncollected taxes<sup>4</sup> leading to limited revenue collected.<sup>5</sup> Overall, the tax system was considered inefficient, unproductive, ineffective in income redistribution, and prone to manipulation.<sup>6</sup>

This paper commences with a description of the historical context of tax reforms in Indonesia. It is then followed by an evaluation of the current tax administration that was based on the principles set by the administration reform led by the IMF. This paper concludes with an identification of potential future research opportunities.

## II HISTORICAL CONTEXT

Indonesian taxation history can generally be divided into three different eras.<sup>7</sup> First, before 1920, taxes were levied based on nationality. Indigenous Indonesians, for instance, were required to pay taxes on their dwelling in the form of land tax during the British occupation under Thomas Stamford Raffles. Later, this tax was also levied on other Asians working as merchants, by the Dutch colonial government after they came to power. Second, in 1920, these

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

<sup>2</sup> 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.

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

<sup>4</sup> 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).

<sup>5</sup> Gillis, above n 3.

<sup>6</sup> Ibid.

<sup>7</sup> R Mansury, *The Indonesian Income Tax: Case Study in Tax Reform of A Developing Country* (Asian-Pacific Tax and Investment Research Centre, 1992).

taxes were unified. The period 1920–83 witnessed a series of significant changes, including the introduction of income tax for individuals, income tax for corporations, and a pay-as-you-earn system. A withholding mechanism on income earned by employees was also introduced in 1967.

The third period of reform started with the introduction of income tax laws, implemented as of 1 January 1984, to improve the existing legislations. This legislation was part of a reform project initiated in 1981 and it was scheduled to be completed within 33 months.<sup>8</sup> The main objective of this reform was to reduce Indonesia's over-reliance on oil revenue, which was its principal source of income at the time.<sup>9</sup> It also aimed to create more effective income distribution, increase efficiency and reduce transaction costs.<sup>10</sup> Its main focus was simplification.<sup>11</sup> For this, various tax incentives were removed, the tax base was broadened and tax rates were reduced. Further, a taxpayer identification number was introduced and the low-income threshold was increased, which meant most Indonesians were not subject to income taxation. In addition to income tax, value added tax (VAT) was introduced to replace sales tax and turnover tax. For simplicity reasons, small businesses were not required to register for VAT payments,<sup>12</sup> and a single VAT rate of 10 per cent, with no exemptions, was used. Lastly, land and building tax and stamp duty laws were enacted later. To date, these remain the main taxes administered by the Directorate General of Taxes (DGT).

The DGT's organisation in this era 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 (KPPBB/Land and

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<sup>8</sup> Gillis, above n 3.

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

<sup>10</sup> Gillis, above n 3.

<sup>11</sup> 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.

<sup>12</sup> In the *Ministry of Finance Regulation No 967/KMK.04/1983* (Indonesia), it was stipulated that small businesses are those whose gross turnover was not higher than IDR24 million (AUS2353 at the exchange rate when this paper was written) per year or whose capital was not higher than IDR10 million (AUS981 at the exchange rate when this paper was written) per year.

Building Tax Office). Additionally, there was Kantor Pemeriksaan dan Penyidikan Pajak (Karikpa/Tax Auditor Office), which dealt with tax audits.

The reforms implemented in Indonesia were assisted, and significantly shaped, by foreign advisors under the auspices of the Harvard Institute for International Development (HIID).<sup>13</sup> The advisors were predominantly Americans, or had an American background, and this influenced their approach.<sup>14</sup> For example, the decision to use lower tax rates was in line with the United States tax policy at that time. These rates, as acknowledged by the HIID team leader, were comparable to those contained in the Bradley-Gephardt Bill proposed in the United States in 1983.<sup>15</sup>

In spite of this, the reforms were seen as likely to increase non-oil tax revenue.<sup>16</sup> The tax revenue to GDP ratio increased from 5 per cent in 1980–81 to 9.9 per cent in 1995 and 1996.<sup>17</sup> Strong growth too was evidenced in businesses registered for VAT between 1985 and 1990.<sup>18</sup> Further, the reforms allowed government to introduce a VAT without affecting overall economic stability.<sup>19</sup> However, in the administration context, Gillis reported that reform was considered less promising.<sup>20</sup> He noted, as an example, that the potential VAT revenue was at risk due to administrative issues, such as poor coordination or internal resistance.

To further improve the Indonesian tax administration, following the economic crises in the 1990s, the Indonesian government overhauled its tax administration as part of the International Monetary Fund's (IMF's) restructuring programme.<sup>21</sup> Under this programme, Indonesia was required to implement a Large Taxpayer Office (LTO) in Jakarta in June 2002.<sup>22</sup>

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<sup>13</sup> Heij, above n 9.

<sup>14</sup> Ibid.

<sup>15</sup> Gillis, above n 3.

<sup>16</sup> Fuad Bawazier, 'Reformasi Pajak di Indonesia' (2011) 8(1) *Jurnal Legislasi Indonesia* 1.

<sup>17</sup> Amir, Asafu-Adjaye and Ducpham, above n 2.

<sup>18</sup> 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).

<sup>19</sup> Malcolm Gillis, 'Comprehensive Tax Reform: The Indonesian Experience, 1981-1988' in Malcolm Gillis (ed), *Tax Reform in Developing Countries* (Duke University Press, 1989) 79.

<sup>20</sup> Ibid.

<sup>21</sup> 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/>>.

<sup>22</sup> 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>>.

This new office featured a function-based organisation, service-oriented system, accelerated refund process, and effective enforcement through quick identification of late lodgement of tax returns, late tax payments or other types of non-compliance.<sup>23</sup>

This restructuring was not surprising as the IMF had been playing a major role in the adoption of large taxpayer units (LTUs) in several developing countries.<sup>24</sup> The decision to use a function-based organisation also seemed to follow the IMF's view that an LTU be mandated to administer all national taxes, which was a departure from the existing practice in Indonesia.<sup>25</sup> The main reason for using an LTU is to secure revenue,<sup>26</sup> by ensuring taxpayer compliance.<sup>27</sup> It is believed that such a unit increases compliance and improves administration effectiveness,<sup>28</sup> although it may fail if the general reform agenda is not based on a gradual process, is not supported by strong political will, and does not place an emphasis on simplicity.<sup>29</sup>

In Indonesia, the pilot project for tax administration reform took an incremental approach. After the establishment of the LTO, its design was tested in Central Jakarta on a limited number of medium taxpayers (Medium Taxpayer Office/MTO) and small taxpayers (Small Taxpayer Office/STO) in 2004.<sup>30</sup> The results of these pilot offices were promising. They obtained a high taxpayer satisfaction score in the ACNielsen's eQ survey.<sup>31</sup> This survey revealed that the strengths of these offices were in their integrity, services, simplicity, efficiency and informational resources. They also showed stronger revenue performance, mostly in the form of voluntary payments. As non-pilot-project offices during the same period

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<sup>23</sup> John Brondolo et al, 'Tax Administration Reform and Fiscal Adjustment: the Case of Indonesia (2001-07)' (2008) *IMF Working Paper No WP/08/129*.

<sup>24</sup> Roy W Bahl and Richard M Bird, 'Tax Policy in Developing Countries: Looking Back—and Forward' (2008) LXI(2) *National Tax Journal* 279.

<sup>25</sup> Katherine Baer, Olivier P Benon and Juan Toro R, *Improving Large Taxpayers' Compliance: A Review of Country Experience* (IMF, 2002).

<sup>26</sup> *Ibid.*

<sup>27</sup> Charles L Vehorn, 'Fiscal Adjustment in Developing Countries Through Tax Administration Reform' (2011) 45(1) *The Journal of Developing Areas* 323.

<sup>28</sup> Baer, Benon and R, above n 25.

<sup>29</sup> Vehorn, above n 27.

<sup>30</sup> Minister of Finance Regulation No 65/KMK.01/2002.

<sup>31</sup> Brondolo et al, above n 23.

suffered from revenue decline (Figure 1), it was suggested that the increase in compliance and revenue at the pilot project was mostly associated with the administration reform.<sup>32</sup>

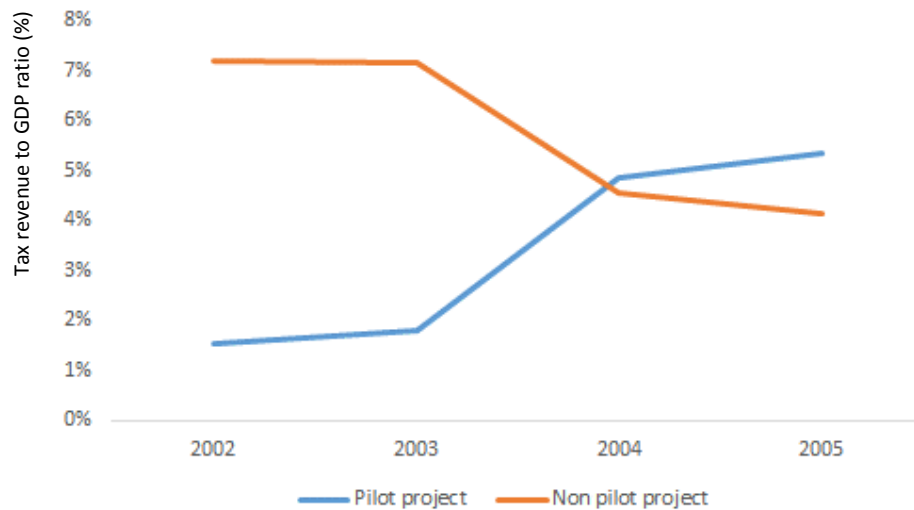


Figure 1: Tax revenue to GDP ratio: Pilot project and non-pilot project (2002–5)<sup>33</sup>

The system applied in the pilot offices was adopted nationally starting in 2007. The focus was on improving voluntary compliance, trust and productivity.<sup>34</sup> In this context, several changes were introduced. These included organisational changes such as the integration of three types of tax offices into one and the introduction of an account representative (AR) role.<sup>35</sup> Other changes were in business process, by promoting an automated system, and in human resource management through the introduction of a code of conduct.

Since the national adoption of the pilot offices in 2007, the DGT has won several awards:

<sup>32</sup> Ibid.

<sup>33</sup> The chart is based on data obtained from Brondolo (2008).

<sup>34</sup> Liberti Pandiangan and Rayendra L Toruan, *Modernisasi & Reformasi Pelayanan Perpajakan Berdasarkan UU Terbaru* (Elex Media Komputindo, 2008).

<sup>35</sup> An account representative (AR) acted as the first point of contact for a taxpayer with the tax office. Every taxpayer was assigned an AR who was responsible for dealing with issues that a taxpayer had with the tax office, for instance, providing updates in a refund process, dealing with problems in relation to their account, or other issues with tax law in general.

1. Most innovative public service provider, awarded by MarkPlus Insight, an Indonesian marketing firm, in 2009;<sup>36</sup>
2. A high Anti-Corruption Initiatives Assessment score in 2011;<sup>37</sup>
3. Bronze champion in the most trusted public institution category, from MarkPlus Insight in 2013;<sup>38</sup> and
4. Various medals in call centre competitions held in Jakarta and Singapore.<sup>39</sup>

Tax revenue, however, seemed to be less promising. Although it nominally increased (Figure 4), the tax to GDP ratio, by contrast, showed a decreasing trend at the time when there were no significant changes in the Indonesian tax mix (Figure 2).

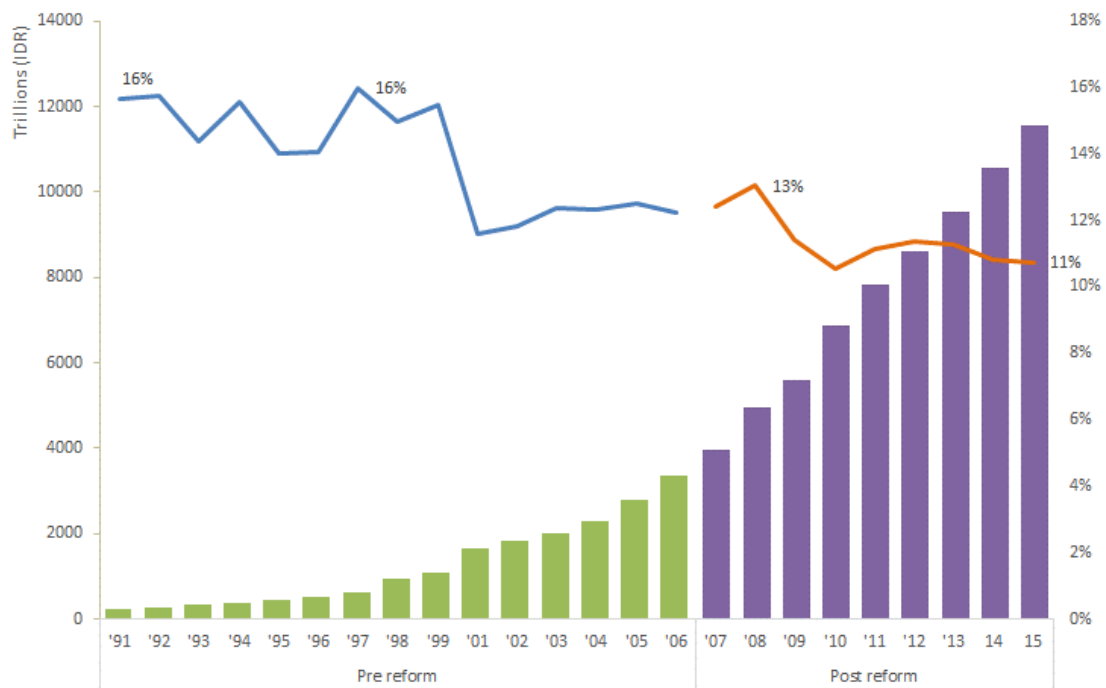


Figure 2: Tax revenue to GDP ratio (1991–2015)<sup>40</sup>

<sup>36</sup> Directorate General of Taxes, '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>>.

<sup>37</sup> Ibid.

<sup>38</sup> Direktorat Jendral Pajak Terima Penghargaan Sebagai Instansi Publik Paling Dipercaya <<http://news.detik.com/read/2013/09/25/174300/2369423/727/direktorat-jendral-pajak-terima-penghargaan-sebagai-instansi-publik-paling-dipercaya?991101mainnews>>.

<sup>39</sup> *Segudang prestasi Kring Pajak 500200* (24 July 2013) DGT <<http://www.pajak.go.id/node/7620?lang=en>>.

<sup>40</sup> The chart is based on data obtained from the World Bank's database: *Tax revenue (% of GDP)*, World Bank <<http://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS>>.

A higher ratio in 2008 was evident possibly due to the partial tax amnesty introduced in that year. Further, in 2007–15, the ratio average was lower compared to that of neighbouring countries (Figure 3).

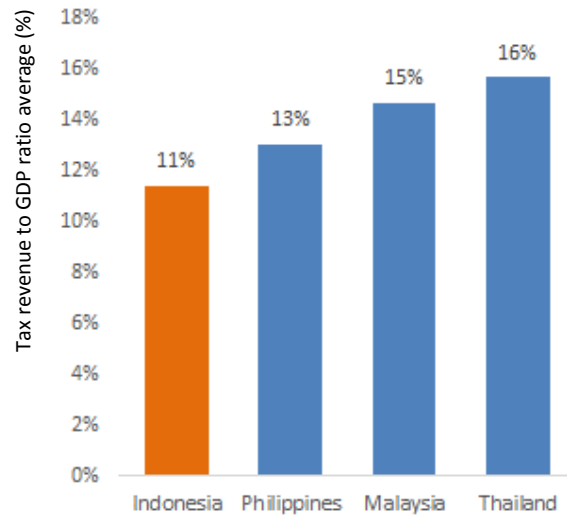


Figure 3: Average of tax revenue to GDP ratio (2007–15)<sup>41</sup>

Another indication of inadequate revenue performance can be seen in Indonesia's tax effort. Tax effort basically refers to the ratio between the real tax collection and its full tax capacity. It was estimated that, based on 1991–2006 data, Indonesia raised 59.8 per cent of its full taxing capacity,<sup>42</sup> before it further declined to 47 per cent in 2011.<sup>43</sup> As such, based on 1994–2009 data, a World Bank study classified Indonesia as a country with low tax effort and tax collection.<sup>44</sup> As a result, it was suggested that Indonesia should put more emphasis on policy development and administration reform. Another indication, since 2007, is that the DGT was

<sup>41</sup> Ibid.

<sup>42</sup> Ricardo Fenochietto and Carola Pessino, 'Understanding Countries' Tax Effort' (Working Paper No WP/13/244, International Monetary Fund, 2013) <<http://www.imf.org/external/pubs/ft/wp/2013/wp13244.pdf>>.

<sup>43</sup> OECD, *OECD Economic Surveys: Indonesia 2016* (OECD Publishing, 2016).

<sup>44</sup> 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*.



only just able to meet the legislated tax revenue target in 2008 (Figure 4).<sup>45</sup> Although one could question how these targets were set, this trend might suggest the DGT's limited capacity.

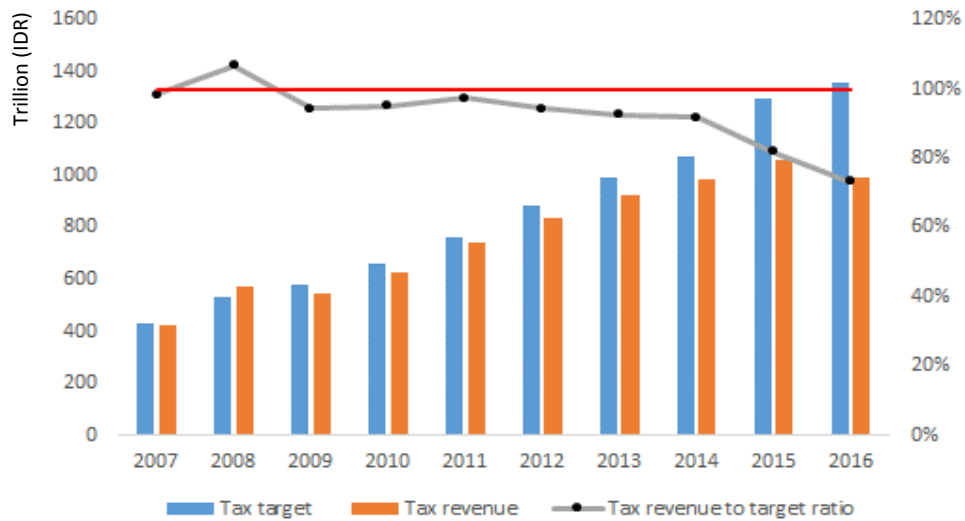


Figure 4: Tax revenue and tax revenue target (2007–16)<sup>46</sup>

This is alarming for the Indonesian government as taxation is a major contributor to Indonesia's revenue (Figure 5).

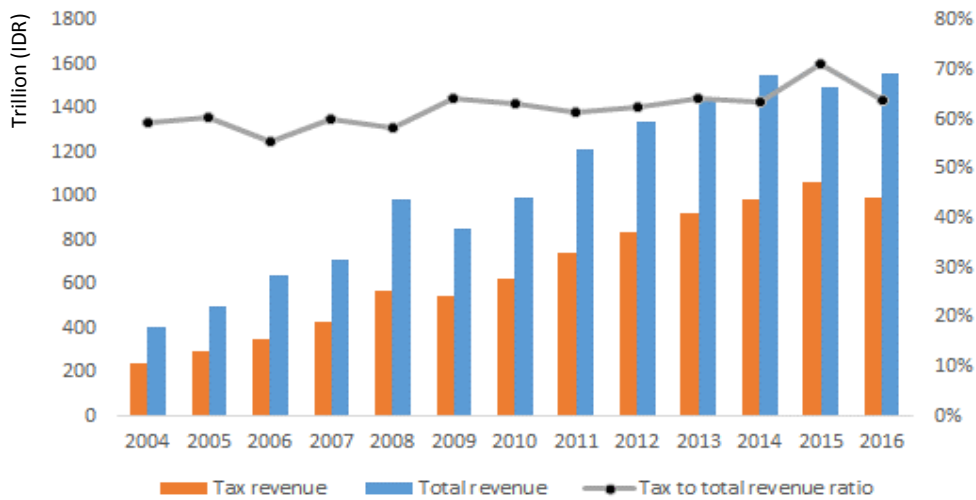


Figure 5: Taxation contribution to national revenue (2004–16)<sup>47</sup>

<sup>45</sup> In Indonesia, tax revenue target is set annually as part of the national Budget for a particular financial year. This Budget is codified in a legislation. In the Indonesian political system, the government and Parliament are independent of each other and each has the power to propose a bill. The bill containing the Budget, however, is normally the government's initiative.

<sup>46</sup> The chart is based on data obtained from the Central Government Financial Statement: *Laporan Keuangan Pemerintah Pusat*, Ministry of Finance, Republic of Indonesia <<https://www.kemenkeu.go.id/Page/laporan-keuangan-pemerintah-pusat>>.

<sup>47</sup> Ibid.

Further, the tax compliance level was also low, a problem already noted by the World Bank in the 1990s.<sup>48</sup> As an indication, although there is a decreasing trend, 37 per cent of those who were required to lodge an income tax return failed to do so in 2016 (Figure 6).<sup>49</sup>

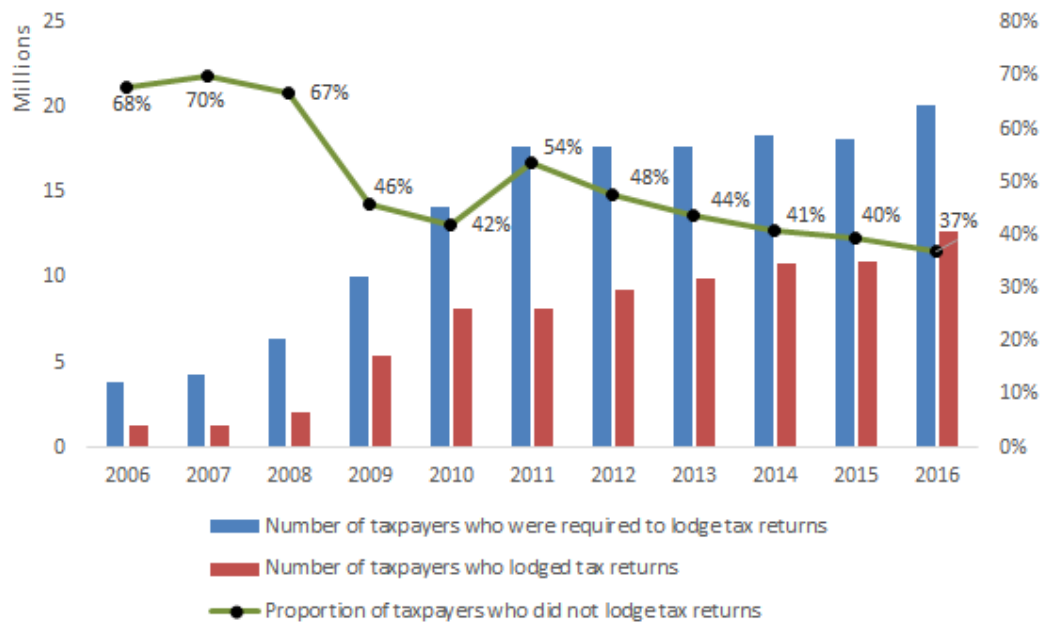


Figure 6: Tax return lodgement ratio (2006–16)<sup>50</sup>

It is to be noted that the self-assessment system applied in Indonesia relies on taxpayers’ voluntary compliance. Such compliance is likely to exist if the revenue authority can demonstrate a client-focused attitude that leads to increased trust in the authority.<sup>51</sup> The findings of the ACNielsen survey from the initial pilot offices in Central Jakarta seem to be consistent with this. However, although the DGT’s commitment towards taxpayers is evident, the growth of tax revenue as seen in the pilot offices does not seem to be apparent, despite the fact that there is a continuous GDP rise. This is perhaps related to the low compliance level indicated in Figure 6.

<sup>48</sup> Woo, Glassburner and Nasution, above n 18.

<sup>49</sup> Only taxpayers whose income exceeds the tax-free threshold are required to lodge a tax return.

<sup>50</sup> The chart is based on data obtained from: *Working with Heart: Pacing with PasTI*, Annual Report 2010, Directorate General of Taxes, Ministry of Finance of the Republic of Indonesia <<http://www.pajak.go.id/sites/default/files/Annual%20Report%20DJP%202010-ENG.pdf>>; and the 2016 Directorate General of Taxes performance report, *Laporan Kinerja 2016*, Direktorat Jenderal Pajak <<http://www.pajak.go.id/sites/default/files/LAKIN%20DJP%202016.pdf>>.

<sup>51</sup> Erich Kirchler, Erik Hoelzl and Ingrid Wahl, 'Enforced Versus Voluntary Tax Compliance: the "Slippery Slope" Framework' (2008) 29(2) *Journal of Economic Psychology* 210.

This research is a continuation of a previous study reported in a paper presented at the 2017 Australasian Tax Teachers Association (ATTA) conference.<sup>52</sup> This paper provides an analysis on the key aspects of administration as practiced at the 2000 pilot project explained in section II. The project was chosen as a starting point because it was able to establish several offices of high integrity in an institution that, at that time, was seen to be corrupt.<sup>53</sup> This strategy is what Patton refers to as extreme case sampling, as it focuses on a case that is special in nature.<sup>54</sup> This research, as the current tax administration in Indonesia is built upon principles taken from that pilot project, seeks to see the application of those aspects in the current administration. Part three below explains how the research was conducted.

### **III PARAMETERS OF RESEARCH**

#### ***A. Qualitative Analysis***

This research endeavours to answer the following question:

*What are the differences between the tax administration applied at the pilot offices and the tax administration currently practiced? In light of this, how can the current administration be improved?*

To answer the research question, this paper follows a qualitative strategy illustrated in Figure 7.

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<sup>52</sup> Kristian Agung Prasetyo, 'Tax Administration Reform And The Society In Indonesia: Some Lessons Learnt' (Paper presented at the 29th Australasian Tax Teachers Association Annual Conference, Masterton, New Zealand, 18-20 January 2017) <[https://www.business.unsw.edu.au/About-Site/Schools-Site/Taxation-Business-Law-Site/Documents/Tax\\_Administration\\_Reform\\_and\\_the\\_Society\\_in\\_Indonesia\\_Prasetyo.pdf](https://www.business.unsw.edu.au/About-Site/Schools-Site/Taxation-Business-Law-Site/Documents/Tax_Administration_Reform_and_the_Society_in_Indonesia_Prasetyo.pdf)>.

<sup>53</sup> 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>>.

<sup>54</sup> Michael Quinn Patton, *Qualitative Research and Evaluation Methods* (SAGE Publications, 3rd ed, 2002).



Figure 7 Research strategy<sup>55</sup>

### ***B. Research Participants***

Participants in this research were selected because of their continues involvement with the tax office. As this research concerns a comparison between the pilot project and the current tax administration, following Glaser and Strauss’s suggestion, the researcher began by interviewing two colleagues who are involved in both that pilot project and the current tax administration<sup>56</sup> in order to start the study<sup>57</sup> and obtain an overview of the pilot project and the current tax administration.<sup>58</sup> Based on the situation and ideas emergent from these initial interviews, other participants were recruited.<sup>59</sup> Hence, participants were selected based on a

<sup>55</sup> Alison Jane Pickard, *Research Methods in Information* (Facet, 2nd ed, 2013).

<sup>56</sup> Barney G. Glaser and Anselm L. Strauss, *The Discovery of Grounded Theory: Strategies for Qualitative Research* (Aldine Publishing Company, 1967).

<sup>57</sup> Kathy Charmaz, *Constructing Grounded Theory*, Introducing Qualitative Methods (SAGE Publications Ltd, 2nd ed, 2014).

<sup>58</sup> Janice M. Morse, 'Sampling in Grounded Theory' in Antony Bryant and Kathy Charmaz (eds), *The SAGE Handbook of Grounded Theory* (SAGE Publications, 2007) 229.

<sup>59</sup> Ibid.

certain purpose rather than randomly.<sup>60</sup> As an illustration, a participant, with a pseudonym Siti, is certain tax officials who genuinely support the tax office is essential. Siti is not part of the Indonesian tax office, but within her professional network as a tax lecturer, she knows a number of tax officials whom she believes have such attributes. She then offered to arrange a meeting with some of these officials.

This approach helps to sharpen concept development, rather than to simply increase sample size,<sup>61</sup> as subsequent participants may provide information that previous participants were not able to provide. The sampling in this research, therefore, was able to produce the detailed information required for data analysis.<sup>62</sup>

Although this strategy is useful in gaining access to hard-to-reach participants, it causes the participant selection to be influenced by the bias of the researcher's initial contact (the 'gatekeeper'), as that contact can include or exclude certain potential participants.<sup>63</sup> These issues were dealt with in this study by using three gatekeepers in an attempt to obtain participants with diverse attributes.

Another point to note is that although the participant selection strategy followed in this research is useful in gaining access to knowledgeable people<sup>64</sup> who can provide information-rich accounts to the question under study,<sup>65</sup> it may fail to deliver a statistically representative sample – as participants only represent themselves, it is problematic to make generalisations.<sup>66</sup> However, since this research seeks to explore participants' experiences, rather than to generalise, the chosen strategy is considered appropriate.<sup>67</sup> The conclusions drawn from this study should be read with this in mind.

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<sup>60</sup> Charles Teddlie and Fen Yu, 'Mixed Methods Sampling: A Typology with Examples' (2007) 1(1) *Journal of Mixed Methods Research* 77.

<sup>61</sup> Kathy Charmaz, '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.

<sup>62</sup> Lucy Yardley, 'Dilemmas in Qualitative Health Research' (2000) 15(2) (2000/03/01) *Psychology & Health* 215.

<sup>63</sup> Louis Cohen, Lawrence Manion and Keith Morrison, *Research Methods in Education* (Taylor and Francis, 7th ed, 2011).

<sup>64</sup> Ibid.

<sup>65</sup> Michael Quinn Patton, *Qualitative Research and Evaluation Methods* (SAGE Publications, 3rd ed, 2002).

<sup>66</sup> Johnnie Daniel, *Sampling Essentials: Practical Guidelines for Making Sampling Choices* (SAGE Publications, Inc., 2012).

<sup>67</sup> Ibid.

Another important aspect to note concerns inappropriate behaviours reported by participants, sometimes about colleagues. For example, one participant mentioned a bribery offer made to his colleague in one of the LTOs during the pilot project. Such information deviates from the general concepts that emerged thus far, which had been mostly positive.<sup>68</sup> This however is important as it provides a different perspective to the normal view in the Indonesian taxation circle that the pilot office was of high integrity.

The recruitment of the participants was ultimately terminated when new participants revealed ideas similar to the existing concepts.<sup>69</sup> This way, seventeen participants were recruited (Table 1). The variety of their roles is useful in obtaining different perspectives for this study.<sup>70</sup>

Table 1 Participants' diverse role in the pilot project

<b>Role</b>	<b>N</b>	<b>Position</b>
Academics	2	Lecturer
Tax collector	3	Small Tax office Regional Tax office
Non-governmental organization (NGO)	1	NGO founder
Tax trainer	1	Tax training centre
Policy formulation	2	Head office
Account representative	2	District Tax office
Appeal reviewer	1	Head office
Taxpayer consultation officer	2	Small Tax Office
Supervisor, policy level	3	Head office
<b>Total</b>	<b>17</b>	

A number of participants were interviewed multiple times, some of whom online (Table 2). The purpose of the subsequent interview was to check the accuracy of the researcher's interpretation and to obtain feedback. It thereby helped improve the credibility of the study.<sup>71</sup> Eventually, these interviews provided information that was seen by the researcher as sufficient

<sup>68</sup> Juliet M. Corbin and Anselm L. Strauss, *Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory* (SAGE Publications, 4th. ed, 2015).

<sup>69</sup> Morse, above n 58.

<sup>70</sup> Patton, above n 65.

<sup>71</sup> Yvonna S. Lincoln and Egon G. Guba, *Naturalistic Inquiry* (SAGE Publications, Inc, 1985).

to develop an understanding of the pilot project reforms.<sup>72</sup> With regards to the number of interviews, contemporary literature suggests that twelve<sup>73</sup> or fifteen<sup>74</sup> interviews may have been adequate to achieve saturation.

Table 2 Summary of interview activities

No	Name	Sex	Initial or Main?	First Interview		Second Interview	
				Mode	Location	Mode	Location
1	Chen	Female	Main	Face to face	Office		
2	Juna	Male	Main	WhatsApp	Internet		
3	In	Female	Main	WhatsApp	Internet		
4	Justine	Male	Main	Face to face	Office		
5	Siti	Female	Initial	Face to face	Office	WhatsApp	Internet
6	Hoot	Male	Main	WhatsApp	Internet		
7	Rosa	Female	Main	Face to face	Restaurant	Email	Internet
8	Roman	Male	Main	Face to face	Restaurant	Did not respond.	
9	Asta	Male	Main	Face to face	Restaurant	Face to face	Office
10	Uti	Female	Main	Face to face	Café	Face to face	Office
11	Wono	Male	Initial	Face to face	Home		
12	Jono	Male	Main	Face to face	Office		
13	Trish	Male	Main	WhatsApp	Internet		
14	Melly	Female	Main	WhatsApp	Internet		
15	Yaseen	Male	Main	WhatsApp	Internet		
16	Darus	Male	Main	Face to face	Office	Face to face	Office
17	Ed	Male	Main	Face to face	Office		

### C. Data Collection

Prior to data collection, ethics approval was obtained from the Office of Research and Development, Human Research Ethics Office, Curtin University (approval number RDBS-08-15). Data was largely collected through unstructured interviews to obtain precise statements from the participants concerning their perceptions<sup>75</sup> – in this case concerning the Indonesian tax administration project reform initiative – and therefore providing the richest source of data

<sup>72</sup> Ian Dey, *Grounding Grounded Theory: Guidelines for Qualitative Inquiry* (Academic Press, 1999).

<sup>73</sup> 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.

<sup>74</sup> 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.

<sup>75</sup> Tim Rapley, 'Interviews' in Clive Seale et al (eds), *Qualitative Research Practice* (SAGE Publications, 2007) 15.

for theory building.<sup>76</sup> A potential weakness in this data is that participants may have changed what they wanted to say in response to the researcher's reaction.<sup>77</sup>

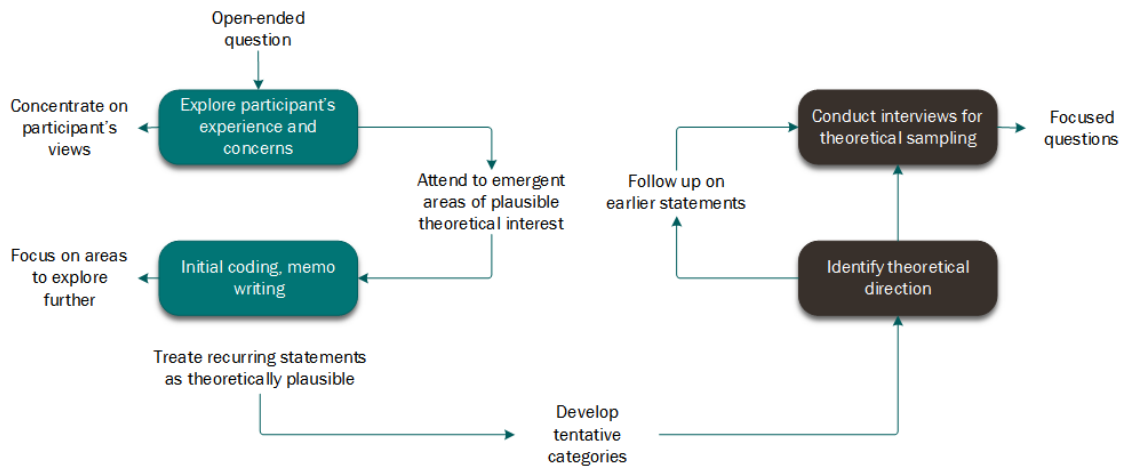


Figure 8 Interview strategy<sup>78</sup>

The interviews did not follow pre-structured questions. Paper-based note taking was used during the interviews, along with audiotaping. Although aware that this might reduce a participant's openness,<sup>79</sup> the researcher noted no significant adverse effect.<sup>80</sup> The interview with Participant 4 was not taped at his request, although he acknowledged its importance<sup>81</sup> – for this session, extensive note taking was undertaken. The interviews generally lasted one hour or more,<sup>82</sup> a duration considered sufficient.<sup>83</sup>

#### D. Data Analysis

In this research, data was analysed using techniques mostly borrowed from Strauss's version of grounded theory, with NVivo (QSR International software for qualitative data analysis) to assist with data analysis and management. Key interviews were transcribed

<sup>76</sup> Corbin and Strauss, above n 68.

<sup>77</sup> Ibid.

<sup>78</sup> Charmaz, above n 57.

<sup>79</sup> Hilary Arksey and Peter T. Knight, *Interviewing for Social Scientists: an Introductory Resource with Examples* (SAGE Publications, 1999).

<sup>80</sup> This can be seen for instance in Participant 3 when, although she knew that the interview was recorded, she shed tears when she described her life-changing experience during the pilot project.

<sup>81</sup> This participant did not particularly state his reasons for his rejection of being audiotaped. However, during the interview, he revealed sensitive information regarding his past. Whether this was related to his objection or not is nevertheless unclear.

<sup>82</sup> One of the interviews with Participant 9 lasted for approximately three hours. This interview took place leisurely over lunch in a restaurant near her office.

<sup>83</sup> Pranee Liamputtong and Douglas Ezzy, *Qualitative Research Methods* (Oxford University Press, 2nd ed, 2005).



selectively using Microsoft Word by the researcher and then coded quickly to guide further interviews. Data analysis began as soon as each interview was completed,<sup>84</sup> with constant comparison of emergent findings with new data informing the researcher's understanding.<sup>85</sup> Written records of analysis (memos) stored in NVivo further informed the researcher's reflections during data analysis.

Following Strauss's suggestion, interviews were transcribed selectively covering only the portions that were considered essential for the concept development.<sup>86</sup> The researcher listened to the recorded interviews for important keywords. Similar keywords were grouped under the same heading. These were then compared with the literature. A higher-level analysis was conducted similarly until it reached an overall theme (Table 3, see also Appendix B).

Table 3 Concept hierarchy

<ul style="list-style-type: none"> <li>I. Internal gaps <ul style="list-style-type: none"> <li>A. Expectation Gap A (staff's expectation) <ul style="list-style-type: none"> <li>1. Superior observed behaviour v staff expectation (Gap 1)</li> <li>2. Staff expectation v Superior expected behaviour (Gap 2)</li> <li>3. Superior observed behaviour v Superior expected behaviour (Gap 3)</li> </ul> </li> <li>B. Expectation Gap B – superior's expectation (Gap 4)</li> <li>C. Communication Gap (Gap 5)</li> </ul> </li> <li>II. External gap (Gap 6)</li> </ul>
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### ***E. Rigour***

Establishing rigour is essential,<sup>87</sup> and in this research it is achieved by following the strategy illustrated in Figure 9.

<sup>84</sup> Carl F. Auerbach and Louise B. Silverstein, *Qualitative Data: An Introduction to Coding and Analysis*, Qualitative Studies in Psychology (New York University Press, 2003).

<sup>85</sup> 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.

<sup>86</sup> Anselm L. Strauss, *Qualitative Analysis for Social Scientists* (Cambridge University Press, 1987).

<sup>87</sup> 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.

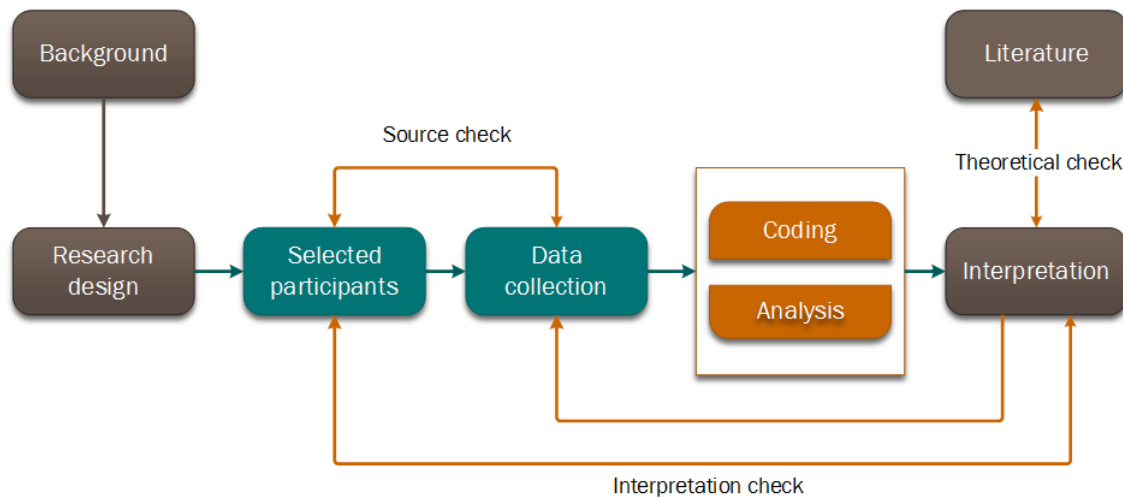


Figure 9 Achieving rigour<sup>88</sup>

Any important issues raised by a participant were examined with reference to responses from another participant. Several documents were also consulted to add another layer of verification. Literature was then used as a guide to understand the participants' narration. This allowed the ideas developed in this research to be derived from the participants' accounts while being validated by the literature. As such, because findings are contrasted against literature, this research may also be seen to be adopting a positivist's stance.<sup>89</sup> Part four discusses the results of this research in detail.

## IV RESULTS

This section discusses the concepts and categories derived from the data. As can be seen in Table 3 (also Appendix for a more detailed graphical illustration), this paper reveals that there are four factors that may limit the DGT's ability to optimise revenue collection. This includes internal and external factors and then internal and external gaps.

### A. Internal Gaps

One of the main lessons learnt in this study is that there are significant differences, illustrated in this research as gaps, between the tax administration applied at the pilot offices

<sup>88</sup> Adapted from Bradshaw and Stratford, *ibid.*

<sup>89</sup> Margaret Anne McKerchar, *Design and Conduct of Research in Tax, Law and Accounting* (Lawbook Co., 2010).

and the tax administration currently practiced. These gaps, shown in the Appendix, could affect staff performance and in turn, undermine the overall office performance. As such, they may become hurdles in the DGT's attempt to optimise revenue collection.

### ***1. Expectation Gap A (Staff's Expectation)***

#### ***(1) Gap 1***

This gap describes the discrepancy between the expectancy of staff about their superior's behaviour and the behaviour that they actually observe on a daily basis. In essence, this gap concerns with, for example, whether a superior shows a good leadership or a good example or the superior actually practices what he/she talks about. In other words, whether the superior can be consistent with his/her claims. As an example, when Darus, a former head of a tax office, was asked about his strategy in maintaining the spirit of his staff, he mentioned that setting a good example is of paramount importance. He said that:

*... [I]t is true what they say ... walk the talk ... if a superior does not make a command to his/her subordinates to do bad things, then obviously they would not do such things.*

Darus further continued that:

*Being a leader means setting good example.*

It is in this aspect that unfortunately the DGT is currently lacking, as illustrated by Uti.

*I say there is no ... like for example like when, [someone] who inspires us ... we are close to not having a role model. A perfect role [model] ...*

In addition to being able to set good examples, superiors need to be able to be trusted by his/her subordinates. In a follow-up email, Rosa, a staff at the DGT head office emphasised the importance of trust. She believed that it is imperative for staff to be able to trust that their superior had a good intention and that those staff knew that ... *they were not simply being used*. Without this, a good communication, which she believed to be essential in maintaining a professional subordinate-superior partnership, may not exist.

*Staff who do not trust that their superior has good intention can cause hurdles in their communication. And a professional partnership requires good communication.*

A different account however was provided by Uti, an appeal officer at the DGT. Part of her job is to represent the DGT in court in disputes with taxpayers in a team. The team normally consists of two officers. It is very rare for her superior to accompany the team in court. However, Uti was surprised when one day her superior came with her team to one of the court proceedings. The superior nevertheless stayed in the lobby and did not come into the courtroom. She later found out that on that day, one of the higher echelon at the DGT came to visit the court and that her superior was there simply to welcome that person. The superior left the court as soon as the visit was finished.

These accounts provide an indication of a gap between what is expected by a staff of a superior's behaviour and what they see in reality. Ideally, superiors need to show that they are consistent with what they claim, something that Darus referred to as doing the *walk the talk*. As the Indonesian bureaucracy generally follows a top-down approach, much like a father and son relationship,<sup>90</sup> then a superior's ability to show consistent behaviour between what they claim and what they say is essential. This gap may also make it difficult to establish trust between staff and their superior. It is predicted that the escalation of such gap may contribute towards the widening of expectation gap A that in turn, could potentially limit staff performance.

## **(2) Gap 2**

Gap 2 is related with the DGT's difficulties to deliver superior whose ability meet the staff's expectation. An interview with Uti revealed that when she was transferred to the DGT's head office, she was expecting to work under a superior with a good skill in court proceedings, communication, and taxation. She believed that these set of skills would be useful to help her

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<sup>90</sup> Agus Dwiyanto and Bevaola Kusumasari, 'Paternalism in Public Service Bureaucracy' (2001) 02/PB-E/2001 *Policy Brief*, Center for Population and Policy Studies, UGM, Yogyakarta 1.

communicate with tax auditors and taxpayers. Skills in court proceedings would undoubtedly be useful so that she could obtain help when she was assigned in court.

It turned out that what she was expecting was not met. Her superior was lacking the skill-set that she was expecting. When Uti finished her review on a tax case and submitted it to her superior for feedback, what she obtained was feedback on language as opposed to the content of the case. She felt that her peer's feedback was more useful in improving her case review.

Another example is provided by Iin, who was recently promoted. In a meeting at the DGT head office, she remembered that she was told that she was expected to be *a machine* at the new office. What was meant by *a machine* however was not clear. She continued that before she left for the new office, she attended a one-week preparation class. The class however was not so useful in her new job although she acknowledged that it was good at improving her self-confidence. Apparently, it was not clear for her what she was expected to do in her new job. Iin ultimately accepted that it was assumed that she already knew what was expected of her in her new job although this was not the case.

Gap 2 can be reduced for example by making it clear the set of skills, either hard or soft skills, that are required for a certain position. Although this can be seen in job descriptions often advertised, this frequently is not the case in DGT. In her new job for instance, Iin is required in the official document to provide ... *technical and administrative assistance on tax collection, supervise the implementation of tax collection policy, and provide assistance on tax collection*<sup>91</sup> with no further details provided.<sup>92</sup>

These examples provide an indication there is a discrepancy between staff's expectation on a superior's expected behaviour and the expected behaviour of a superior. This gap may be

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<sup>91</sup> Article 17 paragraph (3) Minister of Finance Regulation No 132/PMK.01/2006.

<sup>92</sup> A PowerPoint presentation document obtained by the researcher however suggested that *before* a person holds a certain position he/she needs to acquire the necessary skills. Example of such skills however was unable to be obtained. On the other hand, this document also acknowledges that the implementation of a proper talent management faces a number of obstacles, including promotion that is seen as something that is predestined following a seniority level.

caused by unclear expectation required by the DGT that needs to be met by a superior. As in Gap 1, it is predicted that an increase in Gap 2 would contribute to the widening of the expectation Gap A that in turn may limit staff's performance.

### (3) *Gap 3*

This gap talks about whether behaviour that is expected to feature in a superior is in fact can be seen in reality. To illustrate this gap, Iin mentioned about instances when a staff in one section suddenly is transferred to a different section. She described several events that she knew had taken place in the taxpayer extensification section. This particular section at the Indonesian tax office she knew frequently was assigned with staff with minimal experience. These staff were provided with trainings and coaching while they were assigned there. However, when their skills finally were considered upgraded, it was often they were transferred to a different section, such as taxpayer service section or to become an account representative.

*In exten [referring to the taxpayer extensification section] this is what happened. We often trained people, those staff. They put material, human resources, with zero experience. Then we trained them. When they became skilful, they were transferred somewhere else. To be an AR [account representative] or transferred to the taxpayer service section. It was always like that.*

In a set of PowerPoint slides obtained from a staff at the internal compliance division at the DGT head office, it is revealed that monitoring and coaching is part of the job design at the DGT. These two functions are related with the performance contract that an employee signed as part of his/her job description. When an employee is considered unable to meet the contractual arrangement, then that employee needs to be coached by his/her superior.

This document basically explains that monitoring and coaching are part of a superior's duties. However, looking at Iin's description, it can be seen that the coaching function may not seem to be performed adequately. Although ideally a superior is required to coach, in reality, it is often not the case. This indicates that a discrepancy between the ideal behaviour and

behaviour that is seen in reality, referred to as Gap 3 in this paper, exists. It provides an indication that a superior does not perform what he/she should have been done. It is suggested here that an increase in Gap 3 may worsen expectation Gap A.

## **2. *Expectation Gap B (Superior's Expectation): Gap 4***

Gap 4 in essence can be seen as the opposite of Gap 1. While Gap 1 illustrates staff's expectation, Gap 4 on the other hand looks at superior's expectation from his/her staff's actual behaviour. This as an example is illustrated by Juna, a tax collector at one of the tax office in Eastern Part of Java. Juna mentioned two instances that provide examples on the existence of this gap. In the first example, Juna described a problem faced by one of his colleagues. He said that one of his colleagues felt unhappy about the performance of his staff. He said that his staff seemed to have difficulties in following up topics discussed in routine meetings on revenue optimisation. He suspected that his staff did not seem to have adequate knowledge to understand his strategy in revenue optimisation that he wanted to do.

In the second instance, Juna explained what had taken place in his office. He said that some of the staff in his office seemed to be less enthusiastic in his work. This particular person coincidentally was from a local community.<sup>93</sup> Juna knew that he spent more time in his home, compared to his peers, to take care of his pet. He also knew that he had been sometime spent working out of town and that he just recently was transferred to a local tax office near his place of residence. As such, Juna believed that he was enjoying his time and only wanted to work just enough. The problem was, Juna continued, his attitude apparently was followed by several staff members. These examples present an indication the existence of Gap 4. The widening of Gap 4 may limit the overall performance of the office. In the examples above, this can be either in the form of non-optimal strategy execution or staff performance.

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<sup>93</sup> This colloquially in DGT is often referred to as working in a home base.

As a way to reduce Gap 4, it has to be understood that each person may have a different *drive* that can motivate employees. This includes the drive to acquire, to bond, to comprehend, and to defend.<sup>94</sup> The drive to acquire, when fulfilled, creates a sense of delight and on the contrary, causes a feeling of displeasure when it is thwarted. It is proposed that a way to address this desire is by offering a suitable reward system. However, offering compensation alone is not sufficient as people also needs to be connected with their peers. A sense of connectedness signifies the drive to bond. If fulfilled, this drive results in positive emotion such as being loved or cared. In a workplace environment, it will improve an employee's pride towards their organisation. On the contrary, if this drive is not met, hence employees felt betrayed, it may cause them to lose their morale. For this, creating a culture that promotes teamwork, openness, collaboration, or friendship is of importance.

The next drive to be consider is the drive to comprehend. This means that employees often need to understand what happens around them and formulate sensible actions and responses. They often frustrated if they found difficulties to understand things around them. This also means that they have the desire to make a meaningful contribution can be frustrated by monotonous jobs that may lead to a dead end. Hence, it is essential for an employee to have a meaningful job with important role towards the organisation's goals. Lastly, an employee's drive to defend needs to be considered as well. This drive manifests itself in a form a desire to seed justice and fairness that enable an employee to express an opinion freely. Once satisfied, this drive promotes a feeling of confidence and security. It unfortunately also leads a resistance to change, fear, or resentment if it is not met.

Understanding these drive is therefore essential. In Juna's case for example, being able to work in an office located in a location where a person originally is from, frequently referred to as home base, was apparently the extra reward, in addition to the monetary compensation,

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<sup>94</sup> Nitin Nohria, Boris Groysberg and Linda-Eling Lee, 'Employee Motivation: A Powerful New Model' (2008) (July-August) *Harvard Business Review* 78.



wanted by that person. This could be his drive to acquire. Once it was achieved, he was in his comfort zone and felt that he needed to defend his current position by focusing on efforts to work just enough to maintain his current position. It is therefore essential for him to be reminded that working in his home town may not last forever and eventually, he would need to be transferred to a new location, essentially removing the extra reward of working in his home town. And if he wants to have that reward again, then he needs to earn it through his job performance.

### ***3. Communication Gap: Gap 5***

This gap in essence deals with how the DGT communicate with their employees. The key issue in this case is the truthfulness of the information. This can be seen for instance in the situation surrounding the issuance of Presidential Decree No 37/2015. This decree contains a set of rules regulating the additional payments for tax officials. These payments are made based on tax revenue collected in the previous financial year. Basically, the decree sets a significant increase in monthly salary, particularly for higher echelons at the DGT. It also sets a cut if the tax revenue target is not met.

The highest payment is given to the Director General at the amount of IDR 117.375 million (AUD 11,737.5, at the time of writing) per month and the lowest is set to IDR 5.36 million (AUD 536) per month for a staff member. This is a significant increase from IDR 46.950 million (AUD 4.695) per month and IDR 3.154 million (AUD 315.4) per month respectively that was paid previously. This constitutes an increase of 150% for the highest echelon to only 70% for the lowest level of staff. This increase however will be cut ranging from 10% to 50% if the target revenue is not met.

The participants of this research however revealed a different story. One of the participants, Trish, recalled that in a number of occasions, mostly meetings, it was informed to the staff that the increase would be flat of 250%. However, when it was officially announced,

the increase was mostly benefitted those at the higher echelon, as oppose to a flat increase that was informed before. Another participant, Mel, who was an account representative at a local tax office in Eastern Java, expressed her concern about her friends. In 2015, the target revenue was increased significantly IDR 1,294.2 trillion (AUD 129,4 million) and she estimated, accurately, that the DGT would not be able to meet the target. As such, she was worried that the take-home pay of some of her friends might be lower, due to the payment cut, compared to what they earned in the previous year. She knew that who would suffer most were unfortunately those who worked harder in her office.

Mel's concern was shared by others. There were a few DGT staff who wrote in the internet, mostly in free website such as Kompasiana, expressing their concerns about this issue. They used terminology such as *Ketapel*<sup>95</sup> (Kelompok Tunjangan Pelaksana Lainnya/group of employees whose salary belongs to the miscellaneous group in Perpres 37/2015). Uti, a participant working as a staff the DGT's head office, recalled that after Perpres 37/2015 was officially in force, she felt that her superior maintained a certain distance, possibly, she believed, because that superior was afraid of being confronted. A video posted online by a person from a tax office in Kalimantan also mentioned similar position.

Wono, a head of section in a local tax office, on the other hand maintained sharply that if one of his staff asked him about this, he would reply that this increase was earned rather than given. He continued that if one wanted this increase, then he/she needed to work hard, continue study, and attend workshops, so that they can be promoted. It was not easy, and that was what was needed to be done to deserve such increase.

Jono, a participant who was one of the highest echelons at the DGT head office, acknowledged the issue. He said that Perpres 37/2015 was deliberately drafted in such a way that benefitted higher echelons because he knew that at the moment there were many DGT staff

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<sup>95</sup> Ketapel in bahasa Indonesia means a traditional tool commonly used by children to shoot small rocks.

who refused to be promoted and held position far from home town (as a consequence of the promotion). This new financial compensation was designed to provide an incentive for such staff to take the promotion.

The problem seems to be located not on the amount of the increase, but rather, lies in what is referred to in this paper as a *communication gap*. In this case, it was a fact said in a number of occasions to the DGT staff by their superior that the increase would be a flat rate of 250% as mentioned by Trish. The final increase was lower at an approximately of 190% level. What went unnoticed was that the increase was not a flat increase. It instead ranged from the lowest of 70% to the highest of 261%. As a result, when the increase was officially announced, and it was not the same as what was mentioned before. In this case, the drive to bond seemed not to be fulfilled. As a result, some of the staff felt that they were betrayed causing them to lose morale, as seen in the *ketapel* movement. This may undermine the level of staff's trust towards their superior, an important factor in improving performance (see Gap 1).

Another issue to note is the trustworthiness of the information delivered during official channels. When the trustworthiness of such channels decreases, staff tend to turn into unofficial channel, commonly known as grapevine. Essentially, grapevine can be defined as spread of rumours and gossip from one person to another.<sup>96</sup> It is uncontrollable,<sup>97</sup> often travels faster than formal channels, and moves through the organisation in every direction.<sup>98</sup> Unfortunately, while it may contain some truth, it seldom has the whole truth. It frequently increases when there are uncertainties or in situations where news are lacking.<sup>99</sup>

In DGT, one of the prominent grapevine channel is the online discussion forum called *Fordis* (Forum Diskusi/Discussion Forum) built within the DGT's own computer network. It is possibly through such channel that the 250% flat increase spread rapidly. The *Ketapel*

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<sup>96</sup> Gunver Lystbaek Vestergaard, 'The Science Grapevine: Influence of Blog information on the Online Media Coverage of the 2010 Arsenic-based Life Study' (2017) 18(5) *Journalism* 626.

<sup>97</sup> Ibid.

<sup>98</sup> Jitendra Mishra, 'Managing the Grapevine' (1990) 19(2) (Summer 1990) *Public Personnel Management* 213.

<sup>99</sup> Ibid.

movement gained its popularity through, among other channels, this channel. The extensive use of grapevine within the DGT is exacerbated by the interest of some higher echelons to use instant messaging services, such as traditional text messages or WhatsApp. Some information, which was claimed to be authentic, spread through these services in the form of text messages or scanned images of a hand-written message. The accuracy of such information generally cannot be warranted as the information is subject to multiple interpretation as it moves through the network.<sup>100</sup> This widens Gap 5, leading to a reduced employees' trust towards their superior, thereby further widens Gap 1. This could lead to a decrease in their morale as their drive to bond was not satisfied.

During the pilot office, on the contrary, the situation was different. At that time, it was seen as common for a superior to be in a close relation with his/her staff. Superior often shared personally on events surrounding the pilot project. This created closeness between staff and their superior, a situation that instilled trust between the two and led to a conducive working environment.<sup>101</sup>

### ***B. External Gap: Gap 6***

This gap looks at the discrepancy between taxpayer's expectation on DGT performance and the performance that they observed. In this paper, it is argued that internal gaps may affect staff performance. This in turn affect the overall office performance. If the office performance deteriorates, it will be more difficult to meet taxpayers' expectation, thereby making Gap 6 widen.

The key issue in Gap 6 is that it is important for the DGT to meet taxpayer's performance expectation. This can be seen for instance when a participant, Yaseen, raised his concern regarding the online tax return lodgement system. He was conducting a demonstration on various taxpayers regarding the newly launched online tax return lodgement system. This

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<sup>100</sup> Ibid.

<sup>101</sup> Prasetyo, above n 52.

system was accessed through the internet using a website with an address *djponline.pajak.go.id*. However, the system stopped working in the middle of the session. He clearly remembered that one of the taxpayers said that the system should be called *djpooffline.pajak.go.id* rather than *djponline.pajak.go.id*. While there were many factors that might be the cause of the failures, in this particular case, Yaseen felt the lack of support from the DGT head office particularly from the IT department.

In a different setting, another participant, Siti, told a story about a taxpayer community called USP (UKM Sahabat Pajak/Small businesses who befriend taxes). This community started from her belief, and later manifested as a research project, that most taxpayers are willing to pay taxes if they are approached with a correct method. Siti believes that if taxpayers are able to experience that the tax office is willing to help, then taxpayers will do the same in return. The USP at the moment works closely with a local tax office in Pondok Aren, a place where Siti lives. The tax office helps organise trainings in accounting, marketing, and general networking events for small business owners. Education on taxation matters mostly are set aside. Tax payments are seen as side effect. According to Siti, members of this community mostly agree that because the tax office helps them grow their businesses, then it is only fair that they pay their fair share of tax in return.

At the moment, most of the DGT's measures to improve compliance are directed towards activities that tend to benefit the tax office. This includes for instance education on tax rules for business associations or employers, identification of non-filers, surveillance on taxpayers participating in the recent tax amnesty program, or imposing penalties to non-filers.<sup>102</sup> Siti saw this as incomplete because it did not create a sense that the tax office is there to help taxpayers. Instead, it generated a feeling that taxpayers were mere object that, in the name of law, were sources from whom money could be extracted. As a result, taxpayers felt

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<sup>102</sup> Circular Letter No SE-06/PJ/2017.

disconnected from the tax office, and sometimes even disliked a contact with the tax office. In her research, Siti reported taxpayers' eagerness to participate in the program that she offered.<sup>103</sup>

In this context, in an email, Rosa, a different participant, sent the researcher an article taken from one of the leading newspaper in Indonesia. The article talked about trust and personal engagement that she believed to be important. An organisation that is able to instil trust between staff and superior and then align the vision and mission of its staff with those of the organisation will benefit from the willingness of the staff to do the extra work voluntarily. In this case, Siti's willingness to think out of the box, that culminated in the formation of the USP, signifies this. She considered such extra work as a pride because of she saw it as a contribution towards the organisation's goal, a key concept referred to as militancy in the pilot project.<sup>104</sup> Unfortunately, as internal gap widens, this paper proposes that it will be more difficult to establish militancy within the DGT.

These examples indicate that there may be a gap on the DGT's approach to improve taxpayer compliance. It is proposed in this paper that as Gap 6 widens, it will be more difficult for the DGT to optimise revenue collection.

## V THEORETICAL CONSTRUCT

Participants of this research reveal an indication of several gaps at varying level at the DGT. The next question following the discussion outlined in section IV would be how these gaps affect the performance of officials working at the DGT and ultimately, the DGT's performance itself. This section endeavours to provide an explanation to this question by integrating the key concepts explained in section IV. For this, it is useful to have a look at the evolution of workplace over time.

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<sup>103</sup> Khusnaini and Agung Widi Hatmoko, *Efektivitas Penyuluhan Pajak Berdasarkan Pendekatan Fogg Behavioral Model (FBM) Terhadap Tingkat Kepatuhan Wajib Pajak Orang Pribadi (Studi Kasus Pada KPP Pratama Serpong)* Badan Pendidikan dan Pelatihan Keuangan <<http://www.bppk.kemenkeu.go.id/publikasi/kajian-akademis?download=118:efektivitas-penyuluhan-pajak-berdasarkan-pendekatan-fogg-behavioral-model-fbm-terhadap-tingkat-kepatuhan-wajib-pajak-orang-pribadi-studi-kasus-pada-kpp-pratama-serpong>>.

<sup>104</sup> Prasetyo, above n 52.

Thomas explains that changes in workplace take place in several stages.<sup>105</sup> Up until 1970s, workers' roles generally could be viewed in term of compliance. Driven by the requirement at that time to create standardised products, workers were required to adhere to detailed rule books. Hierarchies and top-down close supervision were put in place to ensure that those rules were adhered. Tasks were simplified, which meant that training costs and workers' compensation were minimal as the tasks they needed to do were simple. This practice is referred to as the compliance-focussed management.

This approach however tend to fail to make a person motivated. To address this issue, generally monetary compensation is given. Closer supervision is required to ensure that the correct persons to be compensated can be identified and financially rewarded accordingly. As a result, organisations only concern with buying their employees' behaviour rather than their commitment, passion, and initiative. Therefore, if a person decides to stay in an organisation, it is largely because of the amount of compensation that that person receives rather than the work itself. In other words, this environment puts extrinsic rewards in high importance. The downside of this approach is that with a limited financial capacity faced by many institutions at the moment, along with the desire to simplify tasks, an organisation's ability to provide extrinsic rewards is certainly limited.

At the beginning of the twenty first century, advances in telecommunication technology brought significant changes, most evidently the rapid pace of globalisation. Firms are now faced with global competition with more intense competition. As such, quicker response to customers' demand is essential. There is a move from standardised to more customised products suiting customer's demands, particularly in service industries. This put pressure to firms to allow their employees to make more judgments, innovate, and to be problem solver. Thus, most low skilled jobs are either outsourced or being automated. Tall hierarchy and close

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<sup>105</sup> Kenneth Wayne Thomas, *Intrinsic Motivation at Work: What Really Drives Employee Engagement* (Berrett-Koehler Publishers, 2nd ed, 2009).

supervision, that basically limit an organisation's ability to make quick response, are beginning to be a practice of the past. As a result, making employees motivated become essential to keep them engaged to their work. Literature in fact recognises that energetic, passionate, and creative employees are significant for an organisation in accomplishing its endeavours.<sup>106</sup> As a result, encouraging and motivating employees with such attributes are essential to improve their productivity.<sup>107</sup>

For this reason, it argued that in today's environment, intrinsic rewards, that come directly from the work itself, are considered to be more important.<sup>108</sup> The idea of using intrinsic rewards to motivate employees raised by Thomas is not new. Herzberg for instance, has argued that intrinsic factors, such as recognition or achievement, are essential to improve job satisfaction.<sup>109</sup> As such, according to Porter and Lawler, jobs should be made more interesting and therefore, more intrinsically rewarding.<sup>110</sup> Inherent in the concept of intrinsic rewards is the requirement for an employee to be self-managed. This means that an employee needs to commit to a purpose, such as providing ultimate service to a taxpayer, then chooses and performs whatever tasks required to fulfil that purpose. This is what is referred to as self-management (Figure 10).<sup>111</sup>

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<sup>106</sup> William H. Macey and Benjamin Schneider, 'The Meaning of Employee Engagement' (2008) 1(1) *Industrial and Organizational Psychology* 3.

<sup>107</sup> Nikhil K Mehta and Upasna A Agarwal, 'Hari Sadu Versus Subordinates: An Analysis of the Interpersonal Dynamics at the Workplace' (2017) 11(2) *IUP Journal of Soft Skills* 35.

<sup>108</sup> Thomas, above n 105.

<sup>109</sup> Frederick Herzberg, Bernard Mausner and Barbara Bloch Snyderman, *The Motivation to Work* (John Wiley & Sons, 2nd ed, 1959).

<sup>110</sup> Lyman W. Porter and Edward E. Lawler, *Managerial Attitudes and Performance* (Irwin-Dorsey, 1968).

<sup>111</sup> Thomas, above n 105.





Figure 10 Self-management<sup>112</sup>

Under this concept, if a tax officer has a meeting with a taxpayer, what that officer aims to achieve is how to serve that taxpayer better rather than completing tasks outlined in the standard operating procedures (SOP). If the steps outlined in an SOP are considered insufficient to serve that taxpayer, then that tax officer would be willing to do an *extra mile* to take additional tasks not contained in the SOP. If the results satisfy that officer, then that officer's judgments are positive. This is because he believes that he has been doing a purpose of value (meaningfulness), using a set of correct tasks (choice) that are performed well, satisfies the required standards (competence), and ultimately, achieves something that is closer to the purpose he aims to accomplish (progress). Collectively, these factors comprise intrinsic rewards (Figure 11).

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<sup>112</sup> Ibid.

	Opportunity rewards	Accomplishment rewards
From task activities	Sense of <b>choice</b>	Sense of <b>competence</b>
From task purpose	Sense of <b>meaningfulness</b>	Sense of <b>progress</b>

Figure 11 Intrinsic rewards<sup>113</sup>

These intrinsic rewards are linked with self-management events. An employee who engages in a self-management basically uses judgments in accomplishing the tasks that he sees suitable to attain his purpose. Once the purpose is achieved, he feels a certain intrinsic reward as a result of it. As an example, a tax officer who engages with a taxpayer commits with a purpose of serving that taxpayer better. This creates a sense that he has accomplished a sense of being meaningful to others. This is the reward that he enjoys. Such positive feeling, in turn, creates energy that further reinforces self-management (Figure 12).

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<sup>113</sup> Ibid.

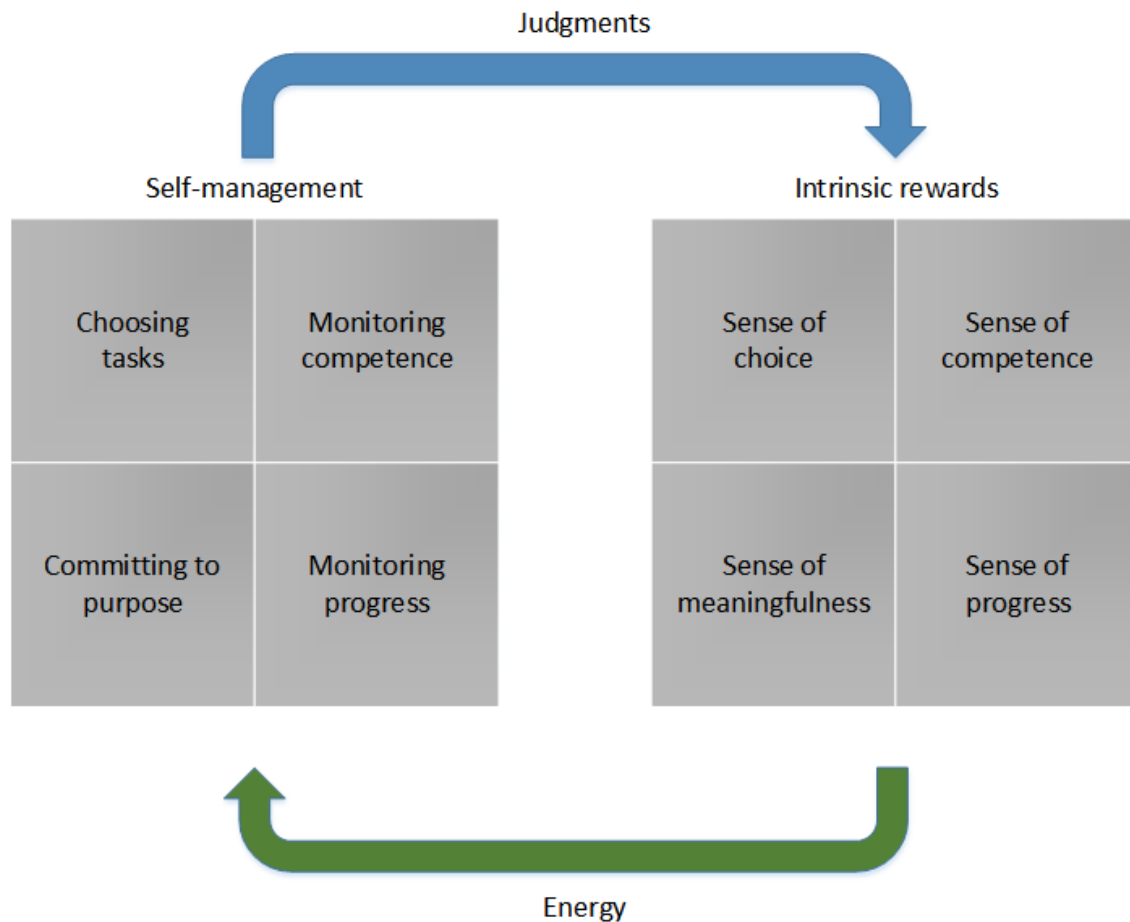


Figure 12 The interaction between self-management and intrinsic rewards<sup>114</sup>

It is possible for a person to engage in a self-management but then does not obtain the intrinsic rewards that he deserves, thereby causing an energy leak. This leak decreases the ability of intrinsic rewards to reinforce the self-management events. The gaps outlined in section IV in essence provides instances when this leak occurs (Figure 13).

<sup>114</sup> Ibid.

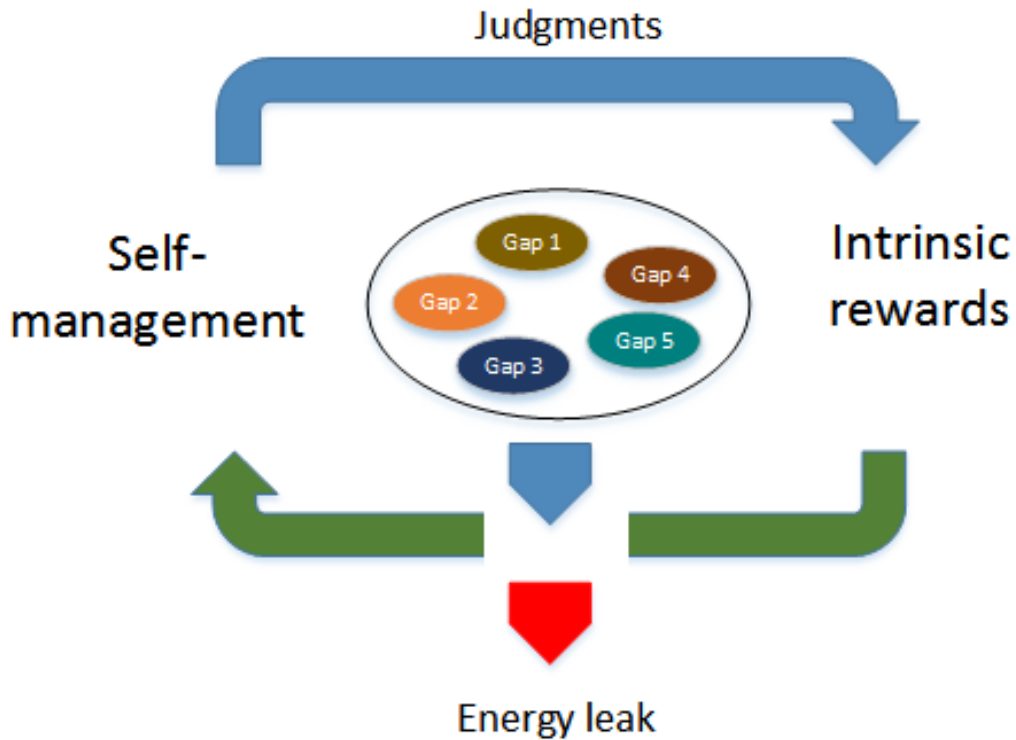


Figure 13 Energy leak

In Gap 1 for instance, Uti illustrates that what is lacking at the moment is a person who can inspire, while in fact, being able to inspire is one of the important attributes that is required to instil a sense of meaningfulness. By contrast, during the tax administration project reform, employees who were involved in that project were mostly able to see their immediate superiors as role models as they saw them largely to be exemplary and caring.<sup>115</sup>

Similar case can also be seen in Gap 2. A case described by Uti illustrates an example where she begins to lose confidence in her superior's skills as she found that her superior was unable to provide meaningful feedback on her work. The fact is, under self-management, employees must be given an opportunity to assess their performance, as part of competence monitoring, so that they can make adjustments whenever possible. Uti's inability to obtain feedback from her supervisor undermines her sense of competence. This in turn may weaken

<sup>115</sup> Prasetyo, above n 52.

her self-management events. Although it has been suggested that personal feedback may boost employees' morale to improve their performance,<sup>116</sup> it seems that from Uti's experience, this is the field that the DGT may perhaps be lacking at the moment.

Gap 3 may also weaken the self-management of an employee. A case raised by Rosa provides an example. In section IV, Rosa raises an issue where employees who has been trained in one section in a tax office are then transferred to a different section and highlights her observation that it may indicate that the skill of a superior to coach at the DGT might be limited.

The lack of coaching skill may limit the ability of a superior to equip his subordinates with the necessary skills to accomplish the required tasks. In turn, this could weaken the self-management of that employee and thereby undermine that employee's performance. Not only that, such staff transfer could be a source of what Pondy describes as latent conflict, referring to a condition where it is potential for a conflict to occur, as there is a competition for resources (in this case it is successfully trained employees).<sup>117</sup> It may even result in an organisational dysfunction.<sup>118</sup> During the pilot project reform, this problem seemed to be non-existent, possibly due to the sufficient trainings made available at that time.<sup>119</sup>

Gap 4 can cause an energy leak that undermine an employee's self-management as well. This can be seen for instance in a case described by Juna. This case relates to a colleague who spends most of his time at home to take care of his pet. This person quite possibly has lost his interest to commit to the purpose of working at the tax office. As such, he no longer obtains the intrinsic reward of having done something meaningful at the tax office, thereby decreases the energy that reinforces the self-management process.

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<sup>116</sup> Adiza Musah, Ghazali Zulkipli and Nizam Ahmad, 'Relationship between Organizational Communication and Job Satisfaction in Temporary Work Environment: An Empirical Study of Plant Turnaround Workers' (2017) 9(1s) *Global Business and Management Research* 73.

<sup>117</sup> Louis R. Pondy, 'Organizational Conflict: Concepts and Models' (1967) 12(2) *Administrative Science Quarterly* 296.

<sup>118</sup> Jacek Pasieczny and Beata Glinka, 'Organizational Dysfunctions: Sources and Areas' (2016) 4 213.

<sup>119</sup> Prasetyo, above n 52.

The next gap (Gap 5) is essentially about communication between superior and subordinate. Communication can be seen as an exchange of information and the transmission of meaning,<sup>120</sup> which is crucial in an organisation as it is the main medium of human interaction<sup>121</sup> and a tool to convey organisational effectiveness.<sup>122</sup> It is important as a way to transfer information across and to foster and sustain healthy work relationship.<sup>123</sup> Such information sharing could in turn nurture interpersonal relationship between subordinates and their superior.<sup>124</sup> Further, positive work outcome, such as improved performance or increased effort, can be obtained if employees are subjected to better communication strategies.<sup>125</sup>

Given the importance of communication suggested in the literature cited above, it is therefore an area of significance in an organisation such as the DGT. However, it is unfortunately in this area that the DGT seems to be lacking, identified as Gap 5 in this research. Poor communication style illustrated in section IV may, thus, weaken the self-management events that are required to be engaged by tax officials. Such an ineffective communication may cause misunderstandings and low motivation in an organisation,<sup>126</sup> which apparently is the case here. By contrast, the pilot project did not seem to have similar shortcoming as superiors in that project were able to have close relationship with their subordinates. This was mainly due to their willingness to reduce hierarchical boundaries.<sup>127</sup> The next part provides a summary of key findings and concludes this paper.

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<sup>120</sup> Daniel Katz and Robert L. Kahn, *The Social Psychology of Organizations* (Wiley, 1966).

<sup>121</sup> William G. Scott and Terence R. Mitchell, *Organization Theory: a Structural and Behavioral Analysis* (R. D. Irwin, Revised ed, 1972).

<sup>122</sup> John B. Bush and Alan L. Frohman, 'Communication in a "Network" Organization' (1991) 20(2) *Organizational Dynamics* 23.

<sup>123</sup> Orlagh Hunt, Dennis Tourish and Owen D.W. Hargie, 'The Communication Experiences of Education Managers: Identifying Strengths, Weaknesses and Critical Incidents' (2000) 14(3) *International Journal of Educational Management* 120.

<sup>124</sup> Edward E. Lawler and Susan A. Mohrman, 'With HR Help, All Managers Can Practice High-Involvement Management' (1989) 66(4) *Personnel* 26.

<sup>125</sup> Judy Gray and Heather Laidlaw, 'Part-time Employment and Communication Satisfaction in an Australian Retail Organisation' (2002) 24(2) *Employee Relations* 211.

<sup>126</sup> Pasieczny and Glinka, above n 118.

<sup>127</sup> Prasetyo, above n 52.

## VI CONCLUDING REMARKS

This research sets out to address concerns that despite an increasing rate of GDP and the tax administration modernisation, Indonesia's tax to GDP ratio has in recent times been decreasing. To examine the reasons for this, the research began by examining the Indonesian taxation system pilot project reform. Outcomes from this research are of interest to the Indonesian government and others because, first, the administration principles currently applied in the DGT are taken from that project, and second, that project resulted in an increasing tax revenue level at the time of a less favourable environment in terms of corruption and general economic conditions.

This research reveals that there are significant differences, illustrated in this research as gaps, between the tax administration applied at the pilot offices and the tax administration currently practiced. These gaps may make it more difficult for the DGT to optimise revenue collection. The main lesson from this research is that if these gaps can be reduced, it is believed that the DGT can be one-step closer to meeting its revenue target.

This conclusion nonetheless should be read with regards to several limitations to the research. First, data was collected mainly from interviews, and this may have limited the ability of the participants to reflect their experiences. Furthermore, it is possible that some events are missed or forgotten. The fact that the participants' memories might be inaccurate should also be considered.

Second, this research involved only a small number of participants. Whilst they are of diverse backgrounds, this research would undoubtedly have benefitted from additional participants, particularly in exploring more sensitive issues such as corruption and penalties.

Third, this research is based on self-reported data. Hence, it is possible that a participant may have described events that do not happen. Although the researcher endeavours to limit this

effect by cross-referencing participants' accounts with those of other participants and the literature, it might have had a negative impact on the overall study.

Lastly, as the researcher knows most of the participants, his subjectivity may have influenced the way the research was conducted. To deal with this issue, the researcher interprets what the participants said and then checks his interpretation with the literature. This research, therefore, is linked to more general concepts available in the literature.<sup>128</sup> However, as the findings contain the researcher's views,<sup>129</sup> this study only offers one of many possible interpretations. As such, it would be possible for another researcher to formulate a different conclusion based on the same data.<sup>130</sup> As a consequence, generalisation of the findings outlined in this paper in a statistical sense could be problematic.

In spite of this, this research opens up several topics to investigate further. First, the immediate research topic that follows is how the gaps recognised in this study change over time. For this, a set of questionnaire may be constructed. Second, one can look into the applicability of these results in other institutions, as the core principles outlined in this study could have immediate application in a different setting.

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<sup>128</sup> Joy L Johnson, 'Generalizability in Qualitative Research: Excavating the Discourse' in Janice M Morse (ed), *Completing a Qualitative Project: Details and Dialogue* (SAGE Publications, 1997) 191.

<sup>129</sup> Merry-Jo D Levers, 'Philosophical Paradigms, Grounded Theory, and Perspectives on Emergence' (2013) 3(4) *SAGE Open* 1.

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## Appendix

### The Relationship Between Concepts and Categories

