

TAX ADMINISTRATION REFORM IN INDONESIA: SOME LESSONS LEARNED*

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ABSTRACT

This study analyses the International Monetary Fund-led tax administration reform project carried out in Indonesia during the 2000s. Data was collected via in-depth interviews with participants who had performed various roles in that project. Findings here indicate that the reform project succeeded in part due to the people involved in the project having a pre-disposition for change to the Indonesian tax administration system. In addition, this research identified the importance of internal factors, such as leadership, reward and penalty, to foster militancy and the positive working environment thought necessary for the success of that project. This study therefore sheds light on how the project was administered and provides insights into how the current tax administration may be successfully managed.

Keywords: taxation, administration, leadership, change, reform

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I INTRODUCTION

In 1981, Indonesia's gross domestic product (GDP) was US\$92.47 billion with the industrial sector having the largest share (41.21 per cent), followed by services (35.43 per cent) and the agricultural sector (23.36 per cent).¹ At that time, Indonesia embarked on a series of major reforms to its tax system, which had been adopted from the previous Dutch administration. The existing system was considered inefficient as a result of a limited number of taxpayers, a lack of modern administration, and a high level of tax avoidance.² Further, it was considered outdated, complicated, and the level of collection was poor.³ Taxpayer compliance was also low, and there was an increasing amount of uncollected taxes,⁴ leading to limited revenue.⁵ Overall, the tax system was seen to be inefficient, unproductive, ineffective in income redistribution, and prone to manipulation.⁶

This article is divided into six parts. Part two explains the historical context of tax reform. Part three then identifies the parameters of this research. The results from the research are presented in part four. Part five integrates the results into a theoretical construct. Finally, part six examines the implications for further research and concludes the article.

II HISTORICAL CONTEXT

Indonesian taxation history can generally be divided into three different eras.⁷ 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 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.⁸

¹ World Bank, *World Development Indicators* (14 June 2017) <<http://api.worldbank.org/v2/en/country/idn?downloadformat=excel>>.

² Hidayat Amir, John Asafu-Adjaye and Tien Duchpham, '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, 1993).

⁵ Gillis, above n 3.

⁶ Ibid.

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

⁸ Gillis, above n 3.

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.⁹ It also aimed to create more effective income distribution, increase efficiency and reduce transaction costs.¹⁰ Its main focus was simplification.¹¹ 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,¹² 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 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).¹³ The advisors were predominantly Americans, or had an American background, and this influenced their approach.¹⁴ 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 1983.¹⁵

In spite of this, the reforms were seen as likely to increase non-oil tax revenue.¹⁶ The tax revenue to GDP ratio increased from 5 per cent in 1980–81 to 9.9 per cent in 1995 and 1996.¹⁷ Strong growth too was evidenced in businesses registered for VAT between 1985 and 1990.¹⁸ Further, the reforms allowed government to introduce a VAT without

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 Gillis, above n 3.

¹¹ 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.

¹² 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 (AU\$2353 at the exchange rate when this paper was written) per year or whose capital was not higher than IDR10 million (AU\$981 at the exchange rate when this paper was written) per year.

¹³ Heij, above n 9.

¹⁴ Ibid.

¹⁵ Gillis, above n 3.

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

¹⁷ Amir, Asafu-Adjaye and Ducpham, above n 2.

¹⁸ Wing Thyee 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).

affecting overall economic stability.¹⁹ However, in the administration context, Gillis reported that reform was considered less promising.²⁰ 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.²¹ Under this programme, Indonesia was required to implement a Large Taxpayer Office (LTO) in Jakarta in June 2002.²² 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.²³

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.²⁴ 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.²⁵ The main reason for using an LTU is to secure revenue,²⁶ by ensuring taxpayer compliance.²⁷ It is believed that such a unit increases compliance and improves administration effectiveness,²⁸ 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.²⁹

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 2004.³⁰ The results of these pilot offices were promising. They obtained a high taxpayer satisfaction score in the ACNielsen's eQ

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

²⁰ Ibid.

²¹ Government of Indonesia, *Letter of Intent of the Government of Indonesia and Memorandum of Economic and Financial Policies*, 23 July 2015, <<http://www.imf.org/external/np/loi/2000/idn/01/>>.

²² Government of Indonesia, *Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding*, 23 July 2015, <<http://www.imf.org/external/np/loi/2002/idn/01/index.htm>>.

²³ John Brondolo et al, 'Tax Administration Reform and Fiscal Adjustment: The Case of Indonesia (2001–07)' (IMF Working Paper No WP/08/129, IMF, 2008).

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

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

²⁶ Ibid.

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

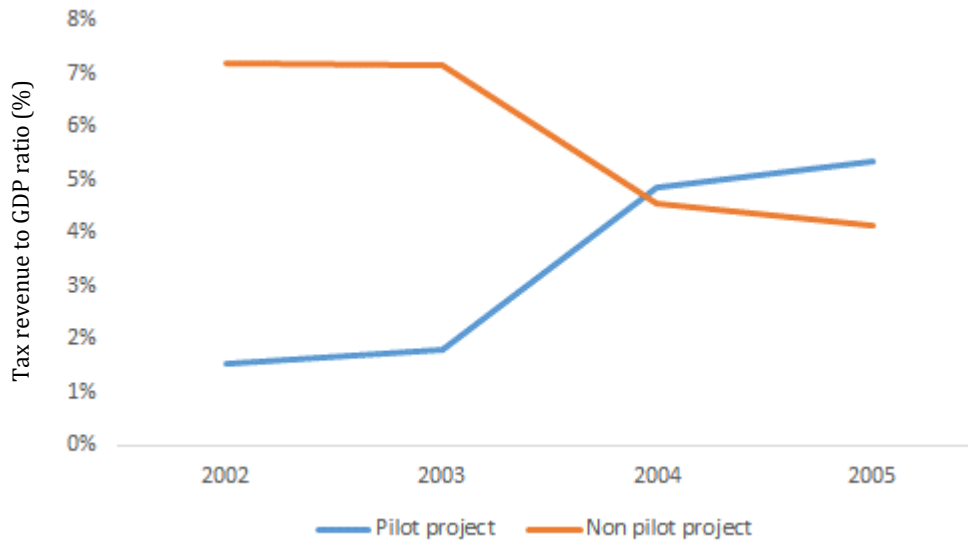
²⁸ Baer, Benon and R, above n 25.

²⁹ Vehorn, above n 27.

³⁰ *Ministry of Finance Regulation No 65/KMK.01/2002* (Indonesia).

survey.³¹ 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 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.³²

Figure 1: Tax revenue to GDP ratio: Pilot project and non-pilot project (2002-5)³³



The system applied in the pilot offices was adopted nationally starting in 2007. The focus was on improving voluntary compliance, trust and productivity.³⁴ 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.³⁵ 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:

- Most innovative public service provider, awarded by MarkPlus Insight, an Indonesian marketing firm, in 2009;³⁶

³¹ Brondolo et al, above n 23.

³² Ibid.

³³ The chart is based on data obtained from *ibid*.

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

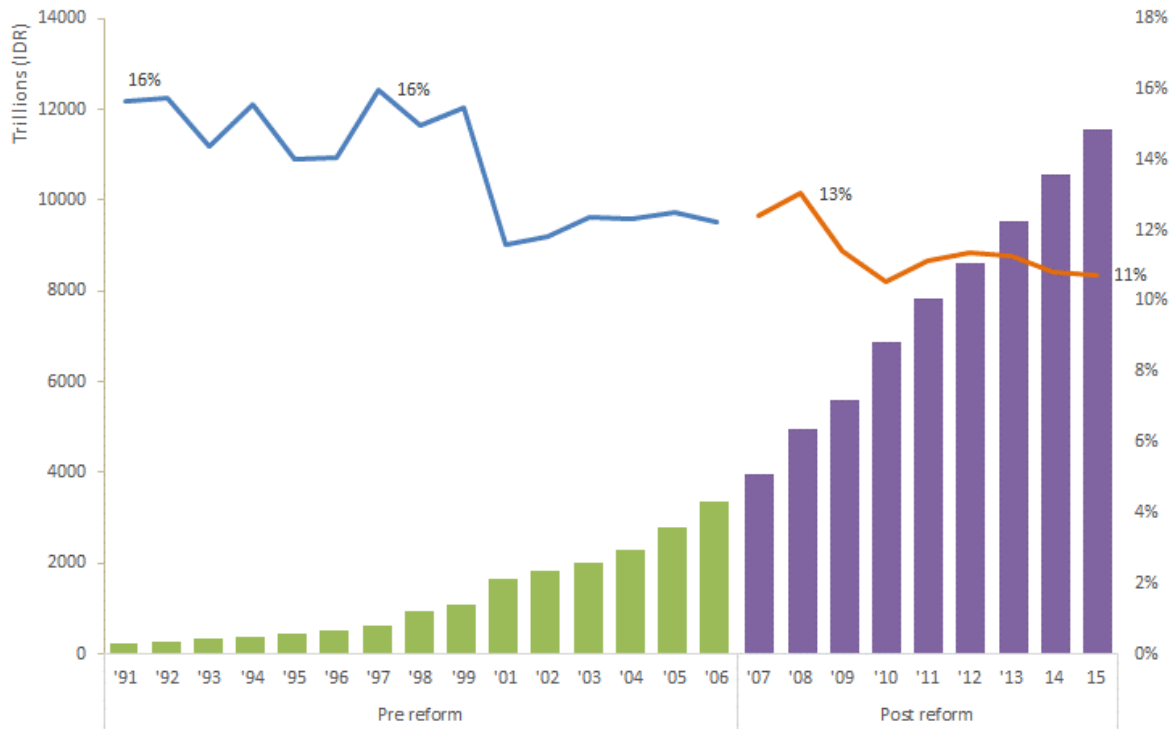
³⁵ An account representative (AR) acted as the first point of contact for a taxpayer with the tax office. Every taxpayer was assigned an AR who was responsible for dealing with issues that a taxpayer had with the tax office, for instance, providing updates in a refund process, dealing with problems in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

³⁶ Directorate General of Taxes, *Harmonization in Building the Nation: 2012 Annual Report* (7 August 2017) <<http://www.pajak.go.id/sites/default/files/AR%20DJP%202012-Eng%20%28Lowres%29.pdf>>.

- A high Anti-Corruption Initiatives Assessment score in 2011;³⁷
- Bronze champion in the most trusted public institution category, from MarkPlus Insight in 2013;³⁸ and
- Various medals in call centre competitions held in Jakarta and Singapore.³⁹

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)⁴⁰



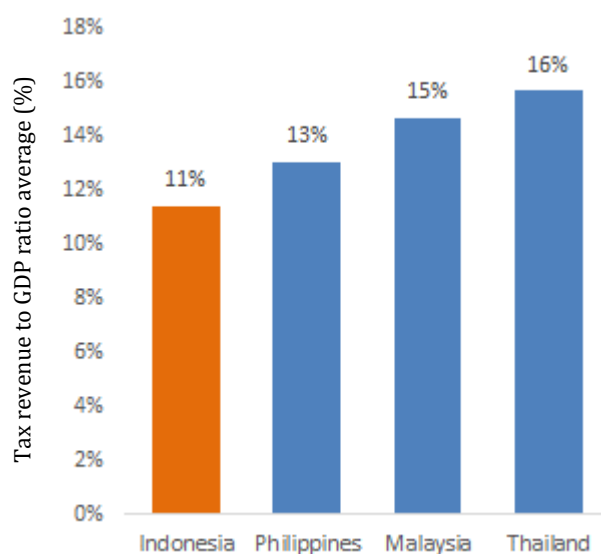
A higher ratio in 2008 was evident possibly due to the partial tax amnesty introduced in that year. Further, in 2007–15, the ratio average was lower compared to that of neighbouring countries (Figure 3).

³⁷ Ibid.

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

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

⁴⁰ 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>>.

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

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,⁴² before it further declined to 47 per cent in 2011.⁴³ As such, based on 1994–2009 data, a World Bank study classified Indonesia as a country with low tax effort and tax collection.⁴⁴ 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 only just able to meet the legislated tax revenue target in 2008 (Figure 4).⁴⁵ Although one could question how these targets were set, this trend might suggest the DGT's limited capacity.

⁴¹ Ibid.

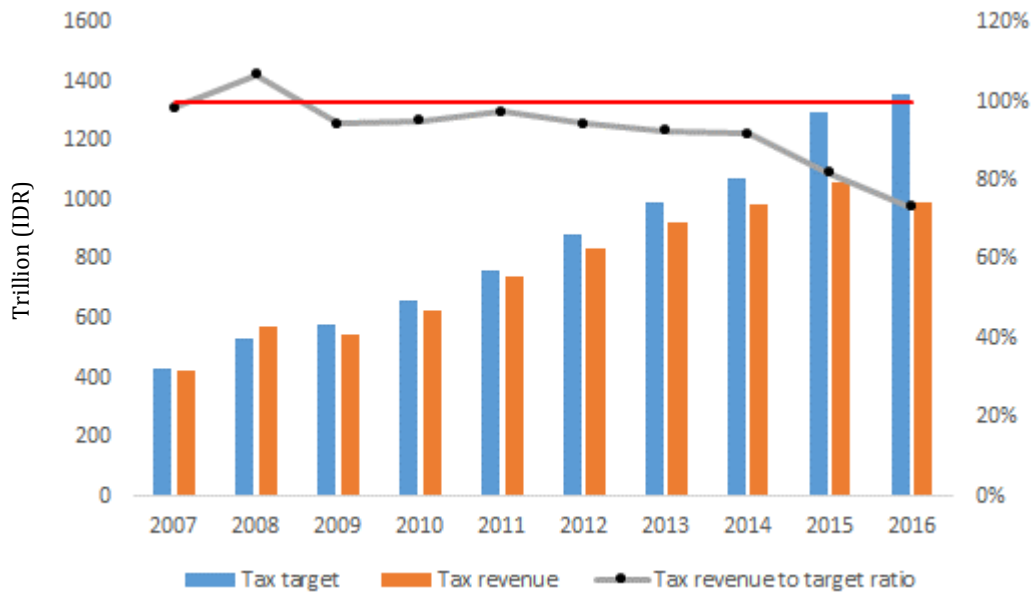
⁴² Ricardo Fenochietto and Carola Pessino, 'Understanding Countries' Tax Effort' (Working Paper No WP/13/244, IMF, 2013) <<http://www.imf.org/external/pubs/ft/wp/2013/wp13244.pdf>>.

⁴³ OECD, *OECD Economic Surveys: Indonesia 2016* (OECD Publishing, October 2016).

⁴⁴ Tuan Minh Le, Blanca Moreno-Dodson and Nihal Bayraktar, 'Tax Capacity and Tax Effort: Extended Cross-Country Analysis from 1994 to 2009' (Policy Research Working Paper No 6252, World Bank, October 2012).

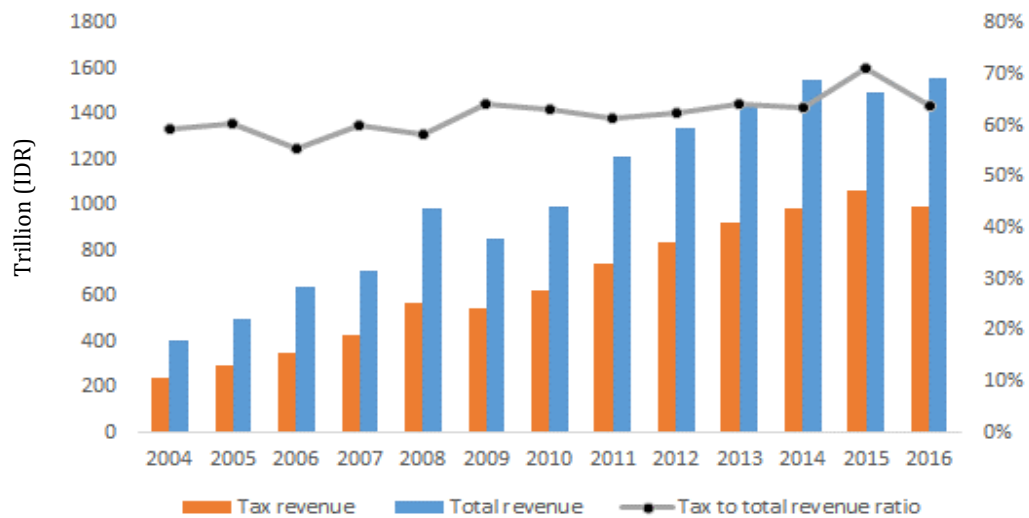
⁴⁵ In Indonesia, tax revenue target is set annually as part of the national Budget for a particular financial year. This Budget is codified in a legislation. In the Indonesian political system, the government and Parliament are independent of each other and each has the power to propose a bill. The bill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

Figure 4: Tax revenue and tax revenue target (2007–16)⁴⁶



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)⁴⁷



Further, the tax compliance level was also low, a problem already noted by the World Bank in the 1990s.⁴⁸ As an indication, although there is a decreasing trend, 37 per cent of

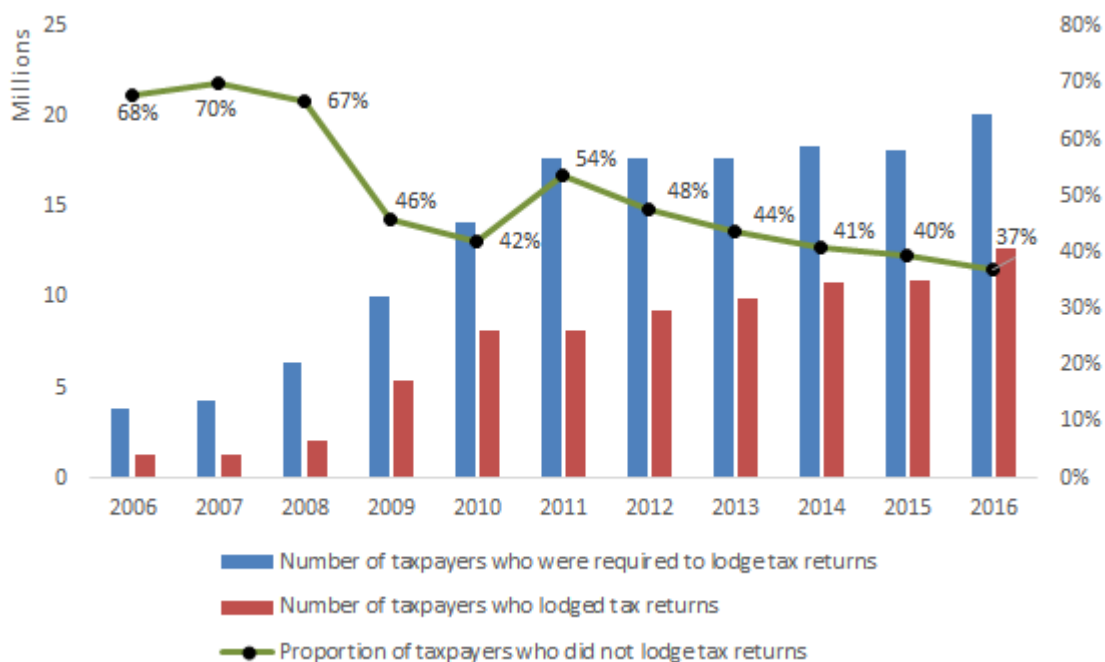
⁴⁶ The chart is based on data obtained from the Central Government Financial Statement: *Laporan Keuangan Pemerintah Pusat*, Ministry of Finance, Republic of Indonesia <<https://www.kemenkeu.go.id/Page/laporan-keuangan-pemerintah-pusat>>.

⁴⁷ Ibid.

⁴⁸ Woo, Glassburner and Nasution, above n 18.

those who were required to lodge an income tax return failed to do so in 2016 (Figure 6).⁴⁹

Figure 6: Tax return lodgement ratio (2006–16)⁵⁰



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.⁵¹ 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.

The purpose of the research study presented in this paper is to shed light on the tax office management as practiced in the pilot project and to explain the strategies employed by the pilot project that may explain its success.⁵² To do this, it relies on the experiences of a group of officials involved in that project. The project was chosen because it was able to

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

⁵⁰ 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>>.

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

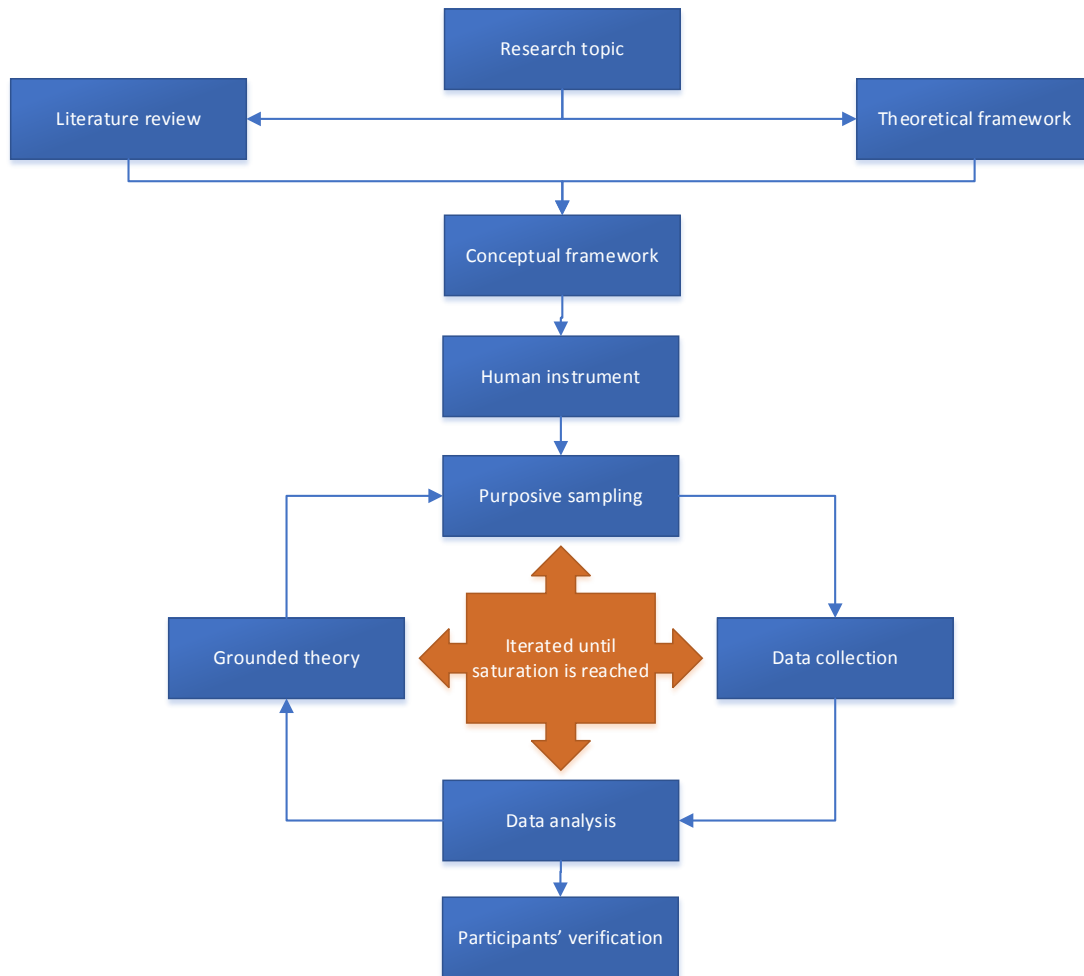
⁵² This project covered two large taxpayer offices and one medium taxpayer office in Jakarta, and several small taxpayer offices in Central Jakarta.

establish several offices of high integrity in an institution that, at that time, was seen to be corrupt.⁵³ This strategy is what Patton refers to as extreme case sampling, as it focuses on a case that is special in nature.⁵⁴ Part three below explains how the research was conducted.

III PARAMETERS OF RESEARCH

Overall, this research follows the strategy depicted in Figure 7.

Figure 7: Research strategy⁵⁵



⁵³ 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>>.

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

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

A Research Participants

Participants in this research were selected because of their involvement in the project described earlier. This turned out to be a challenge because many of the key personnel in the pilot project are now difficult to contact due to having left the DGT, retired or obtained high positions.

To alleviate this issue, following Glaser and Strauss's suggestion, the researcher began by interviewing two colleagues who knew about the project,⁵⁶ in order to start the study⁵⁷ and obtain an overview of the pilot project.⁵⁸ Based on the situation and ideas emergent from these initial interviews, other participants were recruited.⁵⁹ Hence, participants were selected non-randomly based on a certain purpose.⁶⁰ As an example, Participant 1 believed that staff recruitment was significant, but he acknowledged that he did not know much about it. He named a person who was directly in charge of that process and provided a suggestion on how he might be contacted. This approach helps to sharpen concept development, rather than to simply increase sample size,⁶¹ as subsequent participants may provide information that previous participants were not able to. The sampling in this research, therefore, was able to produce the detailed information required for data analysis.⁶²

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.⁶³ 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 people⁶⁴ who can provide information-rich accounts to the question under study,⁶⁵ it may fail to deliver a statistically representative sample – as participants only represent themselves, it is problematic to make generalisations.⁶⁶ However, since this research seeks to explore

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

⁵⁷ Kathy Charmaz, *Constructing Grounded Theory: Introducing Qualitative Methods* (SAGE Publications, 2nd ed, 2014).

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

⁵⁹ Ibid.

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

⁶¹ 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.

⁶² Lucy Yardley, 'Dilemmas in Qualitative Health Research' (2000) 15(2) *Psychology & Health* 215.

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

⁶⁴ Ibid.

⁶⁵ Patton, above n 54.

⁶⁶ Johnnie Daniel, *Sampling Essentials: Practical Guidelines for Making Sampling Choices* (SAGE Publications, 2012).

participants' experiences, rather than to generalise, the chosen strategy is considered appropriate.⁶⁷ The conclusions drawn from this study should be read with this in mind.

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 deviated from the general concepts that had emerged thus far, which had been mostly positive.⁶⁸ This information 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.⁶⁹ This way, twelve participants were recruited (Table 1). The variety of their roles is useful in obtaining different perspectives for this study.⁷⁰

Table 1: Participants' diverse roles in the pilot project

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

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.⁷¹ Eventually, these interviews provided information that was seen by the researcher as sufficient to develop an understanding of the pilot project reforms.⁷² With regards to the number of interviews, contemporary literature suggests that twelve⁷³ or fifteen⁷⁴ interviews may have been adequate to achieve saturation.

⁶⁷ Ibid.

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

⁶⁹ Morse, above n 58.

⁷⁰ Patton, above n 54.

⁷¹ Yvonna S Lincoln and Egon G Guba, *Naturalistic Inquiry* (SAGE Publications, 1985).

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

⁷³ 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.

⁷⁴ 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 Publications, 1981) 29.

Table 2: Summary of interview activities

No	Name	Sex	Initial or Main?	First Interview		Second Interview	
				Mode	Location	Mode	Location
1	Participant 1	Male	Initial	Face to face	Home		
2	Participant 2	Male	Initial	Face to face	Hotel		
3	Participant 3	Female	Initial	Face to face	Office	Face to face	Campus
4	Participant 4	Male	Main	Face to face	Office		
5	Participant 5	Male	Main	Face to face	Office	Face to face	Office
6	Participant 6	Male	Main	Face to face	Office		
7	Participant 7	Female	Main	Face to face	Office	WhatsApp	Internet
8	Participant 8	Female	Main	Face to face	Restaurant	Email	Internet
9	Participant 9	Female	Main	Face to face	Restaurant	Face to face	Office
10	Participant 10	Male	Main	Face to face	Café		
11	Participant 11	Male	Main	Face to face	Restaurant	Did not respond.	
12	Participant 12	Male	Main	Face to face	Office		

B 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 perceptions⁷⁵ – in this case concerning the Indonesian tax administration project reform initiative – and therefore providing the richest source of data for theory building.⁷⁶ A potential weakness in this data is that participants may have changed what they wanted to say in response to the researcher's reaction.⁷⁷

The interviews did not follow pre-structured questions although an interview plan was prepared (see Appendix A) and tested in two initial interviews with Participant 1 and Participant 2. It was then realised that the plan was too broad and needed to focus more on topics considered important by the participants. For example, these two participants stressed the importance of the recruitment process and support from external parties. The subsequent interview, with a more knowledgeable participant, was then focused on this aspect.

Paper-based note taking was used during the interviews, along with audiotaping. Although aware that this might reduce a participant's openness,⁷⁸ the researcher noted no significant adverse effect.⁷⁹ The interview with Participant 4 was not taped at his

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

⁷⁶ Corbin and Strauss, above n 68.

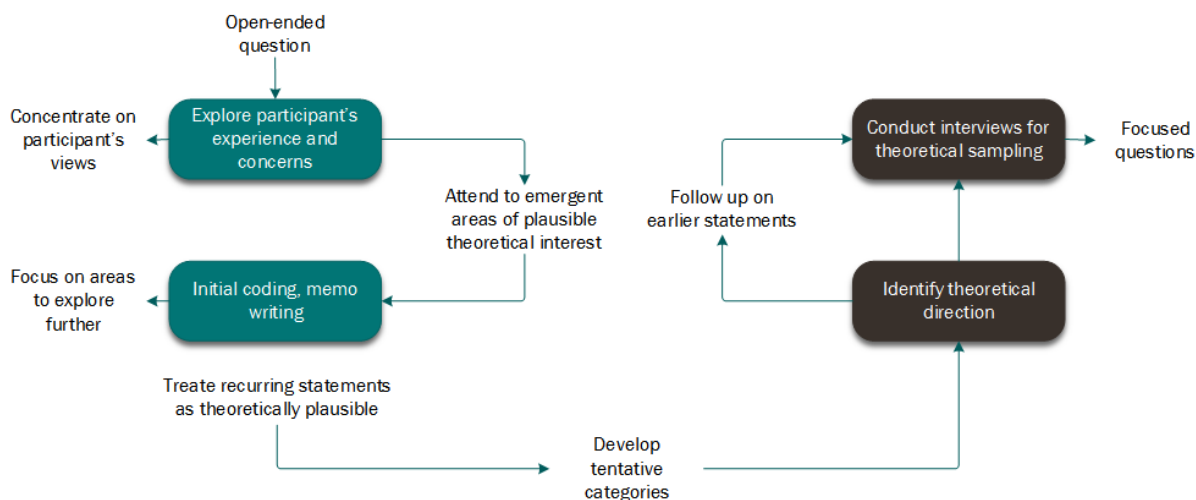
⁷⁷ Ibid.

⁷⁸ Hilary Arksey and Peter T Knight, *Interviewing for Social Scientists: An Introductory Resource with Examples* (SAGE Publications, 1999).

⁷⁹ 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.

request, although he acknowledged its importance⁸⁰ – for this session, extensive note taking was undertaken. The interviews generally lasted one hour or more,⁸¹ a duration considered sufficient.⁸²

Figure 8: Interview strategy⁸³



C 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 manually using Microsoft Word by the researcher and then coded quickly to guide further interviews. Data analysis began as soon as each interview was completed,⁸⁴ with constant comparison of emergent findings with new data informing the researcher's understanding.⁸⁵ 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.⁸⁶ The researcher

⁸⁰ 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.

⁸¹ 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.

⁸² Pranee Liamputtong and Douglas Ezzy, *Qualitative Research Methods* (Oxford University Press, 2nd ed, 2005).

⁸³ Charmaz, above n 57.

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

⁸⁵ 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.

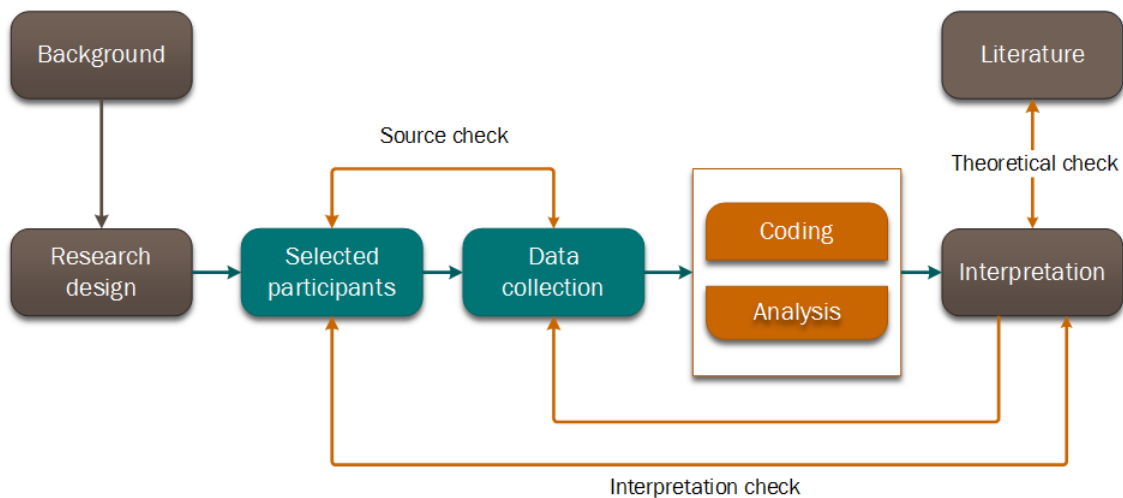
⁸⁶ Anselm L Strauss, *Qualitative Analysis for Social Scientists* (Cambridge University Press, 1987).

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 and Appendix B).

Table 3: Concept hierarchy

I.	Non-operative militancy
A.	Recruitment
B.	Non-operative militancy
II.	Internal factors
A.	Reward
1.	Pay rise
2.	Further education
B.	Thorough examination in punishment
C.	Supportive superior
1.	Exemplary actions
2.	Caring
D.	Positive working environment
1.	Innovation
2.	Togetherness
3.	Considerate closeness
4.	Teamwork
5.	Religious belief
III.	External factors
A.	IMF's role

Figure 9: Establishing rigour⁸⁷



⁸⁷ Adapted from Bradshaw and Stratford, *ibid.*

D Rigour

Establishing rigour is essential,⁸⁸ and in this research it is achieved by following the strategy illustrated in Figure 9.

Any important issues raised by a participant, such as the bribery example in one of the LTOs, 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. Part four discusses the results of this research in detail.

IV RESULTS

This part discusses the concepts and categories derived from the data (Table 3 and Appendix B). The core theme was coded as 'the soul of reform'. This term was used by Participant 5 in his critique on the DGT's organisational reform process. He posited that changing the DGT's organisation was easy. The more difficult task, he argued, was reforming the minds of those working at the DGT. He said that the pilot office was successful because the soul that drove the change was there. This soul, he said, was not present in the post-2007 reform.

Participant 5 further stated that the main concern during recruitment for this pilot project was selecting the *appropriate* staff. The key was to select people who, according to Participant 2, '[have] an intention to change'.⁸⁹ This means, in Goffman's words, separating the sincere from the cynics.⁹⁰ However, those who had such intention to change, according to Participant 2, were often unnoticed: 'there were some who were unhappy with the ... [corrupt] behaviour. The thing is, they did not have the courage to scream, to express [their concerns]'.

This was because the norm at that time was that it was acceptable for one to be honest so long as one was silent. Participant 2 saw that this silence would change if 'a door opened'. The IMF's pilot project was this 'door'.

For the purpose of selecting staff with that attribute, a formal selection test was administered.⁹¹ Interestingly, Participant 1 noted that those who decided to sit this test were ones he believed to be non-wealthy, who most likely were not from the technical units, the places with intense interaction with taxpayers where most corruption at the

⁸⁸ 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.

⁸⁹ The interviews were conducted in Bahasa Indonesia. For presentation in this paper, excerpts from these interviews are translated into English.

⁹⁰ Erving Goffman, *The Presentation of Self in Everyday Life* (Allen Lane, 1969).

⁹¹ A participant noted that the selection test was similar to the Academic Aptitude Test. This test was actually developed by the Overseas Training Office of the National Development Planning Agency in Indonesia to measure the academic aptitude of potential candidates of overseas training programmes.

DGT took place. At that time, the DGT was a corrupt office⁹² where officials had significant income from bribery.⁹³ Participant 1 noted that the true test for him took place at the time when he decided to register for the selection test and not the formal test itself. For Participant 5, these test takers were committing 'hijrah', an act of leaving the bad deeds or sins in the Islamic tradition,⁹⁴ and perceived them to be 'militant'. In short, the pilot office was seen as a way for change to take place.

However, it was also recognised that depending on an intention to do 'hijrah' alone would not be sufficient if the income awarded to these officials was insufficient to cover their basic needs. Lower wages was assumed to be one of the main causes of corruption in Indonesia at that time,⁹⁵ which was particularly rampant at the tax office.⁹⁶ Literature suggests that corruption occurs when its benefits exceed the penalties of being caught.⁹⁷ Thus it could be reduced by increasing wages or penalties, making pay reform essential.⁹⁸ This was not fully understood at the commencement of the pilot project, as acknowledged by Participant 5. So, in a meeting, he pushed for a pay rise as a reward: 'it'd be a nonsense if we were to be honest but at the same time, our take-home pay [was] barely sufficient to cover our first two-week basic expenses.' His move was fruitful after support from key officials was obtained later on.

In addition to the pay rise, opportunity for further education in the form of trainings was also provided. Participant 7 mentioned that knowledge from these trainings was disseminated to others. These enabled the staff to work efficiently, as said by Participant 3: 'When the superior ... gave incentives, ... those kids acted much faster ... [There was a] junior staff who ... did mapping quickly ... That was just the beginning.'

It also stimulated innovation. Participant 7, for instance, described a training she attended with a Singaporean expert in the oil industry as the training facilitator. She added that an outcome from that training was that one of the ARs wrote a guide on business processes in the oil industry and its taxation arrangements. Another innovation was the introduction of the accelerated refund.⁹⁹ It was recognised as one of the problems that all taxpayers claiming refunds were audited. This was undesirable especially for exporters. A simplified refund programme was then introduced, a programme that improved taxpayers' cash flow and reduced resources allocated for audits. Later, this initiative was

⁹² J Danang Widoyoko, 'Pola-Pola Korupsi Pajak', *Koran Tempo* (Jakarta), 13 April 2005 <<http://www.antikorupsi.org/en/content/pola-pola-korupsi-pajak>>.

⁹³ Heij, above n 4.

⁹⁴ Aswadi Aswadi, 'Refomulasi Epistemologi Hijrah dalam Dakwah' (2011) 5(2) *ISLAMICA: Jurnal Studi Keislaman* 339.

⁹⁵ Heij, above n 4.

⁹⁶ Widoyoko, above n 92.

⁹⁷ Gary S Becker and George J Stigler, 'Law Enforcement, Malfeasance, and Compensation of Enforcers' (1974) 3(1) *The Journal of Legal Studies* 1.

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

⁹⁹ Brondolo et al, above n 23.

codified as article 17C of Law No 16 of 2009 concerning General Provisions and Tax Procedures (Indonesia).

In addition to providing reward as described previously, a fair penalty system was put in place. If a staff allegedly violated an applicable rule, a thorough investigation on the causes of the breach was carried out. Participant 3, for instance, revealed an incident with an AR who was accused of causing a taxpayer to receive their Notice of Tax Overpayment Assessment late. This triggered interest to be accrued and paid to that taxpayer. On the tax office side, a penalty had to be imposed on those who caused the incident. Participant 3 recalled that the penalty was, however, not imposed on that particular staff member, because at that time it was unclear who was responsible for sending the notice, which resulted in the misunderstanding that led to the incident.

Such a thorough effort was possible in an environment where the superiors were supportive and exemplary. Participant 5 recalled that his office was seen by some as 'a thorn in the flesh' as it did not support the corrupt behaviour commonly practiced in DGT at that time. He also remembered being approached by one of his tax auditors who sought his permission to start working on taxpayers for personal gain. Participant 5 disagreed, as it would mean all the work they did (he referred to it as 'sacrifice') would be in vain.

It is interesting to note that the auditor sought permission from Participant 5. As the Indonesian bureaucracy was top-down, superiors provided protection for their subordinates, who in turn were obliged to comply with their superior's requests.¹⁰⁰ Thus, a superior's ability to set a good example was essential. A superior in this context could be seen as a point of reference from whom an individual saw a standard of judgement¹⁰¹ that could guide that individual's behaviour.¹⁰² Here, Participant 5 was the point of reference. His decision to deny his auditor's request provided a sign that the request was unacceptable, contradicting the corrupt situation surrounding the DGT at that time.¹⁰³

Further, for a superior, it was also important to be seen as caring. Participant 7 recalled: 'I was lucky to be assigned to an office that was led by people who believed that if you do not know, it is not a sin ... If you ask questions, you're a great person.'

This situation facilitated informal knowledge exchange between staff members. For Participant 7, it encouraged her to learn more. Another indication was provided by Participant 2 when she remembered the time when the pay rise was not received. She witnessed that her superiors were willing to go beyond what was considered normal activities. She said: 'they lobbied through lunches with certain key officials at the state budget office'.

¹⁰⁰ Agus Dwiyanto and Bevaola Kusumasari, 'Paternalism in Public Service Bureaucracy' (Policy Brief No 02/PB-E/2001, Center for Population and Policy Studies, UGM, Yogyakarta, 2001) 1.

¹⁰¹ Luiz Moutinho, 'Consumer Behaviour in Tourism' (1987) 21(10) *European Journal of Marketing* 5.

¹⁰² Icek Ajzen and Martin Fishbein, *Understanding Attitudes and Predicting Social Behavior* (Prentice-Hall, 1980).

¹⁰³ Widoyoko, above n 92.

Such a situation was not evident in a non-modernised office.¹⁰⁴ A non-modernised office was usually run based on the top-down approach as commonly found in Indonesia.¹⁰⁵ Participant 5, when speaking about difficulties caused by this system, felt that there were barriers between staff and their superior: 'These barriers needed to go... [T]hey [the barriers] made us arrogant'.

This relationship was common in Javanese culture.¹⁰⁶ Here, an employee had to comply with the superior's direction. As a superior was seen as providing protection, there was a feeling of submissiveness. This feeling was driven out of fear as an employee's behaviour was constantly assessed. It also resulted in a lack of upward feedback.¹⁰⁷ This submissiveness apparently was the cause of barriers identified previously by Participant 5. The removal of barriers resulted in a sense of togetherness and promoted unity, which was important in facilitating knowledge sharing and teamwork.

Teamwork, a collaborative activity to attain a certain goal¹⁰⁸ where members support one another,¹⁰⁹ was known to be essential in improving productivity¹¹⁰ and performance.¹¹¹ Good teamwork fostered knowledge exchange and could lead to improved productivity.¹¹² Teamwork did not have to be formal – it could simply be helping each other out,¹¹³ as could be seen when Participant 7 helped her colleague analyse a taxpayer's financial statement. In doing so, she gained new knowledge as well: 'Most of my taxpayers were merchants, but this [taxpayer] was [providing] service, so then I learned that taxpayers in service industry had different nature.'

Togetherness and teamwork however did not mean that staff could treat their superiors as if they were friends. Participant 5 noted that his subordinates were still required to approach him with a degree of respect. Similarly, Participant 3 recalled that although welcomed, she knew that there were limits, referred to by Participant 3 as knowing 'our position ... [and] the boundaries'. This was aligned with the concept of respect ('urmat', 'adji') found in the Javanese culture.¹¹⁴

¹⁰⁴ A 'non-modernised office' refers to a tax office that is not part of the pilot project. At the time of the pilot project, these offices comprised the majority of the tax offices.

¹⁰⁵ Azhar Kasim, 'Bureaucratic Reform and Dynamic Governance for Combating Corruption: The Challenge for Indonesia' (2013) 20(1) *Bisnis & Birokrasi* 18.

¹⁰⁶ Dwiyanto and Kusumasari, above n 100.

¹⁰⁷ Kasim, above n 105.

¹⁰⁸ 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.

¹⁰⁹ Beatrice J Kalisch and Hyunhwa Lee, 'Nursing Teamwork, Staff Characteristics, Work Schedules, and Staffing' (2009) 34(4) *Health Care Management Review* 323.

¹¹⁰ 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.

¹¹¹ Mafini Chengedzai and David R I Pooe, '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.

¹¹² Hanaysha and Tahir, above n 110.

¹¹³ Kalisch and Lee, above n 109.

¹¹⁴ Hildred Geertz, *The Javanese Family: A Study of Kinship and Socialization* (Free Press of Glencoe, 1961).

Another important aspect raised by participants in this research was spirituality and religiosity. It has been suggested that motivation to perform better in the job is an important factor in raising an employee's general performance level.¹¹⁵ Motivation could be achieved when a person viewed the work as a calling rather than a mere job,¹¹⁶ as this could increase a person's commitment.¹¹⁷ In this context, Karakas shows that spirituality is important in improving organisational performance by, first, enhancing well-being and quality of life, second, providing a sense of purpose and meaning, and last, providing a sense of interconnectedness with the community.¹¹⁸

Spirituality, however, is different from religiosity. While spirituality is described as an inclusive and universal human feeling,¹¹⁹ religiosity includes having belief in God or a deity and participating in activities that belong to a certain faith.¹²⁰ As, generally, workers brought their entire selves to work,¹²¹ having a religious affiliation would often affect someone's work behaviour, such as performing regular prayers at work.¹²² This can be seen in Participant 8, who did her job because 'it has a value of worship', or Participant 7 who saw religiosity as a missing factor when her performance was poor.

The Islamic tradition, the religion embraced by Participant 7 and Participant 8, praises hard work and puts emphasis on cooperation. Consultation was essential to avoid mistakes and alleviate problems.¹²³ The value of particular work was judged based on the intention of doing it.¹²⁴ As such, the Islamic work ethic was found to positively affect organisational commitment¹²⁵ through identification (pride in the organisation), loyalty (sense of belongingness), and involvement (absorbing one's role).¹²⁶ Hence, participants' religiosity during the pilot office might have contributed to their stronger commitment towards their job.

¹¹⁵ Roberto Sarmiento, Jo Beale and Graeme Knowles, 'Determinants of Performance amongst Shop-floor Employees: A Preliminary Investigation' (2007) 30(12) *Management Research News* 915.

¹¹⁶ Don Thompson and Cindy Miller-Perrin, 'Vocational Discernment and Action: An Exploratory Study of Male and Female University Professors' (2008) 50(1) *Review of Religious Research* 97.

¹¹⁷ Kelli Jo Schutte, 'Fostering an Integrated Life of Purpose in Christian Higher Education' (2008) 7(5) *Christian Higher Education* 414.

¹¹⁸ Fahri Karakas, 'Spirituality and Performance in Organizations: A Literature Review' (June 2010) 94(1) *Journal of Business Ethics* 89.

¹¹⁹ *Ibid.*

¹²⁰ D A Adeyemo and A T Adeleye, 'Emotional Intelligence, Religiosity and Self-Efficacy as Predictors of Psychological Well-Being among Secondary School Adolescents in Ogbomoso, Nigeria' (2008) 4(1) *Europe's Journal of Psychology*.

¹²¹ Monty L Lynn, Michael J Naughton and Steve VanderVeen, 'Connecting Religion and Work: Patterns and Influences of Work-Faith Integration' (May 2011) 64(5) *Human Relations* 675.

¹²² Filotheos Ntalianis and Wendy Darr, 'The Influence of Religiosity and Work Status on Psychological Contracts' (2005) 13(1) *International Journal of Organizational Analysis* 89.

¹²³ Darwish A Yousef, 'Organizational Commitment as a Mediator of the Relationship between Islamic Work Ethic and Attitudes toward Organizational Change' (April 2000) 53(4) *Human Relations* 513.

¹²⁴ Abbas Ali, 'Scaling an Islamic Work Ethic' (1988) 128(5) *Journal of Social Psychology* 575.

¹²⁵ Shahrul Nizam bin Salahudin et al, 'The Effect of Islamic Work Ethics on Organizational Commitment' (2016) 35 *Procedia Economics and Finance* 582.

¹²⁶ 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.

Lastly, without the IMF's pressure, the pilot project might not have proceeded. In its letter of intent (LoI) to the IMF, the Indonesian government expressed the importance of a tax administration reform.¹²⁷ As a starting point, the Indonesian government committed to establishing an office for large taxpayers in 2002.¹²⁸ This LoI contained details of the milestones that were closely monitored. The IMF's involvement, as remembered by Participant 5, sometimes meant bypassing hierarchical procedures: 'If a Ministry of Finance regulation needed to be drafted, for instance, ... it was not through the Director General, ... we directly went to the Minister of Finance. It was a blessing.'

Interestingly, he also recalled that he had made enemies during the pilot project:

It made us ... enemies. Firstly, our own colleagues ... Secondly, from the taxpayer's side ... [W]hen the number of taxpayers [to be managed by the pilot office] was going to be increased, [someone] objected ... [O]ur own colleague tried to persuade 'Please ... don't add [this taxpayer].' And this became a commodity [for sale]. Crossing out [a taxpayer's name] ... had become a business.

For this, the IMF presence provided protection: 'the IMF opened ... the formality process so people were not dare to interfere'.

Hence, the IMF's role was important to speed up the reform and to provide protection to ensure the continuity of the project.

V THEORETICAL CONSTRUCT

This section integrates key concepts outlined in part four in a core theme of 'the soul of reform'.

A Non-Operative Militancy

The reform took place at the time when the Indonesian economy was in recession and the tax office was a corrupt environment. At that time, if one was not part of the (corrupt) system, one would be singled out. This often put people in a *politically difficult* situation. Participant 4, who later held a top position at the tax office, admitted that if he was not with that system, he quite possibly would not have become what he is today.

Nonetheless, some were uncomfortable with this environment and they wished not to be part of it. However, since it was politically difficult to do otherwise, they remained silent. They had what is referred to in this paper as 'non-operative militancy': staff having an intention to change but choosing not to do so. The recruitment described in part four was aimed at recruiting tax officials with this attribute.

¹²⁷ Government of Indonesia, above n 21.

¹²⁸ Government of Indonesia, *Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding*, 4 November 2016, <<https://www.imf.org/external/np/loi/2001/idn/02/index.htm>>.

B Internal Factors

As mentioned, the recruitment resulted in staff who were willing to change. A participant reflected that his staff were already skilled so he only needed to remind them that they basically were doing the same thing in a different way. His encounters with his staff were mostly not about taxation, but instead were predominantly about listening to their concerns, giving encouragement and building teamwork.

In this case, it is critical for superiors to be *caring* and to set *good examples*. Participant 5 admitted that providing examples and being true to his word were his ways of upholding integrity. A caring and exemplary superior was essential in forming a positive working environment, a situation that fostered innovation, togetherness and teamwork. This was made possible when the superiors at the pilot project were willing to remove barriers often seen in the traditional bureaucracy in Indonesia. This instilled cohesiveness, as a result of teamwork and togetherness, which was important in improving knowledge exchange and innovation. These factors, collectively named 'internal factors', improved staff's morale and performance.

C External Intervention

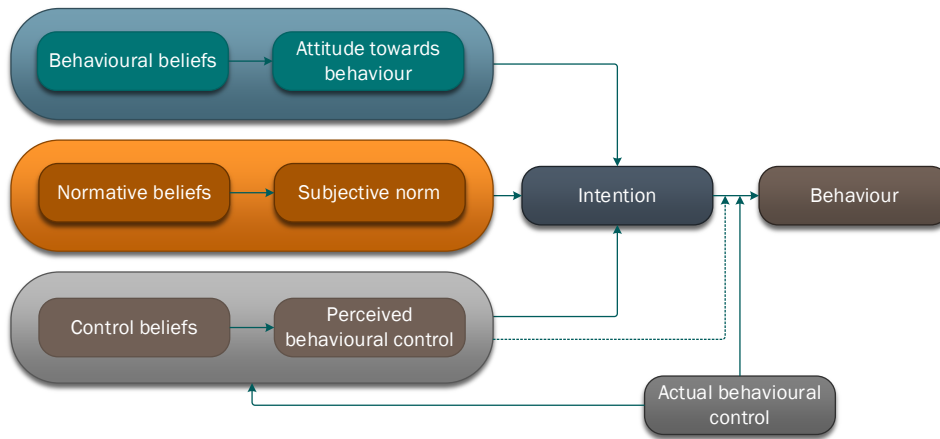
Also important in this case was the intervention made by the IMF. This intervention acted as a catalyst (facilitating, and providing time and opportunity) for the transformation to take place. This helped improve the performance of the project further. However, without the self-awareness to change (referred to as 'non-operative militancy' above), the IMF's intervention would not have been sufficient.

D Core Theme: The Soul of Reform

Generally, people carry out a certain behaviour if they are confident that: the behaviour will result in a valuable outcome (attitude); other people they consider important will likely approve the behaviour (subjective norm); and they are capable (perceived behavioural control) and have the necessary resources (actual behavioural control) to perform the behaviour (Figure 10).¹²⁹

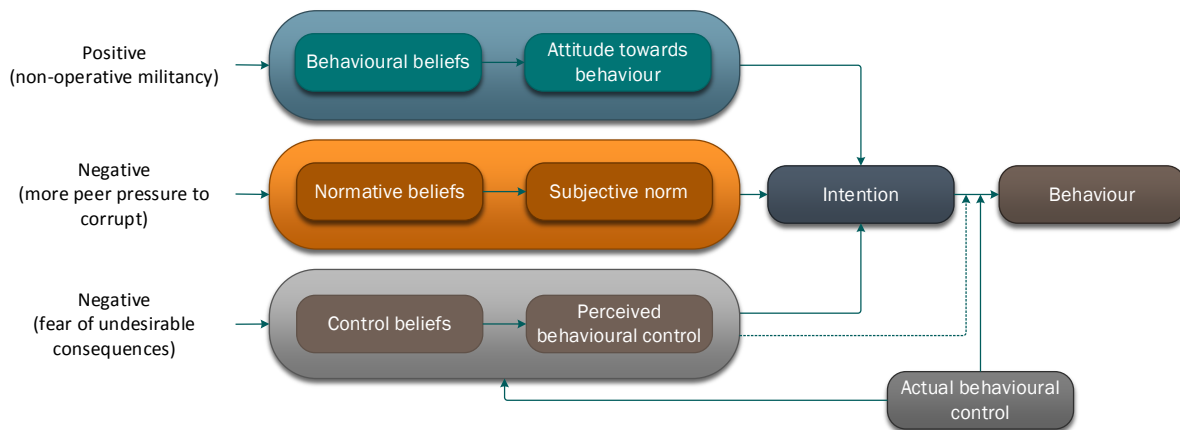
¹²⁹ Icek Ajzen, 'From Intentions to Actions: A Theory of Planned Behavior' in Julius Kuhl and Jürgen Beckmann (eds), *Action Control: From Cognition to Behavior* (Springer, 1985) 11.

Figure 10: Theory of Planned Behaviour diagram¹³⁰



The common practice at the DGT when the pilot project was initiated made it difficult for those wishing to stay away from corrupt practices. There was pressure to engage in corrupt practices, particularly on staff in technical units. Further, there was fear for undesirable consequences, such as being transferred to a remote location or being singled out, if one opposed that pressure (Figure 11).¹³¹

Figure 11: Negative effects on subjective norm and perceived behavioural control



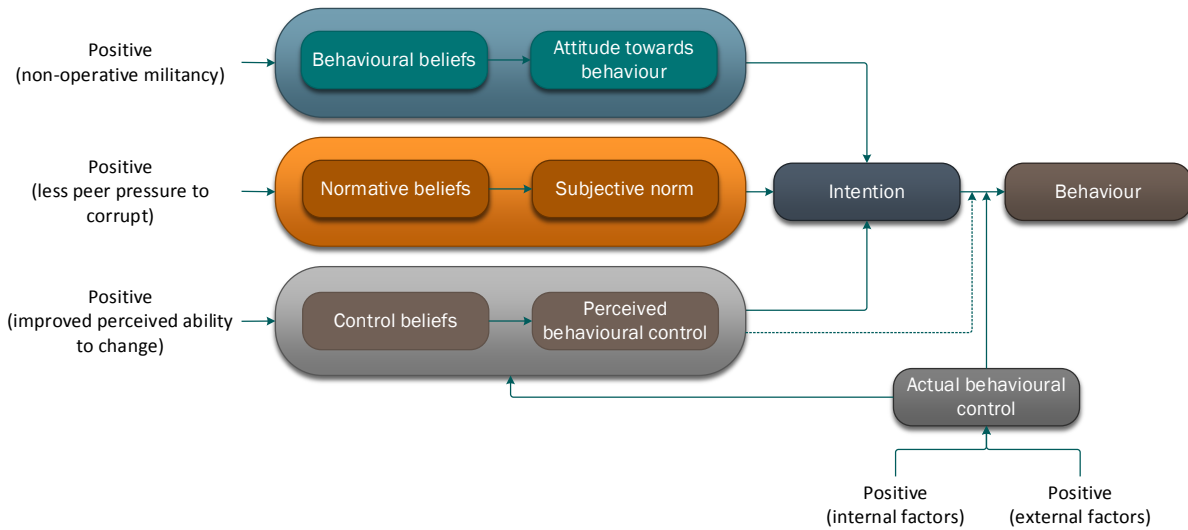
The pilot project offered a different environment. Officials in that project felt less pressure to engage in corruption. This improved their belief that change was possible. External intervention from the IMF and positive internal factors – such as a supportive superior, a better reward and punishment system and a positive working environment – provided the resources for the change to take place (Figure 12). These key factors are collectively referred to as ‘the soul of reform’ (Appendix B).¹³² The next part provides a summary of key findings and concludes the paper.

¹³⁰ Icek Ajzen, *TPB Diagram* (29 June 2017) <<http://people.umass.edu/aizen/tpb.diag.html#null-link>>.

¹³¹ Widoyoko, above n 92.

¹³² This terminology is used by Participant 5 during one of the interviews in this study, in his critique towards the reform that started in 2002. He believed that while that reform was able to establish a new type

Figure 12: Positive effects on subjective norm and behavioural control



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 derived 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.

Findings from this research reveal that one of the important aspects in the pilot project was its ability to recruit staff who were committed to change in the organisation. They were then exposed to internal factors that were conducive to improving their work quality. Unfortunately, the project was also seen as a ‘thorn in the flesh’ and often subject to threats, either internally or externally. For this, the IMF provided a degree of protection to ensure the continuity of the project.

The main findings from this research indicate that for a reform to succeed, an *intention to change* and positive external and internal factors are essential. The external factors, however, only act as catalysts, ensuring the change process continues. Thus, without an intention to change and positive internal factors, external pressure may not have a significant effect.

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

of tax office based on the administration system derived from the pilot project, it did not, however, have the key factor that he witnessed during the pilot project. He called this missing factor ‘the soul of reform’.

ability of the participants to reflect their experiences. As the project concerns events that took place more than a decade ago, it is possible that some events were 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 due to difficulties in finding willing individuals. Whilst these participants were 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 was based on self-reported data. Hence, it is possible that a participant may have described events that did not happen. Although the researcher limited this effect by cross-referencing participants' accounts with those of other participants, 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 interpreted what the participants said and then checked his interpretation with the literature. This research, therefore, is linked to more general concepts available in the literature.¹³³ However, as the findings contain the researcher's views,¹³⁴ 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.¹³⁵ As a consequence, generalisation of the findings in a statistical sense could be problematic.

In spite of this, this research opens up several topics to investigate further. First, it is important to see how this research relates to the tax administration currently practiced in Indonesia. 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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¹³³ 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.

¹³⁴ Merry-Jo D Levers, 'Philosophical Paradigms, Grounded Theory, and Perspectives on Emergence' (2013) 3(4) *SAGE Open* 1.

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APPENDIX A: INTERVIEW PLAN

Interviews will be conducted according to the following plan:

1. Establishing rapport:
 - a. Greetings and general introduction.
 - b. Information about the study.
2. Participant to sign consent form.
3. Topics to be covered in the interview:
 - a. Participant background:
 - i. Role taken in the pilot project.
 - ii. Role taken now.
 - b. During and after pilot project comparison covering the following topics:
 - i. Ensuring voluntary compliance:
 - 1) Taxpayer service.
 - 2) Taxpayer profiling.
 - 3) Taxpayer consultation.
 - 4) Taxpayer education activities.
 - 5) Back office support:
 - a) General support (transportation, expenses, etc).
 - b) Knowledge management support.
 - c) Database and IT support.
 - d) In-house trainings.
 - ii. Ensuring enforced compliance:
 - 1) Field visits.
 - 2) Special and routine audit activities.

- 3) Teamwork with different departments.
 - 4) Support and/or protection from higher level management.
 - 5) Support from external parties (police, local government, etc).
 - 6) Back office support:
 - a) General support (transportation, expenses, etc).
 - b) Data quality and IT support.
 - c) Knowledge base support.
 - d) In-house trainings.
- iii. Tax office power:
- 1) Ability to do taxpayer segmentation (eg based on tax mix, taxpayer type, business type, etc).
 - 2) Chosen approach: taxpayer as client or robber.
 - 3) Ability to detect non-compliance.
 - 4) Ability to investigate tax fraud.
 - 5) Ability to collect tax arrears.

APPENDIX B: THE RELATIONSHIP BETWEEN CONCEPTS AND CATEGORIES

