EXPLORING THE EFFECTIVENESS OF TAX ADMINISTRATION REFORM FOR IMPROVING PERFORMANCE: A CASE STUDY OF THE INDONESIAN DIRECTORATE GENERAL OF TAXES (IDGT)

By

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Abstract

In 2002 the Indonesian Directorate General of Taxes (IDGT) undertook massive reforms within the framework of the Structural Adjustment Program (SAP) brought in by the International Monetary Fund (IMF). It was expected that by reforming IDGT, which is the major revenue raising agency in Indonesia, the amount of tax revenue collected would increase and lead to a higher tax to gross domestic product (GDP) ratio (known as the tax ratio). Despite the steep increase in the amount of rupiah (Indonesian currency) collected after the 2002 reform by IDGT, the level of the tax ratio, as an independent performance measure for tax administration, has remained consistent at 9-11%. That means that the SAP has not improved the level of tax collection, as the rate of tax revenue collected has simply kept pace with Indonesia's economic growth. The consistent level of the tax ratio collected by IDGT contributes to the arguably low level of the Indonesian tax ratio (11-13%) when compared to G20 countries (Group of Twenty countries) and other regional peers. This indicates that IDGT has not performed well in its efforts to collect tax revenue, despite implementing significant changes during the 2002 tax administration reform.

Scholars have reported that the SAP has not been effective in stabilising the malfunctioning economies of developing countries. The key argument is that this ineffectiveness is due to the failure of the SAP to consider the contextual premise of a country before implementing major policy changes. In the context of IDGT, some scholars have tried to analyse the outcome of the 2002 reform on aspects of IDGT's operations, such as ethics management, governance and the development of income tax revenue. However, not much attention has been paid to analysing and exploring how effective the 2002 reform was in improving the performance of IDGT in terms of achieving a higher level of tax ratio. This thesis attempts to explore the effectiveness of the tax administration reform in improving the performance of IDGT through the lens of priority goal ambiguity (PGA) and strategic human resource management (SHRM). This study was exploratory and interpretative in nature, which led to the adoption of a qualitative research methodology, with semi-structured interviews and document analysis used to investigate the effectiveness of the 2002 tax administration reform in enhancing IDGT's capacity to collect tax revenue from taxpayers.

The findings of this study suggest that the reform was ineffective in improving IDGT's performance. This was because, despite extensive changes made during the reform, IDGT's performance (in terms of the tax ratio) did not increase. This study suggests that this was due to the reform failing to recognise a key contextual element of IDGT, its goal prioritisation. Instead of focusing on the achievement of taxpayer compliance by developing the tax auditing provisions, the changes made in the reform led IDGT to place greater emphasis on the achievement of the yearly tax revenue target (the short-term tax revenue) with a focus on client service provision. This, in turn, created a misalignment in the design of IDGT's human resource policies and practices as these policies were configured towards the achievement of the narrow and less appropriate priority goal. As a result, the reform was unable to improve the level of the tax ratio. This is because the focus on achieving the yearly tax revenue target through the use of client service provisions impeded the achievement of the high level of taxpayer compliance which would have become the basis for higher tax revenue collection (a higher tax ratio). These findings support the arguments of scholars regarding the failure of the reform (SAP) brought in by the IMF to fix the malfunctioning economy of a country. The findings of this study aid practitioners' understanding of the significance of considering the key contextual requirements of an organisation. In doing so, this thesis makes a significant contribution to both practice and body of knowledge by presenting empirical evidence of why greater improvements have not occurred in IDGT's performance despite significant changes being made since the initiation of IDGT's 2002 tax administration reform. This thesis also

highlights the need for IDGT to strengthen its internal processes in order to obtain goal clarity and to enable individuals to align with those goals.

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Abbreviations

ADB	:	Asian Development Bank
APBN	:	Anggaran Pendapatan dan Belanja Negara (state budget)
ATO	:	Australian Taxation Office
AusAID	:	Australian Agency for International Development
GDP	:	gross domestic product
GNP	:	gross national product
GPF	:	Government Partnerships Fund
G20	:	Group of Twenty countries
HIWP	:	high involvement work practices
HMRC	:	Her Majesty's Revenue and Customs
HPWPs	:	high-performance work practices
HPWS	:	high-performance work system
HR	:	human resources
HRM	:	human resource management
IBRD	:	International Bank for Reconstruction and Development
IDGCE	:	Indonesian Directorate General of Customs and Excise
IDGT	:	Indonesian Directorate General of Taxes
IMF	:	International Monetary Fund
IMOF	:	Indonesian Ministry of Finance
IPK	:	imbalan prestasi kerja (performance incentive)
JICA	:	Japan International Cooperation Agency
KITSDA	:	Directorate of Internal Compliance and Apparatus Transformation
KPI	:	key performance indicator
KPK	:	Corruption Eradication Commission

KUP law : general provision and procedure of tax law (Ketentuan Umum dan Tata Cara Perpajakan)

LTRO : Large Taxpayers Regional Office

MEFP : Memorandum of Economic and Financial Policies

OECD : Organization for Economic Co-operation and Development

PGA : priority goal ambiguity

PPh law : income tax law (Undang-Undang Pajak Penghasilan)

PPN law : value added law (Undang-Undang Pajak Pertambahan Nilai)

SAL : structural adjustment loan

SAP : Structural Adjustment Program

SHRM : strategic human resource management

SIDA : Swedish International Development Agency

SIDJP : IDGT's information system (Sistem Informasi Direktorat Jenderal Pajak)

STA : Swedish Tax Agency

STAN : State College of Accountancy

TAMF : Technical Assistance and Management Facility

TAO : Tax Audit Office

THP : take-home pay

TII : Transparency International Indonesia

TIN : tax identification number

TKPKN : Tunjangan Khusus Pembinaan Keuangan Negara (special monthly allowance)

TSO : Tax Service Office

UNPAD : Padjadjaran University (Universitas Padjadjaran)

US : United States

USA	:	United States of America
WB	:	World Bank
WBS	:	whistle-blower system

CHAPTER 1: INTRODUCTION

In 2002 the Indonesian Directorate General of Taxes (IDGT) which is the major revenue raising agency in Indonesia undertook a tax administration reform (the reform) within the framework of the Structural Adjustment Program (SAP) brought in by the International Monetary Fund (IMF). The reform aimed at improving IDGT's performance in terms of higher tax revenue collection. Although the reform has received great attention in public administration literature particularly tax administration literature, the in-depth exploration about the effectiveness of the reform in improving IDGT's performance remains incomplete and inadequate. These issues are addressed in this study. This chapter is an introductory chapter which discusses the background of this study including the research objective and questions, approaches to the inquiry, the research in context and a brief outline of the thesis.

1.1. Background

In 1997 Indonesia was a victim of the Asian financial crisis (Indonesian Government, 1997; Wihantoro, Lowe, Cooper, & Manochin, 2015). It suffered economic downturn due to massive foreign capital flight, currency depreciation and high inflation (Indonesian Government, 1997). To address this economic problem Indonesia requested a loan from the International Monetary Fund (IMF), known as a structural adjustment loan (SAL) (Indonesian Government, 1997). The SAL is a financing tool introduced by the IMF in the 1980s as an instrument to help countries to stabilise their malfunctioning economies (Easterly, 2005; Riddell, 1992). The SAL requires recipient countries (mostly in the developing world) to agree upon policies and programs imposed by the IMF, known collectively as the Structural Adjustment Program (SAP) (Biersteker, 1990; Easterly, 2005; Geo-Jaja & Mangum, 2001; Riddell, 1992). Through the SAP, loan recipient countries are required to make structural adjustment reforms to their existing policies by adopting best practice policies derived from Western countries (Wihantoro et al., 2015). It was assumed that these best practice policies would be successful when implemented in other countries (Wihantoro et al., 2015). The basic elements of the best practice policies included in the SAP are "currency devaluation, the removal/reduction of the state from the workings of the economy, the elimination of subsidies in an attempt to reduce expenditures, and trade liberalisation" (Riddell, 1992, p. 53).

On 31 October 1997 the IMF agreed to disburse a SAL to the Indonesian government, provided the Indonesian government signed up to the IMF SAP framework (Indonesian Government, 1997). The SAP agenda imposed on Indonesia by the IMF included: (1) trade and investment reform; (2) deregulation; and (3) privatisation (Indonesian Government, 1997). The IMF included the Indonesian Directorate General of Taxes (IDGT) in its SAP agenda in order to support investment reform in Indonesia (Indonesian Government, 1997, 2001a). IDGT is the major revenue raising agency in Indonesia (IDGT, 2014), as it is responsible for achieving more than 80% of the tax revenue target stipulated in the state budget (IDGT, 2013b, 2014; IMOF, 2013b). Evidence suggests that good tax administration would have a positive impact on the Indonesian investment climate (Brondolo, Silvani, Borgne, & Bosch, 2008). Consequently, an institutional reform known as the IDGT tax administration reform was initiated in 2002, marked by the establishment of the Large Taxpayers Regional Office (LTRO) (IDGT, 2008; Indonesian Government, 2001a). This promotes the ease of doing business in Indonesia (see IDGT, 2008; Organization for Economic Co-operation and Development, 2015) and therefore, highlights reforms in tax administration as an important requirement among other factors that create investment climate.

The key focus of the SAP, which related to taxation and investment reform, was the establishment of the one-stop service for taxpayers (IDGT, 2008). The one-stop service aimed to help taxpayers fulfil their tax obligation by simplifying the tax audit and administrative procedures and processes (IDGT, 2008). In doing so, the Tax Audit Office (TAO), which traditionally focused on taxpayer compliance, was dissolved and a new position, called the Account Representative, was adopted (IDGT, 2008). This representative role appears to have been adopted from the example of Western countries such as Australia (see Australian Taxation Office, 2016; Braithwaite & Hong, 2015), and there is limited evidence that its adaptation in the Indonesian context was fully considered (see Wihantoro et al., 2015). This marked the era of enhanced services for taxpayers, as enhanced taxpayer services became the main theme of the reform (see IDGT, 2008), due to the assumption that this would help improve the Indonesian investment climate. It was envisaged that the Indonesian economic condition would also improve, which would lead to a higher amount of tax collected (Brondolo et al., 2008; Indonesian Government, 1997).

Between 2002 and 2013 there was a growth path in the tax revenue collected by IDGT in nominal terms. This led to arguments that the 2002 reform was successful (see Brondolo et al., 2008). However, more detailed analysis shows that the tax ratio (tax to gross domestic product, or GDP) actually remained static during this period. This means that the amount of tax collected has grown at proportionally the same rate as economic growth (Putra, 2014), implying that the reform did not improve the level of tax collected. Yet, the increase in overall revenue has led to complacency within IDGT and allowed the organisation to assume that the reform has been successful (see Brondolo et al., 2008; IDGT, 2008, 2009). This in turn has led scholars to note that huge untapped tax revenue potential remains, despite the changes that were made during the 2002 reform (see Arnold, 2012; Heenan, Zhou, Benedek, & Chivakul, 2011; Ikhsan, Trialdi, & Syahrial, 2005). This raises questions about the effectiveness of the 2002 tax administration reform in improving IDGT's performance in terms of collecting a greater proportion of tax revenue from the Indonesian economy (GDP).

To date, very little is known about the effectiveness of the 2002 reform in improving IDGT's performance. Some studies have tried to analyse the reform within IDGT from income tax, governance, management control, cultural and ethics management perspectives (see Putra, 2014; Rizal, 2013; Wihantoro et al., 2015; Yuhariprasetia, 2015). For example, Yuhariprasetia (2015) examined the reform from the perspective of ethics management. It was found that the tax administration reform was successful in applying ethics management in IDGT, based on international standards. Using an ethnographic approach, Wihantoro et al. (2015) examined the 2002 reform from the perspective of management control and culture. They found that the reform led to IDGT becoming more bureaucratic than before the reform. Despite the results of these studies, there remains a paucity of evidence regarding the analysis of the effectiveness of the reform in enhancing IDGT's performance. This is an interesting omission because the exploration of the effectiveness of the 2002 tax administration reform in improving IDGT's performance remains incomplete and inadequate (see Alvesson & Sandberg, 2011). This study addresses this gap and explores why greater improvements have not occurred in IDGT's performance despite significant changes being made since the 2002 tax administration reform was initiated.

1.2. Research objective and questions

The aim of this study is to explore why greater improvements have not occurred in IDGT's performance despite significant changes being made since the 2002 tax administration reform was initiated. The key research question that guided this study is:

- *How effective was the reform in improving IDGT's performance?*

In addition, sub-questions were developed in order to help answer this key research question. The sub-questions are:

- *Why has IDGT's performance not improved in relative terms, and why has it only kept pace with economic growth?*
- *What are the key factors that contributed to the lack of effectiveness of IDGT in achieving an improved tax ratio after the 2002 reform?*

1.3. Approaches to the inquiry

To explore the reasons why greater performance improvements have not occurred in IDGT since the 2002 reform, this study used case study research design. This enabled the researcher to examine a phenomenon in its real-life context, specifically when there was no clear evidence of boundaries between the phenomenon itself and the context (Yin, 2014). In particular, a single case study, with IDGT as the case, was used to explore the phenomenon under investigation. The primary data was collected between July and October 2013.

Due to the nature of this study, with investigation into a topic that had previously not been explored in-depth, qualitative research was considered to be particularly important. Moreover, in order to answer the research questions, it was important for the research design to enable interaction with study participants to uncover multiple perspectives on the factors which undermined the performance of IDGT. Accordingly, this study used multiple qualitative methods, including key semi-structured interviews over four clusters: echelon II employees (seven participants), echelon III employees (13 participants), echelon IV employees (18 participants) and non-echelon staff (20 participants), a total of 58 study participants. This study also used documentary analysis to cross-validate the information against other forms of data collection to allow triangulation to better understand the phenomenon under investigation (Bowen, 2009).

1.4. The research in context

IDGT is one of the directorates general under the Indonesian Ministry of Finance (IMOF) (IMOF Decree Number 206, 2014). Under Undang-undang Ketentuan Umum dan Tata Cara Perpajakan (the KUP law), IDGT's role is to ensure taxpayer compliance (Indonesian Law Number 28, 2007), which includes registering, filing, reporting and payment compliance (Brown & Mazur, 2003; Centre for Tax Policy and Administration, 2010b). In doing so, IDGT is authorised to formulate and implement policies and technical standards in the field of taxation, based on the rules and the legislation (IMOF Decree Number 206, 2014).

In 2002 IDGT carried out a tax administration reform which involved significant changes being made to its operations (IDGT, 2008). The impetus for the reform was the imposition of the IMF's Structural Adjustment Program (SAP) associated with its structural adjustment loan (SAL) to aid the recovery of the Indonesian economy after the 1997 Asian economic crisis. The key changes in the 2002 IDGT reform were the liquidation of the Tax Audit Office (TAO) and the creation of a new role, the Account Representative, which was aimed at establishing a one-stop service for taxpayers (IDGT, 2008; Korte, 2013). After more than a decade since the reform was initiated, when this study was conducted in 2013 it showed that the performance of IDGT in collecting tax revenue from taxpayers remained consistent, as reflected in the stable level of the tax ratio (see IDGT, 2011b; IDGT, 2012, 2013b, 2014). Therefore, it is implied that the IMF's SAP was not effective in improving IDGT's performance in terms of tax revenue collection. This thesis explores why this occurred and the key factors that contributed to the ineffectiveness of the reform.

1.5. Thesis structure

This chapter outlines the background to the thesis and summarises its key findings.

Chapter 2 discusses the 2002 IDGT tax administration reform, including the key changes made during this time. These include a change in IDGT's management approaches to collecting tax revenue from the taxpayer, the diminution of corrupt practices involving IDGT officials and the introduction of a modernised tax administration system. It highlights that, despite there being an increase in the amount of tax revenue collected in nominal terms, the tax ratio remained static, which implies that tax revenue collection was increasing at proportionally the same rate as GDP growth. This suggests that the tax administration reform did not contribute to IDGT's increased performance.

Chapter 3 discusses issues with organisational performance in the public sector, and the key factors identified as being determinants of organisational performance. It particularly focuses on two organisational factors, priority goal ambiguity (PGA) and strategic human resource management (SHRM), which are used in this thesis as the theoretical lenses to explore the effectiveness of the 2002 tax administration reform in improving IDGT's performance.

Chapter 4 details the research strategy undertaken in this study. The nature and purpose of the research are explained in accordance with the chosen paradigm. The unit of analysis adopted in this study is justified on the basis of the research objectives and methodological approach. The data collection techniques and the method of analysis are defined.

Chapter 5 is the first of two results chapters and is focused on analysing the first key factor which prevented improvements in IDGT's performance after the 2002 reform. This study found that IDGT's performance was hindered by the existence of PGA, which was caused by competing demands from internal and external constituencies. It highlights how PGA led IDGT to focus on the narrow and less appropriate priority goal, which impeded IDGT's attainment of its goals (optimum tax revenue and a higher level of taxpayer compliance). It explores the consequences of this decision, with particular emphasis on impeded collection of tax revenue.

Chapter 6 is the second of two results chapters and analyses the second key factor that impeded improvements in IDGT's performance after the 2002 reform. It analyses findings that IDGT failed to develop an appropriate SHRM configurational approach due to the presence of PGA, as discussed in chapter 5.

Chapter 7 synthesises the key themes in previous chapters to answer the study's research questions. The findings of this study suggest that the reform was not effective in improving IDGT's performance as it did not enable its capacity to collect a larger portion of tax revenue from the economy (the tax ratio). This was mainly due to the failure of the reform to recognise the contextual requirements of IDGT, specifically its goal prioritisation. Instead of focusing on achieving a high level of taxpayer compliance through the use of enforcement provisions (as recommended by the KUP law), the reform agenda (SAP) reflected the key focus of the IMF and IMOF: the achievement of short-term revenue through client service provision enhancement. It explores how this focus led to PGA, which contributed to IDGT's HR policies and practices being misaligned. It is argued that this combination of factors hindered IDGT from achieving a higher level of performance.

Chapter 8 identifies the key implications for practice and provides recommendations for improvement. It is argued that these implications and recommendations have the potential to shape practitioners' understanding of why greater improvements have not occurred in IDGT's performance despite significant changes being made since the initiation of IDGT's 2002 tax administration reform. Key contributions to the body of knowledge are also identified.

1.6. Conclusion

This chapter demonstrated that IDGT's performance (in terms of tax ratio) has remained consistent (around 9-11%) since the 2002 tax administration reform. This indicates that the

2002 reform did not enable performance improvements in IDGT, in terms of the level of tax revenue collected. This study explores the key reasons why greater performance improvements did not occur, despite significant changes being made since the initiation of the 2002 tax administration reform, with specific emphasis on the role of PGA and SHRM. This chapter has identified the gaps which initiated the research problem to be investigated in this study.

The next chapter discusses the context of IDGT, the case study of interest to this thesis. It outlines the 2002 tax administration reform agenda and explains IDGT's response to the reform. Key responses of interest to this study include its attempts to balance competing demands and to establish goal priority and a strategic approach to human resource management (HRM). It also analyses IDGT's performance after the reform.

CHAPTER 2: RESEARCH CONTEXT - INDONESIAN DIRECTORATE GENERAL OF TAXES (IDGT)

The key aim of this study is to explore why greater performance improvements did not occur in IDGT, despite significant changes being made since the 2002 tax administration reform was initiated. The purpose of this chapter is to provide the context for the arguments presented in this thesis. It presents an overview of IDGT, the background to the 2002 tax administration reform and key reform efforts implemented in IDGT, and IDGT's performance before and after the reform. The first section considers the role of tax revenue in the Indonesian state budget. The second section discusses IDGT as a key agency responsible for tax revenue collection in the Indonesian public service and its role in the Indonesian state budget. It outlines its vision and mission, task and functions, and organisational structure. The third section outlines the background to the 2002 tax administration reform, key features of the reform and IDGT's response to reform demands. The fourth section details IDGT's performance following the implementation of reform initiatives, highlighting that little to no performance improvement was evident. The final section concludes the chapter.

2.1. The increasing role of tax revenue in the Indonesian state budget

Tax revenue is considered to be the major source of national revenue supporting the Indonesian state budget (IDGT, 2008, 2009, 2010a, 2011b, 2012, 2013b, 2014). In 2013 76% of national revenue was expected to be derived from tax revenue (Indonesian Government, 2014b). Indonesia has not always relied so heavily on tax revenue. From the 1970s to the mid-1980s Indonesian national revenue was predominantly supported by the revenue obtained from oil and gas sales (Indonesian Government, 1998/1999). The following section discusses the evolving reliance of national revenue on the amount of tax revenue collected to support the Indonesian state budget.

2.1.1. The shifting role of oil and gas revenue to tax revenue

Indonesia experienced an oil boom from the early 1970s to the mid-1980s (Indonesian Government, 1986/1987). During this period, the average growth of yearly revenue collected from oil and gas ranged from 33% to 50%. However, this oil boom plateaued in the 1986/1987[1] fiscal year, leading the Indonesian government to put more emphasis on the tax revenue collected as the major contributor to the Indonesian state budget (Indonesian Government, 1998/1999). Table 1 describes the change in the role of oil and gas revenue to tax revenue in the Indonesian state budget.

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[1] Before 2000 Indonesia embraced the April-March budget calendar. Consequently, the budget was written as 1986/1987, which means from April 1986 to March 1987. In 2000 the budget calendar changed from April-March to January-December (Indonesian Government, 2000, p. 2).

Table 1: Comparison between the role of revenue from oil and gas sales and tax revenue in total national revenue from 1979/1980 to 1997/1998 (actual revenue collected in billions of rupiah)

Years	Revenue from oil and gas (A)	% (A/C)	Revenue from taxes (B)	% (B/C)	Total state revenue including grants (C)
1979/1980	4,260.30	57%	2,283.90	30%	7,508.30
1980/1981	6,773.60	61%	2,911.70	26%	11,053.90
1981/1982	8,627.90	63%	3,201.80	23%	13,721.00
1982/1983	8,160.40	57%	3,770.50	26%	14,379.80
1983/1984	11,350.10	60%	4,504.30	24%	18,909.80
1984/1985	10,429.90	61%	4,793.70	28%	17,111.40
1985/1986	12,924.60	54%	6,329.50	27%	23,768.90
1986/1987	6,687.20	29%	8,482.30	37%	22,898.30
1987/1988	10,083.30	37%	9,930.50	36%	27,286.30
1988/1989	9,536.40	28%	12,344.60	37%	33,538.10
1989/1990	13,381.30	34%	16,084.10	40%	39,834.50
1990/1991	17,740.00	35%	22,010.90	44%	50,574.50
1991/1992	15,069.60	29%	24,919.30	47%	52,557.10
1992/1993	15,330.80	26%	30,091.50	50%	59,960.50
1993/1994	12,503.40	19%	36,665.10	55%	66,865.60
1994/1995	13,537.40	18%	44,442.10	58%	76,255.80
1995/1996	16,054.70	20%	48,686.30	59%	82,022.70
1996/1997	19,872.10	21%	55,833.10	58%	95,840.20
1997/1998	14,871.10	15%	64,714.60	64%	101,086.70

Source: (Indonesian Government, 1998/1999, pp. 60, 64)

Table 1 shows that from the 1979/1980 fiscal year to the 1985/1986 fiscal year the Indonesian state budget was predominantly supported by revenue from oil and gas sales. More than 50% of Indonesian national revenue was derived from oil and gas sales. However, in the 1986/1987 fiscal year the actual revenue from oil and gas sales decreased by nearly 50% from the previous fiscal year. This resulted in the sharp decline of oil and gas revenue as a percentage of the Indonesian state budget, from 54% in the 1985/1986 fiscal year to 29% in the 1986/1987 fiscal year. The 1986/1987 fiscal year marked the turning point, when tax revenue began to gain significance (Indonesian Government, 1998/1999).

2.1.2. The increasing role of tax revenue after the 1984 reform

On 1 January 1984 Indonesia implemented tax reform by enacting the general provisions and taxation procedures law (the KUP law) and the income tax law (the PPh law) (Indonesian Government, 1986/1987). On 1 April 1985 the value added tax law (the PPN law) was also enacted. This tax reform established a system of self-assessment whereby taxpayers were given the right to calculate, record and pay their tax to the Indonesian government (Indonesian Government, 1986/1987). Following this reform, the proportion of tax revenue in the Indonesian state budget gradually increased. Table 2 illustrates the gradual increase of the role of tax revenue in the budget.

Table 2: The role of tax revenue in the Indonesian state budget from fiscal year 1984/1985 to 2013 (in trillions of rupiah)

Year	Total state revenue including grants (A)	Tax revenue target (TRT)* (B)	Role of TRT in the state budget (B/A)
1984/1985	20.56	5.16	25.10%
1985/1986	23.05	6.79	29.46%
1986/1987	21.42	7.14	33.33%
1987/1988	22.78	9.14	40.12%
1988/1989	28.96	11.69	40.37%
1989/1990	36.57	14.91	40.77%
1990/1991	42.87	18.24	42.55%
1991/1992	50.56	22.35	44.20%
1992/1993	56.11	28.85	51.42%
1993/1994	62.32	33.85	54.32%
1994/1995	69.75	40.08	57.46%
1995/1996	78.02	45.02	57.70%
1996/1997	90.62	55.99	61.79%
1997/1998	101.09	64.71	64.01%
1998/1999	147.22	66.04	44.86%
1999/2000	219.60	94.74	43.14%
2000	152.90	101.44	66.34%
2001	299.80	184.70	61.61%
2002	301.80	219.60	72.76%
2003	342.80	248.50	72.49%
2004	403.77	279.21	69.15%
2005	540.13	351.97	65.16%
2006	659.12	425.05	64.49%
2007	694.09	492.01	70.89%
2008	894.99	609.23	68.07%
2009	871.00	651.95	74.85%
2010	992.40	743.33	74.90%
2011	1,169.91	878.69	75.11%
2012	1,358.21	1,016.24	74.82%
2013	1,502.01	1,148.36	76.45%

Source: (Indonesian Government, 1984/1985, 1985/1986, 1986/1987, 1987/1988, 1988/1989, 1989/1990, 1990/1991, 1991/1992, 1992/1993, 1993/1994, 1994/1995, 1995/1996, 1996/1997, 1998/1999, 1999/2000, 2000, 2001b, 2002, 2004a, 2004b, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013)

Notes: *As stipulated in the yearly Indonesian state budget

From table 2 it is evident that in the 1984/1985 fiscal year tax revenue constituted only 25.10% of the state budget. Three years later (1987/1988) it experienced a sharp increase, with tax revenue forming 40.12% of total national revenue (Indonesian Government, 1987/1988). Since then, revenue from taxes has slowly replaced revenue from oil and gas sales as the major source of national revenue in the Indonesian state budget. In the 1997/1998 fiscal year, when the Asian economic crisis occurred (Indonesian Government, 1997), the contribution of revenue from taxes reached its peak at 64.01% of the total Indonesian state budget (Indonesian Government, 1997/1998).

Due to the impact of the economic crisis in 1997/1998, the proportion of tax revenue stipulated in the state budget decreased to 44.86% and 43.14% in the 1998/1999 and 1999/2000 state budgets respectively (Indonesian Government, 1998/1999, 1999/2000). This was due to loans received from the International Bank for Reconstruction and Development (IBRD) and the Asian Development Bank (ADB) to support policy and financial sector reform (Indonesian Government, 1999/2000). For example, in the 1998/1999 fiscal budget these loans amounted to 74.04 billion rupiah (Indonesian Government, 1999/2000, p. 64). Even though the amount of targeted tax revenue continued to increase in nominal terms in the 1998/1999 and 1999/2000 fiscal years (see table 2), the significant increase in the total national revenue due to loans received, including grants, lowered the proportion of tax revenue stipulated in the state budget (see table 2). In the 2000 fiscal year the tax revenue began to regain significance, increasing to 66.34% of national revenue, which was about 2% higher than the 1997/1998 fiscal year (Indonesian Government, 2000).

Dependence on tax revenue became increasingly prominent in the 2000s. As shown in table 2, tax revenue contributed 72.76% of the total national revenue in the 2002 fiscal year (Indonesian Government, 2002). From 2002 to 2009 the role of tax revenue in the state budget fluctuated. In 2003 the role of tax revenue slightly declined, to 72.49%. This declining trend continued, reaching its lowest point at 64.49% in the 2006 Indonesian state budget (Indonesian Government, 2006). The role of tax revenue jumped to 70.89% in the 2007 fiscal year but slightly declined in 2008 to 68.07%. It bounced to 74.85% in 2009 and remained relatively stable, in the range of 74% to 76%, from 2009 onward. In 2013 the proportion of tax revenue in the Indonesian state budget was 76.45% (Indonesian Government, 2014a). This demonstrates that the role of tax revenue in financing Indonesian government expenditure has become increasingly important over the past 14 years.

2.1.3. The importance of achieving tax revenue targets

The Indonesian government is heavily reliant on tax revenue as it is key to funding development programs (IDGT, 2013a). These development programs are integral to the economic viability and success of Indonesia because the programs are key to establishing Indonesia's economic growth as reflected in the growth of per capita income and gross domestic product (GDP) (Korte, 2013). However, since 2002 the Indonesian government has failed to achieve its tax revenue target, except for 2004 and 2008 (see table 3).

Table 3: Accomplishment of yearly tax revenue target (in trillions of rupiah) from the 2001 fiscal year to the 2013 fiscal year

Year	Tax revenue target* (A)	Actual tax revenue collected (B)	Accomplishment rate (B/A)
2001	184.70	185.50	100.43%
2002	219.60	210.90	96.04%
2003	248.50	242.00	97.38%
2004	279.21	280.56	100.48%
2005	351.97	347.03	98.60%
2006	425.05	409.20	96.27%
2007	492.01	490.99	99.79%
2008	609.23	658.70	108.12%
2009	651.95	619.92	95.09%
2010	743.33	723.31	97.31%
2011	878.69	873.87	99.45%
2012	1,016.24	980.52	96.49%
2013	1,148.36	1077.31	93.81%

Source: (Indonesian Government, 2001b, 2002, 2004a, 2004b, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013)

Notes: *As stipulated in the yearly Indonesian state budget

The failure to achieve the yearly tax revenue target after the reform (except for 2004 and 2008) led to the postponement of the development programs which had been proposed previously (IDGT, 2013a). In addition, it forced the Indonesian government to issue more debt to finance expenditures that could not be postponed (IDGT, 2013a). This is one of the significant factors contributing to the marked increase in Indonesia's debt position in the past six years: from 1,682 trillion rupiah in 2010 (IMOF, 2015) to 3,021 trillion rupiah as at 31 October 2015 (IMOF, 2015).

Due to the vital role played by tax revenue in supporting the Indonesian yearly state budget, the position of the Indonesian Directorate General of Taxes (IDGT) as the main agency charged with accomplishing the tax revenue target stipulated in the budget (see section 2.2.1.) becomes critical. This is because the success of IDGT in collecting higher tax revenues significantly minimises Indonesia's dependence on debt financing and potentially supports Indonesia's economic viability (growth) by ensuring fewer delays in the implementation of planned development programs (IDGT, 2013a; Korte, 2013). The following section discusses the critical role of IDGT in supporting the accomplishment of the tax revenue target stipulated in the Indonesian state budget.

2.2. IDGT and its role in the Indonesian state budget

IDGT is an echelon I level directorate under the Indonesian Ministry of Finance (IMOF) (Indonesian Presidential Ordinance Number 28, 2015). As one of the major revenue collecting agencies within the Indonesian government, IDGT is responsible for 86.68% of the total tax revenue target set in the Indonesian state budget, with the Indonesian Directorate General of Customs and Excise (IDGCE) collecting the remaining 13.32% (IDGT, 2014). The following section provides an overview of IDGT and details its role in supporting the accomplishment of the yearly tax revenue target set in the Indonesian state budget.

2.2.1. IDGT's role in the Indonesian state budget

Despite the fact that there are two agencies responsible for the accomplishment of the tax revenue target, IDGT and IDGCE (IMOF, 2013b; Indonesian Presidential Ordinance Number 28, 2015), the major portion of this tax revenue target is allocated to IDGT. Table 4 illustrates the role of IDGT in supporting the state budget from 2001 to 2013.

Table 4: The proportion of tax revenue allocated to IDGT from 2001 to 2013

Year	Tax revenue target* (A)	Allocated to IDGT (B)	IDGT's responsibility (%) (B/A)
2001	184.70	156.57	84.77%
2002	219.60	180.10	82.01%
2003	248.50	210.79	84.82%
2004	279.21	237.79	85.17%
2005	351.97	302.16	85.85%
2006	425.05	371.70	87.45%
2007	492.01	432.52	87.91%
2008	609.23	534.53	87.74%
2009	651.95	577.39	88.56%
2010	743.33	661.50	88.99%
2011	878.69	763.67	86.91%
2012	1,016.24	885.03	87.09%
2013	1,148.36	995.21	86.66%

Source: (IDGT, 2013b, 2014; IMOF, 2013b; Indonesian Government, 2001b, 2002, 2004a, 2004b, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013)

Notes: *As stipulated in the yearly Indonesian state budget

Table 4 shows that from 2001 to 2013 IDGT was forecast to collect between 82.01% and 88.99% of the tax revenue target stipulated in the Indonesian yearly state budget. These figures highlight the importance of IDGT operating effectively to ensure the accomplishment of the tax revenue target stipulated in the Indonesian state budget. Recognition of this led to the establishment of a statement of IDGT's vision, mission, tasks and functions to guide its operations. This will be discussed in the following section.

2.2.2. IDGT's vision, mission, tasks and functions

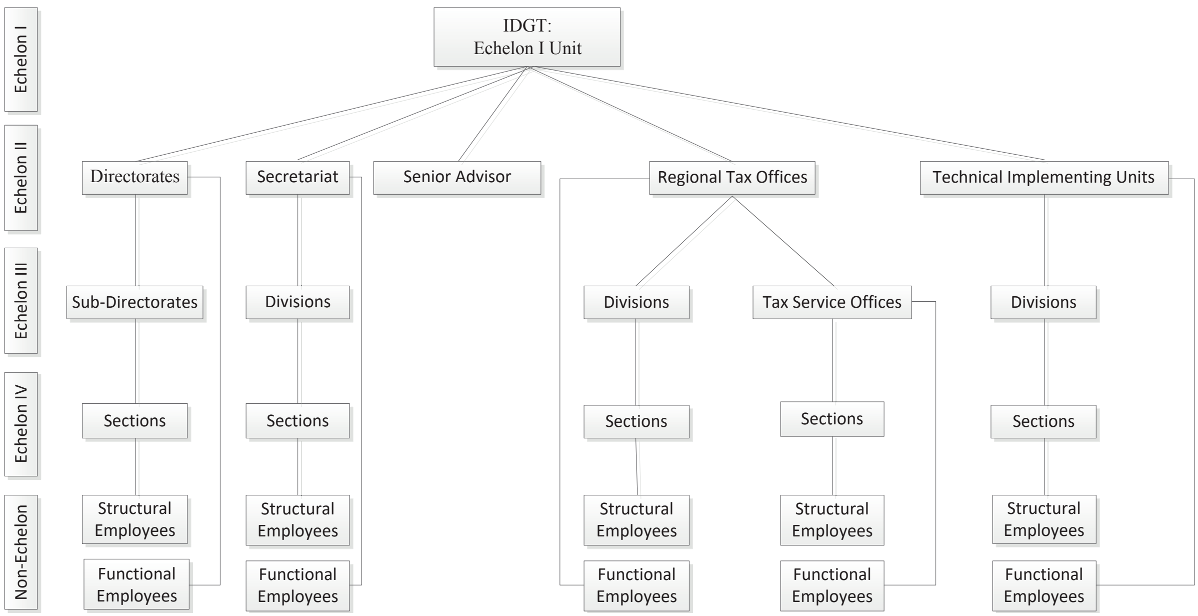
IDGT's vision is "to be the best state tax collector in South-East Asia" (IDGT, 2014, p. 38). To achieve its vision, IDGT put in place a mission statement. Since 2008 IDGT has focused on increasing its efforts to collect a greater amount of tax revenue. Its mission statement is "to collect state tax revenue based on tax law, with the aim of achieving independence in fiscal management by implementing an effective and efficient tax administration system" (IDGT, 2009, p. 6). This means that the vision and mission statement of IDGT emphasise optimising the collection of tax revenue to support the Indonesian state budget to be free of dependence on debt.

In line with its vision and mission, the primary tasks of IDGT are to formulate and implement taxation policies (Indonesian Presidential Ordinance Number 28, 2015). It drafts taxation norms, standards, procedures and criteria such as those relating to the tax audit (Indonesian Presidential Ordinance Number 28, 2015). It also provides technical guidance on taxation and evaluates the effectiveness of taxation policies (IDGT, 2014; Indonesian Presidential Ordinance Number 28, 2015). Given those tasks and functions, the authority and powers granted to IDGT in the field of taxation are extensive (see Indonesian Law Number 28, 2007). The following section discusses how IDGT is structured to achieve its stated vision, mission, tasks and functions.

2.2.3. IDGT's organisational structure

IDGT's structural hierarchy is differentiated by levels of echelon, ranging from echelon I at the highest to echelon IV at the lowest (Turner, Imbaruddin, & Sutiyono, 2009). IDGT, as an echelon I unit under the Indonesian Ministry of Finance, or IMOF (Indonesian Presidential Ordinance Number 28, 2015) is divided into two types of echelon II unit: an echelon II unit at head office and an echelon II unit at the operational (regional) office (IDGT, 2014). Figure 1 details the organisational structure of IDGT.

Figure 1: Structure of IDGT



Source: (IDGT, 2014)

The echelon II units at IDGT's head office include directorates, the secretariat and senior advisers. The main function of the echelon II units at head office is to provide back office support for IDGT in formulating policies, carrying out analysis, facilitating technical support and overseeing matters pertaining to employment, finance and utilities. They perform limited operational activities (IDGT, 2014). The echelon II units under the operational office include Regional Tax Offices and technical implementing units. These offices function as operational and/or technical support (IDGT, 2014). In general, an echelon II unit oversees several echelon III units, with the exception of the senior adviser, who does not have responsibility for lower level units (IDGT, 2014). A directorate at head office consists of several echelon III units called sub-directorates. Under each echelon III unit there are several echelon IV units, or sections. Non-echelon structural employees work in these sections. The arrangement is different for functional employees, who have their own group and report directly to the head of the unit they work for. (IDGT, 2014). For example, functional employees working at the Regional Tax Office report directly to the head of the Regional Tax Office (an echelon II unit), while functional employees at the Tax Service Office (TSO) report directly to the head of the TSO (also an echelon III unit) (IDGT, 2014).

There are 48 echelon II units within IDGT. Of these 48 echelon II units, 31 are Regional Tax Offices. The Regional Tax Office is divided into two types of echelon III unit: division and TSO. A division is an echelon III unit attached to the Regional Tax Office that is responsible for supporting its operations through the provision of financial services and utilities. It also analyses and disseminates policies formulated by the echelon II units at head office (IDGT, 2014). The TSO, on the other hand, is an echelon III unit responsible for carrying out the main operational function of IDGT: collecting tax revenue from taxpayers. Within each TSO there are several sections (echelon IV units) and several groups of functional employees, mainly tax auditors.

There are several types of TSO. They are mainly distinguished by the amount of tax revenue collected: the large TSO, the medium TSO and the small TSO. In 2013 there were four large, 28 medium and 299 small TSOs (IDGT, 2014, p. 43). Each TSO is responsible for achieving the yearly tax revenue target allocated to it. Within each TSO there are two main units with the major responsibility for the assigned targeted tax revenue. The first is the tax monitoring and consultation section, an echelon IV unit comprising mainly Account Representatives (structural employees) and a group of Tax Auditors (functional employees). The following section elaborates on the description of IDGT employees and their positions in IDGT's organisational structure.

2.2.4. Description of IDGT's employees

The Indonesian Directorate General of Taxes (IDGT) is part of the Indonesian public service. In 2013 there were 4,362,805 public servants in Indonesia (Badan Pusat Statistik, 2015). Of this number, 32,273 were working for IDGT in 2013 (IDGT, 2014, p. 162). The 32,273 IDGT employees comprise two types—namely, structural and functional (IDGT, 2014). The majority of IDGT staff are structural employees. They are employed across five levels, or echelons: echelons I, II, III and IV and a non-echelon level, with echelon I at the top and the non-echelon level at the bottom (IDGT, 2014). There are four types of functional employee within IDGT: Tax Auditor, appraiser, computer administrator and medic (IDGT, 2014). Table 5 provides a detailed description of IDGT's employees.

Table 5: Description of IDGT's employees in 2013

Position	Type of employee	Total headcount	Percentage	Notes
Echelon I	Structural employee	1	0.003%	
Echelon II	Structural employee	48	0.149%	
Echelon III	Structural employee	561	1.738%	
Echelon IV	Structural employee	4,028	12.481%	
Tax objection reviewer	Structural employee	684	2.119%	Non-echelon
Account representative	Structural employee	6,713	20.801%	Non-echelon
Tax bailiff	Structural employee	640	1.983%	Non-echelon
Other staff	Structural employee	15,022	46.547%	Non-echelon
Tax auditor	Functional employee	4,234	13.119%	
Appraiser	Functional employee	288	0.892%	
Computer administrator	Functional employee	51	0.158%	
Medic	Functional employee	3	0.009%	
Total IDGT employees		32,273	100.000%	

Source: (IDGT, 2014; Indonesian Government Ordinance Number 34, 2014; Indonesian Presidential Ordinance Number 37, 2015)

From table 5 it can be seen that structural employees work across the five levels, or echelons. The top position, echelon I, is the Director General of IDGT. By referring to figure 1, one can see that IDGT's Director General is assisted by 48 echelon II elites. Each echelon II elite, excluding senior advisers, supervises several echelon III officials. Under each echelon III official there are several echelon IV officials. Each echelon IV official is the higher official to whom non-echelon structural employees report.

Of particular interest to this study are the operational units responsible for ensuring the achievement of the tax revenue target allocated to IDGT. IMOF allocates responsibility for the major portion of the tax revenue target to IDGT every fiscal year (see section 2.2.1.). IDGT's Director General then assigns this yearly target to the lower echelon unit (echelon II) at the operational level: the Regional Tax Offices. Each Regional Tax Office allocates responsibility for a certain amount of tax revenue target to the TSO units (echelon III) within its regional area. There are 331 TSOs distributed all over Indonesia (IDGT, 2014). Two types of positions support each TSO in ensuring the achievement of the yearly tax revenue target assigned to IDGT: the Account Representative and the Tax Auditor (IDGT, 2014). From table 5 one can see that 6,713 Account Representatives work within the 331 TSOs. While all Account Representatives work for TSOs, in contrast, not all of the 4,234 Tax Auditors do. A small number of Tax Auditors are assigned to work at the Regional Tax Offices and the Directorate of Tax Audit and Collection (see IDGT, 2014). However, the majority of Tax Auditors work under a TSO.

In terms of geographical area, as many as 21,591 of IDGT's employees (66.57%) work in Java, while 11,137 employees (33.43%) are dispersed in offices located outside Java such as Sumatra, Kalimantan, Bali, Sulawesi and Irian Jaya (IDGT, 2011a). The largest number of IDGT employees working outside Java are located in Sumatra. They comprise 15.48% of the total number of IDGT employees (IDGT, 2011a). This means that the majority of IDGT employees work in Java and Sumatra.

In 2002, with the aim of improving the effectiveness of IDGT's operations in collecting higher tax revenue, a reform of tax administration was conducted within IDGT (Brondolo et al., 2008; IDGT, 2008; Indonesian Government, 1997). This reform brought about significant changes to the way IDGT operates (IDGT, 2008). The following section discusses the 2002 tax administration reform in IDGT.

2.3. The 2002 reform of IDGT tax administration

IDGT has experienced several tax reforms since the 1980s (Indonesian Government, 1986/1987), with the most noteworthy for this study occurring in 2002. The 2002 reform involved significant changes to the operations of IDGT (IDGT, 2008). The changes implemented during that reform have continued to have an impact on the operations of IDGT, as was apparent when this study was conducted in 2013. The following section discusses the details of this reform of tax administration, including the impetus for reform, the competing demands that resulted from multiple external pressures and the changes in the operations of IDGT caused by the reform.

2.3.1. Impetus for the reform

In 2002 a large-scale reform of tax administration in IDGT was undertaken (IDGT, 2008). The impetus for the reform stemmed from the Structural Adjustment Program (SAP) brought in by the International Monetary Fund (IMF) as a consequence of the loan received (known as a structural adjustment loan (SAL) (see Easterly, 2005; Riddell, 1992)) by the Indonesian Government after being hit by the Asian financial crisis in 1997/1998 (LOI 1997). The IMF agreed to disburse funds to Indonesia but forced the Indonesian Government to sign an agreement with the IMF which was known as the letter of intent (Korte, 2013). This letter of intent outlined a SAP which included: (1) trade and investment reform; (2) deregulation; and (3) privatisation (Indonesian Government, 1997).

SAP was based on neo-liberal economic ideology (Sniegocki, 2008; Saunders, 2010), which was prevalent as a global economic policy since the early 1980s (Sniegocki, 2008). It advocates an economic model which emphasize “free market” and “free trade” mechanisms

(Sniegocki, 2008). These mechanisms focus on decreasing government regulation, lowering barriers to international trade and investment and promoting privatization schemes (Sniegocki, 2008). The push for adopting a neo-liberal economic ideology was driven by Western countries, and underpinned by the New Public Management (NPM) reform agenda adopted globally (Bessant, Robinson, & Ormerod, 2015; Brinkerhoff & Brinkerhoff, 2015; Bryson, Crosby, & Bloomberg, 2014). However, when adopting this ideology in Indonesia, IMF advisors did not appear to take into consideration critical contextual factors and differences such as social, cultural, administrative and historical factors. For example, Wihantoro et al. (2015) found that IDGT's after the 2002 reform became more bureaucratic because the reform neglected the influence of Indonesia's cultural context.

With regard to the trade and investment reform, the view was that improving the investment climate was the key to Indonesian economic recovery (Brondolo et al., 2008; Indonesian Government, 1997). As tax administration was considered to be one of the factors which could support the improvement of the trade and investment climate in Indonesia (Brondolo et al., 2008), the SAP brought in by the IMF set the reform agenda for IDGT (Indonesian Government, 2003). These factors meant that the impetus for IDGT's tax administration reform stemmed from demands by international bodies, such as the IMF. However, these demands were not consistent with the demands from other, domestic actors, meaning IDGT faced competing demands from multiple constituencies.

2.3.2. Competing demands from constituencies

Multiple actors, domestic and international, influenced IDGT's 2002 tax administration reform. International actors, such as the International Monetary Fund (IMF), exercised a considerable amount of influence in determining the direction of the reform (Korte, 2013; Wihantoro et al., 2015). These actors also included international donor agencies with an interest in taxation, such as the World Bank, the Australian Agency for International

Development (AusAID), the Technical Assistance Management Facility (TAMF), the Government Partnerships Fund (GPF), the Australian Taxation Office (ATO), the Swedish International Development Cooperation Agency (SIDA), the Swedish Tax Agency (STA), the United States Treasury, and the Japan International Cooperation Agency (JICA) (Artjan, 2011; IDGT, 2008; Korte, 2013; Rizal, 2013). Influential domestic actors included the Indonesian Government (i.e. the President and the Parliament), economic bodies such as the Indonesian Ministry of Finance (IMOF), the head of IDGT, tax officials, politicians, taxpayers, academics, civil society and the media (Korte, 2013). The focus of this thesis is on three primary actors that appeared to exercise the most influence in determining the direction of IDGT's tax administration reform: the IMF, IMOF and the Indonesian Government. These three actors were the most influential during the tax administration reform in 2002 because of the following factors. First, the IMF imposed its demands on and influenced reform within IDGT through the SAP agreed to between the IMF and the Indonesian government as a consequence of the loan provided by the IMF to support Indonesia's economic recovery from the 1997 Asian crisis (Indonesian Government, 1997). Second, IMOF is the senior ministry to IDGT, which allowed it to have significant influence over IDGT's operations (Indonesian Presidential Ordinance Number 28, 2015). Third, the Indonesian Government, through the KUP law, regulates the formal operation of IDGT (see Indonesian Law Number 28). These competing demands are summarised in table 6.

Table 6: Competing demands during the 2002 reform

Actor	Relationship to IDGT	Instrument	Demand
IMF	Creditor	SAP	• To increase the tax revenue (short term and medium term). • To enhance client service approach.
IMOF	Higher ministry to IDGT	KPIs	• To increase the short-term tax revenue.
Indonesian Government and Parliament	Provide IDGT with formal/legal guidance	KUP law	• To achieve a high level of taxpayer compliance. • To strengthen the enforcement provisions.

The influential role of each actor in shaping the direction of tax administration reform in IDGT will be discussed in the following section.

2.3.2.1. The demands of the IMF in reforming IDGT

The SAP which the Indonesian Government signed up to described the imposition of policies on Indonesia as a result of its request for financial support from the IMF in order to speed up economic recovery after the 1997 Asian economic crisis (Indonesian Government, 1997; Korte, 2013). The SAP was outlined in a document called a Memorandum of Economic and Financial Policies (MEFP) (Indonesian Government, 1997) and its implementation was required by the IMF as a consequence of the loan received (Korte, 2013). In order to ensure the success of the SAP, the IMF was supported by the World Bank to periodically monitor the achievement of policy action contained in the MEFP (IMF, 2005; Indonesian Government, 1998).

With regard to IDGT's tax administration reform in 2002, the IMF exercised strong influence in establishing the main purposes of the reform (Korte, 2013). The main purposes of the tax administration reform were: to increase the amount of tax revenue collected and to improve the investment climate (Brondolo et al., 2008; Korte, 2013). The IMF was primarily interested in increasing the tax revenue over the short and medium term (Brondolo et al., 2008), due to its capacity as a creditor to Indonesia. In order "to secure prolonged engagement through a growing loan portfolio" (Korte, 2013, p. 37), the IMF had to ensure Indonesia's ability to repay the loan in the future. It was considered that increasing the tax revenue in the short and medium term would increase Indonesia's ability to repay the loan on time and enable the IMF to issue an additional loan portfolio to Indonesia (Korte, 2013).

In terms of improving the investment climate, the surveys collected by the IMF advised that the chief impediments to doing business in Indonesia were the problems inherent in the administration of the Indonesian tax system (i.e. IDGT) (Brondolo et al., 2008). One of the main problems was the lack of accountability, demonstrated by the attitude of IDGT employees influenced by the long tradition of corruption in the Indonesian government (Flatters & MacLeod, 1995; Korte, 2013; Kuncoro, 2004, 2006; Vial & Hanoteau, 2010; Yuhariprasetia, 2015). These corrupt practices, it was argued, created uncertainty for those doing business in Indonesia (Brondolo et al., 2008; Kuncoro, 2006). Consequently, the IMF established IDGT's reform strategy under the SAP, which included (1) promoting integrity among tax officers; (2) a number of investment enhancing initiatives, such as simplifying the compliance requirements; and (3) accelerating refunds to taxpayers (Brondolo et al., 2008).

The influence of the IMF began to decrease after the Indonesian government decided to terminate the agreement with the IMF in 2003 (Indonesian Government, 2003; Korte, 2013). Following this decision, Indonesia was no longer required to develop an MEFP (IMF, 2005; Indonesian Government, 2003). However, this decision forced the Indonesian government to repay the loan given by the IMF. It was successfully repaid in 2006 (Anugrah, 2015; Korte, 2013). Following repayment of the loan, the IMF continued to be involved in the tax administration reform. The IMF, together with the other donors (i.e. the World Bank, AusAID, TAMF, GPF, ATO, SIDA, STA, the US Treasury and JICA), provided technical assistance during IDGT's tax administration reform (Artjan, 2011; IDGT, 2008; Korte, 2013; Rizal, 2013). This shows that even though the strong imposition of the IMF had been reduced, a relatively mild pressure for reform remained at the international level. The mild reform pressure from international actors was strengthened by IMOF, the higher ministry to IDGT, which demanded improvement from IDGT in collecting tax revenue from taxpayers in order to ensure the achievement of the yearly tax revenue target.

2.3.2.2. The IMOF demands

IMOF requires IDGT to focus on tax revenue target achievement. This demand stems from one of IMOF's main goals in the mandated state budget law, which is to achieve national revenue targets by "collecting revenue for the country based on laws and regulations" (Indonesian Law Number 17, 2003, article 8). As IDGT reports to IMOF, IDGT has been delegated responsibility for achieving the tax revenue target. This means that the achievement of the yearly tax revenue target is a key performance indicator (KPI) for IDGT (IDGT, 2014; IMOF, 2013a).

The demand placed on IDGT by IMOF to ensure the achievement of the yearly tax revenue target was in accordance with the demands of the IMF. The aim of the SAP to improve the short- and medium-term revenue (see Brondolo et al., 2008) was clearly in line with IMOF's responsibility for ensuring the accomplishment of the yearly revenue target stipulated in the state budget (Indonesian Law Number 17, 2003). Consequently, the reform strategy imposed by the IMF could be easily accepted by IMOF because the strategies appeared to be appropriate to improve the amount of tax revenue collected.

With regard to the eradication of corruption, there was high expectation, especially from Indonesian economic observers such as Faisal Basri and Kwik Kian Gie, that by eradicating the corrupt behaviour of IDGT's officials more tax revenue could be collected (Korte, 2013). Similarly, the improvement of the investment climate was expected to increase the amount of tax revenue collected. It was argued that better tax administration would encourage improvement in the investment climate, which was expected to attract more foreign and local investors to invest money in Indonesia (Brondolo et al., 2008). The increased investment in Indonesia was expected to boost economic growth, which would increase the amount of tax revenue collected (Brondolo et al., 2008).

Despite the strong reform pressure from both internal and external actors to focus on increasing the amount of tax revenue collected, the KUP law aspired to a slightly different focus, namely ensuring a high level of taxpayer compliance.

2.3.2.3. The demands of the Indonesian Government through the KUP law

There are three main laws relating to the operations of IDGT: (1) Undang-undang Ketentuan Umum dan Tata Cara Perpajakan (the KUP law); (2) Undang-undang Pajak Penghasilan (the income tax law); and (3) Undang-undang Pajak Pertambahan Nilai (the value added tax law) (IDGT, 2008). While the income tax law and the value added tax law are the rules relating to the material/substantial perspective (i.e. income and value added), the KUP law relates to the formal/legal perspective (i.e. the general procedure under the tax laws) (IDGT, 2008; Indonesian Law Number 28, 2007). In the hierarchy of the law (see Appendix A), which reflects the strength of the law in the Indonesian legal system (Indonesian Law Number 12, 2011), all of these three laws are third after: (1) the 1945 Constitution of the Republic of Indonesia; and (2) the Decree of the People's Representative Assembly (Indonesian Law Number 12, 2011). Accordingly, these laws have a stronger power and authority than other types of rules and regulations in the Indonesian legal system, such as Indonesian Government Ordinances and Indonesian Presidential Ordinances, which are at the fourth and fifth level of the hierarchy (Indonesian Law Number 12, 2011). Since the ministerial and directorate decrees are not listed in the hierarchy (Indonesian Law Number 12, 2011), the three laws concerning Indonesian taxation, the KUP law, the income tax law and the value added law, have greater power and authority than IMOF and IDGT decrees (see Appendix A).

The KUP law, which is of particular interest to this study, regulates the formal and legal perspective regarding the general provisions and procedures in the operations of IDGT (IDGT, 2008; Indonesian Law Number 28, 2007). One of the provisions under the KUP law relates to IDGT's core goals: taxpayer compliance and tax revenue (Indonesian Law Number

28, 2007). The authority of IDGT to ensure taxpayer compliance is reflected in a number of articles, as follows. First, administrative penalties are imposed on individuals and businesses (taxpayers) who fail to submit their tax returns, in order to improve taxpayer compliance (see Indonesian Law Number 28, 2007, article 7). Second, in order to ensure taxpayer compliance, IDGT has the authority and power to scrutinise the accuracy of taxpayers' tax liabilities through tax auditing (see Indonesian Law Number 28, 2007, article 29). Third, IDGT has the authority to request data from third parties in order to ensure taxpayer compliance (see Indonesian Law Number 28, 2007, article 35 and 35A). Fourth, criminal sanctions are imposed on taxpayers as a last resort, to improve taxpayer compliance (see Indonesian Law Number 28, 2007, article 39). This demonstrates the importance of taxpayer compliance as a key goal of IDGT.

The other key goal of IDGT, as stipulated in the KUP law, is the collection of tax revenue (Indonesian Law Number 28, 2007). Similar to taxpayer compliance, the importance of tax revenue collection is implied in a number of articles, as follows. First, due to the importance of collecting tax revenue for the state, IDGT has the authority to request data and information from relevant third parties (Indonesian Law Number 28, 2007, article 35A). Second, heavy sanctions are imposed on every IDGT employee found to be unprofessional in calculating tax liabilities of taxpayers that result in state tax revenue losses (Indonesian Law Number 28, 2007, article 36A). Third, in order to ensure IDGT has the ability to collect tax revenue from taxpayers, the KUP law gives the authority to IDGT to impose heavy criminal sanctions on every taxpayer who intentionally evades payment of tax to the state (Indonesian Law Number 28, 2007, article 39). This reflects the importance of achieving tax revenue as another goal of IDGT.

Despite the fact that that both taxpayer compliance and tax revenue are considered to be the key goals of IDGT, the priority implicit in the KUP law is that taxpayer compliance is the first goal, and tax revenue is viewed as the outcome of taxpayer compliance (see Indonesian Law Number 28, 2007). This study argues that the law set the achievement of taxpayers' compliance as a higher priority than achieving tax revenue outcomes because taxpayers' compliance is the basis for achieving the highest tax revenue possible in the long term (see Centre for Tax Policy and Administration, 2010). This will be further discussed in terms of the design of IDGT's strategic map, with the importance of compliance in achieving both short and long-term revenue highlighted in section 2.3.3.3.

The competing demands of the different constituencies, particularly from the three dominant actors (i.e. the IMF, IMOF and the KUP law), influenced the changes made within IDGT during the 2002 reform. The following section discusses the 2002 IDGT reform.

2.3.3. The reform

The 2002 tax administration reform resulted in various changes in IDGT's operations (IDGT, 2008). These included: the change from a hard enforcement to a soft enforcement regime; the diminution of corruption; and the introduction of a modernised tax administration system.

2.3.3.1. The change from a hard enforcement to a soft enforcement approach

Prior to the reform, IDGT adopted a hard enforcement approach whereby it placed greater emphasis on the role of the Tax Auditors, who undertook tax audits to ensure taxpayer compliance (see IDGT, 2008; Indonesian Law Number 28, 2007). IDGT's emphasis on the Tax Auditor role was reflected in the number of effective Tax Auditors within IDGT and the separation of the Tax Audit Office (TAO) and the Tax Service Office (TSO) (see IDGT, 2008; Suparman, 2007). When the TAO was still an independent office outside the TSO (IDGT, 2008), employees at both the TAO and the TSO were authorised to conduct the tax audit (see Suparman, 2007). Consequently, more people were involved in the tax audit, which led to more audits being undertaken.

The reform represented a shift from a hard enforcement approach to a soft enforcement approach. With the idea of promoting the investment climate (Brondolo et al., 2008; Indonesian Government, 1997), a one-stop service approach was adopted (IDGT, 2008). The one-stop service approach was one of the investment enhancing activities (Brondolo et al., 2008) aimed at providing taxpayers with a simple way to deal with taxation related matters, such as tax auditing, tax refund requests and other related administrative issues (IDGT, 2008). In doing so, two major changes were implemented within IDGT: (1) the liquidation of the TAO; and (2) the adoption of the Account Representative role (IDGT, 2008). This led to a reduced emphasis on the hard enforcement approach to collecting tax revenue from taxpayers.

The liquidation of the TAO reduced the emphasis on a hard enforcement approach in two ways. First, it led to a reduction in IDGT's authority to collect tax revenue from taxpayers through tax auditing. As the TAO was dissolved and replaced by a division under the TSO after the reform (IDGT, 2008; IDGT Circular Letter Number 02, 1996; Tax Center UNPAD, 2007), the audit instruction letter could be issued only after a process called "persuading" and "counselling" by Account Representatives failed to encourage taxpayers to pay the suspected underreported tax liability (refer to the standard operating procedure for audit proposal submissions) (IDGT, 2010b)). Consequently, the chance for taxpayers to be audited by Tax Auditors was diminished, especially when the persuasive assessment approach taken by the Account Representatives succeeded in convincing taxpayers to pay their tax liability. In contrast, when the TAO was a separate entity, outside the TSO, (IDGT, 2008; IDGT Circular Letter Number 02, 1996; Tax Center UNPAD, 2007), the TAO could conduct a tax audit without the consent of the TSO. This meant that the TAO could choose at its own discretion the taxpayers to be audited. Consequently, there was a higher chance of taxpayers being audited, reflecting the fact that more authority was given to the tax auditing approach in collecting tax revenue from taxpayers before the reform. This illustrates that the dissolution of the TAO reduced the tax auditing authority of IDGT's operations.

Second, the liquidation of the TAO had an impact on the reduction in the proportion of Tax Auditors to total IDGT employees after the reform. This was due to the fact that, in the era after the reform, the authority to conduct the tax audit (both a complete and a simple audit) was limited to the Tax Auditor division under the TSO (IDGT, 2008; Suparman, 2007). This contrasts with the pre-2002 arrangement whereby the authority to conduct the tax audit was given to both the TAO and the TSO (Suparman, 2007). While the TAO used functional Tax Auditors to conduct the complete tax audit, the head of the TSO could appoint "temporary" tax auditors from the general employee cohort to handle the simple field audit (Suparman, 2007). Due to general employees being prohibited from conducting tax audits after the reform, the functional Tax Auditors at the TSO became the only cohort with the responsibility for conducting both the complete and the simple tax audit (Suparman, 2007). This resulted in a reduction in the number of Tax Auditors, which meant a reduction in the ability of the Tax Auditor role to collect tax revenue from taxpayers.

The shift to a soft enforcement approach was also associated with an emphasis on a persuasive assessment approach to collecting tax revenue from taxpayers. This approach led to an increase in the number of Account Representatives, a new position under the TSO aimed at supporting the implementation of a one-stop service approach (see IDGT, 2008). In 2013 the number of Account Representatives was almost double the number of Tax Auditors (IDGT, 2014). However, the persuasive assessment approach is different from the tax audit approach. While the tax audit approach used a hard enforcement strategy to force taxpayers to pay their tax liability to the state (see Appendix B), Account Representatives adopted the softer enforcement role, known as a “persuading” and “counselling” approach, to encourage taxpayers to pay their tax liabilities (IDGT, 2008, 2013a). This “persuading” and “counselling” approach is outlined as follows (with emphasis):

> *After analysing and updating the taxpayer’s profile, which includes updating the internal taxpayer data (the data being reported in the taxpayer’s tax return,) the Account Representative cross-validates this internal taxpayer data with the available third-party data. When there is a discrepancy, which indicates that the taxpayer has overlooked some part of their true tax liability, the Account Representative follows up this issue by writing a “persuading” letter to the taxpayer to persuade them to pay this discrepancy. If the taxpayer refuses to take any action regarding this persuading letter, the Account Representative proceeds with “counselling” activities by visiting the taxpayer’s premises and asking them to explain the discrepancy noted in the “persuading” letter. If the persuading and counselling activities fail, the Account Representative can write a proposal to audit the uncooperative taxpayer and send this proposal to the group of Tax Auditors.* (IDGT, 2008, p. 39)

This description explains that, unlike the approach used by Tax Auditors, who collect tax revenue based on a “hard” enforcement approach by auditing taxpayers’ true tax liabilities (Indonesian Law Number 28, 2007), the tax collection approach conducted by the Account Representatives is softer (IDGT, 2008). This is because it places greater emphasis on the persuasive engagement approach rather than on forcing taxpayers to pay the true tax liability found in the assessment (IDGT, 2008). That greater emphasis was placed on the use of the persuasive assessment approach after the reform further reinforced the shift from the hard to the soft enforcement approach to collecting tax revenue from taxpayers after the 2002 reform.

Another key program within the SAP which changed the way IDGT operates was the eradication of corruption (Indonesian Government, 1997; Korte, 2013). The following section discusses the efforts made within IDGT to curb the practice of corruption among its officials before the reform.

2.3.3.2. The diminution of corruption

As part of the reform agenda, IDGT committed to eradicating the long-held tradition of corrupt practice by establishing and implementing good governance principles, in particular the accountability principle (IDGT, 2008). By establishing a new directorate (an echelon II unit) at IDGT's headquarters, the Directorate of Internal Compliance and Apparatus Transformation (Directorate of KITSDA) (Yuhariprasetia, 2015), IDGT put in place the internal and external accountability measures to prevent its employees from engaging in any fraudulent activities and behaviour, such as corruption (IDGT, 2008).

Internal accountability measures through the Directorate of KITSDA consisted of both precautionary (preventive) and repressive (reactive) controls (IDGT, 2008). The preventive controls aimed to raise the awareness of employees of the provisions of the code of conduct and the disciplinary rules (IDGT, 2008; Yuhariprasetia, 2015). IDGT committed to establishing and implementing the code of conduct for all of its employees (IDGT, 2008; Yuhariprasetia, 2015). This code of conduct provides guidance on how IDGT employees should manage situations, make the right choices and demonstrate appropriate attitudes when fulfilling their duties (IDGT, 2008). The code of conduct consists of nine liabilities and eight prohibitions (see Appendix C). In order to formalise the implementation of the code of conduct, all IDGT employees were required to sign a statement expressing their willingness to implement the code (IDGT, 2008). In 2007 the statement to implement the code was signed by all of IDGT's employees (IDGT, 2008), just one year before all of the tax offices were modernised (Korte, 2013). Furthermore, IDGT prepared a code of conduct guidebook which contains more concrete explanations about the code by providing examples of situations or cases that are often faced by employees, as well as guidance on the attitudes or actions that should be taken in order to address the situation or the case (IDGT, 2008).These preventive controls were implemented through internalisation, discussions, surveys and compliance monitoring (IDGT, 2008; Yuhariprasetia, 2015).

Reactive control is a surveillance method undertaken through inspection and investigation of suspected fraudulent activities and behaviours (IDGT, 2008; Yuhariprasetia, 2015). Reactive monitoring aims to enforce the code of conduct and disciplinary rules in cases where infringement or violation is indicated (IDGT, 2008; Yuhariprasetia, 2015). One of the surveillance methods established by IDGT was the whistle-blower system or WBS (IDGT, 2014). WBS allows for the early detection of any violation of the code of conduct that has been signed by IDGT employees by requiring employees and the public to report (blow the whistle) to the Directorate of KITSDA through the whistle-blowing information system (IDGT, 2014).The number of cases reported from 2009 to 2013 through the WBS steadily increased, with 272 cases found in 2013 (IDGT, 2014, p. 139). It was argued that there was a tendency towards increasing awareness of and trust in the WBS (IDGT, 2014). The sanctions imposed in those cases can be divided into three categories: light degree (such as a letter of reprimand), medium degree (such as demotion to one rank lower for one year) and severe degree (such as dishonourable discharge) (IDGT, 2014, p. 140).

External monitoring is carried out by the Code of Ethics Committee, the Committee of the National Ombudsman, the Inspector General of IMOF and the Corruption Eradication Commission (KPK) (IDGT, 2008; Yuhariprasetia, 2015). It involves monitoring the indications of infringement or violation committed by employees of IDGT (IDGT, 2008). In the case of an employee who is found to have violated the code of conduct, the external monitoring bodies would recommend the imposition of moral and administrative sanctions, which can be accompanied by recommendations for the imposition of appropriate disciplinary action or punishment for violations, such as being fired or even imprisoned (IDGT, 2008; Yuhariprasetia, 2015).

The development of internal and external accountability measures was effective in reducing the practice of corruption in IDGT. A survey conducted by Transparency International Indonesia (TII) in 2008 found that, among the 15 public institutions surveyed, IDGT was the third least corrupt in Indonesia (Transparency International, 2008). This indicates that there was a huge reduction in corrupt practices involving IDGT officials, because the same survey conducted in 2004 and 2006 placed IDGT as the second and third most corrupt public institution in Indonesia respectively (Transparency International, 2006). Given this development, it is very possible that corruption can be eradicated within IDGT, as reflected in the official statement by Yond Rizal (Head of Large Taxpayers Office III), who said:

> *I believe that IDGT will be able to achieve zero corruption, provided that all employees become role models in enforcing a sense of integrity and professionalism*. (IDGT, 2014, p. 136)

2.3.3.3. The modernised tax administration system

To achieve the reform's aim—the collection of a higher level of tax revenue (Brondolo et al., 2008)—IDGT introduced several modernised tax administration features (IDGT, 2008). Table 7 summarises those features.

Table 7: Features of IDGT's modernised tax administration system

Type of feature	Characteristics/Aims
Information technology (IT) based business processes	• Case management • Workflow system
New human resource management practices	• Legitimate and higher incentive system • HR blueprint • Job grading system • Assessment centre • Employee competency mapping • Performance measurement system
IDGT strategic map	• Outlines IDGT's strategic objectives
IDGT annual report	• Reports on IDGT's operations

Source: (IDGT, 2008, 2011a, 2014)

The first feature of the modernised tax administration system was the information technology (IT) based business process, namely IDGT's information system (SIDJP-Sistem Informasi Direktorat Jenderal Pajak) (IDGT, 2008). Two important features of the system were the case management and workflow procedures. These features enabled IDGT to monitor the time and the status of the task done by tax officials from the initiation of a case (case open) until its completion (case closed) (IDGT, 2008). The development of the SIDJP was aimed at replacing the manual work system with an automated work system for improving the service provided to taxpayers (IDGT, 2008). The implementation of an automated system enabled more effective, faster and more accurate completion of administrative tasks, such as processing taxpayers' requests for tax refunds and tax clearance, which involved administrative and clerical types of jobs (IDGT, 2008). It also strengthened the internal control function because information was more readily accessible (IDGT, 2008). In addition, IDGT introduced e-filing (the ability to submit an online tax return), e-payment and e-registration (the registration of new taxpayers online) (IDGT, 2008). All of these facilities were designed to make it easier for taxpayers to fulfil their tax obligations at any time (IDGT, 2008).

The second key feature was the introduction of new human resource management (HRM) practices. This included the introduction of the legitimate incentive scheme (Korte, 2013), the job grading system, an assessment centre, IDGT employee competency mapping and the performance measurement system (IDGT, 2008). These practices were collectively known as the competency and performance based HRM system and were designed by the Directorate of KITSDA[2] through the establishment of IDGT's HRM blueprint in 2011 (IDGT, 2011a). In adopting a competency and performance based HRM system, the aim was to put in place the concept of fitting a person to a job (IDGT, 2011a).

The third key feature was the development of IDGT's strategic map in 2008 (IDGT Decree Number 111, 2008), which is one of the main focuses of this study. This strategic map describes the multiple strategic objectives or goals of IDGT and the order of priority of those goals. In 2013 there were 11 strategic goals, divided into four layers: stakeholder perspective, customer perspective, internal process perspective and learning and growth perspective (IDGT, 2014). Figure 2 shows IDGT's strategic map.

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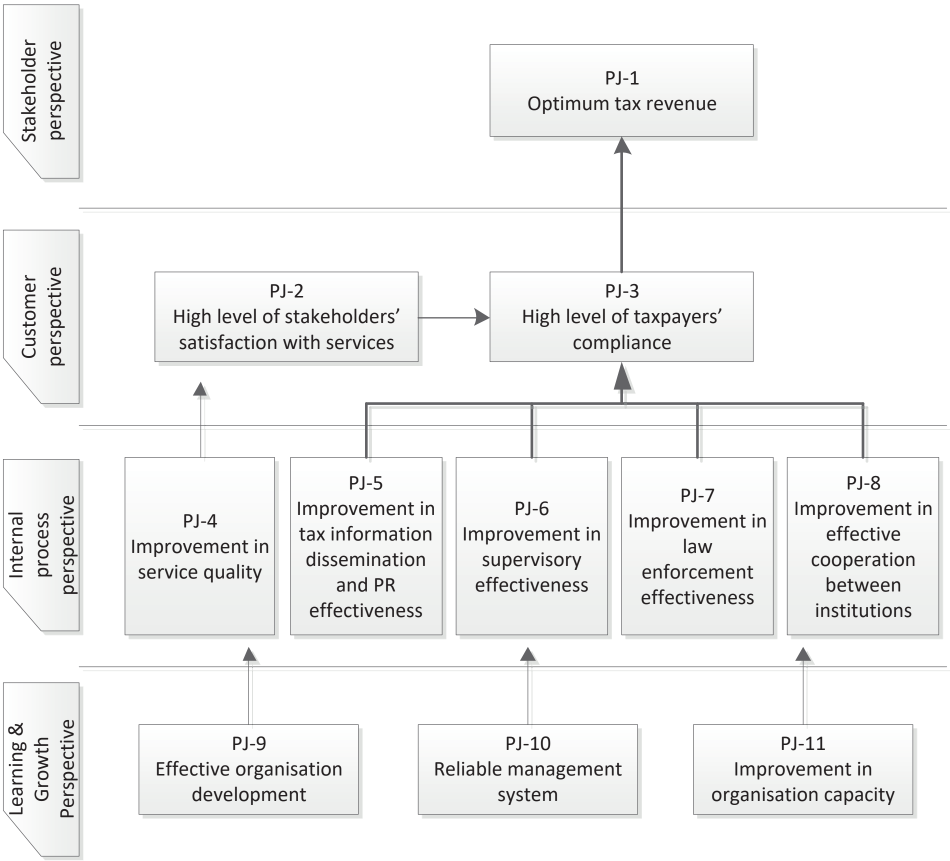
[2] The Directorate of KITSDA is the new directorate at headquarters (see section 2.3.3.2.). Besides the task of ensuring the accountability of IDGT officials (see section 2.3.3.2.), another of the Directorate of KITSDA's tasks is to transform IDGT personnel into modern and professional tax officials (IDGT, 2008).

Figure 2: IDGT's strategic map



Source: IDGT (2014)

Inspired by the aspiration of the KUP law (see section 2.3.2.3.), figure 2 illustrates the priority order of IDGT's 11 strategic objectives or goals. Despite the fact that the ultimate goal of IDGT's operations is the optimum tax revenue (PJ-1), the key priority goal of IDGT is a high level of taxpayer compliance (PJ-3). This is because taxpayer compliance (PJ-3) is the sum of the sub-level goals (i.e. PJ-2, PJ-4, PJ-5, PJ-6, PJ-7, PJ-8, PJ-9, PJ-10 and PJ-11). The optimum tax revenue (PJ-1) is viewed as the outcome of this high level of taxpayer compliance (PJ-3). Thus, this aspirational map illustrates that the way in which IDGT could achieve the optimum tax revenue (IDGT's ultimate goal) is by ensuring the accomplishment of a high level of taxpayer compliance. This will be discussed further in section 5.1.2.

The last feature introduced after IDGT's 2002 tax administration reform was the IDGT annual report (IDGT, 2008, 2009, 2010a, 2011b, 2012, 2013b, 2014). The first annual report, for 2007, was published by IDGT in 2008 after the phase one reform was completed (IDGT, 2008). In general, IDGT's annual report reports its operations, including performance highlights, workforce information, IDGT at a glance, management discussion and analysis, statistics and office information (IDGT, 2014, p. 7).

A key to the reform was to improve IDGTs' performance, in particular the amount of tax revenue being generated. The following section discusses the extent to which IDGT's performance met expectations after the 2002 reform.

2.4. IDGT's performance before and after the reform

A key premise of the tax administration reform was that the changes would improve IDGT's performance in collecting tax revenue from taxpayers (Brondolo et al., 2008). Despite the fact that an increasing amount of tax revenue (tax yield) was collected from taxpayers (Brondolo et al., 2008; Putra, 2014), it failed to improve the level of Indonesia's tax ratio, a commonly used indicator of tax administration performance (see Amir, 2014; Arnold, 2012; Brondolo et al., 2008; Ikhsan et al., 2005; Korte, 2013; Mahdavi, 2008; Putra, 2014). Therefore, the remainder of this section discusses the apparent consistent performance of IDGT after the 2002 tax administration reform, particularly in terms of the level of tax ratio achievement.

The level of tax ratio is the indicator of performance commonly used by commentators, both domestic and international, to measure the capacity of a country to collect tax revenue from taxpayers (Amir, 2014; Arnold, 2012; Brondolo et al., 2008; Ikhsan et al., 2005; Korte, 2013; Mahdavi, 2008; Putra, 2014). Korte (2013) and Mahdavi (2008) have examined the link between the level of taxation, defined as the tax ratio, and various aspects of development to explain why the tax ratio is relatively low in developing countries. In order for a country to be able to finance productive expenditure, such as infrastructure, and to support the country's development, at least 20% of the tax ratio level is required; any lower than this severely impedes the development of a country (Korte, 2013). It has been argued that if the tax ratio falls below 10% it is difficult for a country to sustain the basic living standards of its citizens (IMF, 2005).

In the case of Indonesia, the tax ratio after the 2002 reform of the roles of IDGT and IDGCE (the two revenue raising agencies in Indonesia) was far lower than the required level suggested by scholars (20%) (see Korte, 2013). This is reflected in table 8, which lists the tax ratio from two different perspectives: (1) tax ratio based on IDGT's role; and (2) tax ratio based on the combined roles of IDGT and IDGCE (IDGT, 2012, 2013b, 2014).

Table 8: Indonesian tax ratio level from 2001 to 2013

Year	IDGT	IDGT + IDGCE
	(1)	(2)
2001	10.94%	12.80%
2002	10.95%	11.53%
2003	10.00%	12.02%
2004	10.50%	12.22%
2005	10.72%	12.51%
2006	10.64%	12.25%
2007	10.77%	12.43%
2008	11.54%	13.31%
2009	9.72%	11.06%
2010	9.78%	11.22%
2011	10.01%	11.78%
2012	10.16%	11.91%
2013	10.14%	11.86%

Source: (IDGT, 2011b, 2012, 2013b, 2014)

Table 8 highlights that the tax ratio after the reform was far from the level required to finance productive expenditure (20%) (see Korte). In addition, the tax ratio based on the tax revenue collected by IDGT shows little or no improvement after the 2002 reform. From table 8, it demonstrates that the level of tax ratio, based on IDGT's role, was consistent from 2001 to the 2013 fiscal year, in the range of 9% to 11%. The level of tax ratio in 2013 was even slightly lower than the level in 2001, one year before the 2002 tax administration reform was conducted. A similar trend is evident in the level of the tax ratio in column 2, which is the combined tax ratio collected by IDGT and IDGCE. This suggests that there was no significant improvement in IDGT's performance after the 2002 tax administration reform was conducted, even though various changes were made which significantly changed the way IDGT operates (see section 2.3.3.).

The indication that there was little or no improvement in the level of tax ratio after the 2002 tax administration reform is supported by a number of studies which suggest that a significant amount of tax revenue remained untapped after the 2002 reform. For example, Arnold (2012) found in his study that, despite a number of efforts having been made to improve the tax system in Indonesia, IDGT's capacity to collect tax revenue from taxpayers remained low. In line with this study, Putra (2014) found that the reforms within IDGT failed to improve IDGT's capacity to collect income tax from taxpayers, as reflected by the consistent level of Indonesia's income tax ratio. Supporting the previous studies, it was found that a huge amount of tax revenue failed to be collected by IDGT in 2010, as the level of Indonesia's tax ratio was only 11.6%, which was far lower than the theoretical tax ratio level for 2010 (21.5%) (Fenochietto & Pessino, 2010; Heenan et al., 2011). From these studies, it can be seen that IDGT failed to collect a significant amount of tax revenue after the 2002 reform.

The consequential loss of tax revenue after the 2002 reform led to IDGT's lack of capability to achieve the yearly tax revenue target set by IMOF, other than in the 2004 and 2008 fiscal years (see table 9).

Table 9: IDGT's accomplishment of the yearly tax revenue target (in trillions of rupiah) from 2001 to 2013.

Year	Tax revenue target allocated to IDGT (A)	Actual tax revenue collected by IDGT (B)	IDGT's accomplishment rate (B/A)
2001	156.57	158.58	101.28%
2002	180.10	176.32	97.90%
2003	210.79	204.66	97.09%
2004	237.79	238.64	100.36%
2005	302.16	298.54	98.80%
2006	371.70	358.20	96.37%
2007	432.52	425.37	98.35%
2008	534.53	571.11	106.84%
2009	577.39	544.53	94.31%
2010	661.50	628.23	94.97%
2011	763.67	742.74	97.26%
2012	885.03	835.83	94.44%
2013	995.21	921.40	92.58%

Source: (IDGT, 2013b, 2014; IMOF, 2013b)

Table 9 shows that since 2002 IDGT has been unable to accomplish more than the 100% tax revenue target of the respective years, other than in 2004 and 2008. Considering the significant role played by IDGT in supporting the national revenue in the state budget (see table 4), it can be argued that the failure to achieve the tax revenue target stipulated in the state budget (see table 3) was mainly due to the lack of capacity of IDGT (see Arnold, 2012; Ikhsan et al., 2005) to achieve the tax revenue target allocated to it (see table 9).

This illustrates that, despite the extensive changes made during the 2002 reform (see section 2.3.3.), IDGT was not able to meet its performance expectation of collecting a higher level of tax revenue from taxpayers. This was evident from the consistent level of the tax ratio (see table 8), which was far from the 16% expected level of Indonesia's tax ratio (IDGT Decree Number 111, 2008). This means that the aim of the 2002 tax administration reform, which was to improve IDGT's operations in order to achieve a higher level of tax revenue collected (Brondolo et al., 2008; IDGT, 2008; Indonesian Government, 1997), was not realised.

2.5. Conclusion

The desire to increase the tax ratio level (the amount of tax revenue collected as a proportion of GDP) led to the 2002 tax administration reform within IDGT, the primary revenue raising agency in Indonesia. This reform involved extensive changes to the internal management of IDGT. Key to these changes was the liquidation of the Tax Audit Office (TAO) and the adoption of the new position of Account Representative, which were aimed at enhancing the services provided to taxpayers. Other key features of the reform were the modernisation of IDGT's administration system, including the introduction of new technology enabled business processes, the establishment of IDGT's HRM blueprint (a new competency and performance based HRM system), and the development of IDGT's strategic map. Despite the significant changes made, IDGT's performance did not increase, with the tax ratio level remaining consistently low from 2002 to 2013.

This raises questions regarding the effectiveness of the 2002 tax administration reform in improving IDGT's performance, particularly in terms of the level of tax ratio, and why IDGT's performance did not increase. These questions form the basis of this study and will be explored in the chapters to follow.

The next chapter will review the literature on organisational performance, including key determinants of organisational performance. It particularly focuses on two organisational determinants, priority goal ambiguity (PGA) and strategic human resource management (SHRM).

CHAPTER 3: LITERATURE REVIEW - GOAL AMBIGUITY AND STRATEGIC HUMAN RESOURCE MANAGEMENT

The previous chapter discussed the context of this study. It outlined the important role of tax revenue in the Indonesian economy and established IDGT's central role in collecting tax revenue to support the Indonesian state budget. It highlighted that IDGT's performance did not improve following the 2002 tax administration reform, despite the significant changes made during the reform. The changes of most importance to this study were the establishment of IDGT's strategic map, which aimed to prioritise IDGT's goals, and the establishment of IDGT's HRM blueprint, which aimed to establish a strategic human resource management (SHRM) approach.

The purpose of this chapter is to establish a theoretical framework for analysing the effectiveness of the 2002 tax administration reform in improving IDGT's performance. This chapter synthesises the literature on organisational performance in both the private and the public sectors. The first section explores definitions of organisational performance. The second section highlights the issues around performance measurement, identifying proxy indicators to measure organisational performance. The third section explores the key determinants of private and public sector organisational performance, with particular emphasis on two core organisational factors, goal ambiguity and SHRM, as they relate to key reform initiatives implemented in IDGT. The fourth section discusses the identification of the research gap this study sought to address.

3.1. Definitions of organisational performance

Organisational performance, within both private and public organisations, is difficult to define (Brewer & Selden, 2000; Miller, Washburn, & Glick, 2013). This is particularly because "judgements of the relevance and relative importance of different dimensions of organisational success will vary across stakeholder groups" (Brewer & Selden, 2000, p. 120). As such, scholars have defined organisational performance in various ways. Some definitions focus on the level of effectiveness of the organisation in terms of labour efficiency (Arthur, 1994). Other definitions focus on the accomplishment of organisational objectives (de Vries, de Jonge, & van der Voordt, 2008; Jung, 2011). Yet other definitions focus on the delivery of three elements: quality of products and services, outstanding customer value and sound financial performance (Pickering, 2008). Thus, organisational performance is a complex and subjective issue (Anspach, 1991; Au, 1996; Brewer & Selden, 2000), with debates also existing about how to measure organisational performance (Miller et al., 2013).

3.2. Performance measurement

Measuring organisational performance is complex in both private and public sector organisations (Blackman, Buick, O'Donnell, O'Flynn, & West, 2012; Brewer & Selden, 2000; Georgopoulos & Tannenbaum, 1957; Jung, 2011; Rainey & Steinbauer, 1999). In the private sector, financial performance indicators, such as profitability, are the most common performance indicator (see for example: Boubakri, Cosset, & Guedhami, 2005; Delery & Doty, 1996; Hansen & Wernerfelt, 1989; Pratheepan, 2014; Qureshi & Yousaf, 2014; Yazdanfar, 2013; Yazdanfar & Öhman, 2015; Zhang, Tang, & He, 2012). However, some scholars argue that financial performance indicators are a narrow performance measure (Boyne & Gould-Williams, 2003; Rogers & Wright, 1998; Venkatraman & Ramanujam, 1986). This is because financial performance indicators cannot indicate the broader performance of private organisations from the perspective of different stakeholders (Boyne & Gould-Williams, 2003; Venkatraman & Ramanujam, 1986). In the private sector, stakeholders include shareholders, customers, suppliers, employees, local communities and government (Hillman & Keim, 2001). From the perspective of customers, for example, one indicator of organisational performance is the quality of the products and services (Venkatraman & Ramanujam, 1986).

In light of the argument that the financial performance indicators are too narrow, some scholars have proposed that organisations should adopt a broader range of performance indicators which include financial indicators, operational indicators (i.e. new products, product quality, market share) and organisational effectiveness (Boyne & Gould-Williams, 2003; Miller et al., 2013; Rogers & Wright, 1998; Venkatraman & Ramanujam, 1986). However, adopting a range of performance indicators may cause confusion with regard to determining which indicators the organisation should focus on and prioritise. To some extent, the different indicators have a conflicting impact on the overall organisational performance of the private sector (Venkatraman & Ramanujam, 1986). For example, an increase in product quality to satisfy the performance from the perspective of customers might reduce annual profit due to the higher expenditure disbursed to increase product quality. This leads to complexities in measuring organisational performance in the private sector (Miller et al., 2013).

The complexity of performance measurement is also evident in the public sector (Boyne & Gould-Williams, 2003; Brewer & Selden, 2000). Public sector organisations have different stakeholders, including the government, the parliament and citizens. These stakeholders may have different perspectives on the indicators that should be used to measure public sector organisational performance (Brewer & Selden, 2000). In addition, most public sector organisations do not have performance indicators that are quantifiable, such as profitability, which are prevalent in the private sector (Boyne & Gould-Williams, 2003; Brewer & Selden, 2000). Due to the absence of quantifiable performance measures, public sector organisations often rely on subjective measures, such as perceptions of effectiveness (Chun & Rainey, 2005a; Stazyk & Goerdel, 2010). Perceived effectiveness is measured across a range of areas, including managerial effectiveness, customer service orientation, productivity, work quality (Chun & Rainey, 2005a) and organisational effectiveness (Stazyk & Goerdel, 2010). The absence of quantifiable performance indicators adds greater complexity to performance measurement in public sector organisations.

Another performance measure commonly used in the public sector is goal attainment. The goal attainment approach was introduced by Steers (1975, p. 555):

> *Once the actual behavioural intentions of an organisation are identified, it is then possible to ascertain the degree to which those intentions are being realised; such an approach reduces our reliance on value premises about what an organisation should be doing and relies instead on what it is actually trying to do.*

This means that when the goals of an organisation have been identified it should be easier to measure the performance of the organisation simply by measuring the extent to which those goals have been attained.

Over the past 20 years there has been an increasing interest in using the goal attainment approach as a proxy indicator for organisational performance in the public sector (Jung, 2011; Rainey & Steinbauer, 1999; Speklé & Verbeeten, 2014). Rainey and Steinbauer (1999), for example, used the goal attainment approach to illustrate the concept of public sector performance. They defined public sector organisational performance or effectiveness as:

> *… whether the agency does well that which it is supposed to do, whether people in the agency work hard and well, whether the actions and procedures of the agency and its members are well suited to achieving its mission, and whether the agency actually achieves its mission.* (p. 13.)

This concept was also used by Jung (2011), who measured the performance of 97 federal agencies in the United States of America (USA) in a study conducted to assess the relationship between goal ambiguity and performance. He argued that comparing performance among organisations presents a challenge because many agencies have their own goals or values (Jung, 2011). It is argued that, by adopting the goal attainment approach, the performance of each organisation can be measured by the level of achievement of its own goals (Jung, 2011; Steers, 1975). Another study, undertaken by Speklé and Verbeeten (2014), concluded that the goal attainment approach will work effectively if two conditions are met: (1) the organisational goals are clear and unambiguous; and (2) the indicators to measure the attainment of these goals are the most appropriate ones. If one or both of these conditions cannot be met, the performance measure using the goal attainment approach will achieve only part of its main goal (Speklé & Verbeeten, 2014). This is because the goal ambiguity diverts the organisation's attention away from its main goal and leads to the use of inappropriately targeted indicators that divert organisational focus away from the main goal and towards the targeted indicators (Speklé & Verbeeten, 2014). This suggests that when organisational goals are ambiguous (i.e. due to the existence of more than one goal), the performance of the organisation will tend to be low, as the main goal is not attained (Jung, 2011; Steers, 1975).

This current study uses the goal attainment approach as the basis for making propositions regarding IDGT's performance. The goal attainment approach is used because it assists analysis of the extent to which IDGT has achieved its goals and thus performed (Jung, 2011; Rainey & Steinbauer, 1999; Steers, 1975). It is also appropriate because it seems that IDGT has adopted the goal attainment approach since 2009, when it first introduced key performance indicators (KPIs) to examine the attainment of each targeted indicator for each of the goals set out in IDGT's strategic map (IDGT, 2010a, p. 30). By following the approach which has been adopted by IDGT, the propositions regarding IDGT's performance can be established by simply evaluating the attainment rate of each of IDGT's goals as reported.

Another important facet of the organisational performance literature are the factors that enable (or impede) organisational performance. Despite differences in measuring performance, it is evident that there are similar determinants of performance in both public and private sector organisations.

3.3. Determinants of organisational performance

A number of factors have been identified in the literature as being determinants of organisational performance. Due to the different ways of defining organisational performance in the private and public sectors (Arthur, 1994; Blackman et al., 2012; de Vries et al., 2008; Jung, 2011), different factors affect their performance. In general, studies into the determinants of organisational performance can be classified into two major groups, economic factors and organisational factors (Hansen & Wernerfelt, 1989) (see table 10).

Table 10: Studies examining the determinants of organisational performance

Variables	Studies	Number of studies	Sectors
Economic factors: Debt; economic growth; economic openness rate; firm competitive position; fixed assets; gross national product (GNP); industry profitability; investment; leverage; liquidity; market share; money supply; real wage; sales growth; working capital. ***(15 variables/factors)***	Al-Jafari and Samman (2015); Asimakopoulos, Samitas, and Papadogonas (2009); Boubakri et al. (2005); Hansen and Wernerfelt (1989); Pratheepan (2014); Qureshi and Yousaf (2014); Salman, Friedrichs, and Shukur (2011); Yazdanfar (2013); Yazdanfar and Öhman (2015); Zhang et al. (2012).	10	Private
Organisational factors: Corporate ethics; corporate governance; corporate sustainability; goal; culture; human resource management (HRM); innovation; leadership; organisational learning; strategic human resource management (SHRM); organisational strategy; organisational structure; transformational leadership. ***(13 variables factors)***	Aragón-Correa, García-Morales, and Cordón-Pozo (2007); Arthur (1994); Bae and Lawler (2000); Chun, Shin, Choi, and Kim (2013); Csaszar (2012); Delaney and Huselid (1996); Eccles, Ioannou, and Serafeim (2014); García-Morales, Jiménez-Barrionuevo, and Gutiérrez-Gutiérrez (2012); Hansen and Wernerfelt (1989); Hogan and Coote (2014); Huselid, Jackson, and Schuler (1997); Jiang, Lepak, Hu, and Baer (2012); Jiménez-Jiménez and Sanz-Valle (2011); Larcker, Richardson, and Tuna (2007); Zheng, Yang, and McLean (2010).	15	
Economic factors: Agriculture share in gross domestic product (GDP); foreign aid; foreign debt stock; foreign direct investment; GDP per capita; GDP growth; imports; industrial sector shares in GDP; inflation; measure of tax evasion; monetisation; non-agriculture shares in GDP; rents received from natural resources; trade openness. ***(14 variables/factors)***	Bahl and Bird (2008); Bird, Martinez-Vazquez, and Torgler (2014); Botlhole, Asafu-Adjaye, and Carmignani (2012); Castro and Camarillo (2014); Drummond, Daal, Srivastava, and Oliveira (2012); Gupta (2007); Karagöz (2013); Teera and Hudson (2004); Urhoghide and Asemota (2013).	9	Public
Organisational factors: Accountability; **goal ambiguity**; corporate governance; institutional quality; leadership; organisational culture, performance measurement system; SHRM, strategy content. ***(9 variables/ factors)***	Bellé (2013); Bird, Martinez-Vazquez, and Torgler (2008); Bird et al. (2014); Botlhole et al. (2012); Boyne (2003); Chun and Rainey (2005a); Stazyk and Goerdel (2010); Jung (2011); Jung (2014); Messersmith, Patel, Lepak, and Gould-Williams (2011); Speklé and Verbeeten (2014); Zeb, Saeed, Ullah, and Rabi (2015).	12	

Table 10 shows 46 studies that examined the determinants of organisational performance. Of these studies, 25 were conducted in private sector organisations; of those, 10 found that economic factors significantly and positively influence the performance of private sector organisations (Al-Jafari & Samman, 2015; Asimakopoulos et al., 2009; Boubakri et al., 2005; Hansen & Wernerfelt, 1989; Pratheepan, 2014; Qureshi & Yousaf, 2014; Salman et al., 2011; Yazdanfar, 2013; Yazdanfar & Öhman, 2015; Zhang et al., 2012). The other 15 studies of private sector organisations reported that organisational factors had a significant and positive impact on private sector organisational performance. For example, strategic human resource management (SHRM) was argued to be the key to achieving higher private sector organisational performance (see for example Delaney & Huselid, 1996; Huselid et al., 1997; Jiang, Lepak, Hu, et al., 2012).

Of the 21 studies which involved public sector organisations (see table 10), nine found that economic factors significantly influence public sector organisational performance. Among those studies, most of the economic factors were found to be positively related to public sector performance, with the exception of five economic factors (i.e. agriculture share in gross domestic product (GDP)) (Botlhole et al., 2012; Drummond et al., 2012; Gupta, 2007; Karagöz, 2013); foreign aid (Gupta, 2007); inflation (Drummond et al., 2012); rents received from natural resources (Drummond et al., 2012); and measure of tax evasion (Teera & Hudson, 2004)) which were found to negatively impact organisational performance. The remaining 12 studies involving public sector organisations reported that eight organisational factors were found to be positively related to public sector organisational performance, with one organisational factor (i.e. goal ambiguity (Chun & Rainey, 2005a; Jung, 2011, 2014; Stazyk & Goerdel, 2010)), negatively related to organisational performance.

Some have argued that organisational factors have a greater impact on organisational performance than economic factors (Boyne, 2003; Hansen & Wernerfelt, 1989). For example, Hansen and Wernerfelt (1989) analysed 60 Fortune 1000 firms in the United States of America to determine the impact of economic factors and organisational factors on firm performance. The economic factors comprised firm profitability, industry profitability, relative market share and size. The organisational factors included human resource management (HRM) and organisational goals. The research found that both sets of factors are significant determinants of organisational performance; however, organisational factors (organisational goals and HRM) account for about twice as much variation in a firm's performance than economic factors (Hansen & Wernerfelt, 1989). These findings were supported by Boyne (2003), who conducted a study into public organisations in his quest to investigate the most likely sources of public service improvement. That study concluded that organisational factors such as HRM, organisational culture, leadership and strategy content (goals) are critical determinants of public service performance (Boyne, 2003).

This study focuses on two key organisational factors, goal ambiguity and SHRM. These two factors are the key focus of this study because the central reform initiatives undertaken by IDGT were the establishment of IDGT's strategic map, which aimed to prioritise IDGT's goals, and the establishment of IDGT's HR blueprint, which aimed to establish a strategic human resource management (SHRM) approach.

3.3.1. Priority goal ambiguity

Scholars in the public administration and management field have long asserted that public sector goals are more vague, multiple and conflicting than those of the private sector (Allison, 1983; Chun & Rainey, 2005a; Dahl & Lindblom, 1953; Downs, 1967; Drucker, 1980; Jung & Rainey, 2011; Lee, Rainey, & Chun, 2010; Lipsky, 1980; Lowi, 1979; Lynn, 1981; Matland, 1995; Perry & Rainey, 1988; Sun, Peng, & Pandey, 2014; Wildavsky, 1979; Wilson, 1989). It has been argued that these features lead to goal ambiguity (Chun & Rainey, 2005a, 2005b). The major reasons for goal ambiguity in the public sector are the absence of a clear profit indicator, the political intervention of the various stakeholders and contradictory values which have to be adhered to by government agencies (Rainey, 2010). The literature on goal ambiguity can be divided into two major research streams (Jung, 2014). The first stream is known as the single dimension goal ambiguity stream (Pandey & Rainey, 2006; Pandey & Wright, 2006; Stazyk & Goerdel, 2010). The other research stream is the multiple dimension goal ambiguity stream, which divides goal ambiguity into several dimensions (Chun & Rainey, 2005a, 2005b; Jung, 2011, 2014).

The single dimension goal ambiguity research stream has at least two characteristics (Jung, 2014). First, the researchers use a common and general definition of goal ambiguity. This definition focuses on the degree of leeway in how the goal is interpreted, conceived and applied (Pandey & Rainey, 2006; Pandey & Wright, 2006; Stazyk & Goerdel, 2010). The focus is on the perceptions of study respondents. For example, a study by Pandey and Rainey (2006) defined the perceived goal ambiguity based on the degree of clarity in respondents' responses when asked about their organisational goals. The idea was that the more clearly the respondents perceived goals and the ease with which they explained their goals indicated low levels of goal ambiguity (Pandey & Rainey, 2006). Second, the researchers focused on political influence as an antecedent of goal ambiguity (Jung, 2014). Political influence comprises the impact of political hierarchy (i.e. the governor, the state legislature and the agency head) and political support from elected officials, which are found to have an impact on the manager's perception of and clarity about their organisational goals (Pandey & Rainey, 2006; Pandey & Wright, 2006; Stazyk & Goerdel, 2010).

In contrast to the single dimension goal ambiguity research stream, the multiple dimension research stream divides goal ambiguity into four dimensions (see table 11) (Chun & Rainey, 2005b; Jung, 2011, 2014).

Table 11: Multiple dimensions of goal ambiguity

Dimension	Definition	Who adopted
Mission Comprehension Ambiguity	The level of interpretive leeway that an organisational mission allows in understanding, explaining and communicating the mission.	(Chun & Rainey, 2005a, 2005b)
Directive Goal Ambiguity	The level of interpretive leeway that an organisational mission allows in guiding specific actions to be taken to accomplish the mission.	(Chun & Rainey, 2005a, 2005b)
Evaluative Goal Ambiguity	The level of interpretive leeway that an organisational mission allows in evaluating the progress toward the achievement of the mission.	(Chun & Rainey, 2005a, 2005b)
Priority Goal Ambiguity	The level of interpretive leeway that an organisational mission allows in indicating priorities among multiple goals or goal equivalents.	(Chun & Rainey, 2005a, 2005b; Gilad, 2015; Lee, Rainey, & Chun, 2009; Moynihan, 2015)

Table 11 lists the four dimensions of goal ambiguity as set out in the literature. The first dimension, mission comprehension ambiguity, focuses on the extent to which the organisational mission is clear (Chun & Rainey, 2005a, 2005b; Daft, 2004; Dess & Miller, 1993; Thompson, 1997). Clarity can stem from the mission statement and the extent to which it is easy to understand and accept (Campbell & Nash, 1992; Weiss & Piderit, 1999). When the mission of the organisation is easy to understand and communicate then the level of ambiguity in comprehending the organisation's mission tends to be lower (Chun & Rainey, 2005a).

The second goal ambiguity dimension, directive goal ambiguity, focuses on the clarity of the directive of the organisation's goals (Chun & Rainey, 2005a, 2005b; Dess & Miller, 1993; Moore, 1995; Scott, 2003). It explains how the goals can be translated into concrete activities (Ginger, 1998; Lowi, 1979; Sharkansky, 1999; Spicer & Terry, 1996). For example, the existence of "fuzzy mandates" within the public bureaucracy (Lerner & Wanat, 1983) is an indication of directive goal ambiguity due to the lack of clear guidance on how to implement the organisation's goals (Chun & Rainey, 2005a, 2005b).

The third goal ambiguity dimension, evaluative goal ambiguity, focuses on clarity in evaluating goal achievement (Chun & Rainey, 2005a). This relates to the availability of valid, objective, specific and measurable performance indicators (Gable, 1998; Grizzle, 1982; Smith, 1999) which, when evident, minimise evaluative goal ambiguity (Chun & Rainey, 2005a). In contrast, for those organisations that do not use specific, measurable and objective performance indicators, the evaluative goal ambiguity in the organisation tends to be higher (Bohte & Meier, 2000; Chun & Rainey, 2005a; Grizzle, 1982; Merton, 1957).

The fourth goal ambiguity dimension, priority goal ambiguity (PGA), refers to the level of interpretive flexibility in determining priorities among multiple goals (Chun & Rainey, 2005a, 2005b; Gilad, 2015; Lee et al., 2009; Moynihan, 2015). Establishing priorities determines which goals take precedence over others (Richards, 1986). However, when goals are not prioritised, multiple interpretations of the priority goal eventuate (Weiss & Piderit, 1999), leading to PGA (Chun & Rainey, 2005a, 2005b). This is particularly likely when an organisation faces competing demands from external constituencies and stakeholders (Chun & Rainey, 2005b; Gilad, 2015; Lee et al., 2009). When PGA is evident, organisational attention may be focused on goals which are forced on an organisation by stronger external demands, rather than those of highest importance to the organisation (Gilad, 2015).

The relationship between competing demands and PGA is well established in the literature (Chun & Rainey, 2005b; Gilad, 2015; Lee et al., 2009). Chun and Rainey (2005b), for example, found that greater competing demands from constituencies led to higher levels of PGA in government agencies. Supporting this study, Lee et al. (2009) found that competing demands, along with political salience, were positively and significantly associated with PGA. A comparative study of the British and Israeli banking and financial sectors found that the level of PGA caused by the competing demands from external factors is conditional upon the distinct level of an agency's institutionalised prioritisation of the goals (Gilad, 2015). An organisation which has a less institutionalised prioritisation of its goals is more prone to experiencing a higher degree of PGA due to external pressure (Gilad, 2015). Conversely, when the organisation has relatively stronger institutionalised prioritisation of its goals, it is likely that the organisation will face lower levels of PGA due to external demands (Gilad, 2015). These studies show that competing demands from constituencies can result in PGA (Chun & Rainey, 2005b; Gilad, 2015; Lee et al., 2009). IDGT faces competing demands from constituencies (see section 2.3.2). These competing demands might contributed to the existence of multiple perceptions of the priority of IDGT's multiple goals as presented in IDGT's strategic map (see figure 2). Accordingly, this study adopted PGA as a lens through which to analyse this study's findings.

Studies have established a relationship between PGA and organisational performance. Chun and Rainey (2005a) investigated the relationship between the four goal ambiguity dimensions and the performance of 115 US federal agencies. They found a significant negative relationship between agency performance and PGA. In another study, Jung (2011) assessed the relationship between PGA and the performance of 97 US federal agencies. Using goal attainment rates as the proxy for agency performance, the study found that PGA has a negative impact on goal attainment. The findings of these studies suggest that the presence of PGA diverts an organisation's attention to achieving the goal which is not the highest priority of the organisation. These findings lend empirical support to the existing literature, which argues that PGA makes it more difficult to concentrate efforts on attaining an organisation's main goal, thus reducing organisational performance (Drucker, 1980; Wilson, 1989).

The presence of PGA not only has implications for organisational performance but also potentially impacts an organisation's ability to adopt a strategic human resource management (SHRM) approach. This is particularly because a core focus of SHRM is the alignment between organisational goals and human resource practices (Blackman et al., 2012; Huselid et al., 1997; Jiang, Lepak, Hu, et al., 2012; Sung & Ashton, 2005; Wright & McMahan, 1992). However, a key assumption underpinning SHRM is that the goals are clear and consistently interpreted. As the literature on goal ambiguity suggests, this might not necessarily be the case in public sector organisations, particularly when competing demands are evident. It would appear that when PGA is evident, organisations are unable to adopt the SHRM approach effectively due to a misalignment between actual goals and HR practices. Considering that IDGT quests to adopt SHRM approach after the 2002 reform reflected in the establishment of IDGT's HRM blueprint (IDGT, 2011a) (see section 2.3.3.3.), this study will also explore SHRM as another determinant of organisational performance (Arthur, 1994; Bae & Lawler, 2000; Blackman et al., 2012; Delaney & Godard, 2002; Delaney & Huselid, 1996; Huselid et al., 1997; Jiang, Lepak, Hu, et al., 2012; Mitchell, Obeidat, & Bray, 2013; Ngo, Lau, & Foley, 2008; Sung & Ashton, 2005) to explain the performance of IDGT after the reform. The following section will review the extant SHRM literature.

3.3.2. Strategic human resource management (SHRM)

The academic literature on SHRM has flourished over the last 40 years (Lengnick-Hall, Lengnick-Hall, Andrade, & Drake, 2009). It has emerged as a key consideration because a number of studies have found that SHRM has a strong impact on organisational performance (Arthur, 1994; Bae & Lawler, 2000; Blackman et al., 2012; Delaney & Godard, 2002; Delaney & Huselid, 1996; Huselid et al., 1997; Jiang, Lepak, Hu, et al., 2012; Mitchell et al., 2013; Ngo et al., 2008; Sung & Ashton, 2005). For example, in their meta-analysis of the effects of three dimensions of human resource (HR) system on organisational performance, Jiang, Lepak, Hu, et al. (2012) found that three dimensions of the HR system (i.e. skill-enhancing, motivation-enhancing and opportunity-enhancing HR practices) were positively related to organisational performance. In a different setting, Mitchell et al. (2013) investigated the financial and manufacturing organisations in Jordan and found that SHRM (high-performance work practices) mediates in the relationship between organisational performance and the strategic role of HR.

SHRM has been defined in multiple ways (Boxall & Purcell, 2000), with three key perspectives evident in the literature: the universalistic, contingency and configurational perspectives (Delery & Doty, 1996). The universalistic perspective is based on the assumption that adopting a set of best human resource management (HRM) practices will lead to superior organisational performance (Boxall & Purcell, 2000; Delery & Doty, 1996; Pfeffer, 1994; Youndt, Snell, Dean, & Lepak, 1996). Pfeffer (1998) identified a number of practices which an organisation needs to adopt to perform effectively. These include: employment security, selective hiring, self-managed teams, high pay contingent on company performance, extensive training, reduction of status differences and sharing information. It is argued that by adopting these practices organisations will be able to attract, develop and retain employees with skills and competencies better than those of their competitors (Barney, 1991; Wright & McMahan, 1992; Wright, McMahan, & McWilliams, 1994; Youndt et al., 1996).

Proponents of the universalistic perspective argue that all organisations, regardless of their contexts and requirements, will achieve higher performance if they implement best practice (Boxall & Purcell, 2000; Delery & Doty, 1996; Waiganjo, Mukulu, & Kahiri, 2012). However, some have argued that this perspective fails to recognise the importance of aligning these practices with different organisational contexts and requirements (Boxall & Purcell, 2000; Delery & Doty, 1996; Waiganjo et al., 2012). It has been argued:

> *What works well in one organisation will not necessary work well in another because it may not fit its strategy, technology or working practices.* (Waiganjo et al., 2012, p. 64)

Other scholars have attempted to address this issue through advocating for the contingency perspective.

Proponents of the contingency perspective argue that HR strategies are more effective only when they are appropriately linked to an organisation's specific contexts and requirements (Boxall & Purcell, 2000; Delery & Doty, 1996; Waiganjo et al., 2012). The primary contingency factor in the SHRM literature is the organisation's strategy (Delery & Doty, 1996; Youndt et al., 1996), with some studies finding that organisational performance increased when firms aligned their HRM practices with the organisational strategies (Youndt et al., 1996). However, the contingency perspective has been criticised for oversimplifying organisational reality (Boxall & Purcell, 2000; Waiganjo et al., 2012). Some have argued that alignment is not as straightforward as merely aligning strategy with HR practices, as there are many factors involved in the process of strategic alignment (Boxall & Purcell, 2000; Gephart & Van Buren, 1996; Waiganjo et al., 2012). These factors might include macro factors (such as strategies, vision and mission and organisational goals) and micro factors (such as HR practices) (Boxall & Purcell, 2000; Gephart & Van Buren, 1996). By adopting a more holistic approach to SHRM (Delery & Doty, 1996; Waiganjo et al., 2012), the configurational perspective tries to alleviate issues related to the universal and contingency perspectives.

According to the proponents of the configurational perspective, which is the approach used in this study, high-performing organisations establish high-performance work systems (HPWS) (Delery & Doty, 1996; Gephart & Van Buren, 1996; Waiganjo et al., 2012). In such organisations, heavy emphasis is placed on ensuring a broader notion of alignment than the contingency perspective as it emphasises strategic, goal and internal alignment (Gephart & Van Buren, 1996; Sung & Ashton, 2005; Van Buren & Werner, 1996). In doing so, the emphasis is on both internal and external fit, with internal fit (horizontal alignment) indicating consistency within the human resource system itself (Delery & Doty, 1996), reflected in the use of high-performance work practices (HPWPs) or "bundles" of HR practices (Blackman et al., 2012; Sung & Ashton, 2005).

In their synthesis of the HPWP literature, Blackman et al. (2012) identified six primary HPWPs. These include job design, recruitment and selection, employee development and training, performance management, rewards and high involvement work practices (see table 12).

Table 12: Primary HPWPs identified in the literature

Practice	Key features
Job Design	Clear identification of the roles and responsibilities of a job and how they contribute to the broader organisational and group outcomes.
Recruitment and Selection	Targeted at job vacancies that are aligned with business requirements.
Employee Development and Training	Learning and development opportunities linked to performance requirements of the job, aimed at ensuring that managers and employees have the skills necessary for managing performance.
Performance Management	Linked to organisational performance expectations and clarify for individuals how their role contributes to the organisation's goals and success. Relate desired outcomes to organisational values and to means of achieving them.
Rewards	Linked to the performance management system, rewarding employee behaviours that facilitate organisational performance.
High Involvement Work Practices	Empowering and motivating employees by incorporating self-directed/autonomous teams, problem-solving groups, formal participatory practices, team briefings, job autonomy and information sharing across the organisation.

Source : Blackman et al. (2012, p. 34)

In the literature it is argued that these HPWPs need to be both horizontally integrated with one another and vertically aligned with organisational requirements (Blackman et al., 2012; Delaney & Godard, 2002; Sung & Ashton, 2005). This highlights the importance of optimising external fit (vertical alignment); that is, consistency between the human resource system and the broader organisational context such as organisational goals, strategy, beliefs and values, vision and mission, and environment (Blackman et al., 2012; Delery & Doty, 1996; Gephart & Van Buren, 1996). Proponents of the configurational perspective argue that the organisational performance will be higher when a high level of fit is evident (Blackman et al., 2012; Delaney & Godard, 2002; Sung & Ashton, 2005).

What defines the six HR practices as strategic is not their presence in organisations but their horizontal and vertical alignment. Although both single HR practices and HPWPs relate to performance, single HR practices emphasise individual job performance while HPWPs are focused on enhancing organisational performance (Becker & Huselid, 2010). Nonetheless, it is important to understand what each HR practice is (Becker & Huselid, 2010; Teo & Crawford, 2005) and what it entails to establish relationships across practices (Blackman et al., 2012; Sung & Ashton, 2005).

Job design is the set of opportunities and constraints structured into assigned tasks and responsibilities of particular positions that affect how an employee accomplishes and experiences work (Becker & Huselid, 2010; Grant, Fried, & Juillerat, 2010; Hackman & Oldham, 1980). This suggests that job design relates to the roles and responsibilities of a certain job (Blackman et al., 2012). Redesigning the job (such as by providing variety and opportunities to use a broader range of roles and responsibilities), can improve the attitude of employees, which can result in enhanced employee performance (Grant et al., 2010).

Recruitment and selection is the process of generating a pool of capable candidates applying for employment within an organisation and then choosing individuals from the pool who are best suited to a particular position in that organisation (Gold, 2007; Louw, 2013; Mondy, 2010). It incorporates decisions regarding where to advertise positions, the mechanisms used to attract suitably qualified people and the means to ensure person-job fit, such as interviews, assessment centres and simulations (Gold, 2007).

Employee training and development involves both the training and development of employees. Training means the systematic approach to building an individual's knowledge, skills and attitudes in order to improve individual, team and organisational effectiveness, while development involves systematic efforts to develop an individual's knowledge or skills for the purpose of personal growth (Aguinis & Kraiger, 2009; Fitzgerald, 1992). The difference between training and development is related to the purposes of each activity; the purpose of training is to enhance organisational effectiveness, whereas development aims to enable individual performance and personal growth (Aguinis & Kraiger, 2009; Fitzgerald, 1992).

Performance management is a way of managing people to increase the probability of achieving job-related success. It emphasises activities connected with improving behaviours, motivating, developing skills, training and rewarding desired behaviour (Aguinis, 2009; Armstrong, 2000, 2009; Ates, Garengo, Cocca, & Bititci, 2013; Lansbury, 1988; Pope, 2004). Among other purposes, it is focused on motivating employees to enhance their performance through the appropriate behaviours and skills necessary to accomplish job related success (Ates et al., 2013). It is also focused on enhancing alignment between individual efforts and performance and organisational goals, thus contributing to higher organisational performance (Blackman et al., 2012)

Reward management is a tool which can motivate and control individuals to achieve higher performance at work (Aksakal & Dağdeviren, 2014; Bustamam, Teng, & Abdullah, 2014; Lawler & Cohen, 1992). It includes financial and non-financial rewards (Bustamam et al., 2014). The most common financial reward that is often used to motivate the individual to work harder is money (particularly bonuses) (Bustamam et al., 2014). Non-financial rewards incorporate training, development and recognition (Aksakal & Dağdeviren, 2014; Bustamam et al., 2014). Bustamam and colleagues (2014) argue that individuals require a combination of financial and non-financial rewards in order to motivate them to work harder, highlighting the importance of an effective reward management strategy (Aksakal & Dağdeviren, 2014; Bustamam et al., 2014; Lawler & Cohen, 1992).

High involvement work practices (HIWP) are:

> *… an emphasis on utilising a system of management practices giving employees the skills, information, motivation and latitude resulting in a workforce which is a source of competitive advantage.* (Guthrie, Spell, & Nyamori, 2002, p. 185)

They include decentralised decision-making, self-directed or autonomous teams, problem-solving groups, formal participatory practices, team briefings, job autonomy, information sharing, internal promotions and employee stock ownership (Blackman et al., 2012; Guthrie, 2001; Guthrie et al., 2002). By adopting HIWPs, it will reduce employees' intention to leave and can also increase organisational competitiveness and performance (Chênevert, Jourdain, & Vandenberghe, 2016; Guthrie, 2001; Guthrie et al., 2002).

According to the configurational perspective, key to the ability of HPWPs to enable organisational performance is the identification and development of the competencies necessary for achieving organisational goals (Blackman et al., 2012; de Waal, 2007, 2010; Jiang, Lepak, Hu, et al., 2012; Wei & Lau, 2005; Werbel & DeMarie, 2005). Competencies include skills, knowledge and abilities (Blackman et al., 2012; Jiang, Lepak, Hu, et al., 2012; Wei & Lau, 2005; Werbel & DeMarie, 2005), with workforce planning being a key mechanism for identifying the competencies required in an organisation in both the short and long term (Choudhury, 2007; Pynes, 2004).

Workforce planning is a process used to systematically identify the competencies required to achieve organisational goals (demand), identify what is currently available in the labour market (supply) and identify the gaps that HR plans should focus on (Choudhury, 2007; Jacobson, 2010; Pynes, 2004). Consequently, it has been argued that workforce planning is integral to the development of an SHRM approach (Choudhury, 2007; Pynes, 2004). Through determining what the organisational competency requirements are, workforce planning enables vertical alignment between organisational goals and HR practices (Choudhury, 2007; Pynes, 2004); it also enables horizontal alignment by providing a framework for enhancing consistency and integration across HR practices (Choudhury, 2007; Pynes, 2004). It helps organisations to identify the competencies targeted in recruitment and selection, and informs training activities and the establishment of goals and developmental needs when undertaking performance management (Blackman et al., 2012; Choudhury, 2007; Pynes, 2004). Through identifying and consistently focusing on acquiring and developing the requisite competencies, workforce planning can support the attainment of organisational goals (Choudhury, 2007; Pynes, 2004). In doing so, the high level of vertical and horizontal alignment, particularly in the design of three HPWPs (recruitment and selection, training and development, and performance management), can be established and the organisational performance can be enhanced (Blackman et al., 2012).

This review shows that the SHRM configurational approach focuses on vertical and horizontal alignment. In order to enhance organisational performance, the SHRM configurational perspective suggests that the coherence between mutually reinforcing sets of HR practices (horizontal alignment) and the alignment between these sets of HR practices and the organisation's specific requirements, such as goal attainment (vertical alignment) must be in place. By ensuring both horizontal and vertical alignment of these HPWPs, it is argued that synergistic benefits will emerge which in turn will enable the organisation to achieve its strategic goals, leading to higher organisational performance (Blackman et al., 2012; Sung & Ashton, 2005; Van Buren & Werner, 1996).

3.4. The research gap

Due to the link between the SHRM configurational perspective and organisational performance in the private sector (Arthur, 1994; Bae & Lawler, 2000; Blackman et al., 2012;

Delaney & Godard, 2002; Delaney & Huselid, 1996; Huselid et al., 1997; Jiang, Lepak, Hu, et al., 2012; Mitchell et al., 2013; Ngo et al., 2008; Sung & Ashton, 2005; Wei & Lau, 2005; Werbel & DeMarie, 2005), recent developments in SHRM have heightened the need to undertake further studies into the impact of the SHRM configurational perspective on organisational performance in the public sector (Messersmith et al., 2011; Mostafa, Gould-Williams, & Bottomley, 2015). There are few studies on this, but those that have been undertaken have found a relationship between the adoption of HPWPs and employee commitment, job satisfaction and organisational performance (Messersmith et al., 2011; Mostafa et al., 2015).

The importance of undertaking research into SHRM in the public sector is emphasised further by the prevalence of goal ambiguity in the public sector. The multiple goals and competing demands faced by public sector organisations (Perry & Porter, 1982; Rainey, 2009) suggest that the adoption of SHRM in public sector organisations might be challenging (Kessler, Purcell, & Coyle-Shapiro, 2000; Knies, Boselie, Gould-Willams, & Vandenabeele, 2015; Knies & Leisink, 2014). This is because a main premise of the configurational perspective is the alignment between HPWPs and organisational goals (Blackman et al., 2012; Delaney & Godard, 2002; Sung & Ashton, 2005). Therefore, it is reasonable to assume that if the goals are unclear or not prioritised then the design of the SHRM configurational approach might not be the most appropriate one for the organisation (i.e. potentially misaligned).

Considering that two reform initiatives were: (1) the establishment of IDGT's strategic map to set the prioritisation of IDGT's multiple goals; and (2) the establishment of IDGT's HRM blueprint aimed at adopting the SHRM approach, this study presumes that the consistent performance of IDGT in terms of tax ratio (see table 8) after the 2002 reform might be due to the existence of PGA and the inappropriate adoption of the SHRM approach. Despite the fact that some studies have tried to analyse the 2002 IDGT tax administration reform from various perspectives (see Arnold, 2012; Wihantoro et al., 2015; Yuhariprasetia, 2015), an exploration of the effectiveness of the 2002 reform in improving IDGT's performance (particularly through the lens of PGA and SHRM) has been lacking. For example, a study conducted by Arnold (2012) found that the performance of IDGT after the reform aimed at improving the tax ratio was not optimal due to the inability of IDGT to capture the potential tax revenue from the mining sector and the low capacity of Tax Auditors to ensure the level of tax compliance. Another study conducted by Wihantoro et al. (2015) suggests that the 2002 reform in IDGT failed to identify the contextual factors of IDGT, which led to IDGT becoming more bureaucratic. Moreover, Yuhariprasetia (2015), using a qualitative approach, analysed the implementation of ethics management in IDGT after the 2002 reform. He found that the ethics management approach implemented within IDGT after the 2002 reform tended to be pragmatic and scandal-driven, which supports the extant ethics management literature.

This shows that most studies into the context of IDGT after the 2002 tax administration reform have covered a wide range of perspectives, with an exploration of the effectiveness of the 2002 reform to improve IDGT's performance being largely ignored. This means that existing research which explores the effectiveness of IDGT's 2002 reform is incomplete or inadequate. This is an interesting omission (see Alvesson & Sandberg, 2011), given that many studies discovered that the reforms brought in by the IMF under the Structural Adjustment Program (SAP) failed to address the problems of the recipient countries (Neu, Graham, Uddin, & Tsamenyi, 2005; Riddell, 1992). This study seeks to address this gap by exploring the effectiveness of the 2002 tax administration reform in improving IDGT's performance through the theoretical lens of PGA and SHRM.

3.5. Conclusion

Enhancement of organisational performance is a key focus in both the public and private sectors; however, it is hard to define and measure. In the public sector, a common proxy indicator of organisational performance is goal attainment, an approach which is adopted in this study. A number of factors have been identified in the literature as being determinants of organisational performance, with focus specifically devoted to economic and organisational factors. This study focuses on two key organisational factors, PGA and SHRM. These two factors are the main focus of this study because the central reform initiatives undertaken by IDGT were the establishment of IDGT's strategic map, which aimed to prioritise IDGT's goals, and the establishment of IDGT's HR blueprint, which aimed to establish a strategic human resource management (SHRM) approach. Therefore, in this study PGA and SHRM will be used as the theoretical lens through which to explore the effectiveness of the 2002 tax administration reform in improving IDGT's performance. This raises a number of questions regarding the dynamics of PGA and SHRM in explaining the effectiveness of the changes made during the 2002 reform in improving IDGT's performance.

The next chapter presents the research objectives and questions which guided this study. It identifies the ontological and epistemological assumptions that informed the research design and methodology adopted to investigate these questions. It outlines the research design and methodology adopted to explore and answer the research questions. It also describes the sampling strategy adopted, the study participants and the process of data analysis followed to derive conclusions.

CHAPTER 4: METHODOLOGY

IDGT's 2002 tax administration reform was initiated to enhance IDGT's performance. The previous two chapters have established the background to the reform and the main reform initiatives implemented by IDGT and have provided theoretical insights into the primary determinants of organisational performance. The literature review focused on two key organisational factors, priority goal ambiguity (PGA) and strategic human resource management (SHRM), which guide the analysis of this study.

This chapter outlines the research design and methodology adopted in this study. The first section outlines the research questions. The second section identifies the research paradigm that underpinned the methodological approach adopted in this study. The third section outlines the research methodology adopted in this study. The fourth section presents the data collection methods, participant sampling strategy adopted and description of key study participants. The final section highlights the approach to data coding and analysis undertaken.

4.1. Research questions

This study aims to explore why greater improvements have not occurred in IDGT's performance despite significant changes being made since the 2002 tax administration reform was initiated. The primary research question that guided this study was:

- *How effective was the reform in improving IDGT's performance?*

In addition, sub-questions were developed in order to help answer the primary research question. The sub-questions were:

- *Why has IDGT's performance not improved in relative terms, and why has it only kept pace with economic growth?*

- *What are the key factors that contributed to the lack of effectiveness of IDGT in achieving an improved tax ratio after the 2002 reform?*

4.2. Research paradigm

The choice of research methodology is influenced by the researcher's assumptions about the nature of knowledge. These assumptions are commonly referred to as a paradigm. A paradigm is made up of "its own unique set of assumptions regarding ontology, epistemology and methodology" (Guba & Lincoln, 1994, p. 108). These assumptions are associated with three interrelated questions: the *ontological question*: "What is the form and nature of reality and, therefore, what is there that can be known about it?"; the *epistemological question*: "What is the relationship between the knower or would-be knower and what can be known?"; and the *methodological question*: "What are the ways of finding out knowledge? How can we go about finding out things?" (Guba & Lincoln, 1994, p. 108).

This study aims to explore why greater improvements have not occurred in IDGT's performance despite significant changes being made since the 2002 tax administration reform was initiated. The key assumption underpinning this study was that the nature of knowledge is socially constructed and subjective (Wahyuni, 2012). This means that knowledge is constructed from the perceptions of the people interacting in the study—the researcher and the key study participants (Collins & Hussey, 2003; Crotty, 1998; Patton, 1990). Based on this assumption, this study is underpinned by an *interpretivist* epistemology, which claims that the researcher needs to interact with the study participants to understand a complex social phenomenon. It is also focused on how the researcher's and the study participants' frame of reference is influenced by these social interpretations and interactions (Creswell, 2013). Therefore, interpretivism is deemed most appropriate for this study, considering that the objective of the study is to explore the multiple perceptions of the study participants regarding the effectiveness of the 2002 reform for improving IDGT's performance.

4.3. Research methodology

Underpinned by the assumption that knowledge is subjective and socially constructed and that the researcher needs to interact with participants (Creswell, 1994; Wahyuni, 2012), this study adopted a qualitative methodology.

4.3.1. Qualitative methodology

In this study, a qualitative methodology was adopted to explore the perceptions and interpretations of selected participants concerning the key reasons why IDGT did not improve its performance after the 2002 tax administration reform. In general, a qualitative approach enables the researcher to observe and examine closely the phenomena in their real-world situation, leading to the construction of meaning based on the interpretation of the researcher (Denzin & Lincoln, 2008). In collecting data, qualitative researchers adopt various techniques to generate a rich and in-depth insight into certain phenomena (Appleton & King, 1997). For this study, a case study research design was adopted to understand "a contemporary phenomenon (the case) in depth and within its real-world context" (Yin, 2014, p. 16).

4.3.2. Case study approach

Originating from grounded theory, the case study approach gathers data by stimulating both inductive and deductive thinking to generate theory (Eisenhardt, 1989b). This approach is appropriate when a researcher wants to examine a phenomenon in its real-life context, specifically when there is no clear evidence of boundaries between the phenomenon itself and the context (Yin, 2014). This is because the case study approach could cater to the need to set boundaries to isolate the phenomenon, to understand it better (Stake, 2008).

This research adopted a single case study with multiple offices (Yin, 2014). IDGT was chosen as a suitable case study because the phenomenon investigated in this study is why greater improvements have not occurred in IDGT's performance since the 2002 reform. Accordingly, 15 offices were selected and proposed. These offices were selected based on the distribution of IDGT's employees, who are concentrated on two main islands in Indonesia, namely Java and Sumatra (see section 2.2.4.). Thus, multiple offices were selected in Java and Sumatra to accommodate the representation of the distribution of employees. In addition, the selected offices should represent all of the types of tax offices within IDGT, including: (1) the size of the tax offices (large, medium and small); and (2) the location of the offices (headquarters, regional offices and operational offices) (see table 13).

On 10 July 2013 the Director of Tax Dissemination, Service and Public Relations of IDGT granted the researcher permission to conduct the proposed study in the selected offices (see Appendix D). Table 13 summarises the selected offices in this study.

Table 13: Summary of selected/proposed offices

Office echelon levels	**Type of office**	**Size/Type**	**HQ/RO/TSO***	**Number of offices**
Echelon II	Secretariat	-	HQ	1
Echelon II	Directorate	-	HQ	3
Echelon II	Regional	General	RO	2
Echelon III	Operational	Large	TSO	1
Echelon III	Operational	Special	TSO	1
Echelon III	Operational	Medium	TSO	1
Echelon III	Operational	Small	TSO	6

Source: Summarised from Appendix D
Notes: *HQ: headquarters; RO: Regional Office; TSO: Tax Service Office

4.4. Data collection methods

In the case study approach, data are gathered by collecting multiple sources of evidence through several qualitative data collecting techniques (Yin, 2014) to gain a better understanding of the phenomenon under investigation. In this study, data was collected through semi-structured interviews and documentary analysis.

4.4.1. Semi-structured interviews

One of the commonly used and indispensable qualitative data gathering techniques in case study research is semi-structured interviews (DiCicco-Bloom & B. F. Crabtree, 2006; Yin, 2014). In this study, semi-structured interviews were undertaken from July to October 2013 to explore the effectiveness of the 2002 tax administration reform in improving IDGT's performance.

Semi-structured interviews enabled consistency across the interviews whilst also providing sufficient flexibility for various responses (Bryman, 2004). An interview protocol was developed in this study which incorporated predetermined questions yet allowed other questions to come forth from the dialogue between the interviewer and the interviewees (DiCicco-Bloom & B. F. Crabtree, 2006; Polit & Beck, 2008). Following suggestions by Berg (2004), the interview protocol was pre-tested before the interviews were conducted. Pilot interviews were conducted with IDGT employees who were studying at doctorate level at the University of Canberra, the Australian National University and Curtin University. The protocol was modified following these pilot interviews. The final interview protocol is presented in Appendix E.

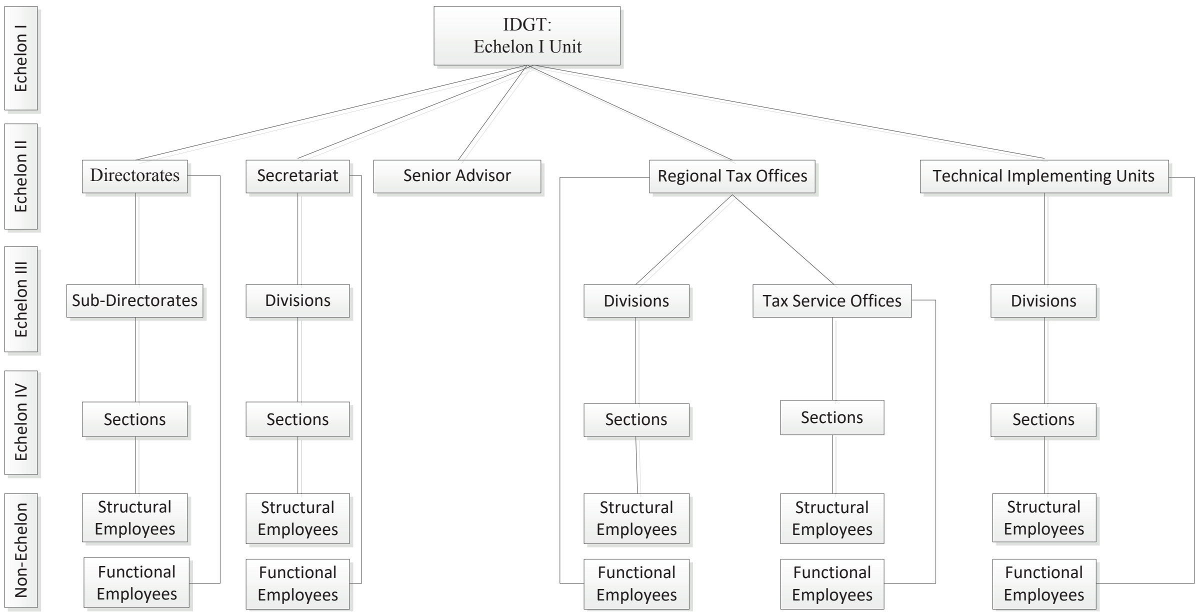
On average, interviews took one hour. Before the interview was conducted, participants were informed about the consent package and the information regarding the project, including the ethical requirements (see Appendix F). All participants voluntarily participated in this study and consented to being participants. Participant anonymity was ensured through de-identifying participant details and by assigning only participants' positions and levels in IDGT.

4.4.1.1. Semi-structured interview sampling

This study aimed to explore why greater improvements have not occurred in IDGT's performance despite significant changes being made since the 2002 tax administration reform was initiated. Accordingly, the participants taking part in this study needed to have sufficient work experience and understanding of the situation within IDGT before and after the 2002 reform. To select appropriate participants, purposive sampling was undertaken (Polit & Beck, 2008), comprising IDGT officials at different classification levels and with experience both before and after the 2002 reform. The sampling criteria were that study participants had to have more than 11 years' experience in IDGT at the time of the study (2013).

Participants at the senior management level were selected through the organisational chart (see figure 3), with the highest echelon in each secretariat, directorate, regional office and operational office contacted. The decision to select participants from the highest rank at each site was because they had a high level of responsibility for the effectiveness of IDGT's operations in collecting tax revenue and were the key actors during the 2002 reform. Moreover, these highest ranked officials also hold a primary leadership role. As a result, they are the "gatekeepers" who needed to be carefully managed in order for the researcher to be able to approach other key participants in those particular offices and thus secure a sufficient sample size for the research.

Figure 3: Structure of IDGT (reproduced from figure 1)



Source: (IDGT, 2014)

Participants at the lower echelon level were identified using a snowball sampling technique, based on the recommendation of the previous interviewees (Gobo, 2004). Each first round interviewee was asked to select other participants whom they deemed to have relevant information about the way in which IDGT functioned before and after the 2002 tax administration reform (requiring them to have at least 11 years' experience of working in IDGT). By doing so, the researcher was able to interview people from lower echelon levels who had line management and operational responsibility. In addition, the snowball sampling techniques allowed the researcher to interview the Account Representatives and functional employees such as Tax Auditors who had responsibility for the core IDGT function: collecting the tax revenue from taxpayers. As officials from different levels are likely to have different perceptions of the subject matter, it was necessary to involve officials from various levels of the IDGT hierarchy in the study. To inform the participants selected through the snowball sampling technique, the researcher contacted them directly after one interview in the first round was finished. The researcher informed them that they had been selected to participate in the study and were invited to be interviewed in the near future. The time and place were also set at this first contact and the researcher and potential participant exchanged mobile phone numbers in case the meeting needed to be rescheduled if either the researcher or the potential participant was unable to attend the interview at the agreed time.

The process of snowball sampling continued as the next round of interviewees were asked to identify other officials to be interviewed. The snowball sampling ceased when the data gathered from participants reached saturation point. Data saturation occurs when the information provided by the interviewees repeats information previously provided, leading to redundant information (Bowen, 2008; Marshall, 1996; Morse, Barrett, Mayan, Olson, & Spiers, 2002).

4.4.1.2. Description of key study participants

Fifty-eight participants were involved in this study, comprising employees from various hierarchical levels and different types of roles. Seven participants were from the echelon II level, 13 participants were from the echelon III level, 18 participants were from the echelon IV level, and the remaining 20 participants were Tax Auditors and Account Representatives. Table 14 lists the types and characteristics of the key participants in this study.

Table 14: Types and roles of key study participants

Echelon type	Characteristic/job role	Number of participants	Average years of experience
Echelon II	Secretary General; Director; Head of Regional Office; Senior Adviser	7	29
Echelon III	Head of Sub-Directorate; Head of Division; Head of Large Tax Service Office; Head of Tax Service Office	13	22
Echelon IV	Head of Section	18	18
Non-echelon	Tax Auditor, Account Representative, General Staff	20	17
Total		58	

Source: Summarised from the interviews

Table 14 shows that there were four groups of participants, based on echelon type, with various roles. By interviewing multiple participants with various backgrounds, this study uses the participant triangulation approach: “the use of more than one approach to the investigation of a research question in order to enhance confidence in ensuing findings” (Bryman, 2004, p. 1). This triangulation enhances the trustworthiness and reliability of the data gathered in this study (Bryman, 2004; Shenton, 2004). This is because “individual viewpoints and experiences can be verified against others and, ultimately, a rich picture of the attitudes, needs or behaviour of those under scrutiny may be constructed based on the contributions of a range of people” (Shenton, 2004, p. 66). The trustworthiness and reliability of the data, through the triangulation technique, is further strengthened by the use of the documentary analysis discussed in the following section.

4.4.2. Documentary analysis

In order to understand why greater improvements did not occur in IDGT’s performance after the 2002 reform, internal IDGT and public documentation were analysed. Internal documents including memos, circular letters, strategic plans and meeting minutes were acquired from IDGT’s intranet sites and key study participants. In addition, public documentation such as IDGT’s website, annual reports, external audit and online web-based news was gathered from the internet.

The purpose of documentary analysis is to cross-validate the information against other forms of data collection to allow a better understanding of the phenomenon under investigation (Bowen, 2009). Documentary analysis enables the researcher to cross-validate data obtained from the interview process. In addition, documentary analysis can be “used to open up an area of inquiry and sensitise researchers to the key issues and problems in that field” (Wellington, 2000, p. 113). As this study was “exploratory” (see Yin, 2014) and aimed to obtain an overall impression of the effectiveness of the reform to improve IDGT’s performance, analysing the key documents and websites assisted the researcher to cross-validate the data gathered from the interviews.

4.5. Data analysis

Data analysis is defined as a systematic process which involves applying analytical reasoning to evaluate the data that has been collected in order to draw meaning from those data (Green et al., 2007; Merriam, 1988). According to Stake (1995): "There is no particular moment when data analysis begins," (p. 71).

Therefore, the process of data analysis can occur at the same time as the process of data collection (Erlandson, Harris, Skipper, & Allen, 1993; Ezzy, 2002; Merriam, 1988). In this study, data analysis began during data collection by the writing of memos and notes during and after the interviews. This included identifying the main barriers to IDGT achieving the desired performance level after the 2002 tax administration reform. By knowing the key emerging themes from the previous interview, the researcher was able to cross-validate these themes with the later interviewees.

All of the interview recordings were transcribed by the researcher. Transcribing them himself allowed the researcher to become immersed in the data. The process of transcription took approximately six months. All transcripts were loaded into NVivo, a qualitative data analysis software, which helped the researcher to work more methodically, thoroughly and attentively with the data (Bazeley, 2007).

Huberman and Miles (2002) explain that there are three concurrent flows of activity in data analysis: data reduction, data display and data verification. With regard to data reduction, the researcher carried out inductive analysis. In inductive analysis the researcher organises the data and examines them closely to look for patterns, themes and linkages drawn from that data throughout the study (Ezzy, 2002; Patton, 1990). The analysis begins with open coding, where the researcher explores the emerging themes and concepts from the data set of the whole range of interviews. After the open coding, the data was deconstructed into segments which were then categorised and labelled (Ezzy, 2002). This helped the researcher to scrutinise and interpret the data.

The NVivo software helped the researcher find patterns in the data (Huberman & Miles, 2002). This was beneficial in this study particularly when the analysis process continued from open coding to axial and selective coding (Ezzy, 2002). In axial coding the researcher categorises and integrates the codes by identifying the relationship among those codes (Ezzy, 2002). Axial coding enabled two categories of code to be created from the open coding stage: parent and child nodes. The parent nodes served as parental categories which were the head of several related child nodes (Gibbs, 2007). The result of the axial coding was displayed in NVivo to help the researcher look for patterns. From the display of the axial coding in NVivo, repeated themes became clearer, as they appeared more frequent than the others. Once the relationship among the categories was established, the researcher moved on to the next stage, which was selective coding (Ezzy, 2002). In the selective coding, two themes emerged as the main barriers to IDGT improving its performance after the 2002 tax administration reform: priority goal ambiguity (PGA), leading to a misalignment in the implementation of IDGT's HRM policies.

To verify this data (Huberman & Miles, 2002) the key themes were presented to a group of IDGT officials who visited Canberra on a study tour of the headquarters of the Australian Taxation Office (ATO). This was to ensure that the key themes accurately reflected the situation within IDGT. In 2014 two groups of IDGT delegates attended a strategic plan formulation course in Canberra, where the researcher had the opportunity to present the emerging themes. The delegates agreed that the themes found in this study still reflected the conditions within IDGT in 2014.

The final stage of data analysis was conducted in order to synthesise identifiable patterns and themes with an analysis of the key documents provided by the study participants and literature searches. Bringing together all these emerging themes, the researcher began to cross-validate them against both the academic literature and IDGT's contextual literature. With deeper analysis of the data and following discussions with the researcher's supervisory panel, the emergent themes were crystallised and refined. This led the researcher to gain a comprehensive understanding of the effectiveness of the 2002 tax administration reform in improving IDGT's performance from the perspective of the theoretical arguments of priority goal ambiguity (PGA) and strategic human resource management (SHRM).

4.6. Conclusion

This chapter outlined the research strategy that was used to explore why greater performance improvements did not occur in IDGT, despite significant changes being made since the 2002 tax administration reform was initiated. The research question which guided this study is identified. It discussed the ontology and epistemology (interpretivism) which underpinned the qualitative inquiry approach of this study. Underpinned by assumptions regarding the existence of multiple subjective realities and the need for the researcher to interact with participants to construct knowledge regarding a particular phenomenon, this study utilised a single case study research design comprising semi-structured interviews. The case—IDGT—and the multiple offices involved are justified on the basis of the research objectives and the methodological approach. The data collection techniques and participant sampling strategy were outlined. The chapter discussed the approach undertaken to analyse the data, which included a process of inductive analysis that involved a combination of open, axial and selective coding to identify key emergent patterns and themes.

The next chapter discusses the first key finding that emerged from this study. It is the first of two results chapters that explores the key reasons why IDGT's performance did not improve, despite significant changes implemented during the 2002 reform.

CHAPTER 5: FINDING 1 - PRIORITY GOAL AMBIGUITY (PGA) AND IDGT'S PERFORMANCE

This study aimed to explore why greater improvements did not occur in IDGT's performance despite significant changes being made since the 2002 tax administration reform was initiated. The primary research question that guided this study was:

- *How effective was the reform in improving IDGT's performance?*

In addition, sub-questions were developed in order to help answer this key research question. The sub-questions were:

- *Why has IDGT's performance not improved in relative terms, and why has it only kept pace with economic growth?*
- *What are the key factors that contributed to the lack of effectiveness of IDGT in achieving an improved tax ratio after the 2002 reform?*

This chapter answers the two sub-questions to explain the reasons why the 2002 reform was not effective in terms of improving IDGT's performance. It argues that IDGT faced competing demands during the 2002 tax administration reform, which led to PGA. The existence of PGA led IDGT to focus on the narrow and less appropriate priority goals; that are, collecting short-term tax revenue through an enhanced client service provision, rather than optimising taxpayer compliance by a sound enforcement provision. It also analyses the impact of pursuing this narrow and less appropriate priority goals on IDGT's goal attainment as the proxy indicator of IDGT's performance. The first section explains the existence of PGA within IDGT, the key antecedents of which were competing demands from constituencies, the response by IDGT through its establishment of its strategic map, and the outcome of these efforts on the perceptions of the key study participants of what were the priority goals of IDGT. The second section explores the impact of PGA and of pursuing the less appropriate priority goal on IDGT's performance.

5.1. Priority goal ambiguity (PGA) in IDGT

According to the literature, PGA exists when there is a lack of clarity about which goal should be prioritised (Chun & Rainey, 2005a, 2005b; Gilad, 2015; Lee et al., 2009; Moynihan, 2015). This study found that, from the perception of the study participants, there was more than one interpretation of the priority of IDGT's goals at both the core and sub-goal level. Based on the definition of PGA, the existence of more than one interpretation indicates that PGA is evident within IDGT because it is unclear which priority goals should take precedence. This issue will now be explored, starting with the key antecedent of PGA; that is, the competing demands of constituencies (Baier, March, & Saetren, 1988; Behn, 2001; Chun & Rainey, 2005b; Gilad, 2015; Lee et al., 2009; Lowi, 1979; Page, 1976; Wilson, 1980).

5.1.1. Competing demands from constituencies: a key antecedent of PGA in IDGT

In the literature it is argued that an antecedent of PGA is the competing demands of constituencies (Baier et al., 1988; Behn, 2001; Chun & Rainey, 2005b; Gilad, 2015; Lee et al., 2009; Lowi, 1979; Page, 1976; Wilson, 1980). There were at least three competing demands placed on IDGT by three different actors: IMOF, the IMF and the direction of the KUP law (see section 2.3.2.).

As previously discussed in section 2.3.2., IMOF (the superior ministry to IDGT) demands the achievement of the yearly tax revenue target (IDGT, 2014; IMOF, 2013a). This is manifested in the use of yearly tax revenue target achievement as a KPI for IDGT (see IDGT, 2014; IMOF, 2013a). Supporting IMOF's demands, the IMF, through the Structural Adjustment Program (SAP), demanded the achievement of a higher amount of tax revenue collection in the short and medium term (Brondolo et al., 2008). Through the SAP, the IMF also demanded that IDGT change the approach it used to collect tax revenue, from enforcement to a client service approach (see IDGT, 2008). The idea of adopting the client service approach originated from the pressure applied by the IMF to force Indonesia to open its markets through policies, as stated in the IMF's letter of intent (see Indonesian Government, 1997). The IMF forced Indonesia to design policies which could attract investors (especially from overseas) to invest their funds in Indonesia (Brondolo et al., 2008), which was seen as key to economic recovery. The IMF argued that the reform of tax administration was one of the government mechanisms which could potentially attract investors to invest their funds in Indonesia (Brondolo et al., 2008). By requiring IDGT to focus on providing better services to taxpayers (particularly large taxpayers), it was expected that the tax revenue collected would increase, since better service is argued to be important for improving the level of taxpayer compliance (Brondolo et al., 2008; IDGT, 2008; Indonesian Law Number 28, 2007). These ideas underpinned IDGT's 2002 tax administration reform.

Contrary to the demands of IMOF and the IMF, the Indonesian Government and Parliament, through the KUP law, imposed legislative requirements on IDGT to focus on the achievement of a high level of taxpayer compliance and to view tax revenue as the outcome of taxpayer compliance (see Indonesian Law Number 28). In order to achieve a high level of taxpayer compliance, the KUP law requires IDGT to prioritise the development of sound enforcement provisions such as tax auditing rather than client service provisions (see Indonesian Law Number 28). This was reflected in a number of authorities given under the KUP law to IDGT to support the development of sound tax audit provisions as a means to achieve a higher level of taxpayer compliance (see Indonesian Law Number 28, article 7, 29, 30, 31, 35, 35 A, 39). These competing demands are summarised in table 6.

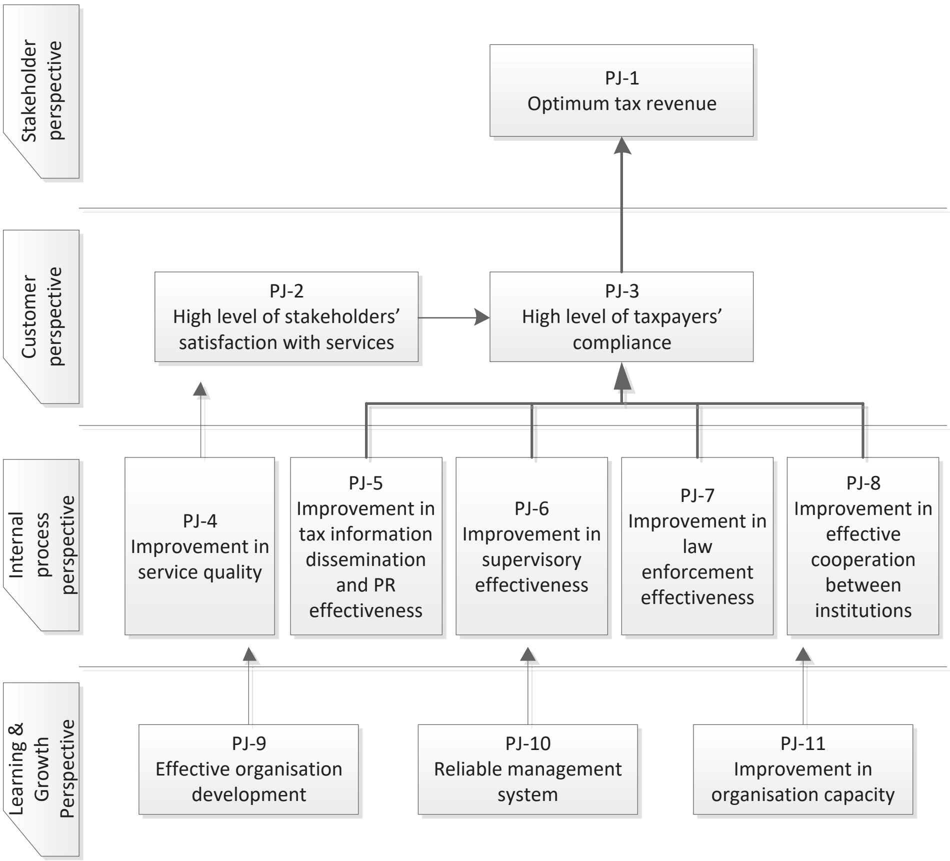
The existence of these competing demands was responded by IDGT through the establishment of IDGT‘s strategic map in 2008, which aimed to clarify the priority order of

IDGT's multiple goals (IDGT Decree Number 111, 2008). This response is discussed in the following section.

5.1.2. IDGT's response to the competing demands

In responding to the existence of competing demands from its constituencies (see section 5.1.1.), IDGT developed its strategic map, which appears to have adopted the KUP law mandate. As has been previously discussed, the KUP law, which guides the operations of IDGT from a formal legal perspective, demands taxpayer compliance as the priority goal of IDGT and views the tax revenue as the outcome of taxpayer compliance (Indonesian Law Number 28, 2007) (see section 2.3.2.3.). This demand is manifested in IDGT's strategic map, as all the goals within the three perspectives (i.e. customer, internal process, learning and growth) culminate in the fundamental goal; that is, a high level of taxpayer compliance (IDGT Decree Number 111, 2008; Indonesian Law Number 28, 2007). Figure 4 describes the priority order of IDGT's goals, according to its strategic map.

Figure 4: IDGT's strategic map (reproduced from figure 2)



Source: (IDGT, 2014)

Figure 4 identifies eleven strategic objectives in IDGT's strategic map (the map). These objectives can be classified into two broader types of goals: core goals and sub-goals. The core goals are the two strategic objectives: the optimum tax revenue and a high level of taxpayer compliance. The sub-goals are the nine strategic objectives developed to support the accomplishment of these two core goals.

With regard to the core goals, the map highlights two important points which are of particular interest to this study. The first key point is the priority order of the two core goals. Suggesting that the ultimate goal is the optimum tax revenue, the map shows that the key priority for IDGT is a high level of taxpayer compliance. This is because of two factors. First, the design of the IDGT strategic map clearly differentiates between the hierarchy layers where the two core goals (taxpayer compliance and tax revenue) are situated. While taxpayer compliance is situated in the customer perspective layer, tax revenue is placed in the shareholder perspective layer. Separating the layers where these two core goals are situated indicates that in the priority order the first goal to be achieved by IDGT is the immediate core goal of taxpayer compliance, with tax revenue as the outcome of taxpayer compliance. This is because the direction of the arrow is from the bottom to the top of the map (see IDGT, 2014). Second, all sub-goals are designed to end at taxpayer compliance and to view tax revenue as the outcome of taxpayer compliance. This indicates that IDGT should prioritise the achievement of taxpayer compliance and view tax revenue as the result of taxpayer compliance. Thus, the main priority goal for IDGT to achieve is a high level of taxpayer compliance, with the optimum tax revenue as an outcome of taxpayer compliance. This supports the aspiration of the KUP law as discussed in section 2.3.2.3.

The second key point relates to the relationship between the two core goals. While the map suggests that tax revenue is dependent on the level of taxpayer compliance achieved, it also indicates that the level of the tax revenue collected should be a reflection of the level of taxpayer compliance (see Centre for Tax Policy and Administration, 2010b). This is because taxpayer compliance is, in an ideal world, when “all citizens and businesses would satisfy their obligations under the tax law to register where specifically required, and to voluntarily declare and pay on time their tax liabilities, all calculated fully and accurately in accordance with the law” (Centre for Tax Policy and Administration, 2010b, p. 5). This means that when the level of taxpayer compliance is low, the amount of tax revenue collected should also be low (Centre for Tax Policy and Administration, 2010b). In contrast, when the level of taxpayer compliance is high then the amount of tax revenue collected would also be higher (Centre for Tax Policy and Administration, 2010b). This relationship will be explored further from the perspective of the definition of taxpayer compliance and the optimum tax revenue.

Taxpayer compliance is defined as the degree to which taxpayers abide by the tax law and consists of four distinct elements: registering, filing, reporting and payment compliance (Brown & Mazur, 2003; Centre for Tax Policy and Administration, 2010b). Registering compliance involves bringing new taxpayers into the system by forcing or encouraging potential individuals or businesses to be registered in the tax system (i.e. through having a tax identification number) (Centre for Tax Policy and Administration, 2010b). It relates to the effort to broaden the tax base; that is; increasing the number of new taxpayers (extensification) (Centre for Tax Policy and Administration, 2010b; IDGT, 2014). Filing compliance means the number of registered taxpayers who file their tax return (Brown & Mazur, 2003). Reporting compliance, on the other hand, focuses on assessing the accuracy of submitted tax returns (Brown & Mazur, 2003; Centre for Tax Policy and Administration, 2010b). It relates to scrutinising the accuracy of the tax liability being reported; that is, tax base deepening (intensification) (Brown & Mazur, 2003; Centre for Tax Policy and Administration, 2010b; IDGT, 2014). Payment compliance is the accuracy of payment, from the amount of tax being reported in the tax return (Brown & Mazur, 2003; Centre for Tax Policy and Administration, 2010b).

Despite there being four aspects of taxpayer compliance (registering, filing, reporting and payment) (Brown & Mazur, 2003; Centre for Tax Policy and Administration, 2010b), this study focused on registering and reporting compliance. This is because the definition of each element of taxpayer compliance shows that the total amount of taxpayer compliance can be explained by the sum of registering and reporting compliance (Brown & Mazur, 2003; Centre for Tax Policy and Administration, 2010b). This is because filing and payment compliance forms part of the registering (extensification) and reporting compliance (intensification) respectively (Brown & Mazur, 2003; Centre for Tax Policy and Administration, 2010b).

Thus, this study focuses on the sum of registering and reporting compliance as the total amount of taxpayer compliance.

The optimum tax revenue, on the other hand, is defined as the highest possible level of tax revenue which can be collected by the tax administration in the long term (IDGT, 2014). This implies that the optimum tax revenue is the sum of the short-term revenue and the long-term revenue potential. The short-term tax revenue is the yearly tax revenue achievement, which is the output of the tax administration operation within the short-term period (see IDGT, 2014). In contrast, the long-term tax revenue is the long-term tax revenue potential which is expected to be achieved by the tax administration as the outcome of its operations over a longer period of time (Crandall, 2010; IDGT, 2014). For example, the outcome of the tax audit conducted in current years might be paid by the taxpayers in the next few years if the taxpayers planned to pay it on an instalment basis (Indonesian Law Number 28, 2007). Referring to the definition of taxpayer compliance and optimum tax revenue, the highest tax revenue possible, which consists of the short- and long-term revenue potential (the optimum tax revenue), can be achieved only when all of the individuals and businesses register and report their true tax liability to the state (Brown & Mazur, 2003; Centre for Tax Policy and Administration, 2010b). This suggests that the level of optimum tax revenue which can be collected by a country's tax administration reflects the level of taxpayer compliance within the respective country (IDGT, 2014).

In order to support the achievement of taxpayer compliance (the immediate core goal), IDGT developed nine strategic goals as its sub-goals. Of particular interest to this study are the five sub-goals which directly support taxpayer compliance. They consist of one sub-goal ("high level of stakeholders' satisfaction with services") located in the customer perspective layer and four sub-goals ("improvement in tax information dissemination and public relations effectiveness"; "improvement in supervisory effectiveness"; "improvement in law enforcement effectiveness"; and "improvement in effective cooperation between institutions") situated in the internal process perspective layer.

Drawn from the slippery slope of the taxpayer compliance framework[3] (see Kirchler et al., 2008; Kirchler, Muehlbacher, Kastlunger, & Wahl, 2010) and the KUP law, these five sub-goals can be classified into two broader sub-goals: enforcement related sub-goals and client service related sub-goals (IDGT, 2014; Indonesian Law Number 28, 2007; Kirchler et al., 2008). While the enforcement related sub-goals focus on the use of tax audits and penalties (fines) in achieving taxpayer compliance, the client service related sub-goals focus on educating and supporting taxpayers to do the right thing (to comply) (Kirchler et al., 2008). In addition, the enforcement related sub-goals aim to achieve enforced compliance and, in contrast, the client service related sub-goals aim to promote voluntary compliance (Kirchler et al., 2008)

On IDGT's strategic map, the enforcement related sub-goals are reflected in three sub-goals: (1) "improvement in supervisory effectiveness"; (2) "improvement in law enforcement effectiveness"; and (3) "improvement in effective cooperation between institutions" (IDGT, 2014; Indonesian Law Number 28, 2007). The client service related sub-goals are reflected in two sub-goals: "high level of stakeholders' satisfaction with services" and "improvement in tax information dissemination and public relations effectiveness" (IDGT, 2014; Indonesian Law Number 28, 2007). Figure 5 provides an alternative perspective of IDGT's strategic map according to the slippery slope framework and the KUP law.

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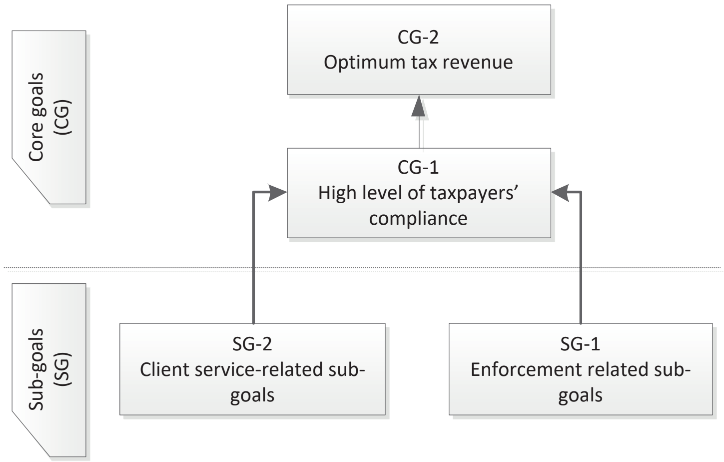
[3]According to Kirchler, Hoelzl, and Wahl (2008), the slippery slope of the taxpayer compliance approach differentiates the effective ways to address the issue of taxpayer compliance from the perspective of two contexts: the antagonistic and the synergistic climate. In the context of an antagonistic climate, the cops and robbers approach (the enforcement approach) is more effective in improving the level of taxpayer compliance because the level of voluntary compliance of individuals and businesses tends to be low, which means the likelihood of tax evasion is high. Therefore, the enforcement approach is more appropriate to ensure that the true tax liability is correctly reported in the tax return. On the other hand, in the synergistic climate, the client service approach is more effective in improving the level of taxpayer compliance because the level of voluntary compliance of individuals and businesses tends to be high, which means the likelihood of tax evasion is low. Therefore, respectful and supportive treatment approaches are more appropriate in these circumstances.

Figure 5: An alternative adaptation of IDGT's strategic map



Adapted from: IDGT's strategic map (IDGT, 2014); Slippery slope framework of taxpayer compliance (Kirchler et al., 2008); and the KUP law (Indonesian Law Number 28, 2007)

In order to achieve the enforcement related sub-goals, also known as the "cops and robbers" approach to achieving taxpayer compliance (Kirchler et al., 2010), the KUP law provides IDGT with the authority to develop sound and effective tax audit provisions (through taxation laws, Tax Auditors and third-party data) (Indonesian Law Number 28). This is evident from the authority given to IDGT to assess tax related transactions involving citizens (the taxpayers) through the use of tax audit related measures such as auditing, investigation and third-party data comparison (see Indonesian Law Number 28, article 29, 30, 31, 35 and 35A). For example, IDGT can conduct a tax audit on taxpayers' tax returns in order to ensure that they are in accordance with Indonesian tax laws (Indonesian Law Number 28, article 29).

In conducting tax audits, IDGT is equipped with the power to request and inspect the relevant data and documentation from taxpayers (Indonesian Law Number 28, article 29). In cases where taxpayers decline to reveal the data and documentation they have, IDGT has the authority to seal the places in a taxpayer's premises where it is suspected that they have stored the necessary data and documentation related to the audit process (Indonesian Law Number 28, article 30). With this authority, IDGT Tax Auditors can scrutinise the accuracy of a taxpayer's tax return in depth, which is expected to support the achievement of the two sub-goals: (1) “improvement in supervisory effectiveness”; and (2) “improvement in law enforcement effectiveness” (IDGT, 2014).

In addition to the authority given to IDGT to inquire and inspect, IDGT also has the right to collect various data and information from third parties, such as banks, government agencies and others, which may describe the activities of a taxpayer’s businesses and transactions other than the ones reported in a taxpayer’s tax return (Indonesian Law Number 28, article 35 & 35A). This authority is related to the pursuance of the sub-goal “improvement in effective cooperation between institutions” (IDGT, 2014; Indonesian Law Number 28, 2007). The availability of data and information from third parties is important in the tax audit related provisions for cross-checking whether the true tax liability is correctly reported in taxpayers’ tax returns (Indonesian Law Number 28, 2007). This demonstrates that the KUP law provides extensive authority to IDGT to support the development of sound tax audit related provisions that will enable IDGT to achieve the enforced compliance related sub-goals.

With regard to client service related sub-goals, which aim to promote a synergistic climate between IDGT employees and taxpayers (Kirchler et al., 2010), the KUP law aspires to improve the tax service related provisions. The idea of this improvement is to educate taxpayers about taxation matters and to provide support to taxpayers to make it easier for them to fulfil their tax related obligations (Indonesian Law Number 28, 2007; Kirchler et al., 2010). For example, the KUP law encourages the improvement of taxpayer compliance through the tax service related provisions that recommend the development of an electronic filing system for taxpayers (Indonesian Law Number 28, 2007). Developing an electronic filing system makes it easier for taxpayers to submit their tax returns, as they can submit them from anywhere and at any time, as long as they can connect to the internet (IDGT, 2008; Indonesian Law Number 28, 2007). This shows that the KUP law requires IDGT to enhance the tax service related provisions in order to enhance taxpayer compliance (IDGT, 2014; Indonesian Law Number 28, 2007).

This illustrates that the KUP law has mandated that IDGT ensure taxpayer compliance in two ways: by strengthening the enforced compliance related sub-goals through developing tax audit related provisions and by promoting client service related sub-goals through enhancing tax service related provisions. Despite the apparent prioritisation of the two core goals, the prioritisation of the sub-goals is not clearly specified. It is not clear which sub-goals are the most relevant for supporting the achievement of the immediate core goal: a high level of taxpayer compliance. Yet, implicit in the KUP law mandate, greater emphasis is placed on the enforcement related sub-goals rather than on the client service related sub-goals to achieve a high level of taxpayer compliance. This is because the authority to develop sound enforcement provisions is clearly indicated in a number of articles in the KUP law. For example, in order to ensure that the four elements of taxpayer compliance (see Centre for Tax Policy and Administration, 2010b) are in place, articles 29, 30 and 31 of the KUP law give the authority to IDGT's Tax Auditors to conduct tax audits on individuals and businesses in Indonesia (Indonesian Law Number 28, 2007). To support the effectiveness of the tax auditing outcome, the KUP law authorises IDGT to inquire of and request data and information from third parties to cross-check the correctness of the tax liability and status of individuals and businesses (see Indonesian Law Number 28, 2007, article 35, 35A). In contrast, only two articles in the KUP law mandate that IDGT must provide tax related services to taxpayers. First, article 3 of the KUP law requires IDGT to ensure that tax return forms are available in every Tax Service Office (TSO) to make it easier for taxpayers to report their tax liability to the state (see Indonesian Law Number 28, 2007). Second, article 6 of the KUP law requires IDGT to develop an online tax filing system to make it easier for taxpayers to submit their tax returns by using the internet (see Indonesian Law Number 28, 2007).

The KUP law focus on developing sound enforcement provisions is further emphasised in the results of a text analysis of the KUP law contents which compared the number of times "pemeriksaan" (which means "tax audit") and "pelayanan" (which means "tax service") are used. This study found that the total word count for "tax audit" (148 counts) exceeds that of "tax service" (only nine counts) (see Appendix G). From this text analysis it can be argued that the KUP law is dominated by "tax audit" related themes. This was supported by a statement from a key study participant, who argued:

> *If we read the KUP law attentively, we will get the impression that all of the themes within this KUP law end up in the tax audit related provisions.* (Echelon III employee.)

This suggests that the KUP law prioritises the enforcement provisions (such as tax auditing) as the key to improved taxpayer compliance rather than the client service related provisions (Indonesian Law Number 28, 2007).

From this discussion it can be concluded that, due to the existence of competing demands within IDGT (see section 5.1.1.), IDGT responded by establishing the strategic map in 2008 (IDGT Decree Number 111, 2008) aimed at clarifying the priority order of IDGT's multiple goals, following the mandate under the KUP law. However, this study found that this effort has been ineffective because there is more than one interpretation of which goal should take precedence in the operations of IDGT. This indicates that PGA is evident in IDGT, which will be discussed in the following section.

5.1.3. Participants' perceptions regarding goal prioritisation in IDGT: evidence of priority goal ambiguity

This study found that PGA was evident in the perceptions of key study participants of which goal, of the core and sub-goals of IDGT, should take precedence. When asked about IDGT's core goals, the majority of the study participants stated that the priority goal was to collect tax revenue from taxpayers in order to satisfy the yearly tax revenue target stipulated in the Indonesian state budget (Anggaran Pendapatandan Belanja Negara-APBN). For example, some participants said:

> *The goal of IDGT is to collect the tax revenue in order to accomplish the tax revenue target set in the Indonesian state budget.* (Echelon II employees.)

In addition, the importance of tax revenue for the budget was emphasised:

> *It is clear that the goal is to collect tax revenue. About 75% of the state budget is expected to be derived from the tax revenue collected.* (Tax Auditor.)

This highlights the perceived importance of revenue to the economic sustainability of Indonesia.

The importance of collecting tax revenue for Indonesia's economic sustainability was echoed by other participants. One participant stated:

> *The goal is to collect the tax revenue from the citizen. Taking a human body as an example, this tax revenue is similar to the blood. If the blood is not there, the human would potentially be dead. When there is no tax revenue, it is very possible that a country will be discontinued.* (Echelon II employee.)

This was supported by the statement of another participant:

> *The goal of IDGT is to collect tax revenue because the revenue from tax is critical for the continuation of this country.* (Echelon III employee.)

All of these statements suggest that the goal of IDGT is to collect tax revenue in order to support the Indonesian state budget, which is critical for Indonesia's economic sustainability. Table 15 summarises participants' perceptions of IDGT's goals.

Table 15: Summary of key participants' perspectives on IDGT's goals

Description	**Tax revenue target accomplishment**	**Taxpayer compliance**	**Total**
Echelon II	7		7
Echelon III	11	2	13
Echelon IV	13	5	18
Account Representative	7		7
Tax Auditor	11		11
Staff	2		2
Total respondents	51	7	58
Percentage (%)	88%	12%	100%

Table 15 shows that the majority of participants (88%) argued that the accomplishment of the tax revenue target is IDGT's main goal, with only seven participants (12%) perceiving that increasing taxpayer compliance is IDGT's primary goal. The participants who argued that optimising taxpayer compliance was the priority goal claimed that tax revenue is a by-product of enhanced performance:

> *IDGT has to make sure that all citizens in Indonesia comply with the Indonesian tax laws. This is the kind of goal that IDGT should achieve. The tax revenue would be the side effect of taxpayer compliance itself. When most citizens comply with the tax laws, the tax revenue will eventually be realised.* (Echelon III employee.)

Those participants who saw taxpayer compliance as the main goal recognised the problems associated with focusing on targeted tax revenue. These problems include the conflicting role of the Tax Auditor when exposed to the achievement of the targeted tax revenue:

> *Exposing the Tax Auditors to the tax revenue target could potentially create a problematic situation such as the choice between focusing on assessing the level of taxpayer compliance or merely collecting the tax revenue for the sake of tax revenue target accomplishment.* (Echelon IV employee.)

One key argument was that focusing on the tax revenue target would create incentives to collect *any* revenue, even if it meant taxpayers became exempt from paying their full tax liability:

> *If the Tax Auditors are assigned a certain amount of tax revenue target, they could face a conflicting situation between ascertaining taxpayer compliance and tax revenue target accomplishment. For example, an auditor finds Rp1 billion of unpaid tax which has not been reported by the taxpayer. This auditor will be in a difficult situation when the taxpayer agrees to pay half the amount due to a shortage of cash. This becomes problematic because the KUP law requires the auditor to ascertain this taxpayer's compliance but, at the same time, the pressure of the tax revenue target could potentially lead to the auditor accepting the taxpayer's offer since their performance is linked to the tax revenue target.* (Echelon IV employee.)

In this sense, participants argued that positioning tax revenue as the priority goal created perverse incentives to focus on short-term achievement; that is, the yearly tax revenue target. They argued that focusing on the yearly tax revenue target could limit IDGT's gain to a short-term accomplishment and overlook the greater long-term revenue potential resulting from improved taxpayer compliance.

This study also found that participants held different views about which sub-goals should be focused on. Some study participants perceived that enhancing the client service relationship is the priority in achieving a high level of taxpayer compliance. One argued:

> *Engaging the taxpayers with enhanced services would increase the chance to collect more tax revenue from those taxpayers, which means an improved level of taxpayer compliance.* (Echelon II employee.)

In line with this statement, an Account Representative said:

> *I think the enhanced service approach after the 2002 reform was a good approach to improving the level of taxpayer compliance. This is because taxpayers feel that they are equal to us (as IDGT officials), which will lead to their paying more tax to the state.*

These statements highlight the preference of the study participants to focus on strengthening client service provisions to enhance the level of taxpayer compliance.

Contrary to the perception that strengthening client service provisions was important, some participants argued that IDGT's heavy emphasis on the client service provisions since the 2002 reform has been misleading. An echelon III employee stated:

> *The service provided to taxpayers after the reform by assigning a dedicated Account Representative to each taxpayer is flawed.*

He further argued:

> *This service regime has failed to improve the performance of IDGT in terms of higher tax revenue collection.*

This argument was supported by an echelon IV employee, who noted:

> *The enhanced service is not the most effective approach to improve the level of taxpayer compliance. In my experience as a tax official for more than 15 years, taxpayers will comply and pay their tax liability only when a sound enforcement mechanism such as tax auditing is conducted.*

These statements suggest that the more effective way to improve the level of taxpayer compliance is by strengthening the enforcement provisions. This argument is in line with the extant tax administration literature, which argues that tax auditing (the enforcement approach) has a direct impact on the improvement in taxpayer compliance as well as the amount of tax revenue collected (Centre for Tax Policy and Administration, 2006).

The discussion demonstrates that participants held different interpretations of the priority goal of IDGT. Regarding the core goals, some study participants argued that taxpayer compliance is the priority goal of IDGT, which is in line with the priority for IDGT's core goals according to the KUP law. In contrast, most study participants viewed the yearly tax revenue target (which is linked with the optimum tax revenue) as the priority goal of IDGT, which supports the demands of the IMF and IMOF. Regarding the sub-goals, some participants argued that enhanced taxpayer compliance could be effectively achieved if IDGT promoted the enhanced client service provisions. In contrast, the view of some participants was that the more effective way to achieve a high level of taxpayer compliance is a sound enforcement approach. Drawing from the alternative version of IDGT's strategic map, these interpretations are following the demands put in place by the competing constituencies. Figure 6 shows the different interpretations of the priority goal (see Chun & Rainey, 2005a, 2005b; Gilad, 2015; Lee et al., 2009; Moynihan, 2015) at the core and sub-goal levels which are caused by the competing demands of IMOF, the IMF and the KUP law.

Figure 6: PGA in IDGT due to the demands from its constituencies

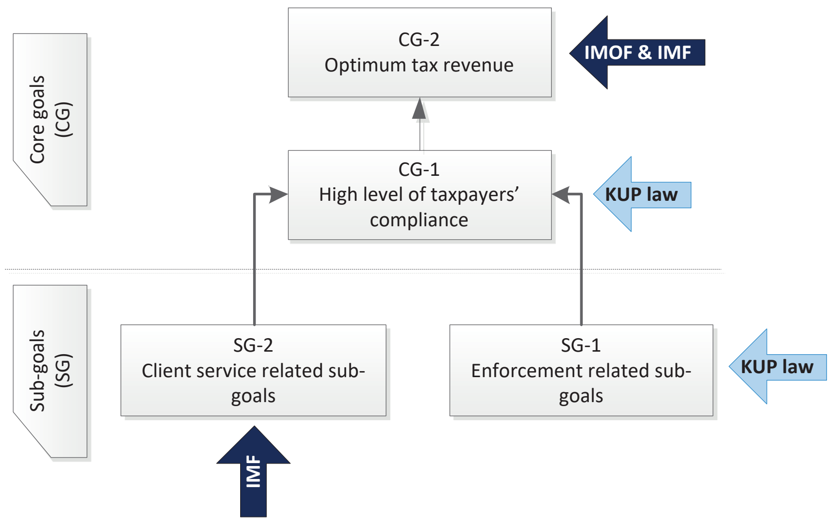


Figure 6 highlights the different interpretations of the priority of IDGT's goals at the core and sub-goal levels due to the existence of competing demands from its constituencies. At the core goal level, some participants follow the demand put in place by IMOF and the IMF; that is, the achievement of the yearly tax revenue target, which links with the optimum tax revenue achievement. On the other hand, another group of participants perceives taxpayer compliance to be the priority goal, which follows the demands of the KUP law. At the sub-goal level, some participants prioritise the development of the enhanced client service provisions as the more effective approach to achieving improved taxpayer compliance (following the demands of the IMF). In contrast, some other participants were of the view that IDGT should place greater emphasis on developing sound enforcement provisions to achieve a higher level of taxpayer compliance (following the KUP law demands). This suggests that PGA is evident in IDGT at both the core and sub-goal levels. This is because PGA has been defined as a lack of clarity about which goal should be prioritised (Chun & Rainey, 2005a, 2005b; Gilad, 2015; Lee et al., 2009; Moynihan, 2015) at both the core and sub-goal levels of IDGT. This finding is consistent with the findings of other studies, which concluded that competing demands from constituencies had a strong impact on PGA (Chun

& Rainey, 2005b; Gilad, 2015; Lee et al., 2009). Due to PGA being closely related to inadequate organisational performance (Chun & Rainey, 2005a; Jung, 2011, 2014), the following section discusses the impact of PGA on the performance of IDGT in collecting tax revenue from taxpayers.

5.2. The impact of PGA and pursuing the narrow and less appropriate priority goals

According to the literature, the existence of PGA could shift the focus of an organisation to meeting the more powerful demands (Gilad, 2015). This study found that the demands placed on IDGT by IMOF and the IMF are more powerful than the KUP law's demands. IMOF's position as IDGT's higher ministry allows IMOF to impose strict requirements on IDGT to focus on achieving the yearly tax revenue target, which is linked to the achievement of the optimum tax revenue (IMOF, 2013a). These requirements are in the form of key performance indicator (KPI) to measure IDGT's achievement of the core goal of optimum tax revenue, which is based on the degree of accomplishment of the yearly tax revenue target (see IDGT, 2014, p. 48). Through aligning the KPI with the achievement of IDGT's yearly tax revenue target, it was intended that IDGT employees would work harder towards achieving the tax revenue target (Indonesian Presidential Ordinance Number 37, 2015). This issue will be discussed further in chapter 6, in relation to the alignment of IDGT's performance and rewards management approach. Similarly, the demands of the IMF outweighed those of the KUP law. This was evident from the adoption of the one-stop service concept to support the client service provisions, marked by two notable changes within IDGT after the 2002 tax administration reform: (1) the liquidation of the Tax Audit Office (TAO); and (2) the adoption of the Account Representative concept (IDGT, 2008).

The dominance of the IMOF and IMF demands over the KUP law demands shifted the focus of IDGT to the achievement of the yearly tax revenue target, with an emphasis on the client service approach, after the 2002 reform. This was evident from the practices after the reform, as discussed in the section to follow.

5.2.1. IDGT's focus on yearly tax revenue target achievement through a client service approach

The existence of PGA led IDGT to focus on the more powerful demands (Gilad, 2015); that is, those of the IMF and IMOF. Consequently, the achievement of the yearly tax revenue target through the use of client service provisions became the priority goals after the 2002 reform rather than the achievement of taxpayer compliance through the use of enforcement provisions. This was evident from the practices within IDGT after the 2002 reform, whereby individuals within IDGT focused on achieving the yearly tax revenue target through the client service approach.

IDGT's emphasis on achieving the yearly tax revenue target was reflected not only in the perceptions of the majority of the study participants (see table 15) but also in a number of practices found in this study which placed greater emphasis on the achievement of the yearly tax revenue target. The first practice which highlights IDGT's emphasis on achieving the yearly tax revenue target was the tendency of IDGT employees to focus on the intensification rather than the extensification approach. The emphasis on achieving the yearly tax revenue target led to a focus on scrutinising taxpayers who were already in the tax system (intensification) rather than encouraging participation by non-compliant individuals and businesses who were still outside the tax system (extensification). This led to a focus on persuading, counselling, examining and auditing taxpayers who already had a tax identification number because, as one echelon IV employee stated:

Focusing on the taxpayers who are already in IDGT's tax system provides faster tax revenue and requires less effort.

This means that IDGT placed greater emphasis on scrutinising the registered taxpayers and paid less attention to the unregistered taxpayers. A member of the echelon II elite commented:

IDGT is the only one able to go hunting in the zoo.

This highlights IDGT's focus on an intensification rather than an extensification strategy. This was due to the considerable amount of work associated with adopting an extensification strategy:

More effort and time would be needed to bring new potential taxpayers in. (General staff level employee.)

Extensification strategies involve at least three stages. The first stage involves the identification of new potential taxpayers, approaching these taxpayers and then registering them in IDGT's system (IDGT Circular Letter Number 51, 2013). After new taxpayers have registered in IDGT's system and obtained a tax identification number, the second stage of an extensification strategy is "to guide and encourage these new taxpayers to comply with the taxation law in two years' time" (echelon IV employee). The third stage involves transferring the administration of these new taxpayers to Account Representatives, at which point the new taxpayers are encouraged to pay their tax obligation (the first stage of the intensification process). This process commonly takes at least two years before new taxpayers start paying taxes (IDGT Circular Letter Number 51, 2013).

The focus on intensification at the expense of extensification meant that IDGT failed to increase the number of compliant taxpayers, which led to the low level of registering compliance. This low level of registering compliance is evident in the narrow level of tax bases (Arnold, 2012; IDGT, 2013b, 2014) and consequent loss of both short-term and long-term revenue. This will be discussed further in section 5.2.2.

The second practice associated with the short-term focus on the yearly tax revenue target was the propensity for Account Representatives to accept an agreed amount of tax revenue when undertaking the persuasive assessment approach. The persuasive assessment approach is used by Account Representatives to persuade taxpayers to pay their underreported tax liability. This approach was introduced during the 2002 tax administration reform (IDGT, 2008). In Bahasa Indonesia, this approach is called "himbauan" (persuading) and "konseling" (counselling) (see section 2.3.3.1). The use of the persuasive assessment approach is encouraged because "the persuasive approach is effective in generating quick tax revenue" (Account Representative) compared to the audit approach, which is time-consuming as it might take up to two years (IMOF Decree Number 17, 2013). However, it limits the amount of tax revenue collected to the agreed amount between the taxpayer and the Account Representative. This was reflected in the statement of an echelon IV employee (an Account Representative's supervisor):

> *Based on my rough calculation, the restaurant next to this tax office was not reporting its true tax liability to us. This was because we could only persuade them and counsel them to pay the underreported tax liability. We actually could have referred this taxpayer to the Tax Auditor to be audited. However, we refrained from doing it. This was because this taxpayer was cooperative in the sense that they would usually pay some parts of the underreported tax liability listed in the persuading letter notification (surat himbauan). Even though the agreed amount was not what we had expected, their willingness and cooperation to pay some parts of this underreported amount supported our section in achieving the tax revenue target allocated to us.*

This statement suggests that Account Representatives try to engage taxpayers through the persuasive assessment approach. If they do not cooperate, Account Representatives might refer them to Tax Auditors. Yet the pressure to collect *any* tax revenue means that if the taxpayers cooperate a little bit (pay some taxes), they will be not referred to Tax Auditors. This means that, through Account Representatives adopting the persuasive approach, the amount of tax revenue collected was limited to what taxpayers agreed to pay, meaning that taxpayers often did not pay their full tax liability. The issues associated with this persuasive assessment approach will be discussed further in chapter 6 in relation to the types of key competencies required to achieve IDGT's priority goals.

The third practice associated with IDGT's focus on the yearly tax revenue target is its tendency to manage the accounts. In the literature it is stated that the pressure to achieve the current earnings target encourages unscrupulous behaviour by managers, who may falsify the accounting statements in order to meet the earnings target (Jensen, 2005; Turner, 2005). Turner states:

> *When all companies are quarterly earnings obsessed, the market starts punishing companies that aren't yielding an instant return. This not only creates a big incentive for bogus accounting, but also it inhibits the kind of investment that builds economic value.* (Turner, 2005, p. 229)

Supporting this statement, Jensen (2005) points out on page 8:

> *When managers smooth earnings to meet market projections, they are not creating value for the firm; they are both lying and making poor decisions that destroy value.*

These statements show that when an organisation is exposed to the accomplishment of a short-term earning achievement (such as the yearly tax revenue target in the case of IDGT), it tends to create a quick and easy way to accomplish this earning target which is often viewed as having no added value to the organisation. The findings of this study support these claims. This study found that IDGT managers adjusted reports to make the percentage achievement of the yearly tax revenue target appear impressive. As the yearly tax revenue target creates enormous pressure for IDGT managers, especially near the end of the fiscal year, they adjust the tax revenue report by pulling the next year's first quarter tax revenue into the current fiscal year and pushing the last quarter tax refund to the next fiscal year. A Tax Auditor noted:

> *There was one occasion where our office was beating the next-door Tax Service Office in terms of tax revenue accomplishment performance. Two days before the fiscal year ended, the performance of our office, in terms of tax revenue accomplishment, was still number one nationally. However, in the last minutes before the fiscal year ended, the next-door Tax Service Office overtook us. The next-door Tax Service Office used an old trick to boost its tax revenue by urging their registered taxpayers to pay the following year's tax liability in advance and postponing the last quarter taxpayers' refund claim until the beginning of the following fiscal year. In Indonesian, we called this "sistim ijon".*

This statement suggests that due to the pressure to ensure the yearly tax revenue target is accomplished, IDGT managers use "sistim ijon" by pulling the next year's tax revenue up front and deferring the tax refund to the next fiscal year. Consequently, the amount of the tax revenue achievement for the current year does not reflect its actual achievement because some part of the tax revenue collected belongs to the tax revenue of the next fiscal year and the refund claim which should be disbursed to taxpayers belongs to the current fiscal year's record. In the private sector, the "sistim ijon" practice is called the accounts management game:

> *If we are having trouble meeting the earnings targets for this year, we push expenses forward, and we pull revenues from next period into this period. Revenues borrowed from the future and today's expenses pushed to tomorrow require even more manipulation in the future to forestall the day of reckoning.* (Jensen, 2005, p. 8)

However, this practice does not create any additional value to the organisation's accounts as the amount of the earnings (tax revenue) being collected remains the same. The only difference is the period in which the earnings are collected.

IDGT's greater emphasis on developing client service related provisions was evident from the changes that were made after the 2002 reform. This study found that there were at least two notable changes after the reform which aimed to support the concept of the one-stop service for taxpayers. The first change was the liquidation of the Tax Audit Office (TAO) (see IDGT, 2008). The main reason for liquidating the TAO was to provide taxpayers with single point of contact (a one-stop service) in the case of a tax audit (IDGT, 2008). This was also reflected in a statement from a key study participant:

> *By liquidating the TAO and establishing an audit division under the TSO as the replacement (for the TAO), the taxpayers (after the reform) only have to come to one office—that is, the TSO—in the case of a tax audit.* (Echelon III employee.)

This statement is supported by the conditions before the reform, whereby a tax audit could be conducted at either the TAO or the TSO depending on the type of audit (a complete audit or a simple one) (see section 2.3.3.1.). By liquidating the TAO, which was then replaced by a division under the TSO, taxpayers, in the case of a tax audit, have to go to only one office; that is, the TSO (IDGT, 2008).

The second notable change was the introduction of the Account Representative position (IDGT, 2008). The aim of the Account Representative position was to provide a personalised service to taxpayers (IDGT, 2008). This might include: (1) providing a free consultation service to taxpayers regarding taxation matters; (2) reminding taxpayers to fulfil their tax obligation; and (3) updating taxpayers' knowledge about new taxation rules and regulations (IDGT, 2008). It was argued that, with the introduction of the Account Representative role, IDGT changed its approach from a hard enforcement approach to a soft enforcement approach:

> *By introducing an Account Representative role, IDGT adopts a softer approach in its operations.* (Echelon III employee.)

Instead of using the hard enforcement (tax audit) approach, IDGT introduced a softer approach by engaging taxpayers through persuading and counselling activities (see IDGT, 2008) to encourage them pay their tax obligation to the state. The issues concerning the position of Account Representative are related to IDGT's workforce management and are discussed further in chapter 6.

These two notable changes in the 2002 tax administration reform demonstrate that IDGT's focus was predominantly on developing client service related provisions rather than enforcement related provisions. The focus on developing client service related provisions created the prevalent view among the study participants that "IDGT is now under a service regime" (echelon III employee). Supporting the views of key study participants, Wihantoro et al. (2015) argue that the operation of IDGT is similar to a bank which uses customer service to engage potential customers to deposit their money in the bank. The liquidation of the TAO and the introduction of the soft enforcement approach through the Account Representative role indicate the changing era of tax revenue collection within IDGT, from a hard enforcement approach to a soft enforcement approach (see section 2.3.3.).

This illustrates that IDGT focuses on achieving priority goals which are different from the ones suggested by the KUP law and manifested in IDGT's strategic map (see section 5.1.2.). This study found that focusing on a different priority goal (not in accordance with the requirements of the KUP law) impeded the attainment of IDGT's core goals, as will be discussed in the following section.

5.2.2. The impact of focusing on the narrow and less appropriate priority goals on IDGT's performance

The goal attainment approach (Jung, 2011; Rainey & Steinbauer, 1999; Speklé & Verbeeten, 2014; Steers, 1975) is the scheme used by this study to measure IDGT's performance . The goal attainment approach was introduced by Steers (1975) and is premised on the notion that organisational performance can be measured by analysing the attainment of an organisation's goals (Jung, 2011; Steers, 1975).

This study found that IDGT's greater emphasis on achieving the yearly tax revenue target through the use of client service provisions (see section 5.2.1.) was limited and less appropriate because the contextual requirements of IDGT, in this case IDGT's core goals, are the achievement of the optimum tax revenue and a high level of taxpayer compliance (IDGT, 2014; Indonesian Law Number 28, 2007). Despite the yearly tax revenue target being linked to the optimum tax revenue, IDGT's focus on achieving the yearly tax revenue target impeded IDGT achieving the highest tax revenue possible (the optimum tax revenue) from taxpayers. This was reflected in the three practices found in this study. The focus on intensification overlooked the potential tax revenue which could be collected using the extensification strategy. Similarly, the focus on the persuasive assessment approach limited the amount of tax revenue collected because that approach focused on the agreed amount of tax revenue paid by taxpayers rather than the true tax liability owed by taxpayers to the state. Moreover, the earning management practices ("sistim ijon") added no value to the effort to achieve the highest tax revenue possible. This is because it only shifted the next period's tax revenue to the current period, which meant the amount of tax revenue collected remained the same. In fact, this practice could endanger the next period of tax revenue target achievement as the potential tax revenue for the next period is pulled into the current period (see Jensen, 2005).

With regard to the achievement of a high level of taxpayer compliance, this study also found that IDGT's emphasis on the client service approach (IDGT, 2008; Korte, 2013) in addressing non-compliant taxpayers is not an appropriate approach in the Indonesian context. This is because the emphasis on the client service approach is appropriate only when the level of voluntary compliance is high (Kirchler et al., 2008; Kirchler et al., 2010). As the level of voluntary compliance (compliant taxpayers) in Indonesia is low, reflected in the low level of the Indonesian tax ratio as compared to other countries (see Arnold, 2012; Brondolo et al., 2008; Korte, 2013), sound enforcement provisions (i.e. a tax audit) are more appropriate to achieve a higher level of taxpayer compliance (see Kirchler et al., 2010).

The inappropriateness of the focus on client service provisions to achieve the yearly tax revenue is reflected in the huge level of non-compliant individuals and businesses and the huge amount of tax revenue lost after the reform. This study found that even though the strategy adopted by IDGT after the reform—to focus on the achievement of the yearly tax revenue target using the client service approach—has been in place for more than a decade, the level of non-compliant individuals and businesses and the amount of untapped tax revenue potential remains high. This study found that the high level of non-complaint individuals and businesses was evident in both the registering and the reporting compliance elements after the 2002 reform. In relation to the registering compliance element (Centre for Tax Policy and Administration, 2010b), this study found that the number of taxpayers not complying with the requirement to register for the Indonesian tax system by having a tax identification number (TIN), particularly individual taxpayers, was considerably high. This was reflected in the statement of the study participant who said:

> *There are about 252 million citizens in Indonesia. Around 170 million of them are above 17 years old. Based on our analysis, about 40 million of them have an income level more than the threshold stipulated in the income tax laws. However, based on our database, only about 25 million of them have the tax identification number.* (Echelon III employee.)

This statement indicates that there are about 15 million potential taxpayers who are still unregistered and therefore not paying tax. This corresponds with the finding by Arnold (2012) that the narrow tax base for the individual taxpayer in Indonesia was due to there were many individuals, particularly self-employed individuals, who did not register themselves to the tax offices. This suggests that the number of taxpayers who are not complying with the registration requirements is quite high.

From the perspective of reporting compliance (Brown & Mazur, 2003; Centre for Tax Policy and Administration, 2010b), this study also found that reporting compliance among taxpayers in Indonesia is also considerably low. With regard to individual taxpayers, for example, an echelon III employee said:

> *About 6 million out of 25 million who have the tax identification number (registered) reported tax returns with zero tax liability.*

This may indicate low reporting compliance among individual taxpayers, considering that no systematic approach exists to assess their tax obligation (Arnold, 2012). This was supported by a relatively low contribution of personal income tax in the total tax revenue collected by IDGT in comparison to both OECD and non-OECD member countries (Brondolo et al., 2008). This represents a potentially huge non-compliance cost caused by individual taxpayers.

With regard to corporate taxpayers, study participants indicated that reporting compliance (the true tax liability being correctly reported) is also a big issue for IDGT. An echelon III official stated:

> *Many big corporations are suspected to manipulate their accounting record by making a double book-keeping record in order to minimise the amount of tax reported to the country. One recent example of a case which is now under investigation by IDGT is the Asian Agri case.*

This supports claims in the literature that the Asian Agri case was the biggest tax manipulation scandal in the history of IDGT, as the amount of tax liability being manipulated was 1.3 trillion rupiah (Dharmasaputra, 2013). This case involved a number of companies under the Asian Agri Group. The mechanism for reducing the amount of true tax liability reported to IDGT was put in place by three schemes: bogus hedge transactions, fictitious expenses and transfer pricing (Dharmasaputra, 2013). The Asian Agri case was not an isolated event among corporate taxpayers, highlighting broader issues with reporting compliance in Indonesia. This was reflected in a recent statement by IDGT's Director General, Mr Dwijugiasteadi, who said:

> *Around 2,000 foreign investment companies in various sectors, from industry and trade to automotive, had not paid their corporate income taxes properly over the past 10 years based on purported financial losses.* (Sipahutar, 2016)

It is suspected that these foreign companies use a "transfer pricing" mechanism with their parent companies abroad by allocating more costs to Indonesian branches and shifting profits to the parent companies (Sipahutar, 2016). Consequently, the branch companies in Indonesia suffer losses for many years and do not have to pay their corporate tax liability. It is estimated that this alleged tax evasion has caused around 500 trillion rupiah (US$37.53 billion) in state losses over the past 10 years (Sipahutar, 2016). Again, non-compliance generates large losses for the Indonesian government.

While the previous two examples show the low level of reporting compliance involving large and medium sized companies, the issue of low reporting compliance was also evident in small companies, such as the restaurant situated next to the Tax Service Office. An Account Representative commented:

> *I do not believe that the restaurant next door correctly reported its income in its tax return. As we can see just now, there were many customers who had their lunch there. My rough calculation is that the yearly sales would be X rupiah. Yet, they only reported in their tax return half of it. Due to the lack of power to inquire and inspect like the Tax Auditor, we could not assess how much is the correct amount of this restaurant's tax liability.*

The Account Representative's lack of power to inquire and to inspect (scrutinising taxpayers' tax returns) hindered this official from taking further action in scrutinising the level of true tax liability being reported by this taxpayer (the restaurant). Thus, it is unknown whether this taxpayer has reported its tax liability correctly. While this is anecdotal, the establishment of costs associated with individual taxpayers and large companies supports the Account Representative's view that small to medium businesses similarly cost the Indonesian government huge sums through non-compliance.

Due to the fact that the level of taxpayer compliance is the basis for achieving the highest tax revenue possible (the optimum tax revenue) (Centre for Tax Policy and Administration, 2010b; Indonesian Law Number 28, 2007), the existence of a high level of non-compliance led to the state forgoing a huge amount of tax revenue after the 2002 reform. For example, according to the study conducted by Heenan et al. (2011), the theoretical level (highest tax revenue possible) which could be collected by the Indonesian government was estimated at around 21.5% of Indonesian GDP. In 2010, when Heenan et al. (2011) conducted that study, the Indonesian tax ratio level was 11.22% (see table 8). Since that 11.22% was the combined tax ratio of IDGT and IDGCE (see table 8), the tax ratio that should have been collected by IDGT in 2010 was 18.74%[4]. Since the amount of actual tax revenue collected in 2010 was 628.23 trillion rupiah (see table 9), this means that 532.82 trillion rupiah[5] was the amount of tax revenue lost in 2010 (Heenan et al., 2011). As the level of the tax ratio collected by IDGT after 2010 remained consistent, at 10% (see table 8), the highest tax revenue possible (the optimum tax revenue) was far from realised. This was indicated by a huge gap between the theoretical tax ratio level (18.74%) and IDGT's capacity (10%). Supporting this, other scholars such as Arnold (2012) and Ikhsan et al. (2005) also noted that IDGT's capacity to collect tax revenue from individuals and businesses after the 2002 reform was lacking.

This illustrates that IDGT was unable to achieve a high level of attainment of both of its core goals: the optimum tax revenue and a high level of taxpayer compliance. This study argues that the first key factor which impeded IDGT achieving its core goals was the existence of PGA, which led IDGT to place greater emphasis on the narrow and less appropriate priority goals (i.e. the achievement of the yearly tax revenue target through the use of client service provisions). As it was unclear which goal should take precedence, individuals within IDGT were focused on the achievement of short-term revenue (the yearly tax revenue target), which is only part of IDGT's ultimate goal: the optimum tax revenue. This was exacerbated by PGA at the sub-goal level, which led IDGT to focus on client service provisions (rather than

[4]IDGT's role in 2010: 87.16% (9.78%: 11.22%) see table 8; the maximum level of tax ratio which should have been collected by IDGT was 18.74% (87.16% * 21.5%).

[5]532.82 = (18.74/10.14*628.23)-628.23.

enforcement provisions). This was found to be less appropriate in the context of such high non-voluntary compliance (Kirchler et al., 2010). These findings support the argument that organisational performance is negatively affected by PGA (Chun & Rainey, 2005a; Jung, 2011, 2014). IDGT's focus on the narrow and less appropriate priority goals is discussed further in chapter 6, as is the proposition that the design of IDGT's HR policies and practices placed greater emphasis on achieving these narrow and less appropriate priority goals.

5.3. Conclusion

This chapter has analysed the major reasons why greater performance improvements were not evident in IDGT's performance after the 2002 reform. This study found that the existence of PGA was the first key factor which hindered IDGT's improvement of its performance after the reform. PGA was a result of competing demands from external constituencies, which led to IDGT focusing on achieving yearly tax revenue targets (narrow priority goal) through the use of client service provisions (less appropriate priority goal), rather than promoting taxpayer compliance through the use of enforcement provisions. This impeded IDGT's attainment of both its core goals (a high level of taxpayer compliance and optimum tax revenue) leading to a low tax ratio. This suggests that PGA negatively affected goal attainment within IDGT and, consequently, IDGT's performance in terms of tax revenue collection and tax ratio improvement. This result supports the existing literature, in which PGA is shown to negatively affect organisational performance.

Due to the close relationship between organisational goals and SHRM, the next chapter analyses the impact of focusing on the narrow and less appropriate priority goals on IDGT's approach to SHRM. It highlights the importance of having goal clarity and prioritisation for more effective implementation of SHRM.

CHAPTER 6: FINDING 2 - STRATEGIC HUMAN RESOURCE MANAGEMENT (SHRM) AND IDGT'S PERFORMANCE

In the previous chapter it was argued that priority goal ambiguity (PGA) exists in IDGT about its core and sub-goals. PGA emerged due to competing demands from IMOF, the IMF and the KUP law. The dominance of the demands of IMOF and the IMF led to individual IDGT officials focusing on the narrow and less appropriate priority goal; that is, the achievement of the yearly tax revenue target through the strengthening of client service provisions.

This chapter is the second of the results chapters, which answer the two sub-questions of this study:

- *Why has IDGT's performance not improved in relative terms, and why has it only kept pace with economic growth?*
- *What are the key factors that contributed to the lack of effectiveness of IDGT in achieving an improved tax ratio after the 2002 reform?*

It discusses the second key factor which impeded IDGT's ability to improve its performance: the misalignment of IDGT's strategic human resource management (SHRM) approach. In particular, it highlights how the focus on achieving yearly tax revenue targets using a client service approach led to an emphasis on the acquisition and development of persuasive assessment competencies and the associated Account Representative role. The first section outlines the SHRM approach adopted by IDGT after the 2002 tax administration reform. The second section discusses how workforce planning is key to adopting an SHRM approach, and how the lack of workforce planning in IDGT led to an overemphasis on persuasive assessment competencies and the Account Representative role. The third section discusses how four HR policies and practices were designed to reflect the focus on persuasive assessment competencies, the Account Representative role and short-term revenue. The fourth section discusses how this led to misalignment between IDGT's HR policies and practices and its priority goals; that is, policies that were designed to focus on the achievement of short-term tax revenue targets by an enhanced client service provisions (the narrow and less appropriate priority goals). The fifth section analyses the impact of the misaligned HR policies and practices on IDGT's performance.

6.1. IDGT's adoption of a strategic human resource management approach after the 2002 tax administration reform

In its modernisation program, IDGT aspired to adopt a strategic human resource management (SHRM) approach to managing its employees. As discussed in chapter 3, one perspective of SHRM is the configurational approach, which emphasises both horizontal (congruence between HR practices) and vertical (congruence between HR practices and organisational goals) alignment (Blackman et al., 2012; Delery & Doty, 1996; Gephart & Van Buren, 1996; Sung & Ashton, 2005; Van Buren & Werner, 1996). In IDGT the key action to establish alignment was the formulation of its HRM blueprint (2011 to 2018), which sets the strategic direction for IDGT's HRM system (IDGT, 2008, 2011a). IDGT's strategic HR vision is "human resources management based on effective performance and competence in order to support the realisation of IDGT's vision and mission" (IDGT, 2011a, p. 16). Supporting this vision is IDGT's performance and competency based management, which aims to align individual performance with IDGT's organisational performance (IDGT, 2011a). To achieve this, IDGT established HR policies and practices that aimed to support the attainment of IDGT's goals (vertical alignment) (IDGT, 2011a). This is reflected in an official statement by the Head of the Sub-Directorate of HR Management Development:

> *One of the many challenges in managing and developing HR in IDGT is to foster conformity between organisational strategies and the role of HR management. As a strategic partner, HR management must be able to deliver value regarding the organisation's strategic achievement*. (IDGT, 2014, p. 103)

IDGT also attempted to integrate its HR policies and practices (i.e. recruitment and selection, training and development, performance management and reward management practices) to ensure horizontal alignment (see IDGT, 2011a, 2014). This suggests that IDGT aspired to adopt an SHRM configurational approach to managing its employees.

Despite the rhetoric advocating alignment, this study found that IDGT HR policies and practices were misaligned toward narrow and less appropriate priority goals. This was because the presence of priority goal ambiguity (PGA) led to a focus on short-term tax revenue targets (with the emphasis on client service provision), rather than on taxpayer compliance (with the emphasis on tax audits). This led to IDGT determining that its key competencies related to client service related sub-goals (see figure 5), identified as persuasive assessment competencies. Given that the decision to adopt key competencies was related to workforce planning, the next section will explore the contribution of workforce planning to IDGT's decision to adopt persuasive assessment competencies as the key competencies after the 2002 reform.

6.2. IDGT's workforce planning

Workforce planning is the main mechanism for identifying the key competencies necessary for achieving organisational goals, which is fundamental to adopting an SHRM approach (Choudhury, 2007; Jacobson, 2010). It involves identifying the future demand and supply of the competencies required to achieve organisational goals (Choudhury, 2007; Jacobson, 2010; Pynes, 2004). Competencies are defined as the skills, knowledge and abilities required to perform a job (Blackman et al., 2012; Jiang, Lepak, Hu, et al., 2012; Wei & Lau, 2005; Werbel & DeMarie, 2005). In IDGT the two key competencies relate to tax auditing (Tax Auditors) and persuasive assessment (Account Representatives), as they play a central role in collecting tax revenue (IDGT, 2008; IMOF Decree Number 17, 2013).

This study found that IDGT's reform team had not undertaken any workforce planning during the 2002 reform to inform them of the competencies required to achieve its goals. Instead, IDGT's reform team determined that they needed to establish the new role of Account Representative, following external advice from international donors and the IMF. This advice was based on workforce decisions made in other countries, rather than on specific requirements within IDGT:

> *I warned Mr X (one of the influential members of the 2002 reform team) not to be hasty in adopting the concept of the Account Representative, brought in by the IMF and international donors, as the main type of role in IDGT's operations. My main concern was that the characteristics of our taxpayers might be different from those of taxpayers in other countries, particularly in the developed world. I think we need to conduct an in-depth preliminary study to ensure the appropriateness of the concept borrowed from overseas before adopting it*. (Echelon III employee.)

This advice was based on what international donors and the IMF thought was necessary to increase the amount of short-term tax revenue collected and to enhance tax related services to the taxpayers (Brondolo et al., 2008). This led to the reform team borrowing the concept of client manager or senior relationship manager from the Australian Tax Office (ATO) (see Australian Taxation Office, 2016; Braithwaite & Hong, 2015):

> *If I am not mistaken, the concept of the Account Representative was adopted from Australia*. (Echelon III employee.)

The focus of the 2002 reform on improving the achievement of short-term tax revenue through client service provisions required employees to undertake a persuasive and soft assessment approach; these competencies defined the Account Representative role (see IDGT, 2008; IMOF Decree Number 79, 2015). However, contrary to the role of senior relationship managers at the ATO, who focus only on engaging the 100 largest taxpayers in Australia, the Account Representative is allocated to *any* taxpayer in Indonesia, regardless of the taxpayer's size and type. Consequently, IDGT placed great emphasis on acquiring and developing these competencies. The emphasis on the Account Representative role was indicated by the growth in the number of Account Representatives between 2002 and 2013 (see table 16).

Table 16: The growth of Account Representatives compared to Tax Auditors

Item	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Tax Auditor (TA)	4,234	4,309	4,394	4,495	3,031	3,098	1,862	1,941	1,893	1,907	1,756	1,641
Account Representative (AR)	6,713	6,285	6,217	5,203	5,182	5,029	2,905	1215	1304	409	64	60
Total number of IDGTs' employees	32,273	31,316	31,736	32,741	31,824	29,560	31,229	N/A	N/A	N/A	N/A	N/A
% of TA to total employees	13.12%	13.76%	13.85%	13.73%	9.52%	10.48%	5.96%	N/A	N/A	N/A	N/A	N/A
% of AR to total employees	20.80%	20.07%	19.59%	15.89%	16.28%	17.01%	9.30%	N/A	N/A	N/A	N/A	N/A

Notes: N/A = Data is not available
Source: (IDGT, 2008, 2009, 2010a, 2011b, 2012, 2013b, 2014, 2016)

Table 16 highlights IDGT's increasing reliance on Account Representatives since the 2002 tax administration reform. In 2002, when IDGT established the first modernised Tax Service Office (TSO), called Large Tax Offices (Brondolo et al., 2008), there were only 60 Account Representatives, with 1,641 Tax Auditors at that time. By 2007 the number of Account Representatives vastly surpassed the number of Tax Auditors (2,905 Account Representatives; 1,862 Tax Auditors), a trend which has continued.

The emphasis on the Account Representative role indicated IDGT's preference for acquiring and developing persuasive assessment competencies. This suggests that IDGT's HR policies and practices were vertically aligned with the achievement of short-term tax revenue targets through the adoption of a client service approach, rather than with the enhancement of taxpayer compliance through the enforcement approach. This focus underpinned the approach adopted in HR policies and practices.

6.3. IDGT's HR policies and practices after the reform

IDGT's focus on persuasive assessment competencies meant that its HR policies and practices were focused on the Account Representative role. This section explores recruitment and selection, training and development, performance management and reward management.

6.3.1. Recruitment and selection

Recruitment and selection is the process of generating a pool of capable candidates applying for employment within an organisation and then choosing the best suited individuals from the pool for a particular position in that organisation (Gold, 2007; Louw, 2013; Mondy, 2010). Recruitment and selection is one of the essential practices in acquiring an organisation's key competencies (Blackman et al., 2012; Jiang, Lepak, Hu, et al., 2012). Scholars have argued that by recruiting and selecting capable candidates with the desired competencies, recruitment and selection will be aligned with business requirements (i.e. the goal) (Blackman et al., 2012; de Waal, 2007, 2010; Jiang, Lepak, Hu, et al., 2012).

In IDGT the focus on acquiring persuasive assessment competencies meant that recruitment and selection practices aimed to increase the number of Account Representatives, reflecting its changed approach to collecting tax revenue from hard enforcement to soft enforcement. This was mainly due to the emphasis on client service provision, rather than adopting an enforcement approach:

> *Instead of strengthening the enforcement activities through recruiting more Tax Auditors, IDGT provides a high level of service to taxpayers by assigning a dedicated Account Representative to any taxpayer. I think IDGT's current operations are*

> *similar to the operations of a bank in that it engages customers by providing them with enhanced services*. (Echelon IV employee.)

This view is in line with a study conducted by Wihantoro et al. (2015), who suggest that “the creation of the AR (Account Representative) function resulted from the reform initiative by using the analogy of customer service at a commercial bank” (p. 51). This appeared to influence the perception of the study participants that IDGT’s approach in collecting tax revenue shifted from “enforcement regime to service regime” (echelon III employee).

Participant perceptions regarding IDGT’s move to a service regime were supported by the declining proportion of effective Tax Auditors and the gradual increase in the Account Representative staffing type after the 2002 reform. A significant action that reduced the number of effective Tax Auditors was the liquidation of the Tax Audit Office (TAO), which prohibited general staff from conducting simple and desk tax audits (see section 2.3.3.1.).This was mainly due to the decision of the reform team to allocate the authority to conduct tax audits only to functional employees and to prohibit structural employees (general staff) from being involved in tax auditing practices (see Suparman, 2007). The general staff who used to undertake these audits (“temporary” Tax Auditors) (Suparman, 2007) were reassigned to the Account Representative role. This consequently led to a significant reduction in the number of IDGT employees who were involved in tax audit practices.

The predominant focus on the persuasive assessment competencies led to a broader view of the educational background required to fulfil key IDGT roles. Instead of focusing recruitment activities on accountants, IDGT encouraged applicants from management, politics, social sciences, engineering, computer sciences and statistics (IDGT, 2014, 2016). This resulted in many Account Representatives lacking a sound accounting background, which was concerning for some participants in this study:

> *I am concerned about the auditing skills of some Account Representatives in this office. This is because some of them are not from an accounting major background. I have found that they lack capability in collecting tax revenue from taxpayers, compared to Account Representatives with an accounting major background.* (Echelon IV employee.)

Participants argued that the recruitment and selection of employees with non-accounting backgrounds is problematic for IDGT because the collection of tax revenue requires accounting literacy. Accounting literacy is particularly important for correctly assessing taxpayers' tax liabilities. This is because "without understanding how the financial statement is made, it would be difficult for an Account Representative with a non-accounting educational background to uncover the bogus accounting practices of taxpayers" (echelon IV employee). It is highly likely that, for Account Representatives with a non-accounting background, uncovering whether the true tax liability is correctly reported is difficult.

These difficulties are exacerbated by the varied and complex nature of taxpayers' business processes, which means that taxpayers have different types of financial statements reported in their tax returns. Indonesia's geographic spread, ranging from Sabang to Merauke, has created various types of taxpayer, administered by each tax office in each different region. For example, "the hotel business is one of the major businesses in Bali that is famous for its tourism" (Tax Auditor). On the other hand, "the restaurant business is one of the major businesses in West Sumatra, functioning as the source of revenue for a region that is famous for its cuisine" (echelon IV employee). Understanding the broad and different characteristics of taxpayers' financial statements is not an easy task as different types of taxpayers might have different ways of conducting their business. Yet understanding each taxpayer's financial statement is vital for uncovering underreported tax liabilities because "it will help the officials to determine the critical auditing area in the taxpayer's tax return" (Tax Auditor).

Understanding the most critical element of a taxpayer's financial statement, where the underreported tax liability is commonly found, helps officials to uncover the underreported tax liabilities to the state.

The complexities associated with the taxation business appear to be one of the main reasons why best practice in tax administration in other countries is to use tax auditing competencies as the key competencies to ensure improved taxpayer compliance and the achievement of tax revenue targets. The development of these competencies requires an accounting background (see Centre for Tax Policy and Administration, 2006). For example, "in Norway and Switzerland, applicants must already be chartered or public accountants" (Centre for Tax Policy and Administration, 2006, p. 51) and in Canada the recruitment policy includes an Auditor Apprenticeship Program, which is an initiative to recruit Tax Auditors directly from universities (Centre for Tax Policy and Administration, 2006). This highlights the issues associated with IDGT's recruitment and selection policies and practices and the potential risks associated with its de-emphasis on acquiring accounting related knowledge and expertise. These issues became apparent in training and development activities, with challenges in developing these competencies evident.

6.3.2. Training and development

Training is the systematic approach to building individuals' knowledge, skills and attitudes in order to improve individual, team and organisational effectiveness, while development involves systematic efforts to develop individuals' knowledge or skills for purposes of personal growth (Aguinis & Kraiger, 2009; Fitzgerald, 1992). Training and development is another important practice in acquiring an organisation's key competencies (Blackman et al., 2012; Jiang, Lepak, Hu, et al., 2012). Scholars have argued that targeting the design of the training and development system toward the achievement of the desired competencies will align it with business requirements (i.e. the goal) (Blackman et al., 2012; de Waal, 2010; Jiang, Lepak, Hu, et al., 2012).

In IDGT, due to many Account Representatives lacking an accounting background, formal training was focused on developing accounting and auditing competencies. The Account Representatives' lack of fundamental accounting knowledge was problematic because of the complexities of taxation accounting, which requires in-depth accounting knowledge and skills:

> *In a training workshop where I was appointed as the trainer for the new recruited Account Representatives, I found that it was really hard to train the non-accounting background Account Representatives in how to assess whether the true tax liabilities of taxpayers are correctly reported. As they had not learned accounting and bookkeeping at school and some of them had never even read the financial statements of a company, it was difficult, if not impossible, for them to understand the tricks and strategies used by taxpayers in minimising their tax liabilities.* (Echelon IV employee.)

Participants argued that it would be easier and more effective to enhance the skills and knowledge of Account Representatives with an accounting background as they would already be familiar with financial statements and general auditing techniques:

> *I found in the training that it was much easier to train the Account Representatives with an accounting background as they easily grasped the tricks and strategies used by taxpayers to minimise the amount of tax liability being reported in their tax returns. This was probably because they had already learned accounting and auditing at university.* (Echelon IV employee.)

Account Representatives' lack of an accounting background was not the only issue regarding the formal training for IDGT's officials. IDGT's focus on achieving the less appropriate priority goal influenced the reform efforts, training objectives and required other competencies being developed within IDGT (see table 17).

Table 17: IDGT's training focus during the reform

Reform efforts	**Training types/objectives**	**Required competencies**
One stop service	To develop the service related competencies	Service related competencies
Introducing the soft enforcement regime through the establishment of Account Representative role	To develop the persuasive assessment competencies	Persuasive assessment competencies

Source: (IDGT, 2008, 2014)

This focus is supported by the statement of echelon III:

> *As we are now under the service regime, the training programs being conducted is more on how to effectively conduct the persuasive assessment approach to the taxpayers. If you analyse the set of training programs offered to IDGT officials you will see that IDGT is more focusing on developing the soft skills rather than the hard skills such as how to effectively audit the taxpayers' tax return.*

The focus of the training programs after the 2002 reform to develop the less appropriate type of key competencies (i.e. persuasive assessment competencies) impeded the ability of IDGT's officials to achieve IDGT's priority goal, the high level of taxpayers' compliance.

The problems with formal training were not an isolated case caused by IDGT's greater emphasis on persuasive assessment competencies after the reform. This study also found that the emphasis on persuasive assessment competencies affected the other type of learning system that used to be employed within IDGT for structural type employees, known as "the simple tax auditing experiential learning system" (echelon III employee).

The experiential learning system is one of the types of training and development (Chen, Jones, & Moreland, 2014; Riding & Sadler-Smith, 1997) and is defined as learning through experience (Chen et al., 2014; Kolb & Kolb, 2005). Prior to the 2002 reform, both the structural and functional types of employees were exposed to tax auditing related activities (see section 2.3.3.1.), which were "the backbone of the experiential learning system within IDGT" (echelon III employee). This was due to the complex and extensive nature of tax auditing, which makes formal learning on its own insufficient to enable IDGT officials to master the tax auditing related competencies required to ensure that taxpayers pay the correct amount of tax. This is because extensive time is required to become an expert in one particular subject, as indicated by an example provided by an echelon III participant:

> *According to Malcolm Gladwell, 10,000 hours are needed for someone to be able to become an expert in a specific skill. It would be ridiculous to attend a 10,000-hour training program to master tax audit related skills. The only way to train officials to become experts in tax audit related skills is by assigning them 10,000 hours of tax audit related assignments.*

Another echelon III employee supported this claim, stating:

> *Doing hands-on auditing work is the most plausible way to master the tax audit related competencies.*

This highlights the extensive amount of time required for officials to develop tax auditing expertise. It also emphasises the importance of combining formal and experiential learning to establish the in-depth knowledge and skills required to uncover underreported tax liabilities and ensure the achievement of a high level of taxpayer compliance:

> *In our time (before the 2002 tax administration reform), we learned how to ensure the accuracy of taxpayers' tax returns from the simple audit assignment given to us. This assignment allowed us to implement the auditing theory we learned at school. Bit by bit we also started to learn the detail regarding the taxation laws. Gradually, this practice developed our instinct to identify the critical area in the tax return where taxpayers usually hide the underreported tax liability.* (Account Representative.)

Participants argued that learning through experience enables officials to develop the skills, knowledge and abilities necessary to scrutinise the accuracy of tax returns. They argued that by conducting tax audits, officials familiarise themselves with both the taxation laws and taxpayers' business processes, which helps them to identify irregularities in tax returns and underreported tax liabilities. An echelon IV employee reported:

> *Based on my experience conducting the simple audit assignment before the 2002 tax administration reform, I think IDGT should consider the importance of this simple audit as a tool to train newly recruited IDGT officials in tax auditing skills. I found that by involving them in this simple tax audit related task, it was relatively easier for the new officials to understand the extensive and complex nature of the skills and knowledge required for ensuring taxpayer compliance. In my experience, the simple audit assignment given to me when I first joined IDGT in 1999 helped me to learn the taxation laws bit by bit while conducting the auditing assignment. This meant that I could learn the taxation laws and the auditing skills at the same time, while doing the audit assignment given to me. I was forced to do this in order to be able to find significant and reliable audit findings.*

Learning through experience enabled officials to progressively learn the extensive and complex tax auditing competencies. New officials would undertake simple auditing tasks, helping them to build fundamental knowledge of the tax auditing related system. Pre-reform, IDGT purposely designed experiential learning processes to scaffold structural type employees' learning. Once they mastered the simple tax audit, officials would progressively learn the extensive and complex tax audit related competencies by undertaking more complex tax auditing tasks and being promoted to a higher level of echelon, such as head of section, who manages a number of staff undertaking simple tax audits. However, the tax auditing experiential learning process for IDGT structural employees was eradicated during the 2002 tax administration reform (see IDGT, 2008; Suparman, 2007). The reform forced IDGT to adopt persuasive assessment competencies as the key competencies in its operations (see section 6.2.) and prohibited the structural employees from conducting tax auditing related tasks (see section 2.3.3.1.). This decision led to the termination of the tax auditing experiential learning system for structural employees, who are the largest employee cohort in IDGT (see table 5). Consequently, this impeded the development and acquisition of tax auditing related competencies within IDGT, as is evident from the prevalent view across the range of study participants:

> *Recently, in one of IDGT's board of directors meetings, IDGT's Director General came up with a new, emerging term: the "ayam sayur" (incompetent) head of the Tax Service Office (TSO). This "incompetent" term emerged due to IDGT's failure to achieve last year's tax revenue target. According to IDGT's Director General, this group of "incompetent" heads of the TSO do not have sound strategies on how to identify and explore the tax revenue potential of the taxpayers under their jurisdiction. In my opinion, their lack of competence to explore the tax revenue potential was largely due to the termination of tax audit experiential learning (for the structural type of employee) after the 2002 reform*. (Echelon III employee.)

In line with this view, an Account Representative said:

> *I feel sad about the skills of the newly recruited Account Representatives who do not have tax audit related experience. In most cases, they are incapable of analysing the tax returns and all related taxpayers' documentation, such as financial statements, in order to ensure the correct reporting of the taxpayers' liabilities. This is different from those Account Representatives who have experience in practising tax audits before the reform (the 2002 tax administration reform).*

These quotes highlight that tax auditing competencies diminished in IDGT as a result of reform efforts. This was problematic for IDGT because competence in tax auditing is vital to ensuring that the true level of tax liability is correctly reported in taxpayers' tax returns and to optimising tax revenue (Centre for Tax Policy and Administration, 2006; Indonesian Law Number 28, 2007).

The emphasis on persuasive assessment competencies rather than tax auditing competencies affected not only the design of recruitment and selection, training and development but also the design of IDGT's performance and reward management HR policies and practices.

6.3.3. Performance management

Performance management is defined as a way of managing people to increase the probability of achieving job related success (Aguinis, 2009; Armstrong, 2000, 2009; Ates et al., 2013; Lansbury, 1988; Pope, 2004). It places more emphasis on activities connected with improving behaviours, motivating, developing skills, training and rewarding (Aguinis, 2009; Armstrong, 2000, 2009; Ates et al., 2013; Lansbury, 1988; Pope, 2004). This suggests that performance management is focused on designing a system which can motivate employees to perform better by demonstrating the behaviours and skills necessary to accomplish organisational goals (Ates et al., 2013). Therefore, if an individual performance management system is designed and implemented well, it can enhance organisational performance (Holbeche, 2003), as it encourages the behaviours necessary to support organisational goal attainment.

The design of IDGT's individual performance management system was largely influenced by its organisational performance management system. This is because IDGT's individual performance management system aligned with its organisational KPIs, which were focused on the achievement of yearly tax revenue targets (see IDGT, 2011a, 2013b; IDGT, 2014; IMOF, 2013a). Under this system, IDGT officials, such as Account Representatives, were encouraged to focus on the achievement of their individual and TSO short-term revenue targets:

> *Our performance is based on the achievement of the yearly tax revenue target allocated to our tax office.* (Account Representative.)

This meant that officials were motivated to achieve these targets and, in turn, perceived that this was the key goal at the office and organisational level. The short-term orientation of performance indicators also encouraged officials to collect *any* tax revenue possible, rather than pursuing taxpayers to optimise the tax revenue collected:

> *… the system was designed based on the achievement of the yearly tax revenue target, [so] it encourages us to focus on achieving quick tax revenue from taxpayers to support the revenue target achievement allocated to our office.* (Account Representative.)

This appears to be a key reason why IDGT officials, particularly the Account Representatives, were motivated to accept an amount of tax revenue that the taxpayers agreed to, rather than their full tax liability (see section 5.2.1.).

Considering that the core goal of IDGT is to achieve the highest tax revenue possible (the optimum tax revenue), and not just the yearly tax revenue target, this study argues that, through designing its individual performance management system in this way, IDGT has misaligned this system with the narrow priority goal. This focus impeded the achievement of the optimum tax revenue, which is the highest revenue IDGT could achieve (see section 5.1.2.). This will be discussed further in looking at reward management in IDGT after the reform was established.

6.3.4. Reward management

Reward management is a tool which can motivate individuals to achieve higher performance at work (Aksakal & Dağdeviren, 2014; Bustamam et al., 2014; Lawler & Cohen, 1992). It includes financial and non-financial rewards (Bustamam et al., 2014). The most common financial reward is money, which is often used to motivate individuals to work harder, even though it has been argued to be not the best motivator in the long term (Bustamam et al., 2014). Non-financial rewards may include training, development, praise and recognition (Aksakal & Dağdeviren, 2014; Bustamam et al., 2014). Bustamam et al. (2014) argue that individuals in the present time require not only monetary rewards but also non-financial rewards, such as praise and recognition, in order to motivate them to work harder. This suggests that a well-designed reward management system, focused on both financial and non-financial rewards, will motivate individuals to perform better (Aksakal & Dağdeviren, 2014; Bustamam et al., 2014; Lawler & Cohen, 1992).

IDGT's reward management system incorporated financial and non-financial rewards, with financial rewards being its main focus. Some participants argued that more non-financial rewards were required to adequately motivate officials:

IDGT's reward system [is] focused on the use of cash instead of non-cash rewards. In my opinion, IDGT should develop more non-cash rewards to reward its employees because it is less costly to do. For example, IDGT can award allocated parking spaces for a year to high-achieving employees who can accomplish the yearly tax revenue target allocated to them. To me, this is a great motivator to work harder because it makes it easier for me to park my car every morning as it is very difficult to get a parking space in this office. To have a more motivational impact, it would be a good idea if the parking space allocated sat near the one allocated to the head of this regional office. This is because beside the easiness, the high-achieving employees will feel honoured as they can park their car next to the head of this office. (Echelon IV employee.)

IDGT's focus on financial rewards was reflected in the performance incentives (Imbalan Prestasi Kerja, or IPK) provided to IDGT employees, which were geared towards short-term tax revenue collection:

Our performance is based on the achievement of the yearly tax revenue target allocated to our tax office. If we can satisfy this office yearly tax revenue target, we will get higher level of IPK, which is given to us twice a year. (Account Representative.)

A prevalent view among study participants was that they needed to adopt a short-term focus and collect as much tax revenue as they could in each annual cycle:

In order to get IPK in the subsequent years, we have to ensure a higher percentage of yearly tax revenue target achievement in the current year. (Account Representative.)

These incentives applied to both Account Representatives and Tax Auditors:

> *I do not agree with the current incentive system, which is linked with the achievement of the tax revenue target. This is because the job of the Tax Auditor is to ensure the taxpayers' compliance is in place rather than merely achieving the yearly tax revenue target. Yet, since the additional performance incentive is based on the percentage of yearly tax revenue target achievement, we are forced to support this system.* (Tax Auditor.)

These quotes demonstrate that central to IDGT's reward management system was a pay for performance scheme (see Durham & Bartol, 2009; Kim, Sutton, & Gong, 2013; Weibel, Rost, & Osterloh, 2010) which was based on individuals' contributions to the achievement of each TSO's yearly tax revenue target.

> *When the tax office achieves 100% or more of the tax revenue target, the blue colour is assigned to this tax office. Yellow and red colours will be assigned to the tax offices with lower tax revenue target accomplishment. The employees of the respective tax offices will get the performance incentive IPK based on this colour mark: 3.5 times the special monthly allowance (Tunjangan Khusus Pembinaan Keuangan Negara, or TKPKN) for the employees of the offices with a blue mark, 2 times the allowance for the yellow mark and 1 special monthly allowance for the red mark.* (Echelon III employee.)

These quotes demonstrate that IDGT's financial reward system was established to align with the achievement of the yearly tax revenue target. However, this was problematic for IDGT because its core goals are a high level of taxpayer compliance and optimum tax revenue. Aligning the reward system with the narrow yearly tax revenue target impeded the achievement of these core goals. This is because employees are motivated to "negotiate the persuasive assessment outcome with the taxpayers in order to collect quick tax revenue from them" (Account Representative). This means they are accepting *any* tax revenue possible, at the expense of ignoring the true tax amount liable to the state (see section 5.2.1.). By doing so, taxpayers are not fully complying with Indonesian tax law as they only pay part of the tax liabilities found in the persuasive assessment. Yet the Account Representatives are rewarded for accepting the agreed amount of tax revenue as long as the yearly tax revenue target allocated to them is achieved.

6.3.5. Misalignment of IDGT's HR policies and practices

IDGT's emphasis on the achievement of the short-term (yearly) tax revenue meant that it predominantly focused on the acquisition, development and recognition of persuasive assessment competencies. This was evident in the design and implementation of its HR practices, with the skill-enhancing HR practices of recruitment and selection, and training and development, focusing on acquiring and developing persuasive assessment competencies. Its focus meant that there was a progressive deterioration of the tax auditing competencies in IDGT, as the policy led to the selection of candidates (Account Representatives) who were from non-accounting backgrounds. The lack of accounting knowledge and skills created challenges in the ability of IDGT officials to train and develop Account Representatives as they did not have the foundational accounting knowledge necessary to undertake complex tax auditing. Furthermore, the motivation-enhancing HR practices of performance and reward management were focused on short-term revenue, which created disincentives to achieve a high level of taxpayer compliance, which forms the basis of the highest tax revenue possible (the optimum tax revenue). Collectively, this suggests that although IDGT adopted an SHRM approach to its workforce management, the high-performance work practices (HPWPs) adopted were aligned with the narrow (yearly tax revenue target) and less appropriate (development of persuasive assessment competencies) priority goals. Since higher organisational performance requires alignment of the HPWPs with the correct and appropriate (priority) goals (Blackman et al., 2012; Delaney & Godard, 2002; Sung &

Ashton, 2005), in this thesis it is argued that this misalignment hindered IDGT in achieving an improved performance (a higher tax ratio).

6.4. Impact of misaligned HR practices on IDGT's performance

This study found that IDGT's emphasis on achieving the yearly tax revenue target impeded the achievement of its core goals: a high level of taxpayer compliance and the optimum tax revenue (see section 5.2.). This was partly due to IDGT designing its HR policies and practices to align with the yearly tax revenue target, leading individuals to focus on the achievement of short-term revenue at the expense of the highest tax revenue possible. Furthermore, the focus on the yearly tax revenue target was supported by an emphasis on client service provision, which was particularly problematic in a context characterised by high non-voluntary compliance (Kirchler et al., 2008; Kirchler et al., 2010) (see section 5.2.).

The emphasis on short-term tax revenue and client service provision underpinned the development of the Account Representative role, with priority attached to acquiring and developing persuasive assessment competencies (IDGT, 2008, 2013a; IMOF Decree Number 79, 2015) (see section 5.2.1.). This meant that IDGT's HR policies and practices were misaligned with the narrow priority goal—the achievement of yearly tax revenue targets—rather than with optimising taxpayer compliance. A key finding of this study is that this misalignment hindered IDGT in achieving higher levels of organisational performance. This was due to the limited ability of persuasive assessment competencies and the Account Representative role to enable the achievement of IDGT's core goals (a high level of taxpayer compliance and the optimum tax revenue) (see Appendix B). This is because persuasive assessment competencies are not appropriate to ensuring the achievement of a high level of taxpayer compliance. In addition, the Account Representative role has not been designed in a way that enables the achievement of registering and reporting compliance.

Account Representatives cannot achieve registering compliance because they are not equipped with the ability to assign tax identification numbers (TINs) to unregistered individuals and businesses. This means that they have limited ability to undertake an assessment or audit to uncover unregistered taxpayers. Instead, Account Representatives are dependent on the availability of those who possess the ability to assign TINs to unregistered individuals and businesses: Tax Auditors (see Indonesian Law Number 28, 2007). However, the limited number of Tax Auditors and the pressure to achieve the yearly tax revenue target led to the adoption of a tax audit strategy focused on auditing those taxpayers who were already registered. This is because it enhances the possibility of collecting a higher amount of tax revenue quickly, whereas auditing unregistered taxpayers limits tax revenue collection (see section 5.2.1.). Consequently, the extensification strategy is ineffective because fewer Tax Auditors are involved in assessing the potential of unregistered individuals and businesses. This means that the assessment coverage to force unregistered individuals and businesses to become registered is inadequate. This has led to the situation where unregistered individuals and businesses may generate income for years without having to register and pay tax to the state (Arnold, 2012). This is one of the key reasons why the level of registering compliance of individuals and businesses was found to be significantly low (see section 5.2.2.).

The focus on Account Representatives has also impeded reporting compliance. This is because Account Representatives are not able to conduct an in-depth technical analysis of tax returns, as the ability to inquire into and inspect taxpayers' accounting records and premises is not assigned to the Account Representative role (see Appendix B):

> *One of the stumbling blocks in our approach in monitoring taxpayer compliance is the absence of the authority to inquire and inspect. When taxpayers reject the underreported tax liability found in our assessment, we cannot inquire and inspect the*

> *supporting evidence provided by taxpayers. In some cases, taxpayers even refuse to provide us with supporting evidence to underpin their rejection.* (Account Representative.)

These issues were exacerbated by the relatively low tax auditing competencies of the Account Representatives, which impeded their ability to uncover the underreported tax liability in the assessment process. Tax administration experts have argued that ensuring that a true tax liability is correctly reported requires a sound Tax Auditor role (Centre for Tax Policy and Administration, 2006, 2010a), meaning it would be difficult for Account Representatives to ensure a high level of taxpayer compliance.

From the perspective of motivation-enhancing HR practices (performance and reward management), these practices were designed to motivate individuals within IDGT to focus on the narrow priority goal; that is, the achievement of the yearly tax revenue target. These practices impeded the achievement of IDGT's core goals (taxpayer compliance and optimum tax revenue) because individuals within IDGT were motivated to achieve only the short-term tax revenue in order to satisfy the achievement of the yearly tax revenue target. This study found that this focus impeded IDGT in achieving an improved performance because it encouraged the non-compliant behaviour of individuals and businesses in Indonesia, rather than enhancing their level of compliant behaviour. As discussed in sections 6.3.3. and 6.3.4., the design of IDGT's performance and reward management, which focused on motivating IDGT's employees to achieve the yearly tax revenue target, led to the practice of accepting *any* agreed amount of tax revenue from taxpayers. This sent a contradictory message to taxpayers that IDGT focuses on achieving *any* agreed amount of tax revenue rather than ensuring their true tax liability to the state. Consequently, to be safe from in-depth technical audit scrutiny by Tax Auditors, they just agreed on some part of the tax revenue found in the persuasive assessment conducted by the Account Representatives (see section 5.2.1.) This suggests that the design of IDGT's performance and reward management, aimed at motivating individuals within IDGT to focus on the achievement of the yearly tax revenue target (see sections 6.3.3. and 6.3.4.), encouraged a higher level of non-compliant behaviour among taxpayers rather than stopping or reducing it.

A good example to illustrate the impact of the misalignment of IDGT's HR practices on its performance is the case of the Asian Agri Group, which is the biggest tax evasion scandal in IDGT's history (Dharmasaputra, 2013). The schemes of this tax evasion included fictitious hedging transactions and fictitious expenses and transfer pricing (Dharmasaputra, 2013, pp. 388-392). Table 18 describes these schemes.

Table 18: Tax evasion schemes by Asian Agri Group

Type of scheme	Description
Fictitious hedging transaction	Created hedging transactions (forward contracts) in the sale and purchase of crude palm oil (CPO) between the Asian Agri Group in Indonesia and affiliated companies abroad. This allegedly backdated fictitious transactions. Transactions were made in such a way (Indonesian companies selling at a low price and buying at a high price; foreign companies selling at a high price and buying at a low price) that Indonesian companies always made a loss and foreign companies always made a gain. As a result, there was a transfer of money from Indonesia to foreign companies.
Fictitious expenses	Created different types of fictitious costs in dozens of subsidiaries of Asian Agri Group, called the "Cost of Jakarta" (construction of roads, weeding, contractors etc). In reality, these costs are not paid but deposited into a personal account in the name of Haryanto Wisastra/Eddy Luke (HAREL) and Eddy Lukas/Djoko Utomo (ELDO). Subsequently, the money was transferred to the offshore investment company owned by Sukanto Tanoto (Asian Agri Group owner) abroad.
Transfer pricing	CPO was sold to affiliated companies (fictitious) in Hong Kong, British Virgin Island (BVI) and Macao at low prices. These affiliated companies sold it at a high price (the market price) to the real buyers. By doing so, the group escaped the burden of high taxes in Indonesia.

Source: Dharmasaputra (2013, pp. 388-392)

These manipulative schemes were uncovered in the voluntary report from Asian Agri's own financial comptroller (Vincentius Amin Sutanto) in 2007 (see Dharmasaputra, 2013). Reflecting on this case, this study argues that the HR policies and practices were ineffective in achieving IDGT's core goals: a high level of taxpayer compliance and the optimum tax revenue. This is because IDGT's skill- and motivation-enhancing HR practices were solely focused on achieving the narrow priority goal; that is, collecting the short-term tax revenue to support the achievement of the yearly tax revenue target. In the Asian Agri case, the Asian Agri Account Representative might have been satisfied with an amount which was not the true tax liability that should have been paid by Asian Agri to the Indonesian Government. This is not only because Account Representatives lack the ability to uncover the true tax liabilities which should be reported to the state, but also because the design of IDGT's motivation-enhancing HR practices directed Account Representatives to focus on collecting any revenue possible from the Asian Agri Group. Due to the fact that the tax audit and investigation can be conducted after the persuasive assessment approach fails to engage the taxpayer (IDGT, 2008), it can be argued that as long as Asian Agri agreed on some part of the amount notified in the persuasive assessment it was safe from being audited and investigated. This suggests that the misaligned design of IDGT's HR policies and practices after the 2002 reform saved Asian Agri from in-depth technical audit scrutiny for many years, until it was reported by its own staff.

This illustrates that the design of IDGT's HR policies and practices hindered its ability to improve the level of taxpayer compliance after the 2002 reform. Consequently, the attainment of the highest tax revenue possible (the optimum tax revenue) was also impeded because in Indonesia attainment of the highest tax revenue possible depends on the level of taxpayer compliance. This is because taxpayer compliance means "all citizens and businesses would satisfy their obligations under the tax law to register where specifically required, and to voluntarily declare and pay on time their tax liabilities, all calculated fully and accurately in accordance with the law" (Centre for Tax Policy and Administration, 2010b, p. 5). This implies that the highest tax revenue possible (the optimum tax revenue) depends on how much citizens and businesses comply with the taxation law and regulations.

In summary, this study found that the second key factor which impeded IDGT's achievement of higher levels of performance (in terms of higher tax ratio) was the misalignment between its HR policies and practices and its priority goals. This was primarily attributable to the presence of PGA (see chapter 5), which led to IDGT's HR policies and practices being aligned toward the narrow and less appropriate priority goals.

6.5. Conclusion

This chapter established that a key reason why IDGT did not improve its performance following the 2002 tax administration reform was the misalignment between its HR policies and practices and its priority goals. Due to the presence of PGA, which encouraged IDGT officials to focus on short-term revenue, IDGT placed greater emphasis on acquiring and developing persuasive assessment competencies. Rather than configuring its HR policies and practices toward the achievement of its priority goals, as advised by the KUP law (achieving a high level of taxpayer compliance through enforcement provisions), these policies and practices were designed to encourage IDGT officials to focus on achieving yearly tax revenue targets through client service provisions; goals which were imposed by the IMF and IMOF. This chapter argued that this led to misalignment between IDGT's HR policies and practices and its priority goals, leading to its impeded ability to collect a higher amount of tax revenue. Therefore, this misalignment contributed to IDGT's inability to improve its performance after the 2002 tax administration reform.

The next chapter brings all of the key concepts together to discuss why greater performance improvements have not occurred in IDGT, despite significant changes being made since the 2002 tax administration reform was initiated. It will also propose how to improve IDGT's performance in the future.

CHAPTER 7: THE INEFFECTIVENESS OF THE 2002 TAX ADMINISTRATION REFORM IN IMPROVING IDGT's PERFORMANCE AND A POSSIBLE SOLUTION

The aim of this study was to address the research question: *"How effective was the reform in improving IDGT's performance?"* This was because a key priority of IDGT's 2002 tax administration reform was to improve its performance, as reflected in an increase in the tax to gross domestic product (GDP) ratio (the tax ratio) (Brondolo et al., 2008). Despite the amount of tax revenue increasing in nominal terms since the reform (Brondolo et al., 2008; Putra, 2014), the tax ratio, associated with IDGT's performance, remained relatively stable at 9-11% (see table 8); at the time this study was undertaken in 2013, the tax ratio was 10.14% (IDGT, 2014). This suggests that tax revenue collection grew proportionately at the same rate as the Indonesian economy, as reflected in Indonesia's GDP (Putra, 2014). This indicates that IDGT's 2002 tax administration reform was not effective in improving IDGT's performance. Previous chapters suggested that this was mainly due to the reform not recognising the contextual organisational requirements, as advised by the KUP law; specifically IDGT's goal prioritisation. Not focusing on the achievement of a higher level of taxpayer compliance through the strengthening of enforcement provisions led IDGT officials to concentrate on the achievement of short-term revenue targets by enhancing client service provisions, with such a focus encouraged by the design of IDGT's HR policies and practices.

This chapter integrates the key arguments presented in this thesis to discuss the effectiveness of the changes being made during the reform (the reform) in improving IDGT's performance. It also proposes solutions to address these issues. The first section discusses why this study concluded that the reform was ineffective in improving IDGT's performance in terms of achieving a higher tax ratio. The second section explains the need for goal prioritisation in

IDGT. The third section discusses a proposed approach, focusing on the central role that workforce planning could play in IDGT to establish alignment between IDGT's HR policies and practices and its priority goals. The fourth section provides a normative SHRM configurational approach which could be a possible solution to improve IDGT's ability to achieve greater performance in terms of a higher tax ratio. The last section draws conclusions.

7.1. Why the reform was ineffective in improving IDGT's performance: failure to follow IDGT's contextual requirements when implementing changes

Key to organisational performance in the public sector is the attainment of goals (Jung, 2011; Rainey & Steinbauer, 1999; Speklé & Verbeeten, 2014; Steers, 1975). A significant challenge to organisational performance can be the competing demands faced by public sector organisations, which can lead to priority goal ambiguity (Chun & Rainey, 2005a, 2005b; Gilad, 2015; Lee et al., 2009). Competing demands were evident during the 2002 tax administration reform, with international and domestic stakeholders making multiple demands in directing the changes made within IDGT (Korte, 2013; Wihantoro et al., 2015). There were three dominant actors (i.e. IMOF, the IMF and the Indonesian government, through the KUP law) which significantly influenced the direction of the changes made in the reform (see sections 2.3.2. and 5.1.1.). From the IMF and IMOF, IDGT faced demands to establish the achievement of short-term tax revenue targets by enhancing the client service provisions as its priority goals (Brondolo et al., 2008; IDGT, 2008; Indonesian Government, 1997, 2001a), whereas the Indonesian government demanded, through the KUP law, that IDGT establish the achievement of a high level of taxpayer compliance by strengthening enforcement provisions as its priority goals (IDGT, 2014; Indonesian Law Number 28, 2007).

These competing demands led to the presence of PGA in IDGT, with competing views regarding what the priority order should be.

The presence of PGA led IDGT officials to focus on achieving the dominant demands, in this case the demands imposed by the IMF and IMOF (see section 5.2.). It can be argued that this was because when PGA is evident an organisation tends to follow the dominant demands imposed by external constituencies (Gilad, 2015). Consequently, IDGT placed greater emphasis on achieving the priority goals as imposed by the IMF and IMOF—the achievement of short-term revenue through client service provisions (Brondolo et al., 2008; IDGT, 2008). This focus led to IDGT's HR policies and practices being aligned with achieving short-term revenue targets through enhanced client service provisions; this was evident from the performance and reward management mechanisms, which were focused on short-term revenue goals; and recruitment and selection, and training and development mechanisms, which were focused on the acquisition and development of persuasive assessment competencies (associated with client service provision) (see chapter 6).

This study found, however, that the focus on yearly tax revenue targets and enhancing client service provisions, as demanded by the IMF and IMOF (the dominant external constituencies which largely influenced the 2002 reform in IDGT), was narrow and inappropriate. For example, IDGT's focus on achieving the yearly tax revenue target hindered IDGT from achieving the broader revenue goal; that is, the highest level of tax revenue possible (the optimum tax revenue) (see section 5.2. and 6.4.). In addition, the focus on enhancing the client service provisions is the less appropriate priority among IDGT's sub-goals (see figure 5) considering the context of high non-voluntary compliance in Indonesia (see section 5.2.2.). As a result, it hindered IDGT from achieving a high level of taxpayer compliance because the more appropriate priority at the sub-goal level, in the context of high non-voluntary compliance, is to strengthen the enforcement provisions; for example, by developing tax auditing related competencies (see Kirchler et al., 2008; Kirchler et al., 2010). Therefore, it can be argued that focusing on the narrow and less appropriate priority goal impeded the ability of IDGT to achieve the high level of taxpayer compliance required by the KUP law (see Indonesian Law Number 28, 2007). Accordingly, improved performance in terms of a higher tax ratio was not realised because a higher level of tax revenue collection (reflected in the higher tax ratio) depends on the level of taxpayer compliance (Centre for Tax Policy and Administration, 2010b; IDGT, 2014; Indonesian Law Number 28, 2007). Thus, this study suggests that key factors which impeded the ability of IDGT to improve its performance were the presence of PGA and the misaligned design of IDGT's HR policies and practices toward the narrow and less appropriate priority goal (see chapters 5 and 6).

The findings of this study suggest that the presence of PGA and the misaligned design of IDGT's HR policies and practices were largely due to the failure of the reform team to recognise IDGT's contextual requirements: in this case the priority goals set by the KUP law. Rather than considering the legislative requirements stipulated in the KUP law, which required that priority should be given to achieving a high level of taxpayer compliance by strengthening enforcement provisions (IDGT, 2014; Indonesian Law Number 28, 2007), the reform team implemented changes according to the dominant demands of the IMF and IMOF. As a result, the reform team directed the changes to focus on achieving the yearly tax revenue target by enhancing client service provisions. The idea was that providing enhanced services to the taxpayers (investors) would encourage investors to invest more funds in Indonesia, which is argued to be the key to Indonesia's economic recovery (Brondolo et al., 2008; Indonesian Government, 1997).

The imposition of the IMF to focus on enhancing client service provisions aligned with IMOF's demand to generate short-term tax revenue from taxpayers but failed to consider critical historical factors, such as the corruptive behaviour of IDGT's officials before the

2002 reform (see section 2.3.2.2.). This was evident through how the concept of client service provisions was used in IDGT after the reform. While adherents to best practice tax administration used the client service provisions as a mechanism to resolve issues between the taxpayers and the tax officials (see Australian Taxation Office, 2016; Braithwaite & Hong, 2015), the client service focus adopted by IDGT replaced some part of the enforcement mechanisms by introducing the new assessment approach called "persuasive assessment" or "soft enforcement" (see Chapter 6). This meant that the client service approach adopted within IDGT resembled the basis of, potentially, corruptive practice; when the tax revenue was collected based on negotiation (engagement) (see Flatters & MacLeod, 1995), rather than law enforcement (assessing the true tax liability owed to the state) (see Brown & Mazur, 2003; Centre for Tax Policy and Administration, 2010b). This decision led to the reform team liquidating the Tax Audit Office (TAO), and their wide-scale adoption of the new Account Representative position (see sections 2.3.3. and 6.2.). They did this without undertaking any preliminary studies regarding the balance between enforcement and client service provisions (see Kirchler et al., 2008; Kirchler et al., 2010) required to effectively support the achievement of the high level of taxpayer compliance mandated by the KUP law (see section 6.2.). These changes (the TAO liquidation and the wide-scale adoption of the Account Representative role) led IDGT to place greater emphasis on using the Account Representative role (and associated persuasive assessment competencies) to collect tax revenue from taxpayers. Adopting the persuasive assessment competencies as the key competencies for IDGT after the reform created misalignment in the design of IDGT's HR policies and practices (see chapter 6). Instead of configuring its HR policies and practices towards achieving a high level of taxpayer compliance and strengthening enforcement provisions, IDGT aligned them with the collection of yearly tax revenue through the use of client service provisions (see section 6.3.5.).

The misaligned design of IDGT's HR policies and practices significantly influenced the perceptions and actions of individuals within IDGT (see chapter 5). This was evident in this study, which found that individuals' perceptions and actions were aligned toward the achievement of the yearly tax revenue target by strengthening the client service provisions (see sections 5.1.3. and 5.2.1.) despite the fact that: (1) there were no formal requirements to keep following the IMF's Structural Adjustment Program (SAP) after the Indonesian Government repaid the structural adjustment loan (SAL) in 2006 (Anugrah, 2015; Korte, 2013); and (2) IDGT endeavoured to clarify its priority goals by establishing its strategic map in 2008 (see IDGT Decree Number 111, 2008). As discussed in chapter 5, these perceptions and actions impeded the achievement of a high level of taxpayer compliance. This in turn led to IDGT's performance being stable (in terms of the tax ratio), rather than increasing (see table 8) because a higher level of tax revenue collection (tax ratio) depends on the ability of IDGT to achieve a higher level of taxpayer compliance (Centre for Tax Policy and Administration, 2010b; IDGT, 2014; Indonesian Law Number 28, 2007).

This illustrates the major reasons why the changes made in the reform were not effective in improving IDGT's performance. Instead of implementing the changes aimed at achieving IDGT's priority goals, as stipulated in the KUP law, the reform aimed to achieve the priority goals as imposed by the IMF and IMOF. These changes created PGA and the misaligned design of IDGT's HR policies and practices, which impeded IDGT in achieving an improved performance after the 2002 reform (see chapters 5 and 6). Therefore, the ineffectiveness of the reform to improve IDGT's performance in terms of a higher tax ratio was because the reform did not adhere to contextual requirements stipulated in the KUP law: that in order to achieve higher tax revenue collection, the priority should be to achieve a high level of taxpayer compliance and to strengthen the enforcement provisions (IDGT, 2014; Indonesian Law Number 28, 2007) (see section 5.1.2.).

These findings support the extant literature that highlights the ineffectiveness of the IMF's SAP (the reform) in stabilising the malfunctioning economies of developing countries due to its failure to recognise the relevant country's contextual requirements (Bouckaert, 2007; Neu, Rahaman, Everett, & Akindayomi, 2010; Noordhoek & Saner, 2005; Ohemeng, 2010; Wihantoro et al., 2015). These findings also led to the proposal of three key solutions to mitigate the issues and to realign the focus of individuals within IDGT towards achieving the priority goals mandated by the KUP law, which would see a higher level of goal attainment (the proxy indicator of performance) within IDGT (see IDGT, 2014; Jung, 2011; Steers, 1975).

7.2. The need for goal prioritisation in IDGT

The KUP law, which guides IDGT's operations from a formal and legal perspective, determines that IDGT has two core goals: (1) optimum tax revenue; and (2) a high level of taxpayer compliance (IDGT, 2014; Indonesian Law Number 28, 2007). Optimum tax revenue means that IDGT should collect the highest tax revenue possible from individuals and businesses in Indonesia (IDGT, 2014; Indonesian Law Number 28, 2007). A high level of taxpayer compliance is achieved when every individual and business in Indonesia complies with Indonesian tax law; that is, to register, file, report and pay their true tax liabilities to the state (Centre for Tax Policy and Administration, 2010b; Indonesian Law Number 28, 2007). In order to achieve these core goals, the KUP law requires IDGT to position the achievement of a high level of taxpayer compliance as its first priority goal and to view the optimum tax revenue as the outcome of a higher level of taxpayer compliance (see IDGT, 2014). In addition, the KUP law advises that the achievement of a high level of taxpayer compliance should place greater emphasis (priority) on strengthening the enforcement provisions rather than the client service provisions (see Indonesian Law Number 28, 2007).

The findings of this study suggest that IDGT should consistently follow the priority order advised by the KUP law (IDGT, 2008; Indonesian Law Number 12, 2011; Indonesian Law Number 28, 2007) in order to improve its performance and achieve a higher tax ratio. This is because the priority goals demanded by the KUP law are highly relevant in IDGT's present context. For example, with regard to the sub-goals, the law advises IDGT to focus on developing a sound enforcement approach, rather than enhanced client service provisions. The findings of this study suggest that the enforcement provisions (the "cops and robbers" approach) are more effective in improving the level of taxpayer compliance in a situation where individuals and businesses deliberately do not want to register and pay the correct amount of tax liability to the state (high non-voluntary compliance) (see Australian Taxation Office, 2013; Centre for Tax Policy and Administration, 2006; Kirchler et al., 2010). Therefore, in order to support the achievement of IDGT's core goals (a high level of taxpayer compliance and the optimum tax revenue (see figure 5)), IDGT should focus on developing these provisions.

With regard to the prioritisation of IDGT's core goals (see figure 5), the findings of this study suggest that in order to achieve higher performance, the priority should be taxpayer compliance, as required by the KUP law, rather than tax revenue. In establishing the achievement of a high level of taxpayer compliance as the priority goal, IDGT should be able to achieve a higher level of tax revenue. This is because it will encourage a focus on ensuring taxpayer compliance, which means collecting the true tax liabilities found through tax audits, rather than negotiating the result of the persuasive assessment with taxpayers in order to collect tax revenue quickly (see section 5.2.1.). By doing so, IDGT should be able to achieve the broader, ultimate, core goal (the optimum tax revenue) as required by the KUP law, not just the narrow goal of short-term tax revenue (yearly tax revenue target achievement) as required by IMOF and the IMF (see section 2.3.2.). This may explain why some scholars have warned about the pitfalls associated with setting the revenue (earnings) target as the priority focus of an organisation (Turner, 2005; Zhang & Gimeno, 2010, 2016); doing so can impede the total amount of tax liability collected**.**

This explains the necessity to prioritise IDGT's goals in accordance with the KUP law in order to achieve higher performance. In saying this, this study acknowledges that IDGT did try to prioritise its multiple goals by establishing its strategic map in 2008 (IDGT Decree Number 111, 2008) in response to the imposition of the IMF's SAP. However, as this study's findings suggest, the aspiration of IDGT's strategic map was not followed by IDGT, as reflected in its HR policies and practices developed after the 2002 reform. Instead of focusing on achieving a high level of taxpayer compliance through the development of sound enforcement provisions (KUP law, 111), IDGT placed greater emphasis on achieving the narrow and less appropriate priority goals: achieving the yearly tax revenue target by enhancing the client service provisions (see chapters 5 and 6). Therefore, this study proposes an alternative strategy that should support the prioritisation of IDGT's goals according to the aspirations of the KUP law manifested in IDGT's strategic map (see IDGT, 2014; Indonesian Law Number 28, 2007); that is, the undertaking of effective workforce planning.

7.3. Workforce planning as a proposed strategy

Workforce planning is the main mechanism for identifying the key competencies required to achieve organisational goals (Choudhury, 2007; Jacobson, 2010; Pynes, 2004). As previously discussed, IDGT has two core goals: the optimum tax revenue and a high level of taxpayer compliance (IDGT, 2014; Indonesian Law Number 28, 2007). The findings of this study suggest that that a higher level of goal attainment (Jung, 2014; Steers, 1975) as the proxy indicator of IDGT's performance (see section 3.2.) could be achieved if the priority goals are established as being a high level of taxpayer compliance through strengthened enforcement provisions, following the mandate of the KUP law (IDGT, 2014; Indonesian Law Number 28, 2007) (see section 7.2.). However, the 2002 reform team did not conduct thorough workforce planning when determining that persuasive assessment competencies were the key competencies within IDGT and, consequently, instituted the Account Representative role (see section 6.2.). This focus resulted in IDGT's HR policies and practices being misaligned (see sections 6.3.5. and 7.1.). Therefore, the findings of this study suggest that IDGT should conduct thorough workforce planning. This should include identifying the key competencies and ensuring the availability of those competencies in the labour market in order to support the realignment of IDGT's HR policies and practices with the appropriate priority goals (see Choudhury, 2007; Jacobson, 2010).

In addition to highlighting the need to conduct thorough workforce planning, the findings of this study suggest that the key competencies for achieving a high level of taxpayer compliance are the tax auditing competencies. This is for two reasons. First, due to the high level of non-voluntary compliance in Indonesia (see section 5.2.2.), strengthening the enforcement provisions, such as through acquiring and developing tax auditing related competencies, is the more effective mechanism for improving the level of taxpayer compliance (see Australian Taxation Office, 2013; Centre for Tax Policy and Administration, 2006; Kirchler et al., 2010). This is because tax auditing competencies are more suitable for addressing the low level of registering and reporting compliance among taxpayers in Indonesia.

With regard to the low level of registering compliance (see section 5.2.2.), the KUP law authorises Tax Auditors to conduct assessments to assign a tax identification number (TIN) to all unregistered individuals and businesses (Indonesian Law Number 28, 2007). This can address non-compliance and encourage individuals and businesses to register and pay tax to the Indonesian Government (see section 5.2.2.). This is due to the associated extensive tax auditing activities which can force non-registered individuals and businesses to register and pay the correct amount of tax liability to the Indonesian Government. Similarly, low reporting compliance, such as in the case of Asian Agri, may be less likely to occur because Tax Auditors can monitor the reporting compliance of businesses every year through tax auditing mechanisms. Tax auditing mechanisms enable Tax Auditors to verify the accuracy of transactions in-depth, such as through inquiry and by inspecting taxpayers' premises to find evidence of actual transactions (not the fictitious ones) (see table 18). In addition, Tax Auditors can also use their authority to ask third parties to provide them with third-party data and information to cross-check the reliability and accuracy of the transactions being reported in tax returns. This highlights the importance of IDGT building its tax auditing competencies to address the issues associated with non-voluntary compliance.

The second reason why IDGT's key competencies should be the tax auditing competencies is that they reflect best practice tax administration (Centre for Tax Policy and Administration, 2006, 2010a). Internationally, best practice tax administration advocates a high proportion of Tax Auditors. For example, in 2009 it was reported that the average of tax administration employees involved in auditing and other verification (including the tax investigators) was 32.43% in both OECD and non-OECD countries (Centre for Tax Policy and Administration, 2010a, p. 139). In the tax administration systems of some developed countries, such as Austria, Japan and Germany, more than 60% of employees (71%, 69.7% and 65% respectively) were involved in tax audit and other verification functions (Centre for Tax Policy and Administration, 2010a, p. 142). The high proportion of Tax Auditors is due to the direct impact of these competencies on improved taxpayer compliance and tax revenue collection (Centre for Tax Policy and Administration, 2006).

Due to tax auditing competencies being recognised as the key competencies to support the achievement of a high level of taxpayer compliance (Centre for Tax Policy and

Administration, 2006, 2010a; Indonesian Law Number 28, 2007), this study speculates that, following workforce planning analysis, IDGT will determine that tax auditing competencies are critical to its performance and, therefore, the proportion of Tax Auditors in IDGT needs to increase. Significant work will need to be undertaken here because in IDGT the proportion of Tax Auditors (13.12%) (see table 16) is far below the average level reflected in best practice tax administration (32.43%) (see Centre for Tax Policy and Administration, 2010a).

The findings of this study suggest that one strategy to accommodate the forecast increasing demand for tax auditing competencies is through eliminating the use of persuasive assessment competencies in IDGT. This suggestion is supported by the current practice within IDGT, which divides the Account Representative position into two types: Account Representative Monitoring and Account Representative Service (IMOF Decree Number 79, 2015). The persuasive assessment competencies are reflected in the role of the Account Representative Monitoring, which has been the major type of Account Representative since the position was split. Table 19 provides a comparison of the Account Representative Monitoring, Tax Auditor and Account Representative Service roles.

Table 19: The current proportion of Account Representative Monitoring, Tax Auditor and Account Representative Service roles

Type of workforce	Required competencies	Number of employees involved	Percentage of the total employees
Account Representative Monitoring	Persuasive assessment	6,643	18%
Tax Auditor	Auditing	4,921	13%
Account Representative Service	Service	1,512	4%
Total IDGT employees		37,709	100%

Source: IDGT (2016)

Table 19 highlights the dominance of the persuasive assessment competencies in IDGT’s operation. As previously discussed, these competencies distorted the level of taxpayers’ compliance as it focusses on the achievement of the narrow and less appropriate priority goals (see chapter 6). Consequently, IDGT failed to optimize the achievement of its priority goals mandated by KUP law (see section 5.1.2.). As this study found, focusing on the yearly tax revenue target could limit IDGT's gain to short-term accomplishment and overlook the greater long-term revenue potential resulting from improved taxpayers' compliance (see section 5.1.1 and 5.1.3.). Therefore, this study suggests that all of the Account Representative Monitoring positions presented in table 19 should be transformed into Tax Auditors who undertake simple field and desk audits. By doing so, the proportion of Tax Auditors will increase quite significantly (see table 20).

Table 20: The proposed IDGT workforce composition

Type of workforce	Required competencies	Number of employees involved	Percentage of the total employees
Office and simple field Tax Auditor	Tax Auditing	6,643	18%
Field Tax Auditor	Tax Auditing	4,921	13%
Account Representative Service	Service and Persuasive	1,512	4%
Total IDGT employees		37,709	100%

Source: IDGT (2016)

The suggestion to transform all of the Account Representative Monitoring positions (see table 19) to Tax Auditor positions with a simple and desk audit role (see table 20) is underpinned by a number of factors. First, the tax auditing competencies are the more appropriate type of competency for achieving taxpayer compliance (Centre for Tax Policy and Administration, 2006, 2010a; Indonesian Law Number 28, 2007). By increasing the number of Tax Auditors, the level of taxpayer compliance might be improved because the tax auditing coverage and in-depth ability to monitor taxpayer compliance will be higher. As taxpayer compliance is improved, the amount of tax revenue collected from taxpayers should also be higher (see Centre for Tax Policy and Administration, 2010b; IDGT, 2014; Indonesian Law Number 28, 2007).

Second, this policy is in line with the recent policy adopted by IDGT to allow the transformation of the Account Representative Monitoring role to become the “petugas pemeriksa” (Tax Auditors’ task force) handling simple tax auditing when required (IDGT Circular Letter Number 27, 2015). It appears that, more than 10 years after the reform, IDGT has begun to realise the importance of the Tax Auditor role for achieving taxpayer compliance. However, this study argues that the persuasive assessment competencies should be removed from IDGT’s operations, not just temporarily assigned as the Tax Auditors’ task force when required. This is because there is potential for the persuasive assessment competencies to distort the level of taxpayer compliance by encouraging taxpayers to hide their true tax liabilities due to the tendency of this approach to focus on the collection of an agreed amount of tax revenue rather than assessing the true tax liabilities of taxpayers (see section 5.2.1.).

Third, it is expected that eliminating the persuasive assessment competencies (the Account Representative Monitoring role) and replacing them with tax auditing competencies will help to clarify IDGT’s priority goals at the core and sub-goal levels. At the core goal level, the tax auditing competencies should help IDGT to focus on achieving a high level of taxpayer compliance due to the association of tax auditing competencies with improved taxpayer compliance (Centre for Tax Policy and Administration, 2006; Indonesian Law Number 28, 2007). At the sub-goal level, this decision may also help to clarify that, in order to achieve a high level of taxpayer compliance, greater emphasis should be placed on tax audit related provisions, not services (persuasive) related provisions, particularly in the present context of low voluntary compliance by taxpayers in Indonesia (see section 5.2.2.).

Fourth, this strategy is in line with international best practice, where a significant number of employees are involved in tax audit related tasks (see Centre for Tax Policy and Administration, 2004; Centre for Tax Policy and Administration, 2006, 2010a). By transforming the persuasive assessment competencies into tax auditing competencies, the proportion of employees with tax auditing competencies (Tax Auditors) to the total number of IDGT employees will increase significantly, from 13% to 31% (see table 20) which is close to the average level of international tax administration best practice (32.43%) (Centre for Tax Policy and Administration, 2010a).

Due to the link between workforce planning and SHRM (Choudhury, 2007; Jacobson, 2010), the recommended key competencies (i.e. tax auditing competencies) should inform the design of IDGT's HR policies and practices towards the achievement of a high level of taxpayer compliance. The following section discusses IDGT's HR policies and practices, which include recruitment and selection, training and development, performance management and reward management.

7.4. Improving IDGT's performance through aligning IDGT's HR policies and practices with taxpayers' compliance

This study adopted goal attainment (Jung, 2011; Rainey & Steinbauer, 1999; Speklé & Verbeeten, 2014; Steers, 1975) as the proxy indicator of IDGT's performance. The findings of this study suggest that in order to improve its performance IDGT should focus on achieving the priority goals as mandated by the KUP law (see section 7.2.). This means that in order to achieve a high level of goal attainment, individual officials within IDGT should be directed towards the achievement of a high level of taxpayer compliance by strengthening the enforcement provisions (Indonesian Law Number 28, 2007). Consequently, IDGT's HR policies and practices should be designed to focus on the achievement of a high level of taxpayer compliance and sound enforcement provisions. Therefore, this study proposes the design of IDGT's HR policies and practices as discussed in the following section.

7.4.1. Recruitment and selection

Recruitment and selection aims to ensure the best person-job fit (Blackman et al., 2012; Jiang, Lepak, Han, et al., 2012; Trivedi & Raval, 2015). Given that the recommended key competencies for achieving taxpayer compliance are tax auditing competencies (see section 7.3.), IDGT's recruitment and selection policies should focus on acquiring such competencies. To do this, IDGT's recruitment and selection processes should focus on appointing Tax Auditors with appropriate educational backgrounds for this role. Since the literature suggests that an accounting major is the most appropriate educational background for conducting the tax auditing role (Centre for Tax Policy and Administration, 2006), this study argues that IDGT should focus on recruiting candidates with an accounting major educational background. This is in line with the recruitment and selection practices in Norway's and Switzerland's tax administration systems, which require chartered or public accountancy as the minimum qualification for Tax Auditor positions (Centre for Tax Policy and Administration, 2006).

Generally, in best practice tax administration, tax auditors are recruited either directly from colleges and universities or as fully trained (experienced) Tax Auditors (Centre for Tax Policy and Administration, 2006). In IDGT's recruitment of new graduate candidates, the State College of Accountancy (STAN) has been known to supply new adjunct accountants for junior Tax Auditor positions (IDGT, 2008). Therefore, IDGT should continue its collaboration with the STAN to identify and select the best accounting graduates from this college. In addition, in order to select the best university accountancy graduates, IDGT could adopt a similar policy to that adopted in Canada. Canada's tax administration institutes undertake an on-campus recruitment initiative called the Auditors Apprenticeship Program (Centre for Tax Policy and Administration, 2006). This program aims to attract interested fourth-year accounting students who have the potential to become tax auditors (University of

New Brunswick, 2017). In adopting this policy, IDGT could initiate this program with a number of universities in Indonesia to target the best accounting graduates as candidates to fill Tax Auditor positions.

With regard to recruiting experienced Tax Auditors, this study suggests that IDGT could conduct either an internal or an external (labour market) search (Alink & Kommer, 2015; Centre for Tax Policy and Administration, 2006). An internal search means that the recruitment and selection policies focus on recruiting and selecting the best candidates for the position of Tax Auditor from existing tax administration employees (Alink & Kommer, 2015; Centre for Tax Policy and Administration, 2006). These candidates should be available amongst those Account Representatives who conducted tax auditing practices before the 2002 reform (see section 6.3.2.).

IDGT could also undertake an external search whereby it advertises Tax Auditor positions in the external labour market (Alink & Kommer, 2015; Centre for Tax Policy and Administration, 2006). This will eventually create a mix of Tax Auditors with a range of skills and expertise (Alink & Kommer, 2015; Centre for Tax Policy and Administration, 2006). With this approach, IDGT can ensure that the competencies of the candidates fit the job requirements (see Blackman et al., 2012; Jiang, Lepak, Han, et al., 2012; Trivedi & Raval, 2015) which support the achievement of IDGT's priority goal: a high level of taxpayer compliance.

After recruiting and selecting the best and most capable candidates for Tax Auditor positions, IDGT's training and development policies and practices should be able to effectively build these competencies.

7.4.2. Training and development

Training and development is defined as the systematic approach to building individuals' knowledge, skills and abilities in order to improve individual, team and organisational effectiveness, and for the purposes of personal growth (Aguinis & Kraiger, 2009; Fitzgerald, 1992). As this study proposes that IDGT's key competencies are tax auditing competencies (see section 7.3.), IDGT could enable an improved performance by aligning its training and development activities with its priority goal (taxpayer compliance). This means that IDGT should establish training and development programs which focus on building the tax auditing competencies effectively.

There are two types of training and development approaches for Tax Auditors. First, there is initial formal training, which aims to bring Tax Auditors up to the required level; second, there is ongoing training and development, which aims to maintain the relevance of Tax Auditors' skills (Centre for Tax Policy and Administration, 2006). These approaches are already evident within IDGT (see IDGT, 2011a, 2014). However, the focus of these training and development programs is more on enhancing the persuasive assessment competencies, rather than the tax auditing competencies (see IDGT, 2011a, 2014). Therefore, to ensure that vertical alignment is established, this study suggests that IDGT should change the design of its training and development programs to focus on building sound tax auditing competencies.

With regard to the initial training, for example, IDGT could follow the method of initial training being adopted by other tax administration systems, such as France's tax administration system. In that system, new recruits attend a dedicated tax school for one year, followed by six months of working in a local tax district to bring them up to the required level of tax auditing competencies (Centre for Tax Policy and Administration, 2006). With regard to ongoing training and development, IDGT could also adopt the ongoing training and development systems evident in the tax administration organisations of other countries. For example, in the Netherlands Tax Auditors upgrade their tax auditing competencies by attending countrywide annual summer courses (Centre for Tax Policy and Administration, 2006).

IDGT could enable horizontal alignment by ensuring that the design of the initial and ongoing training and development is aligned with the recruitment and selection policies and practices. For example, for new appointees who have recently graduated, IDGT should design more intensive initial training in tax law and auditing (Centre for Tax Policy and Administration, 2006), whereas for experienced appointees IDGT could design shorter initial training (Centre for Tax Policy and Administration, 2006). By adopting this approach, it is expected that IDGT could achieve higher vertical and horizontal alignment between the skill enhancing HR policies and practices (recruitment and selection, training and development) and IDGT's priority goal. In turn, this should lead to higher levels of performance because a higher level of organisational performance requires vertical and horizontal alignments (Blackman et al., 2012; Delaney & Godard, 2002; Gephart & Van Buren, 1996; Sung & Ashton, 2005).

7.4.3. Performance management

Proponents of the SHRM configurational approach advise that the design of performance management systems should motivate employees towards achieving organisational goals (Blackman et al., 2012; Gephart & Van Buren, 1996; Sung & Ashton, 2005). This means that, due to IDGT's priority goal being a high level of taxpayer compliance, IDGT's individual performance management system should be designed based on the achievement of higher taxpayer compliance. However, measuring the level of taxpayer compliance is complex (Alink & Kommer, 2015; Centre for Tax Policy and Administration, 2006) and it is difficult to trace which individuals have a significant impact on the improved level of taxpayer compliance in a certain jurisdiction (Centre for Tax Policy and Administration, 2006). Therefore, the improved level of taxpayer compliance within a certain Tax Service Office (TSO) could be used as the basis for assessing the performance of individuals working at the respective TSOs.

This study suggests that each TSO could establish a performance target identifying a specific level of taxpayer compliance. In doing so, IDGT could assign the extent to which individuals and businesses (taxpayers) in each TSO's jurisdiction pay the correct amount of tax liability to the Indonesian Government. The target could be a reduction in the number of unregistered individuals to no more than 10% of potential individual taxpayers and no more unregistered businesses by 2020 under the respective TSO jurisdictions. This system would follow the example of the one adopted by the HMRC (UK tax administration). In HMRC the extent to which individuals and businesses pay the correct amount of tax due is set as the targeted performance outcome (Centre for Tax Policy and Administration, 2006). In a more detailed target, HMRC assigns a specific percentage of improved taxpayer compliance to be achieved by HRMC employees (in a group), such as the reduction of illicit market share for cigarettes to no more than 13% (Centre for Tax Policy and Administration, 2006).

Due to the link between the performance management and reward management HR practices bundles (Blackman et al., 2012), the design of IDGT's performance management policies and practices should be linked with the design of its reward management policies and practices.

7.4.4. Reward management

An appropriate reward management configuration will motivate individuals to achieve a higher performance (Aksakal & Dağdeviren, 2014; Bustamam et al., 2014; Lawler & Cohen, 1992). Unlike most public organisations, where performance-based pay is not encouraged (see Moynihan & Pandey, 2007; Vandenabeele, Hondeghem, Maesschalck, & Depré, 2004; Weibel et al., 2010), the "links between individual performance and pay are common to most revenue bodies” (Centre for Tax Policy and Administration, 2006, p. 58). In this industry, it is common for public organisations to lose skilled Tax Auditors to private sector employers, as they provide more financial incentives (Centre for Tax Policy and Administration, 2006). Therefore, pay for performance is an appropriate approach for retaining Tax Auditors (Centre for Tax Policy and Administration, 2006). This is common practice in other countries, with the Canada Revenue Agency setting a 5% bonus for high achiever tax audit managers (Centre for Tax Policy and Administration, 2006).

The practice of using cash bonuses for rewarding employee performance is also evident in IDGT. In recent developments, the enacting of Indonesian Presidential Ordinance Number 37 (2015) suggests that that the bonus received by individuals is linked to the achievement of the yearly tax revenue target assigned to IDGT (see section 6.3.4.). However, this study suggests that Indonesian Presidential Ordinance Number 37 (2015) should be modified to support the achievement of a high level of taxpayer compliance in order to establish vertical alignment with the proposed priority goal (see section 7.2.). In addition, from the perspective of horizontal alignment, rewards need to encourage officials to achieve the priority goals set in IDGT’s performance management policies and practices and reinforce that high-level tax auditing competencies are valued by IDGT.

This study suggests that IDGT should reward its employees based on the improved level of taxpayer compliance. Reflecting on the proposed design of IDGT’s performance management, this study suggests that IDGT could provide bonuses to the group of officials working at TSOs (group-based pay for performance (see Durham & Bartol, 2009; Kim et al., 2013; Lawler & Cohen, 1992)) who can achieve the targeted improvement in taxpayer compliance (see section 7.4.3.). For example, when the target of a reduction in unregistered individuals to no more than 10% of potential taxpayers and no more unregistered businesses by 2020 is achieved by certain TSOs, all of the employees working within those respective

TSOs will be rewarded by 10 times the monthly take-home pay (THP). By rewarding employees based on the improved level of taxpayer compliance, it is expected that IDGT's employees will be motivated to improve the level of taxpayer compliance. This should lead to a higher level of taxpayer compliance because more individuals and businesses will register and therefore a higher amount of tax revenue will be paid to the state (Centre for Tax Policy and Administration, 2010b).

7.5. The expected result of the proposed changes

This study argues that these proposed changes to IDGT's HR policies and practices should help to improve its performance in collecting tax revenue. This is mainly due to individuals within IDGT being aligned with the achievement of IDGT's priority goal: a high level of taxpayer compliance. Through focusing on tax auditing competencies, the skill enhancing HPWPs (recruitment and selection, training and development) should allow the acquisition and development of highly competent Tax Auditors who are responsible for enabling the achievement of a high level of taxpayer compliance. To support these Tax Auditors to achieve a high level of taxpayer compliance, the motivation enhancing HPWPs (performance management and reward management) will be configured in a way that encourages IDGT employees to focus on contributing to the achievement of a higher level of taxpayer compliance.

In turn, aligning individuals with the achievement of taxpayer compliance could also enable IDGT to achieve the highest tax revenue possible. This would be due to IDGT officials shifting their focus to addressing the issue of non-compliance, as they will be rewarded when that non-compliance is reduced. Consequently, many individuals and businesses will be subject to the in-depth technical tax audit scrutiny necessary to force them to register and pay the correct amount of tax to the state. As the in-depth technical audit scrutiny has a direct impact on improved taxpayer compliance and tax revenue collection (Centre for Tax Policy and Administration, 2006), it is expected that more individuals and businesses will be registered and will pay the correct amount of tax to the state. In turn, this should lead to a higher level of tax revenue being collected (a higher level of IDGT's tax ratio). This supports the existing SHRM literature on the configurational perspective, which argues that in order for an organisation to achieve a high level of performance, a vertical and horizontal fit between bundles of HR practices and organisational requirements is required (Blackman et al., 2012; Gephart & Van Buren, 1996; Sung & Ashton, 2005).

7.6. Conclusion

IDGT's 2002 tax administration reform aimed to improve IDGT's performance in terms of increasing the level of tax revenue collected, as measured by the level of tax ratio. Yet, more than 10 years after the reform, the tax ratio level (based on the tax revenue collected by IDGT) remained consistent at 9-11%. This study addresses the research question: *"How effective was the reform in improving IDGT's performance?"* This chapter synthesised the central findings of this study.

This study found that the 2002 tax administration reform was not effective in improving IDGT's performance in terms of an improved tax revenue collection (tax ratio). This was mainly due to the failure of the reform to recognise the contextual requirements of IDGT in establishing its priority goals. Rather than following the priority goals set by the KUP law—that is, to focus on the achievement of a high level of taxpayer compliance by strengthening the enforcement provisions—the reformers imposed their own agenda by focusing on the narrow and less appropriate priority goals; that is, the achievement of short-term revenue by enhancing client service provisions. Consequently, the changes made in the reform were based on these narrow and less appropriate priority goals, which led to a misalignment in the design of IDGT's HR policies and practices. This hindered IDGT in achieving a higher level of performance.

Since the SHRM configurational approach and goal clarity are linked, this study also discussed an alternative solution to support the clarity of IDGT's priority goal by designing the proposed SHRM configurational approach which focuses on the achievement of a high level of taxpayer compliance. By ensuring vertical and horizontal alignments between the HPWPs and the priority goal, it is expected that individuals within IDGT will place greater emphasis on the achievement of the priority goal as advised by the KUP law: a high level of taxpayer compliance through strengthened enforcement provisions. With this approach, it is expected that more individuals and businesses will register and pay the correct amount of tax to the Indonesian Government. Accordingly, a higher level of tax revenue can be collected, which should lead to a higher tax ratio level for IDGT (i.e. improved performance).

The next chapter concludes this thesis by presenting both the practical and theoretical contributions it makes. It also discusses the study's limitations and suggests future research directions.

CHAPTER 8: CONCLUSION

This study explored why greater improvements did not occur in IDGT's performance, despite significant changes being made since the 2002 tax administration reform was initiated. The findings showed that the changes made during the reform improved overall revenue collection, but this was attributed to growth in the overall Indonesian economy, rather than improved tax collection, as it continued to be a stable proportion of GDP. This suggests that the 2002 reform was ineffective in improving IDGT's performance. The findings of this study propose that a major reason for this was the failure of the reform to recognise the legislative requirements of the KUP law regarding IDGT's primary goal. The KUP law specifies that IDGT's primary goal should be the achievement of a high level of taxpayer compliance, supported by sound enforcement provisions. Rather than prioritising taxpayer compliance as IDGT's key goal, the changes made during the reform were directed toward the collection of short-term revenue by strengthening client service provisions.

These changes impacted the design of the strategic human resource management (SHRM) approach within IDGT. Instead of designing its HR policies and practices to support the achievement of its priority goal (taxpayer compliance), IDGT designed its HR policies and practices to support the achievement of the narrow priority goal; that is, the short-term, yearly tax revenue targets. In doing so, IDGT predominantly ignored the competency requirements for achieving higher levels of taxpayer compliance, meaning that it acquired and developed the less appropriate persuasive assessment competencies (reflected in the Account Representative role). These actions impeded the level of taxpayer compliance, resulting in diminished tax revenue collection. As a result, even though the amount of tax revenue increased in nominal terms, the optimum tax revenue was far from realised, reflected in the huge gap between the actual tax ratio and the theoretical tax ratio level which could be achieved by IDGT. This chapter summarises the findings of this study and outlines implications for practice and associated recommendations for practice improvement. It also highlights the key contributions of this study to the study of public sector management. This chapter concludes with a discussion of the limitations of the study and identification of potential future research.

8.1. Summary of the study

The 2002 tax administration reform was initiated by the IMF in an attempt to enhance IDGT's ability to improve its performance and collect a higher tax ratio (an as independent measure of tax administration performance). However, its performance has not improved, with the tax ratio being consistent at 9-11% since the reform (see table 8). This contributes to the consistently low level of Indonesian tax ratio (11-13%) (see table 8) because more than 80% of tax revenue in Indonesian state budget is derived from IDGT (see table 4). Both domestic and international commentators argue that this level of tax ratio (11-13%) is low when compared to other regional peers such as Malaysia, Thailand and the Philippines (Amir, 2014; Arnold, 2012; Brondolo et al., 2008; Ikhsan et al., 2005; Putra, 2014). This would suggest that the tax administration reform did not improve IDGT's performance, which is consistent with criticisms of the IMF's failure to effectively implement reform (through the SAP) in other countries (see Bouckaert, 2007; Neu et al., 2005; Neu et al., 2010; Noordhoek & Saner, 2005; Ohemeng, 2010; Riddell, 1992). Although some studies have been carried out on IDGT's 2002 tax administration reform (see Brondolo et al., 2008; Putra, 2014; Rizal, 2013; Wihantoro et al., 2015; Yuhariprasetia, 2015), no studies have undertaken an in-depth exploration of the effectiveness of the 2002 tax administration reform in increasing IDGT's performance. This study addressed this gap and explored the reasons why greater performance improvements have not occurred in IDGT, despite significant changes being made since the 2002 tax administration reform was initiated.

In the extant literature a number of factors are identified as being determinants of organisational performance. These factors are characterised as being either economic or organisational, with the majority of studies examining economic determinants of organisational performance (see section 3.3.). This study focused on two organisational factors highlighted in the literature as being central to performance: priority goal ambiguity (PGA) and strategic human resource management (SHRM).

The findings of this study suggest that the reform was ineffective in improving IDGT's performance. This was mainly because the reform failed to follow the legislative requirements of the KUP law when implementing changes within IDGT. The KUP law demands that IDGT focus on achieving a high level of taxpayer compliance, through strengthening tax auditing provisions (enforcement) (see sections 5.1.1. and 5.1.2.). In contrast, the changes made during the reform supported the achievement of the narrow and less appropriate priority goal—that is, the achievement of short-term tax revenue—by placing greater emphasis on the client service approach. This was demonstrated through IDGT placing greater emphasis on recruiting and developing persuasive assessment competencies and establishing the yearly tax revenue target as the basis of its performance and reward management system. This study found that this approach is only appropriate for achieving short-term (yearly) tax revenue targets, as it does not enable collection of the highest tax revenue possible (the optimum tax revenue). Consequently, through adopting this approach, IDGT may have overlooked a huge amount of tax revenue potential, leading to a stable tax ratio achievement. This finding supports the extant literature that argues that the presence of PGA will divert effort towards incorrect organisational goals, leading to low organisational performance (Chun & Rainey, 2005a; Drucker, 1980; Jung, 2011; Wilson, 1989).

The findings of this study suggest that IDGT could enhance its performance through focusing on tax auditing as its critical competency for increasing taxpayer compliance and, ultimately, optimising tax revenue. Given the integral role that workforce planning plays in establishing an organisation's critical competencies, and their availability (Choudhury, 2007; Jacobson, 2010; Pynes, 2004), a key conclusion of this study is that thorough workforce planning should be undertaken in IDGT to ascertain the extent to which tax auditing competencies are essential and to determine their availability in the labour market. Such efforts could guide IDGT's SHRM approach, with high-performance work practices (HPWPs) designed and implemented in such a way as to enable the acquisition and development of tax audit competencies and to support the achievement of IDGT's goals in line with the KUP law. Through establishing alignment, it is proposed that a higher level of taxpayer compliance can be achieved which will lead to the achievement of optimum tax revenue, as required by regulation. Consequently, the level of tax ratio as the independent measure of the tax administration performance should also improve. These ideas are in line with the SHRM literature, which argues that alignment between HPWPs and organisational requirements should improve the performance of the organisation (Blackman et al., 2012; Messersmith et al., 2011; Sung & Ashton, 2005).

8.2. Implications and recommendations for practice

The findings of this study raise important implications and recommendations for practice. These are as follows. First, the findings of this study suggest that a key factor that underpinned IDGT's performance after the reform was the failure of the reform team to recognise IDGT's business requirements. Despite legislative requirements, issued by the Government, that IDGT focus on achieving a high level of taxpayer compliance and optimum tax revenue (see Indonesian Law Number 28, 2007), the reform (under the IMF's SAP) focused on the achievement of the short-term (yearly) tax revenue targets required by IMOF (IDGT's higher ministry). In addition, the SAP's one-size-fits-all policy, which advocated the use of the client service approach to stabilise malfunctioning economies, led to a significant reduction in tax auditing provisions. This resulted in IDGT placing greater emphasis on achieving short-term tax revenue targets, supported by client service provisions, rather than on achieving a higher level of taxpayer compliance, supported by tax auditing provisions. This was despite arguments about the direct impact of tax auditing provisions on improved taxpayer compliance (see Centre for Tax Policy and Administration, 2006; Indonesian Law Number 28, 2007).

The focus on short-term tax revenue, supported by client service provisions, hindered IDGT in improving its performance after the reform as it impeded the achievement of the high level of taxpayer compliance which would have formed the basis for higher tax revenue collection (Centre for Tax Policy and Administration, 2006, 2010b). Following the identification of these issues, a key implication is that IDGT senior managers and policy makers need to clarify the priority goal of IDGT at both the core and the sub-goal level, particularly in line with the KUP law. This is because goal prioritisation is a key factor in improving organisational performance (Chun & Rainey, 2005a; Gilad, 2015; Jung, 2014), particularly since goal attainment is a proxy indicator of IDGT's performance (see IDGT, 2011b, 2012, 2013b, 2014), as it is a public sector organisation (see Jung, 2011; Rainey & Steinbauer, 1999; Speklé & Verbeeten, 2014). In particular, the findings of this study suggest that IDGT should establish the achievement of a high level of taxpayer compliance as its primary goal. This is in line with the KUP law mandate that stipulates that IDGT's priority goal should be the achievement of taxpayer compliance, with optimum tax revenue as the outcome of enhanced taxpayer compliance (see IDGT, 2014; Indonesian Law Number 28, 2007).

Second, this study has enhanced understanding of the issues associated with merely focusing on achieving short-term tax revenue targets. When short-term revenue achievement was perceived as IDGT's priority goal, it encouraged individual officials to focus on the achievement of the short-term tax revenue at the expense of the highest tax revenue possible. This was evident from the design of HR policies and practices which placed greater emphasis on achieving short-term tax revenue than on the high level of taxpayer compliance which would become the basis for optimum tax revenue achievement.

Instead of enhancing the level of taxpayer compliance, the focus on the yearly tax revenue target impeded the achievement of higher taxpayer compliance. Emphasis on the achievement of yearly tax revenue targets led to officials accepting a negotiated amount of tax revenue from taxpayers, rather than collecting their true tax liabilities. This led to consequential tax revenue losses, which in turn impeded IDGT's efforts to collect a higher amount of tax revenue. In fact, studies have warned of the pitfalls associated with setting revenue as the sole priority. For example, Zhang and Gimeno (2010) found that the pressure caused by an annual earnings target could lead an organisation to merely achieve short-term tax revenue at the cost of long-term commitment. In addition, the pressure of the earnings (revenue) target could encourage individual officials to engage in the earnings management game, which has no added value for the organisation and is instead a poor decision that destroys the value of the organisation (see Jensen, 2005; Turner, 2005). In IDGT this practice is called "sistim ijon". It pulls the subsequent year's tax revenue into the current year or defers the tax refund claims to the next fiscal period.

The findings of this study raise warnings for IDGT managers and tax administration practitioners regarding the problems associated with placing greater emphasis on achieving yearly tax revenue targets. A potential, and risky, outcome of this focus is the impeded collection of the highest tax revenue possible, as it motivates individual officials to achieve *any* amount of tax revenue from the taxpayers to satisfy the achievement of the revenue target.

Third, once it is established that IDGT's primary goal is the achievement of a high level of taxpayer compliance, IDGT's HR policies and practices should be designed to support this goal. Due to the link between workforce planning and SHRM (Choudhury, 2007; Jacobson, 2010), IDGT should conduct thorough workforce planning to establish what the critical competencies are and to determine their availability in the labour market. This study has laid the foundation for IDGT's future workforce planning research by showing that the critical competencies should be the tax auditing competencies, rather than the persuasive assessment competencies. This is because the tax auditing competencies are central to achieving a higher level of tax revenue (Centre for Tax Policy and Administration, 2006, 2010a; Indonesian Law Number 28, 2007). As argued in the literature, in the context of high non-voluntary compliance in which the taxpayers deliberately do not want to comply (such as in Indonesia), sound enforcement provisions are deemed necessary (Kirchler et al., 2008; Kirchler et al., 2010).

The result of this workforce planning should inform the people in IDGT's HR divisions that, in order to correctly adopt the SHRM approach, they should align IDGT's HR policies and practices with taxpayer compliance. By doing so, the high level of taxpayer compliance should be achievable and the highest tax revenue possible (the optimum tax revenue) should also be realised. This is because the optimum tax revenue is dependent on the presence of a high level of taxpayer compliance, meaning that all individuals and businesses in a country (in this case Indonesia) comply with the taxation law and regulations (Centre for Tax Policy and Administration, 2010b). Accordingly, a higher level of performance in terms of improved tax ratio should be realised. Thus, this study provides ways to improve IDGT's performance (i.e. an improved tax ratio) by designing HR policies and practices directed towards the achievement of the priority goal mandated by the KUP law; that is, a high level of taxpayer compliance through the use of enforcement provisions.

Finally, the findings of this study provide insight for IDGT's managers and policy makers and could be used as alternative guidance in the further deployment of reform programs in Indonesia, and specifically in IDGT. This is particularly timely because the next round of tax administration reform was recently initiated by the current Indonesian Minister of Finance, Sri Mulyani Indrawati (IMOF, 2016). As the previous reform (in 2002) failed to improve the capability of IDGT to achieve a higher tax ratio due to the failure to recognise IDGT's contextual requirements, the findings of this study should guide the next reform to follow the legislative requirements of the KUP law. In doing so, this study suggests that the policy makers should design HR policies and practices which focus on achieving IDGT's priority goals; that is, a high level of taxpayer compliance through the use of sound enforcement provisions. By designing coordinated HR policies and practices which fit with IDGT's priority goals, a higher level of taxpayer compliance should be achievable. The distortion introduced by reduced revenue through negotiation should be eliminated because taxpayers will be subjected to an in-depth technical audit and scrutiny by IDGT employees (particularly the Tax Auditors) to ensure that they have correctly registered (have a TIN) and reported their true level of tax liability to the Indonesian Government.

Higher taxpayer compliance means a higher amount of tax revenue collected (Centre for Tax Policy and Administration, 2006; Indonesian Law Number 28, 2007). This will lead to improvement in the tax ratio and a real improvement in IDGT's performance. When the level of the tax revenue collected becomes higher (reflected in the higher tax ratio), it will provide the Indonesian Government with a domestic source of revenue to foster development in Indonesia (Korte, 2013). In addition, a higher tax ratio would also mean an increasing level of accountability for Indonesia in its dealings with international organisations, particularly those that provide loans and make commitments to Indonesia. This is because the improved tax ratio will imply that the Indonesian Government can service its obligations (pay off the loans) to the international donors and loan agencies in the future.

These policy implications and recommendations are briefly summarised in table 21, below.

8.3. Contribution to knowledge

The inadequacy in the literature regarding the effectiveness of the 2002 tax administration reform in improving IDGT's performance has been addressed by this study. This study can be considered the first major study to address the key rationale for greater improvements not occurring in IDGT's performance despite the significant changes that have been made since the initiation of IDGT's 2002 tax administration reform. The study has made a contribution to public sector management studies, particularly the tax administration literature, in four ways.

First, this study explores a phenomenon which has not been explored in depth before: the effectiveness of tax administration reform in improving IDGT's organisational performance through the lens of priority goal ambiguity (PGA) and strategic human resource management (SHRM).

Second, this study contributes to the extant literature on the tax administration reform by demonstrating that the PGA and SHRM configurational concept can be used to analyse the effectiveness of the reform in improving tax administration performance. This contribution opens up new possibilities for future research about the effectiveness of the tax administration reform in different contexts to ascertain the extent to which the findings are evident elsewhere and to expand knowledge.

Third, this study extends our knowledge of the applicability of the slippery slope approach to taxpayer compliance in the tax administration context of developing countries, such as occurred in IDGT. This slippery slope approach to taxpayer compliance argues that enforcement and client service provisions are the key factors in achieving a high level of taxpayer compliance. The findings of this study provide a base for future research on the most effective balance of those provisions (enforcement and client service) in achieving a high level of taxpayer compliance in the context of IDGT.

Finally, this study provides additional evidence of the link between workforce planning and the SHRM approach argued in the extant literature (Choudhury, 2007; Jacobson, 2010; Pynes, 2004). It recognises the importance of conducting thorough workforce planning before configuring IDGT's high-performance work practices in order to support alignment between those HPWPs and IDGT's requirements. These contributions are briefly summarised in table 21.

Table 21: Policy implications, recommendations and contributions of the study

Aspect	Description
Policy implications and recommendations	1. This study highlights the ineffectiveness of the reform (SAP) brought in by the IMF in improving IDGT's performance due to lack of recognition of IDGT's contextual requirements, specifically goal prioritisation, when implementing the changes during the reform. The findings of this study support the legislative requirements of the KUP law for IDGT, which set the priority goals of IDGT as the achievement of a high level of taxpayer compliance using sound enforcement provisions. This study proposes that IDGT should clarify its priority goals at the core and sub-goal level, in line with the legislative requirements of the KUP law. 2. This study extends our understanding of the pitfalls of focusing on short-term tax revenue achievement. This in turn provides a warning sign to IDGT managers and tax administration practitioners of the flaws of focusing on the yearly tax revenue target. 3. This study proposes that IDGT should adopt the correct application of the SHRM configurational approach by aligning its HR policies and practices with IDGT's primary goal: taxpayer compliance. By doing so, a higher level of taxpayer compliance should be achievable, which will in turn lead to higher tax revenue collection (higher tax ratio). 4. This study provides alternative guidance on the further deployment of reform programs in Indonesia, and particularly in IDGT. By doing so, it is expected that IDGT's performance will improve and a higher tax ratio should be achievable because further reform will be aligned with IDGT's contextual requirements: in this case, the priority goals mandated in the KUP law. Achieving a higher tax ratio means that the Indonesian Government can rely more on a domestic source of revenue in financing development in Indonesia. In addition, a higher tax ratio should also lead to improved accountability for Indonesia in dealing with international organisations, particularly those that provide loans and make commitments to Indonesia.
Body of knowledge	1. This study extends our knowledge of the effectiveness of IDGT's 2002 tax administration reform in improving IDGT's performance. 2. This study provides a framework for the exploration of the effectiveness of the tax administration reform in different contexts. 3. This study will serve as a base for future study of the ideal balance between enforcement and client service provisions to effectively support the achievement of IDGT's primary goal (a high level of taxpayer compliance), in the context of Indonesian taxpayers. 4. This study provides additional evidence of the link between workforce planning and the SHRM approach.

8.4. Study limitations

This study explored the effectiveness of tax administration reform in improving the performance of IDGT, with particular emphasis on PGA and SHRM. Even though this study has made a meaningful contribution to policy, practice and knowledge, it is inevitably subject to several limitations.

Firstly, a key limitation concerns the number of site locations of the study. This study was conducted in four provinces in Indonesia, with sites comprising the head office and six regional offices of IDGT. Two provinces were in Java and the other two provinces were in Sumatra. This might not explore the complete picture of the reform's effectiveness in improving IDGT's performance in all contexts. In order to gain a more comprehensive and broad understanding of the effectiveness of the reform in improving IDGT's performance, it is advisable to include more provinces in future studies.

The second limitation of this study is the position of the researcher as an insider who is working for IDGT. This is because the researcher's previous experience of working as a tax official in IDGT might influence the objectivity of this study (see Breen, 2007). However, the researcher has tried to ensure the objectivity of this study's findings by consistently discussing those findings with a supervisory panel consisting of four supervisors.

The third limitation is related to the data collection methods. This study relied on in-depth semi-structured interviews as the primary data collection method. Exploring the effectiveness of the tax administration reform of a particular tax administration such as IDGT might be better understood by triangulating the evidence from semi-structured interviews with the evidence gathered by other methods such as focus group discussions and participant observations. However, this study limitation is overcome by using of multiple data sources (multiple documents and 58 interview participants) as a method of triangulation to maximise the depth and richness of the information.

Finally, all of the elements in this study were confined by the context and time in which this study was undertaken. The primary data (interviews) represented the conditions within IDGT during the period of July to October 2013. Therefore, the results may not apply to other Indonesian institutions or tax administration organisations in other countries. It should be noted that this particular type of limitation is not exclusive to this study, as all qualitative research is contextually bound, reflecting what is happening at the time of the study (see Buick, 2012; Widihartanto, 2014).

8.5. Future research

Tax administration in developing countries is an overlooked area in the extant literature. This thesis provides some insights and directions for future research by domestic and international public administration practitioners.

First, this study could be undertaken in other developing countries which have similar contexts to the tax administration system in Indonesia, such as in the context of undertaking tax administration reform. By doing so, it might provide more comprehensive results regarding the effectiveness of the reform in improving tax administration performance. This study could also be replicated in developed countries to see if similar findings emerge in completely different contexts. Such a study would enable researchers to establish whether the findings in this study can be generalised internationally and beyond emerging economies. In addition, future research could undertake a comparative study between developed and emerging economies to establish the critical contextual factors that influence how reform agendas impact organisational performance. This study could identify similarities and differences to gain a comprehensive understanding regarding the more appropriate reform agenda in both developed and emerging economies that have completely different contexts.

Second, this study looked only at the impact of priority goal ambiguity on IDGT's performance. Further research could examine the other three elements of goal ambiguity—mission comprehension ambiguity, directive goal ambiguity and evaluative goal ambiguity—to gain a more nuanced and comprehensive picture. This is likely to provide a more robust understanding of the impact of goal ambiguity on organisational performance.

Third, while this study emphasised some of the high-performance work practices (i.e. recruitment and selection, training and development, performance management and reward), it did not examine in detail the other HPWPs, such as job design and high involvement work practices. Therefore, future research could examine the whole suite of HPWPs in the context of IDGT to improve the overall design of all HPWPs, to make the findings more comprehensive. This would also help in gaining a more robust understanding of the link between the SHRM configurational approach and IDGT's performance.

Fourth, considerably more work will need to be undertaken to determine the precise balance of enforcement and client service provisions, following the model of the slippery slope of taxpayer compliance. Even though this study has provided a basis for the necessity to place greater emphasis on enforcement provisions (tax auditing competencies) than on client service provisions (by removing the Account Representative monitoring role) in ensuring the achievement of a high level of taxpayer compliance, the ideal proportion of enforcement provisions to client service provisions remains to be elucidated in the context of IDGT. There is, therefore, a definite need for IDGT to conduct further research, using the framework of the slippery slope of taxpayer compliance, to determine the ideal proportion of enforcement provisions to client service provisions.

Fifth, another possible area of future research could be to explore the responses from respondents across different echelons (hierarchical levels). In doing so, it could be studied from intra/inter specific variations perspective (see for example Bruno, Tacconelli, & Patrignani, 2014; Kichenin, Wardle, Peltzer, Morse, & Freschet, 2013; Seifert et al., 2014).

Finally, despite the fact that a high level of taxpayer compliance has been proposed as the basis for configuring IDGT's performance management policies and practices, currently it is unclear how to measure its attainment. Therefore, future studies could focus on determining how to measure the attainment of taxpayer compliance in a way that could link with individual and group performance targets in IDGT. For example, in relation to proxy indicators to measure the level of taxpayer compliance, the existing tax administration literature advises that the tax gap is the most appropriate indicator of taxpayer compliance at the organisational level (Alink & Kommer, 2015; Organization for Economic Co-operation and Development, 2016; United Kingdom National Audit Office, 2014). Tax gap is defined as "the tax that would have been assessed and paid if all taxable citizens and businesses had registered with the tax authority and had reported all their activities, transactions, assets and liabilities correctly and had paid all taxes due, and the taxes assessed and paid in practice". (Alink & Kommer, 2015, p. 837). This means that improved taxpayer compliance is reflected by the reduction in the tax gap (see Alink & Kommer, 2015; Organization for Economic Co-operation and Development, 2016; United Kingdom National Audit Office, 2014). However, measuring this tax gap is complex and rarely done by the tax administration (Alink & Kommer, 2015).

To the extent of this researcher's knowledge, IDGT has never conducted this tax gap calculation. Despite the complexities, the tax administrations of developed countries, such as HMRC in the UK, and Italy's tax administration, have been able to measure this tax gap periodically (see Organization for Economic Co-operation and Development, 2016; United Kingdom National Audit Office, 2014). Due to the high relevance of the tax gap in measuring the level of improved taxpayer compliance (Alink & Kommer, 2015; Organization for Economic Co-operation and Development, 2016; United Kingdom National Audit Office, 2014), it is recommended that further research be undertaken to understand how to measure at an organisational level the IDGT tax gap and to determine whether it can be allocated to each individual or group within IDGT as their key performance target.

8.6. Conclusion

This study demonstrated that IDGT's 2002 tax administration reform was ineffective in improving IDGT's performance in terms of achieving a higher tax ratio. This was due to the changes made during the reform placing greater emphasis on the achievement of yearly tax revenue targets, supported by client service provisions. In doing so, IDGT neglected to focus on increasing taxpayer compliance through developing sound enforcement provisions, which defied legislative requirements. A key conclusion of this study was that this approach was ineffective in enhancing IDGT's ability to achieve higher levels of tax revenue collection. This chapter highlighted the key implications and recommendations for practice that emerged from this study. It provided insight into the importance of recognising organisational contextual requirements when initiating reform agendas, including the need to strengthen internal processes to obtain goal clarity and to enable individuals to align with priority goals. The findings also make a contribution to the body of knowledge on public sector management studies, particularly the tax administration literature. Finally, this thesis explains the limitations of the study and provides some direction for future research.

APPENDICES

Appendix A: The Indonesian hierarchy of the law and regulation

1st:	1945 Constitution of the Republic of Indonesia
2nd:	Decree of the People’s Representative Assembly
3rd:	Indonesian Laws
4th:	Government Ordinance
5th:	Presidential Ordinance
6th:	Local Province Ordinance
7th:	Local County Ordinance

Source: Indonesian Law Number 12 (2011)

Appendix B: Job description of Tax Auditor, Account Representative Monitoring and Account Representative Service

Tax Auditor	Account Representative Monitoring	Account Representative Service
- Ensuring the accuracy of the tax liability reported in taxpayers' tax returns (reporting compliance). - Acquiring relevant proof and evidence from taxpayers. - Entering the taxpayer's premises. - Sealing a place/room/drawer/cabinet/ container which is suspected to store tax related transactions of the taxpayer. - Conducting an audit for other purposes, including: 1 to provide a new taxpayer with a tax identification number (registering compliance); and **2** to cancel the tax identification number which has been issued.	- Monitoring taxpayer compliance. - Building up taxpayers' profiles. - Analysing taxpayer performance. - Assessing the taxpayer's true tax liability (intensification) by reconciling the tax return with the available taxpayer data. - Persuading the taxpayer to pay their liability, based on the assessment.	- Processing the settlement of taxpayers' requests. - Processing the settlement of a taxpayer's proposed rectification on a tax assessment notification. - Providing technical guidance and consultation on tax related matters to the taxpayer. - Processing the settlement of a taxpayer's proposed land and building tax reduction.

Source: IMOF Decree Number 79 (2015), articles 3 and 4; Indonesian Law Number 28 (2007)

Appendix C: IDGT's code of conduct

Obligations of employees:

1. Respect other people's religions, faiths and cultures.
2. Work in a professional, transparent and accountable manner.
3. Secure IDGT data and information.
4. Provide the best service to taxpayers, fellow employees or other stakeholders.
5. Obey official orders,
6. Be responsible in using IDGT's properties.
7. Abide by official working hours and rules.
8. Become a role model for the community in fulfilling tax obligations.
9. Behave, dress and speak in polite manner.

Prohibitions for employees:

1. Discriminate in performing tasks.
2. Become an active member of a political party or display partisanship.
3. Abuse of power.
4. Misuse office facilities.
5. Accept any gift in any form, either directly or indirectly, from taxpayers, fellow employees, or other stakeholders which may lead to the employee being suspected of abusing power.
6. Misuse of tax data and information.
7. Performing action which may lead to data disruption, destruction or alteration in IDGT's information system.
8. Breaking the norms of decency in a way that could damage the public image and dignity of IDGT.

Source: IDGT (2014, p. 134)

Appendix D: Approval letter to conduct the research in IDGT

KEMENTERIAN KEUANGAN REPUBLIK INDONESIA
DIREKTORAT JENDERAL PAJAK

DIREKTORAT PENYULUHAN, PELAYANAN, DAN HUBUNGAN MASYARAKAT
JALAN JENDERAL GATOT SUBROTO KAV. 40-42, JAKARTA 12190, KOTAK POS 124
TELEPON (021) 5250208, 5251509; FAKSIMILE (021) 5736088; SITUS www.paiak.qo.id
LAYANAN INFORMASI DAN KELUHAN KRING PAJAK (021) 500200;
EMAIL pengaduan@pajak.go.id

Nomor : S-1042/PJ.09/2013 10 Juli 2013

Sifat : Biasa

Hal : Pemberian Izin Riset

Yth. Sdr. Melki Ferdian

University of Canberra ACT 2601,

Canberra, Australia

Sehubungan dengan surat Saudara tanggal 25 Juni 2013 hal Permohonan Riset, dengan ini diberikan izin kepada Saudara untuk melakukan penelitian (riset) pada

1. Sekretariat Direktorat Jenderal Pajak,
2. Direktorat Transformasi Proses Bisnis,
3. Direktorat Pemeriksaan dan Penagihan,
4. Direktorat Ekstensifikasi dan Penilaian,
5. Kanwil DJP Jakarta Pusat,
6. Kanwil DJP Sumatera Barat dan Jambi,
7. KPP Madya Bekasi,
8. KPP wajib Pajak Besar Tiga,
9. KPP Penanaman Modal Asing Lima,
10. KPP Pratama Padang,
11. KPP Pratama Jakarta Kelapa Gading,
12. KPP Pratama Jakarta Senen,
13. KPP Pratama Jakarta Penjaringan,
14. KPP Pratama Jakarta Tanjung Priok, dan
15. KPP Pratama Tangerang Barat,

sepanjang bahan-bahan keterangan/data yang didapat hanya digunakan untuk keperluan akademis dan tidak menyangkut rahasia jabatan/Negara sebagaimana diatur dalam ketentuan Pasal 34 Undang-undang Nomor 6 Tahun 1983 tentang Ketentuan Umum dan Tata Cara Perpajakan sebagaimana telah diubah terakhir dengan Undang-Undang Nomor 16 Tahun 2009.

Surat….

Kp.: PJ.091/PJ.0913

Surat izin ini berlaku selama 6 (enam) bulan sejak tanggal diterbitkan dan dapat diperpanjang paling lama 3 (tiga) bulan dengan mengajukan perpanjangan secara tertulis yang disampaikan paling lambat 1 (satu) minggu sebelum berakhirnya masa berlaku surat ini.

Setelah selesai melaksanakan riset/penelitian, Saudara wajib menyerahkan salinan hasil penelitian (riset) tersebut dalam bentuk hard-copy ke Perpustakaan Kantor Pusat DJP dengan alamat Gedung Utama, Lantai 3 Jl. Jenderal Gatot Subroto Kav. 40-42 Jakarta Selatan 12190 dan dalam bentuk soft-copy melalui email: perpustakaan.pajak@gmail.com dan/atau perpustakaan@pajak.go.id.

Demikian surat ini dibuat agar dapat dipergunakan sebagaimana mestinya.

Direktur,

KEMENTERIAN KEUANGAN REPUBLIK INDONESIA
DIREKTUR
PENYULUHAN,
PELAYANAN DAN
HUBUNGAN
MASYARAKAT
DIREKTORAT JENDERAL PAJAK

Kismantoro Petrus
NIP 195404071983100 1

Kp.: PJ.091/PJ.0913

Appendix E: Interview protocol

1.	What is your role within the Indonesian Directorate General of Taxes (IDGT)? Objective: to enable the identification of each participant's role within IDGT.
2.	What are the goals of IDGT and how do you pursue those goals? Objective: to obtain participants' perceptions regarding how the goals of IDGT are being accomplished, given the context within and surrounding IDGT as the tax revenue administrator of Indonesia.
3.	What are the barriers in achieving those goals? Why? a. Internal to organisation? Why? b. External to organisation? Why? Objective: to obtain participants' perceptions regarding the barriers in achieving those goals, given the context within and surrounding IDGT as the tax revenue administrator of Indonesia.
4.	What are the enablers in achieving those goals? a. Internal to organisation? Why? b. External to organisation? Why? Objective: to obtain participants' perceptions regarding the enablers in achieving those goals, given the context within and surrounding IDGT as the tax revenue administrator of Indonesia.
5.	IDGT undertook the tax administration reform in 2002. a. What are the differences between the era before and after the 2002 reform? b. What is, and is not, working well with respect to the new changes made during the reform with regards to achieving IDGT's goals? How does this compare to the era before the 2002 reform? Objective: a. to obtain participants' perceptions regarding the differences between the era before and after the 2002 reform. b. to obtain participants' perceptions regarding what is, and is not, working well with regard to the system before and after the 2002 reform in achieving IDGT's goals.
6.	What changes would you make if you could in order to better support IDGT to achieve its goals? Why? Objective: to compare different views across different participant to see (a) if there are common factors and (b) where there are differences that may affect successful implementation.

Appendix F: Ethical requirements

Dear Participants,

Re: invitation to participate in the research

I am writing this letter to invite you to participate in the research that I am conducting.

My name is Melki Ferdian. At the moment, I am taking the Professional Doctorate in Business Administration program at the University of Canberra, Australia. My research title is "**NORMATIVE ORGANIZATIONAL STRUCTURE OF TAX ADMINISTRATION, THE CASE OF THE DIRECTORATE GENERAL OF TAXES (DGT) OF THE REPUBLIC OF INDONESIA**". The research has a purpose of exploring the level of match/fit between the DGT organizational structure and DGT environment, strategy and size which is expected to improve the efficiency and effectiveness of DGT operations.

I would like to invite you to participate in this research. You will be involved in an interview to provide information about the normative organizational structure of the DGT. You will be asked to answer and discuss a number of questions. The interview will last for approximately one hour.

Your participation is voluntary and you may withdraw at any time without providing an explanation, or refuse to answer questions without any consequences. I will provide you with an informed consent form for your approval. I would like to ask your agreement to record the interview.

I guarantee that the interview will be extremely confidential and your anonymity is maintained. No one will have access to the information except the researcher and his supervisors. Any report from this research will be in aggregate form and your identification is not revealed.

If you would like to have a report of this research, please write down your name and address in the informed consent form which will be given in the interview and the report will be sent to you.

For your information, this research has been approved by the Human Research Ethics Committee of the University of Canberra. If you have any questions about the research, please contact the researcher with the contact details below.

Thank you for your attention and cooperation.
Regards,

Melki Ferdian
Faculty of Business, Government and Law
University of Canberra
ACT 2601, Australia
Tel. +61 2 6201 5776
Email. Melki.Ferdian@canberra.edu.au

Project Title

NORMATIVE ORGANIZATIONAL STRUCTURE OF TAX ADMINISTRATION, THE CASE OF THE DIRECTORATE GENERAL OF TAXES OF THE REPUBLIC OF INDONESIA

Project Aim

The aim of this study is to explore and investigate the level of fit between organizational structure of the Directorate General of Taxes (DGT) and DGT's environment, strategy and size which can promote superior performance in administering the tax revenue.

Benefits of the Project

The benefits of this research are:

1. This study will fill the gap in the existing literature on organizational structure by providing empirical studies on the level of fit between public sector organizational structure and the contingent variables in developing countries, which promote superior performance;
2. The study will explore the effectiveness and efficiency of the current organizational structure of the DGT of Republic of Indonesia and provide a thorough investigation into the level of match/fit between the DGT organizational structure and DGT environment, strategy and size, which can promote operational efficiency and effectiveness of the DGT. If the DGT could operate effectively and efficiently, the probability of taxpayer compliance with Indonesian tax law would be higher. Accordingly, a higher tax ratio could be achieved and Indonesia would be less dependent on debt financing as the revenue from tax could better finance Indonesian government expenditure;
3. Since tax revenue is important for Indonesia, this study will provide evidence-based strategy and policy for the Indonesian government and parliament for potential improvement in the tax administration system.

General Outline of the Project

The research adopts the qualitative methodology based on a case study. Two methods will be employed for data collection: document analysis and semi-structured interview. The document analysis will be done to gain data and information related to the organizational structure which has been implemented in DGT. It will be performed on related laws and regulations, decrees from the minister and the director general, and procedures, as well as minutes of meetings, memos and correspondence. The interviews are expected to involve 56 participants. There will be a list of questions to be covered and the participants have flexibility to respond. Other questions may be asked on things said by the participants.

The interviews will be tape-recorded and all data will be analyzed using the following procedure:

1. The information will be transcribed and then NVivo analysis software will be used to undergo a pre-analysis with coding system;
2. Content analysis will be performed to analyze the data. This approach uses underlying themes for discerned materials which are being analyzed (thematic analysis).

The research is a part of the study at the University of Canberra; and the result of the study will be presented through the researcher's thesis.

Participant Involvement
The participants of this research will be involved in the interviews. They will provide information based on their perspective and experience related to the normative type of organizational structure of DGT which could deliver higher performance. The participants will be asked to answer and discuss a number of questions. The interview will be recorded and transcribed for analysis.
The participants are voluntary and may withdraw at any time without providing an explanation, or refuse to answer questions without any consequences. An informed consent form for participants' approval will be provided by researcher. There is no risk or hazard that may arise from this research.

Confidentially
The researcher guarantees the confidentiality of the interviews. Other than the researcher and his supervisors, no one will have access to the information obtained. The report from this research will be in aggregate form and individual identification is not revealed.

Anonymity
The information collected from the participants will be non-identifiable. The interviews will be transcribed. The transcripts will not contain the participants' identifications. Any document linking to the identity of the participants will be treated confidentially and will not be stored with the recording and transcript. When quoting is used in the report, nothing in the quote can identify the participant.

Data Storage
The information will be stored in the form of recording. The recording will be transcribed into computer file and printed in paper form. The electronic information will be stored in the researcher's personal computer. The computer is password-protected and only the researcher can access it. The recording and any printed materials will be stored under locked and secure cabinets both during fieldwork in Indonesia and at University of Canberra.
All data will be stored at University of Canberra for five years. After the thesis is completed the paper record will be destroyed. However, the soft file will be stored on a password protection in my personal computer in anticipating the use of the data for future research.

Ethic Committee Clearance
This research has been approved by the Human Research Ethics Committee of the University of Canberra (approval number 13-95)

Queries and Concerns
Questions about the research can be forwarded to the following contact details:

Melki Ferdian
Faculty of Business, Government and Law
University of Canberra, ACT 2601, Australia
Tel :+61 2 6201 5776
Fax :+61 2 6201 5237
Email :Melki.Ferdian@canberra.edu.au

Contact for information on the project and independent complaints procedure

The following study has been reviewed and approved by the University of Canberra's *Human Research Ethics Committee.*

Project title: Normative Organizational Structure of Tax Administration, the Case of The Directorate General of Taxes of The Republic of Indonesia

Project number : 13-95

Principal researcher : Mr Melki Ferdian

As a participant or potential participant in research, you will have received written information about the research project. If you have questions or problems which are not answered in the information you have been given, you should consult the researcher or (if the researcher is a student) the research supervisor. For this project, the appropriate person is:

Name : Dr Tony Tucker
Contact details : University of Canberra
Phone: 02 6201 2894
Email: tony.tucker@canberra.edu.au

If you wish to discuss with an independent person a complaint relating to: conduct of the project, your rights as a participant, or University policy on research involving human participants, you should contact Mr Hendryk Flaegel, Ethics and Compliance Officer, University of Canberra (phone: 02 6201 5220, email: hendryk.flaegel@canberra.edu.au).

Providing research participants with this information is a requirement of the National Health and Medical Research Council *National Statement on Ethical Conduct in Human Research*, which applies to all research with human participants conducted in Australia. Further information on University of Canberra research policy is available in the *University of Canberra Responsible Conduct of Research Policy* and the Human Research Ethics Committee *Human Ethics Manual*.

Informed Consent Form

Project Title

NORMATIVE ORGANIZATIONAL STRUCTURE OF TAX ADMINISTRATION, THE CASE OF THE DIRECTORATE GENERAL OF TAXES (DGT) OF THE REPUBLIC OF INDONESIA

Consent Statement

I have read and understood the information about the research. I am not aware of any condition that would prevent my participation, and I agree to participate in this project. I have had the opportunity to ask questions about my participation in this research. All questions I have asked have been answered to my satisfaction.

Name :

Signature :

Date :

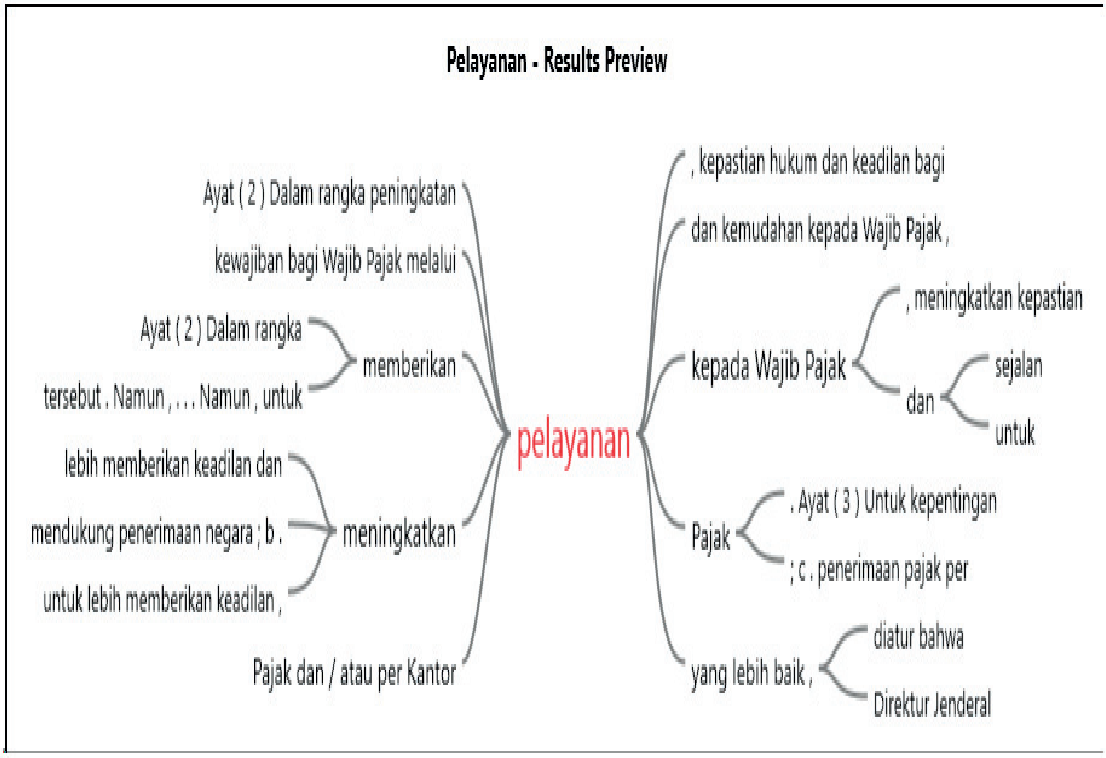
Please forward a summary of the research when published to my mailing address below:

Name :

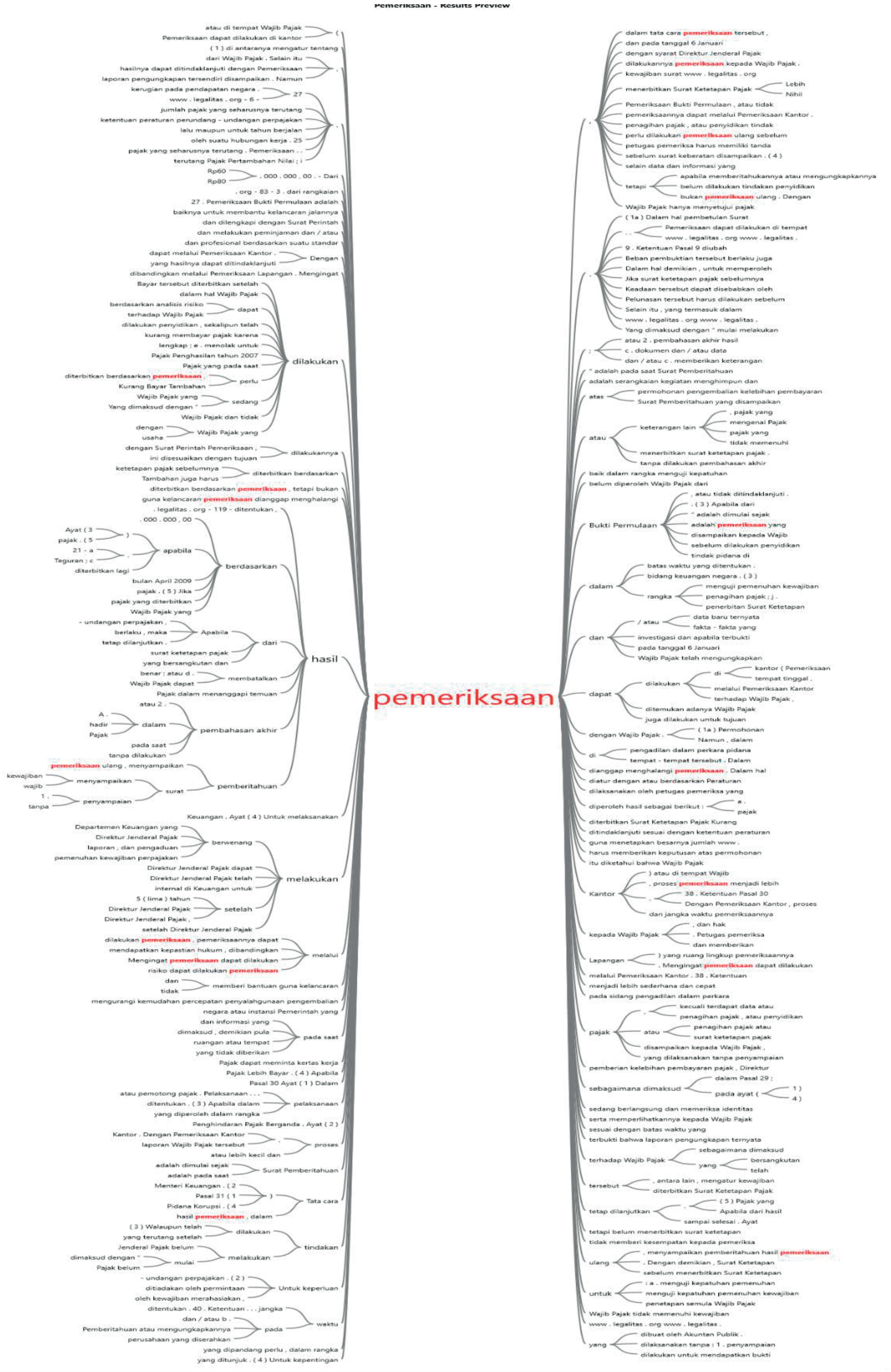
Address :

Appendix G: Text comparison (in the form of a word tree) between tax service ("pelayanan") and tax audit ("pemeriksaan") in the KUP law

1. **Tax service (pelayanan) = 9 words**



2. Tax audit (pemeriksaan) = 148 words



Appendix H: Translation of the text comparison (in the form of a word tree) between tax service ("pelayanan") and tax audit ("pemeriksaan") in the KUP law

1. Tax service (pelayanan) = 9 words

Tax service – result preview		
Paragraph (2) In improving		, law certainty and justice for
Taxpayer's obligation through		and easiness to the taxpayers
Paragraph (2) In providing		to taxpayers, improving the certainty of
That. However, …However, in providing	Tax service	to taxpayers, and in line with
Providing more fairness and improving		to taxpayers, and for
Supporting state revenue; b. to improve		Paragraph (3) for the interest of
To improve fairness, improving		c. tax revenue per
Tax and/or [tax service] office		A better [tax service], it is arranged
		A better [tax service], IDGT Director General

2. Tax audit (pemeriksaan) = 148 words

Tax audit– result preview		
or in taxpayer's premises (		in the ordinance of that tax auditing,
Tax audit can be undertaken at the office (		and on January 6th
(1) among them set about		provided that the Director General of IDGT
from Taxpayers. Other than that,		conducting tax audit to the Taxpayer
the results can be followed up with an examination,		letter of obligation
individual disclosure reports are submitted. However,		issuing refund tax settlement letter
the loss in national income.		issuing nil tax settlement letter
the amount of tax that should be owed.		preliminary examining the evidence, or not
terms of tax legislation.		the tax audit can be through the desk tax auditing.
before and for the current year.		tax collection, or audit investigation
by a working relationship. 25.		needs to be re-conducted before
taxes that should be owed,		the Tax Auditor must have an identity card
payable Value Added Tax: i.		Before the objection letter was delivered. (4)
Rp. 60.000.000,00. From		in addition to data and information
Rp. 80.000.000,00. From		but when to tell it or reveal it
3. From the series		but no investigation has been done
27. Examining the initial evidence means		but not a re-examination. With
good to support the smooth process of		the taxpayer only approves the tax
and comes with an audit instruction letter of		(1a) In the case of rectification of
and requesting and/or		can be done on the spot
and professional based on a standard of		9. the provisions of Article 9 are amended
can be through desk tax audit. With		The burden of proof applies as well
in which the results can be followed up with		in such case. To obtain
compared with field tax audit. Due to		if the previous tax settlement letter
pay is issued after it is done		The condition can be caused by
in case the Taxpayer is included in a		The repayment must be made before
Based on risk analysis, it can be conducted a		other than that. Which is included in the
Against Taxpayers, it can be conducted a		what is meant by "start doing

do investigation, even if it has been conducted a		or 2. Closing conference of the results
underreported tax liability as a consequence of a		c. Documents and/or data
complete; E. Refused to do		and/or c. give explanation
2007 Income Tax was verified by a		"is at the time of the notification letter
taxes that at the time were verified by a		is a series of gathering activities and
issued based on tax audit, it is necessary to do a		on the request of tax refunds
additional tax settlement required a		on tax return which was submitted
Taxpayer being conducted a		or any other tax information
What is meant by being conducted a		or other information about taxes
Taxpayer and not verified by a		or any other tax information
With Taxpayer, which was under a		or other information does not meet
Taxpayer business which was under a		or issuing tax settlement letters
with an audit instruction letter a		or without closing conference
This is in line with the purpose of doing a		both in order to test taxpayers' compliance
previous tax settlement were issued by		has not been obtained by the taxpayers from
additional should also be issued on the basis of a		in the framework of preliminary evidence for criminal crime or not acted upon
Issued by a tax audit, but not a		in the framework of preliminary evidence for criminal crime. (3) If from
in order to smooth the tax audit, it is considered blocking the		in the framework of preliminary evidence for criminal crime is started from
determined results of a		in the framework of preliminary evidence for criminal crime is the tax audit which
Based on the result of		in the framework of preliminary evidence for criminal crime was delivered to taxpayers
Paragraph (3) based on the result of a		in the framework of preliminary evidence for criminal crime before audit investigation being conducted
taxes. (5) if based on the result of a		in the framework of preliminary evidence for criminal crime in
21-a. if based on the result of a		within the time limit specified
Warning; c. if based on the result of a		in the field of state finance. (3)
will be reissued if based on the result of a		in the framework of ensuring the fulfilment of obligations
April 2009 based on the result of a		in the framework of tax collection
taxes. (5) if based on the result of a		in issuing tax settlement letter
tax issued based on the result of a		and/or new data turned out
Taxpayers which are based on the result of a		and/or facts that
Taxation law, when the results of a		and investigations and if proven
enacted, then when the results of a		and on January 6th
keep going. If from result of a		and the taxpayer has revealed
Tax settlement letters from the results of a		can be conducted at the examination office
Respective taxpayers and from the result of a		can be conducted in [taxpayers] residence
Correct; Or d. Cancelling the results of a		can be conducted through desk tax auditing
Taxpayer may cancel the result of a		can be conducted to the taxpayer
Taxes in response to the results of a		can found the taxpayers
Or 2. Closing conference of a		can also be done for the purpose
A. In the closing conference of the results of a	Tax audit	with taxpayers on application
present in the closing conference of the results of a		with taxpayers but within
Taxes in the closing conference of the results of a		in court in a criminal case
At the closing conference of the results of a		in those places within
Without conducting a the closing conference of the results of a		Considered to obstruct examination in case
re-auditing, submitting the result of a		is regulated by or by regulation
Obligation to submit notification of the results of a		is conducted by the Tax Auditors who
Must submit a notification letter of the results of		obtained the following: a

a		
1. submission of notification letter of the results of		obtained the following: tax
Without submitting notification letter of the results of		published underreported tax settlement letters less
Finance, Paragraph (4) to implement		followed up in accordance with regulatory requirements
Ministry of Finance which authorized to do		in order to determine the amount
IDGT authorizes to conduct		must give a decision on the application
reports, and complaints are authorized to do		that [tax audit], it is known that the taxpayer
fulfilment of tax obligations authorized to do		Desk [tax audit] or at the taxpayers' premises
Director General of IDGT may perform		Desk [tax audit], The tax audit process becomes more
Director General of IDGT has conducted		Desk [tax audit]. 38. The provisions of article 30
internal in finance to conduct		Desk [tax audit]. by desk tax audit, the process
5 (five) years after performing		Desk [tax audit] and the length of tax audit
Director General of IDGT after performing		to taxpayers and the rights
Director General of IDGT, after performing		to taxpayers Tax Auditors
After the Director General of IDGT performs		to taxpayers and give
Being conducted a tax audit, the tax audit can be through		Field [tax audit) where the scope of the tax audit
gain legal certainty, compared through		Field [tax audit) considering the tax audit can be conducted
Given the inspection can be done through		through desk tax auditing 38 provisions
risks can be checked through		becomes simpler and faster
and provide assistance in order to smooth		At the trial in the matter
do not provide help to smooth		unless there is data or
to reduce the ease of acceleration of refund abuse,		tax collection, or investigation
State or government agency where		or tax collection or
and that information at the time of		or tax settlement letter
intended, and so on the		submitted to taxpayers
room or place at the time of		which conducted without delivery
that was not given at the time of		on provision of tax overpayments, directors
taxes may request paperwork of		as referred to in Article 29:
More tax. (4) when		as referred to in paragraph (1)
Article 30 Paragraph (1)		as referred to in paragraph (4)
or a withholding tax agent. Implementation ... implementation of		is ongoing and checking identity
Determined. (3) when the execution of		And present it to the taxpayer
Gained in the course of conducting a		in accordance with the time limit
Double taxation. Paragraph (2)		is evident that the disclosure report turned out to be
Office. With desk tax auditing, process of		against the Taxpayer as intended
respective Taxpayer's report, process		against the Taxpayer concerned
or smaller and process of		against the Taxpayer who has
is started from the letter of		that [tax audit], inter alia, regulate liabilities
is at the time of the letter of		that [tax audit] was followed by the issuance of letter of settlement
Minister of Finance. (2) Procedures to conduct		keep continuing. (5) Taxes which
Article 31 (1) ordinances of		keep continuing. If from result
criminal corruption. (4) Procedures to conduct		continue to complete. Paragraph
The results of the tax audit, in the ordinance of		but, the letter of settlement has not issued yet
(3) Although it has been conducted a		do not allow the Tax Auditors
Which was liable after conducting a		re-[tax audit], notified the results of the tax audit
general of tax has not taken action to do the		re-[tax audit]. Thus, letter of settlement
what it means by starting to conduct		re-[tax audit] before issuing the settlement

		letter
taxes has not yet begun to conduct the		to: a. Test compliance fulfilment of
Taxation law. (2) for		to ensure compliance fulfilment of obligations
Dispensed by a request for		to settle taxpayers initial account
by the obligations to obey the banking secrecy. For the purposes of the		The taxpayer does not fulfil the obligation
determined. Terms ... term of		Which is made by a public accountant
and/or b. At the time of		implemented without: 1. delivery
provide notice or disclose it at the time of		that is conducted to get proof of evidence
companies which is submitted at the time of		
deemed necessary, in order to the		
designated. (4) For the sake of interest of		

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