Culture Change in Three Taxation Administrations: From Command-and-Control to Responsive Regulation

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Law and policy is one thing, but their implementation and administration is affected by organizational cultures. Meidinger has argued that knowledge of regulatory and organizational cultures assists understanding of how law and policy work in practice. This article examines three revenue administrations that are moving from a command-and-control style of regulation to a more persuasive and responsive style of regulation. The central argument is that there is a determining step in the process of clarification, reconciliation, responsiveness, and design of a tax system. That step is the extent to which organizational culture can be changed to embrace inclusive discussion and creative solutions to the administration of tax law and policy.

I. INTRODUCTION

Taxation systems are fundamental to democratic governance. Scholars of taxation traditionally focus on the translation of policy into law, the interpretation of the law, and what it means for the economic well-being of the country and its citizens. Less examined is a more practical aspect of taxation law and policy—its administration. During the last thirty years, citizens of several countries have voiced their discontent with their taxation systems (Aaron & Slemrod 2004; Job & Honaker 2003). Complexity is one problem (Picciotto 2007, this issue), with taxation legislation becoming increasingly so. However, one largely overlooked part of taxation administration is the regulatory culture, an aspect of the implementation of law and policy highlighted by Meidinger (1987) as one of the least understood.

This article focuses on taxation law and policy and its implementation by the taxation administrations of Australia, New Zealand, and East Timor. The way that law is implemented is affected by the underlying beliefs people have about the way things are done in an organization (Deal & Kennedy 1988; Schein 2004; Sinclair 1991). These three countries are forerunners in moving away from the "traditional" command-and-control style of regulating taxation law. Australia and New Zealand's approach changed because of community complaint and government investigation into their taxation administrations. East Timor wanted a fresh approach to its management of government systems, and is exploring the appropriateness of responsive regulation in the setting-up of the country's new taxation system.

While we examine taxation administration in three countries, this is not a cross-sectional cultural analysis. The focus is on organizational culture, rather than national culture. Our aim is to show that organizational cultures can be changed, not by mental reprogramming or diffusion of an idea, but by allowing subcultures within an organization to translate new ideas into their own language and shape them to meet their different needs. Doing this has allowed these three taxation administrations to become more in tune with community expectations, and to increase compliance with the law, by shifting from a command-and-control style of regulation to one of responsive regulation.

We draw on Meidinger's (1987) arguments about the importance of culture in collective action, social organization, and social change within regulatory institutions, and Latour's (1986) arguments about translation rather than diffusion of new ideas. In explaining this change in regulatory style, we will explore the following issues: why these three organizations decided to move away from a command-and-control style of administration to one of responsive management; what they did to change their street-level culture; and highlight, from the practitioners' perspective, the challenges to core values and beliefs in moving away from the "traditional" form of regulation to a more responsive regulatory style. Lastly, we highlight improvements in taxpayer compliance achieved through using responsive regulation.[1]

II. WHY WOULD TAXATION ADMINISTRATIONS ADOPT RESPONSIVE REGULATION?

Responsive regulation has usually been applied in small regulatory communities where encounters with inspectors occur face-to-face, as in regulation of the environment, nursing homes, and occupational health and safety standards (Braithwaite 2002; Braithwaite & Grabosky 1985; Gunningham & Grabosky 1998). So why would you use responsive regulation in a large-scale regulatory setting like taxation where regulatees may number in the millions, making face-to-face interaction the exception rather than the norm?

Responsive regulation is very useful when compliance is not automatic, simple, and straightforward (Braithwaite 2007, this issue). This is very much the case with taxation law and policy. Responsive regulation provides the means by which positive reinforcement, through providing support, acknowledging achievements, and recognizing effort, can be blended with enforcement practices. However, this is not necessarily the way that taxation administrations have regulated taxation law and policy. There are valid reasons for this—first, the "traditional" bureaucratic culture, and second, the "traditional" culture of a taxation administration.

III. A CHANGING ENVIRONMENT: REFORMING THE "TRADITIONAL"

A. CULTURE: THE WAY WE SEE THINGS

Culture is "a way of looking at things" (Meidinger 1987: 356), but it also comprises behavior—"it is what they enact in their daily lives" (ibid.: 361). Culture serves a purpose, providing "a necessary medium for social interaction that both constrains group behavior and creates possibilities for new forms of social interaction" (ibid.: 363). There are many types of culture— national, organizational, and occupational cultures—which are different in terms of values and practices (Hofstede 1994), and which merge and compete in regulatory domains (Meidinger 1987). The focus in this article is on organizational culture, which sits within the general societal culture and includes occupational cultures.

While the public and newcomers to an organization are aware of its "look and feel," organizational culture goes far deeper than the symbolic outer layer (Hofstede 1994; Schein 2004; Sinclair 1991). Hofstede maintains it is the "*shared perceptions of daily practices* . . . [which are] the core of an organization's culture" (1994: 183). It also includes patterns of behavior that staff regard as normal and meaningful (Schein 2004). These normal patterns of behavior are based on assumptions or values and beliefs about the purpose of the organization, with which staff identify (Schein 2004; Sinclair 1991). These shared perceptions and assumptions affect the way street-level regulators administer law and policy, and are difficult to change.

The way regulators of tax law and policy look at things is in part determined by their role as public or civil servants, whose attitudes towards their work are different to those in private enterprise (Sinclair 1991). Many public servants have their own occupational identity and values; however, major behavioral drivers of public servants are their strong identification with the public interest and belief that their work is for the public benefit (Sinclair 1991). The public service, whether it is being developed (as it is in East Timor), or is long established (as in Australia and New Zealand), demands certain behaviors from the official: "reliability, . . . conformity,

. . . discipline, . . . methodical performance of routine activities, [and] strict adherence to regulations" (Merton 1939: 562–64).

Trained to work within the rigidity of bureaucracy, officials with regulatory responsibilities have favored a similarly rigid style of regulation. Traditionally, the dominant strategy in compliance management is deterrence (Aalders & Wilthagen 1997; Dodd & Hutter 2000; Parker & Braithwaite 2003: 130; Shover, Clelland & Lynxwiler 1986). The deterrence approach assumes that taxpayers are self-interested rational actors who take advantage of opportunities to maximize their own outcomes. Based on deterrence theory, command-and-control regulation advocates precise and narrowly drawn rules, threatened penalties for non-compliance, punishment for violators, and takes a one-size-fits-all approach (Bardach & Kagan 1982; Dodd & Hutter 2000; Grabosky 1995; Job & Honaker 2003: 113; Reiss 1984). It has its advantages in large bureaucracies as Sparrow points out:

> a strong defense against litigation, a strong base from which to pull back, external support, a strong sense of mission, internal cohesion, and an effective mechanism for producing consistency . . . , it helps to prevent corruption . . . [and] lessens or eliminates the competitive advantage gained through non-compliance, by imposing financial penalties and requiring corrective actions. (2000: 37)

Alongside these attractions are substantial drawbacks (Sparrow 2000: 36). The capacity to oversee and monitor the population is closely scrutinized from a cost perspective in new public management philosophy. Effectiveness may also be questionable because government has a limited capacity for "sustained oversight," and deterrence effects are short term (Braithwaite 2005; Braithwaite 2003; Braithwaite & Braithwaite 2001: 483; Parker & Braithwaite 2003; Scott 2004: 483). Some have questioned whether a deterrence approach in taxation actually deters at all (Grasmick & Bursik 1990; Klepper & Nagin 1989), and whether it improves compliance or can "rehabilitate." For example, prosecutions and fines for non-lodgment of tax returns in Australia only had a short-term effect (Williams 2001). Rather than rehabilitating, a deterrence approach may de-legitimize government authority, with perceived breaches of procedural justice and heavy-handed treatment encouraging resistance (Murphy 2003; Wenzel 2005). Regulatory culture may produce community perceptions of inconsistent, unfair, or overly harsh administration (Sparrow 2000). For example, there were complaints about Australian Taxation Office (ATO) inconsistency in making and implementing tax rulings resulting in businesses "shop[ping] around" ATO offices for a preferred ruling (Kavanagh 1997).

B. SEEING THINGS DIFFERENTLY

During the 1980s, a shift began in the public service in the western world from administration to management, with the expectation that results would be achieved in a fast, efficient, and innovative manner (Hughes 1994).

These public-sector reforms occurred at the same time as challenges to regulatory style. Disillusionment with a command-and-control style of regulation promoted interest in cooperative compliance, a style of regulation that relied less on coercion and obedience and more on education and persuasion. Cooperative compliance was regarded with skepticism by operatives who frequently encountered intransigent non-compliance, but it became popular rhetoric among the advocates of deregulation.

To move beyond the long-term intellectual debate about "strong state regulation" versus "deregulation," Ayres and Braithwaite (1992: 4) offered the notion of responsive regulation. This was based on the idea that government should choose when to intervene and when not to intervene, adopting a philosophy of responsiveness to "industry structure," "the differing motivations of regulated actors," and "industry conduct" (ibid. 1992: 3–4).

The coordinated shifts from administration to management and from command-and-control regulation to responsive regulation both represent change in behavior and culture (Hughes 1994: 66). While many think of regulation as ensuring the following of rules, in its broadest sense it means "influencing the flow of events . . . [and] . . . means much the same thing as governance" (Parker & Braithwaite 2003: 119). This distinction is important because the behavior and practices of those who pursue rule-following are different from the behavior and practices of those who pursue the influencing of events. The next part of the article will describe some of the reasons for the shift from command-and-control to a more responsive style of regulation in the taxation administrations in Australia, New Zealand, and East Timor.

IV. ORGANIZATIONAL CULTURES UNDER SIEGE

Community challenges to the legitimacy of taxation administrations in the English-speaking democracies are not new. For years, the Internal Revenue Service in the United States was accused of being "rude, abusive, or unhelpful" and of offering a poor and deteriorating service (Job & Honaker 2003: 112). Increasingly, similar accusations were made about the ATO and New Zealand Inland Revenue (NZIR). Both organizations were accused of overuse and abuse of powers, of being out of touch, and of compromising the integrity of the tax system (*Evening Post* 1999; Job & Honaker 2003: 112; *New Zealand Herald* 1999; *The Press* 1999).

From the 1970s, challenges to the legitimacy of taxation law and policy in Australia gained momentum through the use of tax planning arrangements by the wealthy and large firms to avoid paying tax (Rawlings 2003; 2004). The marketing of tax evasion schemes was also encouraged by "[a] literalist High Court [which] ruled in favour of these schemes" (Australia. Parliament of the Commonwealth of Australia 1993: 17). ATO staff were frustrated and angry, and left to deal with enormous increases in workload and complexity, but with no corresponding increase in staff (ibid.: 17). The Joint

Committee of Public Accounts noted that "[i]t would be reasonable to suggest that the attitude, even culture, of the ATO which emerged from the evasion scheme years was vastly different from that which existed before" (ibid.: 19).

During the 1980s, the ATO began the long journey of cultural reform, which included staff increases, technological upgrades, organizational restructuring, legislation change, simplification of the law, and increased community consultation and assistance (Australia. Parliament of the Commonwealth of Australia 1993). Procedural justice was addressed by a legislated Taxpayers' Charter in 1997, which outlined the relationship the ATO wished to have with the community (Braithwaite & Reinhart 2000). A year later a model for the responsive regulation of taxation was introduced (Australia. Australian Taxation Office 1998).

New Zealand faced challenges similar to Australia's in its taxation administration. In the late 1990s, NZIR's traditional deterrence-based approach attracted considerable media attention and public scrutiny. In 1999, the Finance and Expenditure Committee (FEC) started to examine NZIR's interactions with the community. Public submissions to the FEC focused on the negative and prolonged interactions between NZIR and the public, and the "callous and bullying," "heavy-handed and dictatorial" style of staff (*New Zealand Herald* 2000). Perceptions of a lack of integrity led to questions about NZIR use of traditional command-and-control methods. The final FEC report noted condemnation by representatives of the Public Service Association of NZIR for its culture of fear and punishment, and maintained that "[n]othing less than a culture change will do" (ibid.).

The situation in East Timor was somewhat different. The existing tax system was in disarray following many years of reportedly corrupt tax-gathering practices, the breakdown in civil society following the independence referendum, and rampant inflation that came during the two-year period of the UN administration. It seemed appropriate to reinforce the principles of responsive regulation as the new tax administration sought to build new kinds of relationships, thus developing Meidinger's (1987: 372) regulatory traditions in a responsive and restorative way with the small business proprietors of this new nation.

Given the turbulence in the East Timor environment, and the consequent lack of documentary evidence of change, two of the authors have relied on their observations and inquiries made during a single visit to work with the street-level officials charged with implementing the new taxation regime, to report on the systemic changes being made. These two authors were told by officials of the East Timor Revenue Service (ETRS) that people were demanding accountability, transparency, and culturally appropriate treatment. The big issue facing the ETRS is establishing a new organization not tainted with the corruption that was reported to two of the authors as endemic in the previous Indonesian administration. The new system will ensure that tax officials never need to physically touch tax revenues. All collections are to be paid into the banking system.

To summarize, the Australian and New Zealand tax administrations were perceived as rule-bound and overly reliant on deterrence, while the previous East Timorese administration had been perceived as corrupt. As a result, a lack of community tolerance had developed for a blanket approach to enforcement that was harsh, inflexible, and bullying. Change had to be made. This change focused on the culture of these organizations and their interaction procedures with the regulated community. In the next section we describe how each administration went about these changes.

<div align="center">V. HOW THE CHANGES WERE MADE</div>

A. IN AUSTRALIA: THE COMPLIANCE MODEL

In 1997, the ATO developed a compliance model in consultation with its Cash Economy Taskforce (Australia. Australian Taxation Office 1998). The model combined the work of academics on regulatory theory, methods and practices (Ayres & Braithwaite 1992), with the motivations of regulatees (Ayres & Braithwaite 1992; Braithwaite 1995; Braithwaite et al. 1994). This model advocated that if taxpayers made mistakes through ignorance or poor financial planning and were prepared to come forward and acknowledge their mistakes, they should be helped. If they were prepared to be cooperative when anomalies were spotted, they should be assisted to put things right and move on. Persistent and consistent attention should focus on the difficult cases and the "big fish," not the "low hanging fruit." The goals of the compliance model were to: (a) understand taxpayer behavior; (b) build a cooperative relationship with the community; (c) encourage and support compliance; (d) introduce a range of sanctions, escalating in severity and known to taxpayers so that difficulties could be settled before costs became too great for both parties; (e) reduce the time-consuming handling of complaints about procedural injustice; and (f) implement the Taxpayers' Charter (Australia. Australian Taxation Office 1998; see also Braithwaite 2003).

To fulfill these goals, the ATO began an interactive training program for operative staff and management, which included tax specific stories and case studies to demonstrate both poor methods and preferred methods of enforcement. In addition, the principles of responsive regulation were incorporated into corporate plans, training packages for newcomers to the ATO, staff performance assessments, recruitment selection criteria, legislation, and in the day-to-day operations of the field staff.

B. IN NEW ZEALAND: "THE WAY FORWARD"

In 2001, the newly appointed NZIR Commissioner was tasked with changing the way the department interacted with the community. A number of initiatives were introduced, including a two-staged move to responsive regulation:

in 2001 through the department's strategic document "The Way Forward"; and in 2002 with a training program for operative staff. "The Way Forward" outlined four strategic strands: (a) streamline and simplify tax processes; (b) create an environment which promotes compliance; (c) enhance staff capability; and (d) enhance the administration of social policy business. A compliance model, adapted from the ATO compliance model, formalized the department's ideas for moving from a traditional deterrence-based approach to a more responsive regulatory system.

The compliance model was used to support key business strategies, including communications and revenue audit strategies. Changes were made to legislation and policy. Service delivery initiatives, such as Industry Partnership, used a responsive approach to encouraging compliance in cash economy industries. NZIR's relationship with the community was rebuilt through more community advisory visits; participation in the whole of government approach to the delivery of services for the community; an improved ability to detect and address non-compliance; and addressing tax avoidance schemes (New Zealand. New Zealand Inland Revenue 2003b).

In September 2002, a training program began for all operative staff on the practical application of the compliance model. NZIR staff visited the ATO to learn from their experiences in applying the compliance model to the regulation of tax law and policy. A training package for all service-delivery team leaders was developed, which was based on a case study and story-telling method of learning, and introduced staff to the idea through tax and social policy case studies. This was enhanced by telling compliance model "success stories" from both New Zealand and Australia. The training package also aimed to start changing organizational culture in order to gain greater acceptance of the principles of responsive regulation. Initially, staff reaction to the training was mixed, with more service-oriented staff welcoming the change in direction: "I have been waiting for this type of thing for years. It is so good for us to finally look at what the community is all about and see how we can help them" (New Zealand. New Zealand Inland Revenue 2003a). An internal survey highlighted an improved understanding of the benefits of responsive regulation.

C. IN EAST TIMOR: COMPREHENSIVE TRAINING

In East Timor, the United Nations Transitional Administration East Timor (UNTAET) arranged for a comprehensive training package for the new agency. Accounting and legal training was provided by international accounting firms and interactive responsive regulation training was provided by the ATO.

ETRS managers were introduced to responsive regulation in the form of the ATO compliance model. They quickly and instinctively accepted the concepts of the model, particularly the need to maximize procedural fairness, which in their eyes would reduce corruption. The responsive regulation and

restorative justice principles built into the ATO compliance model seemed to fit with the culture of the indigenous East Timorese employees from the ETRS. The skeletal nature of the model, and the encouragement to adapt within the basic principles of the model, allowed the locals to absorb the principles in a workshop environment and apply them quickly to local problems that were current at the time of the visit. Illustrative of this process was the workshop on developing an escalating set of sanctions for non-compliance. Although the pyramid took the same general form as the Australian and New Zealand models, the steps were distinctive, for example, working through the village hierarchy to recover individual taxpayer debt. Based on this "local" experience, the ETRS employees were readily able to demonstrate an emergent understanding of modern cooperative approaches to tax administration (see Hamilton 2003).

While the risks to integrity in these countries were different, each focused on staff training to change organizational culture and improve their relationship with the community. In the next section, we examine the challenges these tax administrations faced in changing their organizational cultures.

VI. CHALLENGES IN MAKING CHANGE

It is thought that senior management should influence the basic values, beliefs, or assumptions of staff for cultural change to occur (Collins 2002: 125; Schein 2004; Sinclair 1991). This has been criticized as assuming that culture change is little more than the mental reprogramming of a receptive audience (Collins 2002: 125–26). While managers do have influence over staff values, the formality of bureaucratic processes, which favor stability rather than adaptability, and the existence of occupational subcultures with their own values and beliefs can mean resistance to top-down change (Sinclair 1991). A preferred approach to culture change within the public service is for senior management to focus on the symbolic layer of culture, and allow the organizational subcultures to focus on the inner layers by identifying existing staff values and ethics, and areas of common commitment (ibid.).

In the next part of the article, we will describe challenges faced by these organizations in implementing responsive regulation. The most important challenges were: (a) resistance to the change; (b) meeting the legal principles of consistency and equity; (c) allowing staff discretion while avoiding corruption; (d) recognition of different occupational skill sets; and (e) the language used to present the new ideas.

A. RESISTANCE

Resistance need not be seen negatively. In voicing their concerns, staff were beginning the translation process of adapting the ideas to their own needs—an important step in a change process (Collins 2002). Staff gave

many reasons why responsive regulation would not work in the administration of tax law and policy: there was a lack of legislative support; an organizational focus on outputs; fear of making mistakes; and fear of change. There have been similar reactions to change in regulatory administrations in the United States and Britain (Sparrow 2000: 208).

Lack of legislative backing for the change was a perceived problem in each jurisdiction. As one New Zealand officer said: "The compliance model is not supported by legislation and therefore cannot be used in the investigations area" (New Zealand. New Zealand Inland Revenue 2003a).

Similarly, lack of budgetary support was an issue. It is easier to measure outputs than outcomes. As one New Zealand tax officer highlighted:

> So many people . . . focus only on the output because of our current purchase document, so all the wonderful things like working under the Compliance Model are unachievable. (New Zealand. New Zealand Inland Revenue 2003a)

As Sparrow has observed, organization-wide commitment is extremely difficult to gain when "management fails to understand or support it" (2000: 208). Manager negativity or lack of manager support for the model allowed staff to adopt the same stance (Job & Honaker 2003). Operational staff were sensitized to how others perceived the change, and they were fearful of making mistakes in the eyes of their managers (see Hogwood & Gunn 1984 for a discussion on the limits of various approaches to implementing policy). As the reality of implementing cultural change began to be felt, it also became clear that a command-and-control style of regulation can produce a culture of fear inside an organization that stifles innovation and creativity (see Kanter 1989 on making change in large organizations). As one ATO respondent said:

> Many staff are scared of change. They are scared of making a mistake. It is safe to keep doing what you have always done because you know you won't make a mistake and you won't get into trouble. (Job & Honaker 2003: 121)

The solution for a significant number was to just pay lip service to the compliance model and use it passively by referring to it in documents (Job & Honaker 2003).

A major challenge in implementing culture change in a regulatory culture is to reduce fear and to nurture the courage to try new ways of doing things. This requires active, genuine, and visible support from the highest levels of the organization. Operational staff knew this and expected managers to "walk the talk," meaning they had to lead by example (Job & Honaker 2003: 123).

B. CONSISTENCY, EQUITY AND FAIRNESS

In applying the law when regulating responsively, concerns arise about the observation of "fundamental legal principles of openness, accountability, consistency, proportionality, and procedural fairness" and "the potential

failure of effective and responsive regulation to secure certainty, consistency, and predictability in legal principles and values" (Parker & Braithwaite 2003: 129). Coupled with these tensions is the reality of the large number of individual interactions that occur between large organizations and community members, and the complexity and diversity of these interactions.

Very early on, several tensions of this nature arose for the ATO and NZIR in their implementation of the compliance model. These included a lack of clarity about how the compliance model applied to different business situations; how to balance the need for consistent decision-making and equity with consideration of individual circumstance; and how to develop the capability of less experienced staff in making judgments about how to apply the model in line with standard operating procedure. Sinclair (1991: 327) suggests that such tensions reflect value differences between subcultures. These differences can be accommodated through identifying existing values, developing common ground and commitments that represent professionalism, such as quality service, or sound client relationships, and agreeing on trade-offs (ibid.: 327).

Exploration of the value differences between different national cultures was undertaken in East Timor by two of the authors, with fruitful results. ETRS staff told two of the authors, in their own words, that the responsive nature of the regulatory model fitted well for the mixture of village common law and the proposed legislative tax code for their new country. Explicitly adapting practice, within judicial and legislative guidelines, to local conditions along with using persuasion rather than legal coercion were principles that seemed to strike a chord with the local officials. It was encouraging that the fairness principles that were so important in Australia and New Zealand were equally at home in East Timor's less stable conditions.

C. DISCRETION AND CORRUPTION

While the problem of discretion in the application of law is central to the design of regulatory systems and their organizations, the high level of context dependency that exists in taxation systems makes this problem particularly acute. With the introduction of responsive regulation in Australia in 1998, which advocated the use of discretion and a flexible approach, some staff felt confused, uncomfortable, and/or angry. Illustrative is this comment from the study of the first eighteen months of responsive regulation in the ATO:

> [After having] developed a friendly relationship with a taxpayer, they can't now get tough. It's like dobbing in a mate. Before the Compliance Model, staff came from a strong position or base when going to a taxpayer's premises to do an audit. There was no personal relationship. (Job & Honaker 2003: 121)

Moving to a more responsive way of regulating challenged core values, which are the most deeply embedded and most difficult aspect of culture to

change (Sinclair 1991). The above quote highlights the difficulty some staff were having with an idea that appeared to be challenging the core value that everyone should be subject to the same process. The need for discretion challenged that value and made life uncertain.

The potential for capture when regulatees become "real people" in the eyes of the regulator is well documented in the regulatory literature and requires special measures of accountability in daily work practice. The opportunity for corruption, however, may potentially increase when authority is devolved in a system with high levels of discretion. In Australia and New Zealand, institutional and cultural constraints serve a protective function. The moderate levels of discretion required by responsive regulation, and given to tax system employees working within reasonably stable economies, translates to low levels of corruption by world standards.

East Timor, on the other hand, has recently emerged from the reportedly endemic corruption that was associated with the Indonesian administration. To increase trust between tax administrators and the community, the East Timorese authorities had set very low levels of discretion for their employees. While this policy decision may seem to conflict with responsive regulation, the East Timorese were able to see the value of responsive regulation in enhancing compliance with tax law. By separating their tax collection function from their tax education and enforcement functions, as was recommended by the IMF, they felt they could manage corruption and build a tax administration that was responsive to the needs of their emerging nation. Most of the "doing" could still be done responsively by the officials of the tax administration. Only the collection function, where the potential for corruption had been high in the past, was removed to the more legitimate banking system.

D. OCCUPATIONAL SKILL SETS

Much of a taxation administrator's work requires an eye for detail and literal interpretations of complex law. These occupational skills of accountants, auditors, and lawyers become the dominant practices of the organizational culture. However, these skills do not always sit comfortably alongside a more fluid and dynamic way of working. As one ATO officer stated:

> The Compliance Model is on everyone's mind, but there are different perceptions of what it means. There is an element of it not getting through . . . the assimilation of help and advice as part of what we do. Staff still compartmentalize activities. The reason is that different skills are required and many staff do not have the skills to do the help and education work. (Job & Honaker 2003: 119)

Some staff preferred to translate the script of responsive regulation into a highly prescribed set of responses to meet the requirements of all situations. For example, some looked for scripts that told them what to do and say to the taxpayer. While such manuals might make staff feel more confident about making the change, Waller (2007, this issue) highlights that rigid adherence

to a checklist of questions by ATO operatives not only can obstruct a responsive style of regulation, but lessens the credibility of operatives with taxpayers. Taxpayers expect operatives to be knowledgeable, perceptive and smart, not automated.

Other staff tried to map themselves on the model:

> So at the rank and file level people map themselves on a model . . . They don't see it as sort of dynamic—that if you fit here, that's where I live and that's where I am staying and that there isn't a role upwards or downwards in it. (Hobson 2003: 142)

As Sparrow highlighted, ". . . the difficulties seem to run deeper than the absence of systems, to an absence of understanding. [It is] the concept itself—not just the practice—[that] remains elusive" (2000: 211). Understanding can be assisted by acknowledging occupational values through the language used to express new ideas.

E. LANGUAGE—CONNECTING "SENSIBILITIES"

Where translation of an idea is hampered by lack of dialogue, strange manifestations of an idea or model can appear. Without "finding the right language to describe [the change]," reductionism on the part of those required to implement the change becomes more likely (Sparrow 2000). The original language in which responsive regulation was couched may have generated initial resistance to the new idea and to change because it did not speak clearly to either the underlying occupational or organizational cultural values or assumptions. As one ATO auditor commented:

> My first reaction was "what's this shit?", not in terms of what the model was trying to say, it was just the language, it was in academia. It wasn't until we started using it at the first conference, when we started playing with some of the ideas in it, that I started to understand it. So I guess for a person like me the worst thing to do was to get me to read something about it. The first thing to do is not even tell me that there's a model. Just start doing some things. (Hobson 2003: 146)

This highlights not only that operational staff like to learn by doing, but that a new idea is best played with by using their own language to talk about it, and by translating it into stories that come from their own experiences. Instead of thinking about culture change as diffusion of an idea or mental programming, staff need to translate the idea into something that will achieve their own goals and "bend" cultural norms to make them fit the issues they deal with (Collins 2002: 124; Latour 1986). The process of translation and ongoing transformation by shaping the idea to fit different needs is "essential for the existence and maintenance" of the idea (Latour 1986: 268). Translation into stories that were relevant to different occupational groups within the organizations allowed staff to see that the new ideas were not necessarily contrary to core values (see Sinclair 1991). Both

ATO and NZIR trainers gathered success stories and "recruited" champions from within the organization, including some from responsive regulation pilot programs, to provide examples of situations where responsive regulatory practices had worked without compromising core individual and organizational values. Stories helped to translate the concepts of responsive regulation into the language of particular groups (auditors, lawyers, IT people, and so on). For good reasons, interactive training using storytelling and case studies from both tax and other regulatory environments emerged as a preferred training approach, together with on-the-job training and practical experience (see Braithwaite & Wirth 2001). This approach worked well in all three taxation administrations.

VII. CONCLUSION

Change can be exciting and challenging, but painful and frightening too. It is perhaps less difficult to accommodate changes such as contracting out, closer scrutiny of budgeting and reporting, performance-based management, or changed criteria for recruitment and promotion. It is far more difficult to make changes to the "tried and true" behaviors that operatives use to do their job, which define their role in the organization, their self esteem, and their sense of identity. How can we know if the translation of responsive regulation by these three taxation administrations is successful or not? There are several measures: change in staff attitudes and behaviors; changed community perceptions; and improved compliance and revenue collections. While our evidence is not comprehensive, there is positive change.

Eight years after its introduction, ATO staff have identified the compliance model as being a "seminal and influential concept [which] has affected Tax Office thinking, culture, process and language" (Eureka Strategic Research 2004). Since its introduction to NZIR four years ago, annual surveys demonstrate that staff support strongly and are committed to NZIR direction and values, including those represented by the compliance model.

Changed community perceptions of staff attitudes are evident in recent comments from business representatives that: ATO staff are more polite, engaging, and helpful; they have noticed a change in the ATO attitude over the last five years, compared with the "arrogant pigs" of fifteen years ago; and the ATO's presumption of guilt is changing (Rawlings 2005).

While there is no documented news of East Timor's use of responsive regulation, use of the compliance model has improved taxpayer compliance and collections in Australia. For example, the ATO has realized increases in revenue collections and decreases in deductions and losses claimed by high-wealth individuals (Braithwaite 2005). It has achieved significant results in terms of increased revenue in dealing with transfer pricing (the shifting of profits between subsidiaries of multinational companies) (ibid.: 95). For every million dollars spent by the tax office, there was over Aus$1 billion extra

tax collected (ibid.: 95). These outcomes are significant because these are taxpayers who are most able to choose the amount of tax they pay. They have the capacity to use tax avoidance that is relatively safe from tax office enforcement and surveillance activity.[2] In the cash economy project, lodgement of small business tax returns increased by 14 percent, and total business income declared was up by 29 percent in two years (Australia. Australian Taxation Office 2000). In 2004–05, an Aus$53 million outlay for cash economy projects has resulted in revenue adjustments of Aus$196 million (Australia. Australian National Audit Office 2006).

It is early days for NZIR in their use of responsive regulation, but there are also compliance improvements. In 2004–05, NZ$76 million in discrepancies in evasion cases was identified through work in the cash economy, and NZ$14.7 million in discrepancies from targeted Industry Partnership industries was identified, up from NZ$5.5 million in the previous year (New Zealand. New Zealand Inland Revenue 2005).

This story highlights how these organizations are translating a new idea to work responsively with the public to design and administer tax law and policy. While the risks to integrity varied between the three administrations, and there were different challenges to making organizational change, there are encouraging signs that responsive regulation is applicable to all three administrations. The ongoing success and adoption of responsive regulation depends on different occupational subcultures within the organization having the opportunity to change existing practices and procedures through translating responsive regulation, in order to meet both their own and their organization's needs. This new way of looking at the world walks hand-in-hand with the shift from administration to management, from having pre-ordained legitimacy to having to earn that legitimacy in the eyes of a skeptical public.

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NOTES

1. We are taxation officers whose work has involved development of a tax-specific model of responsive regulation in 1997, development of training programs for revenue administration staff, conducting information and training sessions about responsive regulation for revenue administration staff, surveying tax employees on their perceptions of and attitudes towards responsive regulation and its impact on their work, and analysis of the results of these surveys.
2. Our thanks to Richard Happe, University of Tilburg, The Netherlands for making this point during the presentation of this article at the "Managing and Maintaining Compliance: Closing the Gap between Science and Practice" Conference, Leiden, The Netherlands, 10–11 April 2006, organized by the Dutch Tax and Customs Administration in cooperation with the Dutch Ministry of Justice.

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