

Chapter 6

Short-term Experience with Responsive Regulation in the Australian Taxation Office

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In the closing decades of the 20th century, public administrators in many Western nations faced growing demands to restructure their traditional approaches to service provision and law enforcement. In some areas of public administration this was coupled with challenges to fundamental legitimacy. The new demands and attacks on the legitimacy of public administration emerged in a context of considerable intellectual debate over the efficacy of alternative approaches to state regulation. The net result of controversy and debate were fundamental changes in how public agencies do business. Nowhere was this more apparent than in the area of taxation administration, and developments in Australia are illustrative. The Australian Taxation Office (ATO) moved from its long established style of command and control administration and tax enforcement to a program of responsive regulation. It did so even as it faced the added challenge of implementing an unprecedented and sweeping program of taxation reform.

This chapter examines staff perceptions of and early experiences with the ATO program of responsive regulation. It begins with brief comments on the changing political, popular and intellectual environment of public administration at the dawn of the new millennium. This is followed by a review of how the ATO responded to the increasingly challenging environment of taxation administration and a brief explanation of the objectives of this investigation. An outline of the methods employed in our research is then presented. Drawing from interviews with ATO personnel, the bulk of the chapter is a discussion of what was learned about the implementation process and its reception by field level personnel. The chapter concludes with summary conclusions that may be useful for both the ATO and other public agencies contemplating or facing a shift to responsive regulation.

Background

Commencing in the 1980s, public administration came under growing state and public demands to become more market-focused, service-oriented, open and efficient (Hughes, 1994; Sparrow, 2000). Many of the management strategies and practices espoused by critics were borrowed from private enterprise. They focused

on 'service, customers, quality, and process improvement' instead of 'compliance management, risk control, or structuring the application of enforcement discretion' (Sparrow, 2000, p. 2). They required a shift from 'rigidity' with its focus on 'equity and due process' to 'flexibility' with a focus on 'results' (Hughes, 1994, p. 259; Gregory, 1999, p. 63). Change of this magnitude can be difficult, particularly for public agencies whose principal role is not service delivery but regulation or enforcement. Taxation agencies, for example, faced the challenge of implementing these reforms while simultaneously delivering obligations for compliance with taxation regulations (Sparrow, 2000).

Coupled with new demands on public administration generally were challenges to the legitimacy of tax systems. In some countries this began with reports of citizen or business outrage at abuses of power by tax administrations. In the United States, citizens charged that personnel of the Internal Revenue Service (IRS) were 'rude, abusive, or unhelpful', and also that 'the IRS retaliates against those who criticise it' (Report of the National Commission on Restructuring the Internal Revenue Service, 1997, pp. 1-2). There were complaints, moreover, that the IRS was 'reactive' rather than 'proactive', that customer satisfaction was low, and that the public believed the quality of IRS service was 'deteriorating' (1997, p. 11). As a result of these attacks, the National Commission on Restructuring the Internal Revenue Service was created and charged with recommending 'changes to the IRS that will help restore the public's faith in the American tax system' (1997, p. v).

The IRS did not stand alone as a target of citizen criticism, however. In the 1990s the Australian media increasingly drew attention to poor ATO practices and excessive use of power. There were charges of ATO harassment of 'small fry' to pay small amounts of money they owed while 'big debtors' were let off the hook (Sydney Morning Herald, 1996a, 1996b; The Age, 1996a, 1996b). ATO staff were accused of being 'bloodhounds' (Dobbie, 1993), who 'monstered' and 'tormented' taxpayers, and who launched 'covert attack' on them (Australian Financial Review, 1997; Anonymous, 1997a, 1997b, 1997c; Hunt, 1998). Accusations of excessive and unfair use of power (Gumley and Wyatt, 1996) were balanced with claims that the ATO was 'out of touch' and 'lacked understanding' of 'commercial reality' (Anonymous, 1997a, 1997b, 1997c). There were suggestions that the ATO's actions were 'morally wrong' (Sydney Morning Herald, 1996a, 1996b) and that poor ATO use of penalties 'threatened the integrity of the tax system' (The Age, 1996a, 1996b). Newspapers highlighted unacceptable internal ATO practice and sarcastically mocked ATO wastage of taxpayers' money (Sun Herald, 1996). Criticism and demands for change came from the community and government alike. These demands challenged the 'traditional' social order within the ATO and taxation administrations that operated in similar fashion.

Challenges to the practices and the legitimacy of public administration occurred against a backdrop of significant policy developments in the movement to enhance citizen and corporate compliance with regulatory rules (Parker, 2000). In

the preceding decades, the dominant approach to compliance assurance was one referred to as 'enforced compliance' (Shover, Clelland and Lynxwiler, 1986) or 'command and control regulation' (Aalders and Wilthagen, 1997; Dodd and Hutter, 2000). As seen by its supporters, this approach to regulation parallels the way criminal justice agencies and personnel typically approach their work. Drawing from the assumptions and principles of deterrence theory, advocates of command and control regulation call for precise and narrowly drawn rules, threatened penalties for non-compliance, and punishment for violators (Reiss, 1984; Grabosky, 1995; Dodd and Hutter, 2000). Critics, however, charged that command and control regulation builds on mistaken notions about business firms and the meaning of non-compliance, and these flaws make it unreasonable and ineffective in practice (Bardach and Kagan, 1982; Grabosky, 1995; Paternoster and Simpson, 1996; Aalders and Wilthagen, 1997; Vaughan, 1998). Deterrence based regulation, they said, could not accommodate what was learned about the nature of non-compliance; its 'one size fits all' conception of threats and punishment seemed poorly suited to the empirical realities of the matter.

Controversy over the merits of enforced compliance and other approaches to regulation prompted a synthesis known as 'responsive regulation' (Braithwaite, 2002). This is regulation that is 'responsive to industry structure in that different structures will be conducive to different degrees and forms of regulation' and also one that is 'attuned to the differing motivations of regulated actors' (Ayres and Braithwaite, 1992, p. 4). This style of administration is knowledgeable about and takes into account the problems, motivations, and conditions behind non-compliance. Strong emphasis is placed on educating firms about rules and assisting them in efforts to comply, while programs that rely principally on threats and the mechanical imposition of penalties are de-emphasised. The ATO adapted and extended the Ayres and Braithwaite approach to responsive regulation to include individual taxpayers and other entities, as well as the owners of firms. The ATO assumption was that different types of taxpayer have differing motivations and taxation structures and that regulating taxpayers responsively may encourage voluntary compliance.

Programs of responsive regulation legitimise and make available to officials a range of options when responding to compliance problems (Gunningham and Grabosky, 1998). The fundamental assumption is that a substantial proportion of taxpayers will self-regulate with minimal external monitoring so long as they are treated fairly by regulatory officials and are met with understanding and assistance should they encounter problems doing so (Tyler, 1990; Makkai and Braithwaite, 1996). For citizens and businesses that fail to comply despite appeals and cooperative actions, officials may escalate their responses and sanctions in proportional fashion. As the seriousness of infringements and the wilfulness they represent increases, officials may employ less conciliatory responses.

The ATO Compliance Model

In response to political questioning and regulatory policy debate, the ATO adopted several measures intended to make it more open and sensitive to the concerns of taxpayers. The most important of these measures, unquestionably, was its decision to develop and implement a program of responsive regulation for tax administration. This took the form of the ATO Compliance Model, which the Commissioner of Taxation publicly announced on 22 April 1998 (see Braithwaite, Chapter 1, this volume for further description of the Compliance Model). In the weeks preceding the announcement, face-to-face training sessions were conducted for all senior ATO staff to explain the Compliance Model, and in September 1998, a team of four ATO staff was established to raise awareness and understanding of it for all ATO personnel. As a member of this team, the senior author helped conduct formal training throughout the ATO for a twelve month period. Eventually, approximately 3000 ATO staff received face-to-face training in the Compliance Model by this team.

Objectives and Method

Although environmental pressures of the kind sketched here may help to create policy change in organisations, often they are not sufficient to ensure these will be institutionalised and become significant constraints on organisational direction and decision-making (Mitchell and Larsen, 1987). As Douglas (1986, p. 45) has noted, the ‘entrenching of an idea is a social process’, the outcome of which may be unpredictable. In the remainder of this chapter we examine some of the early challenges that adoption of the ATO Compliance Model posed for field level ATO staff whose work brings them into contact with taxpayers.

Between December 1998 and July 1999, the senior author conducted semi-structured telephone interviews with a sample of ATO staff who had completed the Compliance Model training course. These interviews explored the attitudes and perceptions of ATO staff towards the Compliance Model in the nine to eighteen month period following its introduction. They also explored the degree to which the Compliance Model and its underlying assumptions were gaining acceptance and use within the organisation. More specifically, answers were sought to the questions: (a) did staff see the Compliance Model as relevant to taxation administration generally and to their work in particular?; (b) were staff using its principles in their work, and did they think it was finding acceptance in the organisation?; (c) what changes, if any, had they seen in staff perspectives and practices?; and (d) what are some apparent sources of both support for, and resistance to, use of the Compliance Model?

Time was made also to pursue the concerns and contributions of respondents. Some shared their doubts about the Model, others recounted success using it, and several pointed to aspects of the organisation which hindered its acceptance and efficacy. Others shared stories of counterproductive behaviour in past years by ATO staff which they now recognised as being contrary to the principles of the Compliance Model. The interviews ranged from 10 minutes to approximately one and a half hours, with an average of about half an hour. During and immediately following the interviews, the senior author took notes on responses to questions and other information volunteered by the respondents.

An effort was made to talk with a variety of other staff as well, including some who had not yet attended the training course. In all, 46 staff from 22 different branch offices, covering all Australian states and the Australian Capital Territory, were interviewed. They ranged from junior level operatives to the upper levels of middle management. The majority of respondents, however, were employed as staff in branch offices where ATO personnel have most day-to-day contact with taxpayers.

Research Findings

Perceived Legitimacy

To be accepted, a new administrative approach must be perceived as legitimate or reasonable in that it meets the goals of both the organisation and its staff (Mitchell and Larsen, 1987). The legitimacy of a new regulatory approach in part is based on its efficiency and effectiveness. Does it facilitate accomplishing the substantive goals defined by the organisation's political mandate while also maintaining a working atmosphere for staff in which learning, resourcefulness, and pride in accomplishment flourish? Staff must come to believe that the new approach is 'a potential solution to the problem' and that the shift to it can be accomplished without excessive turmoil' (Mitchell and Larsen, 1987, p. 550). To the extent a new approach gains legitimacy, it gains strength as a constraint on decision-making. The interviews conducted for this study suggest the Compliance Model instituted at the ATO was seen as legitimate and superior to command and control administration by a majority of the staff interviewed.

ATO staff members interviewed indicated that they wanted and were prepared for a change that promised increased efficiency. They readily acknowledged they wanted to be less reliant on the 'cut and dried' rules and guidelines they had worked with for so long. Independently, they had come to question the merits of command and control policies, particularly since they had failed to ensure compliance by some taxpayers. Many thought that in difficult cases of taxpayer non-compliance, the Compliance Model could be an effective solution. They saw promise in it, in part because it gave them ideological support for tailoring agency responses to suit individual cases. As one respondent put it:

The Compliance Model gives staff a mandate to deal with taxpayers in the most appropriate way for that taxpayer. This was not the case before. Previously, audit staff had to concentrate on getting in the dollars and on doing those cases which were the most extreme and would reap the greatest dollar benefit for the ATO.

The legitimacy of the Compliance Model for some respondents also evolved from the way it reduced their uncertainty and fear when they creatively adapted agency resources to address difficult cases. They enjoyed the new latitude and 'breathing space' afforded them by the increased capacity to customise responses to the case at hand, that is, to use their discretion as Black (2001) describes. Some staff, moreover, spoke of the new feeling of security and validation they gained from regulating responsively:

[The Compliance Model] justifies and protects ATO staff. Staff get comfort from knowing they have other options [than audit and prosecution].

They recounted how they benefited from the reinforcing qualities of an 'action plan' that structures and guides the resourcefulness called for by the Compliance Model:

In the past after a review was done, officers were left with no path to follow. The Compliance Model shows a complete compliance program. It gives staff a path to follow.

The Compliance Model gives the basis for making cultural change. The desire to make this change is not just the rhetoric of the leaders. The Model gives us a different framework for dealing with any activity in the future.

Such comments suggest that staff felt empowered and personally reinforced by the Compliance Model. During the period in which the transition was made from a formal approach based on definitive prescriptions for forcing compliance to a less formal approach based on creative use of resources to encourage compliance, feeling empowered can be critical for agency success. With the command and control model, staff felt powerless to make change when policies were not effective. Much of the time, they had no avenues by which to gain compliance other than through the use of threats. The Compliance Model, in a very real sense, gave them permission to 'think on their feet', which helped to develop their capacity for making judgments on a case-by-case basis.

For some, then, the legitimacy of the Compliance Model was bolstered by belief that it is more rewarding to staff personally to encourage user-friendly compliance than to impose mechanically the penalties prescribed by command and control administration. One manager told us that his team members were 'happy working this way, because it is a better, nicer way and they are seeing a changed

response from the public'. He also said that the relationship between the ATO and the industry group he was working with had improved. Communication was enhanced because 'working this way builds a greater rapport with the taxpayer'. Consequently, he felt 'much happier working this way'. Respondents, moreover, appeared to realise that when both parties to a transaction are happy with the results, future transactions become much easier to negotiate.

Adoption and use of the Compliance Model also contributed to increased job satisfaction for some staff. Respondents suggested, for example, that it improved the quality of communication when compliance issues were raised with management. Respondents reported that staff were talking about the Compliance Model and its principles during meetings with management and were pointing to how it 'said' certain factors must be considered. One team leader made the point that 'staff are trying hard' to embrace the Model and change the way they work for the better. He also said that he had 'seen an improvement in sharing best practice, sharing stories in meetings, and an increase in discussion [among staff] about cases'.

This officer had noticed a decrease of the old 'audit culture' that had supported the use of punishment driven compliance and an increase in the ability of ATO staff to develop new strategies. His team had regularly discussed the Compliance Model and had used case studies to practice using its principles. These are examples of learning and confidence building via practice and staff discussions, which are tools that have been found to be very helpful in learning to regulate responsively (see Braithwaite, Chapter 9, this volume; Shearing and Ericson, 1991; Sparrow, 2000).

By improving staff communication, the Compliance Model also improved inter-staff relationships. One person commented that the team she worked in was thinking not only about how the Compliance Model fosters better communication between ATO staff and taxpayers but also between staff members themselves. She believed this change in thinking had occurred because of the 'support' and 'encouragement' of their manager, and that the team had received effective training in the use of the Compliance Model. She added that the team enjoyed doing the training because it was 'interactive' and that there was talking afterwards within the team about the training and what it meant for their work. As a result of the increased quality of staff interactions, many interviewed staff reported being happier with the quality of their work and with the response they were getting from taxpayers.

Overall, the interviewed staff perceived implementation of the Compliance Model as a legitimate goal for the ATO. The strong points of the Compliance Model were reported to be that it encouraged staff creativity and sensitivity to the needs of individual taxpayers. It provided guidance for staff as they developed taxpayer specific plans of action, it developed the capacity of individual staff for making judgments or 'thinking on their feet', it increased job satisfaction among the staff, it improved communication between staff members and between staff and

management, and it improved ATO/taxpayer relationships in many of the more difficult cases.

This is not to deny, however, that difficulties inevitably emerge which must be faced when putting in place new policies. This may be true particularly when efforts are made to do so in large organisations, where both organisational and individual level barriers or constraints may prove difficult to surmount. Our interviews suggest this was the case at the ATO.

Organisational Barriers

When implementing far reaching programs like the Compliance Model in a large bureaucracy like the ATO, research has shown there can be resistance to change. Kanter (1989) found that 'in the traditional bureaucratic corporation...narrowly defined jobs constricted by rules and procedures also tended to stifle initiative and creativity' (p. 280). Some of our respondents noted how this tendency to play by the rules or maintain the status quo in the organisation manifested itself in various structural barriers to full implementation of the Compliance Model.

An important barrier arose from the fact that communication, networking, and mutual support can prove difficult in a large, segmented organisation that also serves a vast geographic region. At the time the interviews were conducted, the ATO employed 19,000 staff split into 12 divisions, with 34 separate offices spread out over a country of 7,692,030 square kilometres (Commissioner of Taxation, 2000; The Europa World Year Book, 2001). The result can be a sense of operational and individual isolation. The impact of this on some offices in this structure is that 'staff memory' tends to be more local than organisational. In other words, issues of concern to the bureaucracy as a whole may not be salient for offices and staff in far flung parts of the ATO's jurisdiction. The implementation of an innovative idea like the Compliance Model in a hierarchical and segmented organisation like the ATO required the institution of procedures at all locations that ensured effective leadership, good communication between management and staff when problems arise, and creation of staff opportunities for mutual support and knowledge sharing sessions when needed.

Another barrier to implementation stems from staff being presented with unfamiliar tasks caused by adoption of the Compliance Model. Interviewed staff who had focused for many years on the same type of work faced new challenges when learning to regulate responsively. These challenges varied from case to case, from person to person, and from office to office, making differing demands on each staff member's particular skill set. In some cases there appeared to the respondents to be a single skill, single focus mind set that served to limit acceptance of the new approach:

There is a definite understanding that the Compliance Model is applicable to the ATO generally, but not necessarily to [a staff member's] work in particular.

Staff are not looking at the connections between the Compliance Model and what they do in their work...there is a lack of feeling that it is a 'whole thing'. People are just focusing on bits of it.

Another respondent told us that 'too many people have stayed in the one job for too long and now find it difficult to change'.

Our interviews suggest that acceptance of and the ability to make use of the Compliance Model depended somewhat on the type of work staff performed; thus, specialisation and having a defined skill set constrained the ability of some staff to take a broad, organisational view of compliance. The ways in which activities like audit and help and education could be related was not clear to them, and this caused confusion. Some respondents held the view that staff with a 'rulebook mentality' were most likely to resist taking on the responsibility of thinking for themselves. For example, those whose work traditionally focused on long-term investigation of past taxpayer activities were less accepting of the future-oriented activities of the Compliance Model. One interviewee showed his lack of interest in the model when he stated:

The Compliance Model is irrelevant in ninety five per cent of dealings with clients. We should start again...go back to audit and refine the way we do audits. We could have refined the audit process. [Instead] we just said it wasn't working.

By July 1999, a feeling had grown in some ATO branch offices that:

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 compartmentalise activities. The reason is that different skills are required and many staff do not have the skills to do the help and education work.

Acceptance of and ability to use the Compliance Model seemed to come more easily in those parts of the organisation that did client contact work aimed at helping taxpayers. One manager of a team with a client contact focus commented that his team thought the Compliance Model was simple and easy to grasp. He and his staff viewed this as a positive thing because it helped them readily develop their own thoughts on help and education. On the other hand, staff whose work had a long-term and in-depth investigative focus reportedly were unaccustomed to 'thinking on their feet'. Such skills are required by an eclectic administrative style like the Compliance Model, which integrates several formerly separate approaches.

One barrier noted by the interviewed staff was the existence of an 'entitlement culture' at the ATO in which some managers and staff do not routinely question the relevance or feasibility of a new idea that administration puts before them. In

this situation, staff did not do things for themselves or initiate action on a problem but instead wait for others to make the needed changes. In addition, management can buy into this status quo mode of thinking and influence staff members to accept the way things are. For example, one staff member commented that using the Compliance Model was not easy because a senior manager in his branch office had 'views' about staff using personal judgment rather than following policy and established guidelines. This example highlights Black's (2001, p. 14) comments on the role of leadership in 'defining' organisational culture. A manager's world view has a strong influence on the approach staff take to their work, and the acceptance or otherwise of a change in the way they work.

In sum, organisational barriers to implementation of the Compliance Model at the ATO that were noted by our respondents include inherent constraints on communication in a large, segmented organisation spread out over a vast area, the unfamiliarity or newness of the tasks presented to staff by the adoption of the Compliance Model, the lack of experience of some divisions with people-oriented activities, and the existence of a culture at the ATO in which staff do not attempt innovation, but rather wait for others to make changes to established routines.

Individual Level Barriers

Other barriers to be faced in the implementation of a new administrative style arise not from organisational characteristics, but instead from individual level concerns. For instance, resistance or political activity by powerful individuals or small groups may serve to block or limit the change (Mitchell and Larsen, 1987). Interviewed staff indicated that both these problems occurred in the ATO in the early days of transition to the Compliance Model. Resistance was manifested in abstinence from action by sympathetic staff and a resulting tendency toward the status quo. Some staff perceived that auditors and other groups with high status were acting, albeit passively, to block the changes.

Many of those interviewed spoke of their enthusiasm about and their attempts to use the Compliance Model. However, one problem noticed by those interviewed was that some individuals simply seemed afraid to embrace the new model. They were afraid to change 'old rules', or to experiment with something new because they did not want to make a mistake. Others lacked confidence in their ability to take on something new; they feared losing their skills and status if they 'looked stupid'. Still others were afraid of being reprimanded for mistakes or oversights when they tried something new. Staff members in this group did not personally pursue implementation of the Compliance Model; they preferred simply to work the way they always had. One respondent noted that:

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.

Our respondents noted that for some, fear of change manifested itself in criticism of academics and their theories. Some ignored the Compliance Model, saying it was just theory that had not been tested in the taxation arena. One person suggested that there was 'an anti-intellectual bias in the organisation and anything intellectual is mockingly dismissed'. This cynicism seems to have disguised a fear of change, highlighting what Kanter (1983, p. 92) called the reinforcement of a 'culture of inferiority'. In a very real sense, 'outsiders' who come into an organisation, suggest new ideas and achieve success, can serve to make 'insiders' depressed about their abilities. In such a situation, there are few opportunities for change for the better.

Some respondents had noticed that fear of change seemed to manifest itself in a lack of confidence for some staff members, which was accompanied by discomfort when asked to work with the Model. This problem seemed to be one of inexperience, as staff were not used to applying the higher levels of personal judgment asked of them by the Compliance Model. Two respondents talked of this discomfort among the staff:

[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...staff need greater clarity about what the lower level of the Compliance Model is all about.

It is hard to be soft one time and tough the next...[It is] hard to be all things.

For some, to be both 'soft' and 'tough' was to exhibit 'questionable behaviour'. Rather than appear to be clumsy implementers, some staff appear to have used a 'corporate myth' to rationalise protecting command and control administration at the ATO and the way they had always worked. Such myths have been found to warn group members away from 'unacceptable' behaviour (Douglas, 1986). In this case, the myths helped some staff to rationalise that it was best to uphold the clear cut rules of the 'enforced compliance culture'.

We were told that some staff feared the undesired consequence of a loss of status because their specialised role perhaps would no longer be valued, due to the new focus in the ATO. Hollander (1964) described this individual barrier as feelings of lack of security. Much of this concern about loss of status appeared to some respondents to be due to mistaken interpretations of the Model. Many auditors were found to have the mistaken impression that the Compliance Model meant they and other auditors should be doing 'help and education' work, as audits had become a thing of the past.¹ Still other auditors believed there were simply no

other options for them to be anything but tough and impersonal. Some perceived no need to try and understand the taxpayers they were dealing with. Typical were the two respondents who said:

By the time a taxpayer gets to the auditors, they are all crooks. [Auditors] have to be tough; [auditors] can't be nice or soft.

Staff can't do both help and audit work...that's changing hats midstream. Why do I want to distribute pamphlets? I have tertiary qualifications. Half of the help and educate staff don't have tertiary qualifications.

Thus, the ATO's adoption of the Compliance Model was perceived by some staff as undermining revered positions that had the 'superior' skills of auditing and legislative drafting. Other staff reportedly avoided becoming victims of this all or none mentality and, as a result, were able to develop an understanding of the holistic nature of responsive regulation (see Hobson, Chapter 7, this volume for a description of working within the model).

A related personal barrier some staff had to surmount was belief that the Model required use of skills they did not have and did not value, such as the 'people' skills required to educate and provide assistance to taxpayers. The issue for them was not the 'specialist versus the generalist' argument discussed above. Rather it was whether they had the ability to 'mesh' what they do with the prevailing desired organisational goals or outcomes. Additionally, some auditors believed that having to do other types of work would contribute to the loss of their specialised skills and the loss of ability to maintain the quality of their auditing work.

Other individual level barriers to implementation noted by the respondents revolved around the degree to which leaders endorsed and visibly practiced the Compliance Model. Successful implementation of a new approach requires not only effective management but also leadership. 'Leadership and management differ in that management is designed to promote stability or to make the organisation run smoothly, while the role of leadership is to promote adaptive change' (Wood, Wallace, Zeffane, Schermerhorn, Hunt and Osborn, 1998, p. 524). Leaders can serve as role models for those less sure of how to proceed. On the other hand, lack of leadership can prove to be a powerful constraint on implementation efforts. Some of our respondents believed this occurred at the ATO, as lower level staff looked to senior staff for 'permission' to adopt the new approach. One told us that 'those at the lower levels might be aware and understand, but they will not do it. They will wait until told by their managers to do it'.

A recurrent theme in our conversations with ATO staff members who had received training and who had experience using the Compliance Model was belief that staff do not buy into a new approach as readily when management does not

meaningfully involve them in decision-making. Researchers have consistently found that one of the basic requirements for effective implementation is communication and consultation with those affected (Hollander, 1964; Argyle, 1972; Wood et al., 1998). Staff participation in management decision-making has been linked with positive worker attitudes, organisational loyalty, and feelings of security and job interest among workers (Hollander, 1964). The Compliance Model training sessions were a positive contribution to implementation for some staff in that they signalled that management was giving them an opportunity to understand where the organisation was going. For others, the training sessions had a negative effect on their attitudes toward the Model and their feelings of security within the organisation. This may have been partly because their participation was not active and they perceived the sessions as simply a 'token', sometimes 'contrived' to get staff to do what management wanted (Hollander, 1964, p. 41). Indeed, some respondents believed they had little or no real input in the implementation process:

ATO staff are tired of talking about it. They put ideas up to management and never hear of any action, so they lose enthusiasm.

Staff just get it done to them...there is reduction by stealth. Staff had no opportunity to provide input to these things. They were just told it was happening.

Perceptions of token efforts by management can have multiple negative effects on staff (Hollander, 1964). For some staff, disappointment at lack of participation in decision-making during the implementation stage developed into accusations of lack of support in general and a questioning of management honesty:

[Senior] management is too hard to understand. They either give too much detail or not enough. Managers need to be honest and show that staff ideas and input are valuable. Managers need to lead by example...Too many managers leave staff to take the blame and do not support them.

The respondents frequently expressed the view that before staff would fully adopt the Compliance Model their managers had to demonstrate their acceptance of and enthusiasm for its principles. This need for managers to lead by example was also characterised as the need for them to 'walk the talk'. The respondents believed a manager's behaviour should visibly model the principles of the Compliance Model. If it did not, efforts to implement a new administrative approach can be severely compromised:

Much depends on team leaders. They need to talk about the [Compliance Model with staff].

Staff have to see managers at all levels doing it.

Team leaders must be supportive.

If a manager is negative, staff will be negative. They won't speak up and will drift with the others.

There was the perception of some staff that 'middle management is one of the main blockers' and that some managers had not bought into the Compliance Model to the point they were actively pursuing it in their divisions:

Managers and directors are not fully responding despite all the work that has gone into them.

Senior people know and understand the Compliance Model but are just paying lip service to it. They can get away by just referring to it in documents without having to do anything else.

Some staff commented that their managers were 'too busy' to be actively thinking about implementing the Compliance Model. Other staff noticed evidence of passive resistance by leaders who represented special areas of interest. Commenting about one group of specialist staff who were viewed as leaders, one respondent said:

If we are about change and doing things differently, they will come along for the ride, [but they will] be passive, [they will be] blockers. They filter information, and they have a position of power, and they can use it wrongly [because] they want to be comfortable. They create the environment for lower level staff.

Several staff commented that it was the Compliance Model itself, which was providing leadership to the ATO by setting direction and setting up avenues of support for both management and field staff. Some believed that if they used the principles in the Compliance Model, managers would offer more support for how they did their job. If a manager is only paying lip service to or is passively resisting the Compliance Model, then the inspiration and direction it can provide for the organisation cannot be utilised. One person stated that:

There has been some lack of direction from the top in the past. Staff felt that management were just going around in circles and doing the same things over and over because they didn't know where [else] to go. No one knew where they were. Staff did not know where they stood. [We are] starting to get a feeling amongst staff now that leaders are getting it a bit more consistent. Everyone needs to know where they stand at all times.

A final barrier to implementation that was noted by our respondents was that some managers might lack the interpersonal skills needed to stimulate, inspire, and

encourage staff in innovative initiatives. The groups with managers that have such 'people skills' may be the most likely to experience success with the innovative Compliance Model. In the words of one respondent:

A manager makes the section. [They make] a big contribution, [so] the ATO should look at managers' personalities and see if they are suitable to be managers who will take on change and encourage others to do so...[It] needs to identify the personalities and plant them in the right place...spread them around.

Some staff expressed the belief that the ATO should actively recruit these social skills necessary for the implementation of the Compliance Model:

Give them a problem to solve and look at how they do it...the way they think...the processes they use to solve the problem...See if their attitudes reflect the type we want in the ATO.

Staff comments suggest that a manager with technical skills aplenty but few social skills or a manager that is too busy to actively pursue innovation may not be the best candidate to lead, aid, and inspire implementation of the Compliance Model. For many of those interviewed, the implementation of a user-friendly, people-oriented program like the Compliance Model requires a communicative leader with good social and verbal skills. Leaders who lack these attributes impede organisational efforts to reform or change.

In sum, it appears that many individual level constraints acted to circumscribe the effectiveness of efforts to implement the Compliance Model. They include: (a) passive resistance to the model by some individuals in positions of power; (b) staff member's fear of making mistakes when changing long established rules and procedures; (c) lack of trust or faith in academic theories; (d) a staff member's discomfort with the idea of using higher levels of personal judgment in dealings with taxpayers; (e) a staff member's fear of loss of status or job security due to specialised roles no longer being valued; (f) lack of effective, innovative leadership by some managers; (g) lack of management inclusion of staff participation in decision-making during the early stages of implementation; (h) lack of management acceptance of, and enthusiasm for the Compliance Model; and (i) management not possessing the social skills required to inspire and encourage innovation.

Summary and Conclusion

The changes required if the Compliance Model was to find acceptance and use by staff of the ATO were cultural, organisational and personal. Taken together, they amount to a need for revamping the way the organisation ‘thinks’ (Douglas, 1986). Change was required in formerly routine practices, in the way tasks were accomplished and in the way tax officers interact with taxpayers, colleagues and managers. More open communication and negotiation at all levels of ATO staff were needed. The promised payoffs would include continuous learning, smarter regulatory practice, and improved performance in managing compliance.

Organisational and individual responses to mandates for change, however, are constrained significantly by the ‘meaning, which different groups attach to [it]’ (Silverman, 1987, p. 183). Not surprising, therefore, the authors found that the introduction of responsive regulation met with dissatisfaction and resistance from some ATO staff. They saw the approach as neither a solution to important problems nor a preferred alternative. Their stance was grounded in belief that it did not meet either personal or collective goals. Unpersuaded by or uncommitted to the Compliance Model, they feared losing specialised skills and status. For them, the Compliance Model created nothing so strong as uncertainty and anxiety.

Whilst some feared the consequences of adopting and using the Compliance Model, they were more than balanced by others who welcomed it. These staff members saw that it could be made to serve practical ends for ATO personnel and taxpayers alike. It appealed cognitively to nearly all those we interviewed; it ‘made sense’. Some staff were enthusiastic about the Model and enjoyed sharing stories of success using it. They reported changes in attitudes, understanding, and work practices. The majority believed that the Compliance Model furthered personal and collective goals whilst it also provided legitimacy and direction for the future.

Those who reacted favourably to adoption of the Compliance Model and subsequent training believed they had gained an increased awareness of developments in the ATO. They were more willing to take on new ideas and wanted to keep up to date with what was happening in the organisation. This also indicated a need within the ATO for more talking and sharing of experiences, which is an integral part of learning to regulate responsively. Many realised that the Compliance Model had given them the opportunity to make suggestions about new ways of working and to participate in decision-making. It is noteworthy that staff wanted rewards for their ideas, suggestions, and their attempts to adopt the Compliance Model. For many of those we talked with, it was not financial reward which was important but intrinsic rewards such as praise and gratitude (Kanter, 1983). As King (1990, p. 19) notes, ‘[f]eedback and recognition from supervisors have been found to play an important role...[and] appropriate feedback...[is] an important facilitator of creativity...while one of the obstacles...is lack of appreciation of creative accomplishment’.

To facilitate adoption of the Compliance Model, ATO staff need to be given the time and encouragement to practice the skills of responsive regulation, using story telling, problem solving, and the design of new methodological tools. Staff reported an awareness of these needs. Our interviews reveal clearly that they believed they did not have all the skills they needed to work with the Compliance Model. Lack of appropriate skills among staff can be detrimental to change and reinforce the old culture. Thus, one staff member pointed out that:

There is an issue around skilling and retention of skills. Those with field audit skills have left the ATO or are not using these skills. When people are unskilled the way they handle a tough taxpayer is by using nasty behaviour. It is hard to get them to step back and be objective.

ATO staff welcome acquisition of new skills of report writing and the interpersonal skills they will need to work with and negotiate effectively with taxpayers. They recognise, moreover, that change is a long term process.

Note

- 1 Audit work 'traditionally' has been regarded [by auditors within the Australian Taxation Office] as the 'real' work of a taxation administration. Auditors had a particular status within a tax office and were seen as members of an elite club. In the days when much of a taxation administration's work was transactional, audit staff possessed specialised skill sets, often developed formally as well as on the job. Auditors competed amongst themselves to raise revenue. The auditor raising the highest amount of revenue during the year received organisational recognition, and a 'god-like' reputation.

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