An Examination of Learning Processes
in a Public Service Organisation in Indonesia

Submitted by
Puspita Wulandari
BE. (Management), University of Indonesia, Indonesia
MBA. (Finance & Banking), University of Gadjah Mada, Indonesia

'A thesis submitted in fulfilment
of the requirements for the degree of
Doctor of Business Administration (DBA)

Australian Graduate School of Entrepreneurship
Faculty of Business and Enterprise
Swinburne University of Technology
Victoria, Australia

2007
Abstract

Organisational learning is a significant means for organisations to deal with unstructured problems posed by changing environments, either internal or external to organisations (external change includes globalisation and hyper competition). However, organisational learning discourse lacks both research in public organisations and a deep analysis of learning processes. A complete theory of organisational learning which gives attention to learning processes is yet to be proposed.

This study is about organisational learning in a public service organisation in Indonesia. This study focuses on examination of learning processes in that organisation to obtain a rounded understanding of organisational learning within the organisation. An examination of learning processes enables this study to identify the influence on learning of internal and external organisational environments or contexts. For this reason, this study borrows from Bandura's social cognitive theory to inform the analysis.

Organisational learning consists of individual learning on behalf the organisation. Therefore, this study places individual learning (represented by individual learning experience) as the primary focus for data collection and analysis. This study employs narrative theory to inform the understanding of human experiences. Narrative theory holds that human experience is best captured by narrative.

In the discussion, the evaluation is based on five crucial elements of organisational learning: change, learning incentives, accessibility of the
lessons from individual learning to others in the organisation who would benefit from them, actionability of the lessons, and the effects of learning on organisational outcomes or performances. The conclusion is that organisational learning occurs in the studied organisation through double-loop learning, either in simultaneous or local learning, which is motivated by responses to internal and external contexts. This runs counter to scholarly views that public organisations do not cultivate learning due to bureaucratic structures. The evidence shows that deficiencies in the structural arrangements of the organisation lead people inside the organisation to engage in experiential and vicarious learning.
Confidentiality

Except where proper names and dates have appeared in public documents and are readily available to the general public through the medium of television, newspaper, all names have been changed to ensure confidentiality of the organisation and individuals.

Statement of Authorship

I wish to declare that this thesis contains no material published somewhere else or material extracted in the whole or in part from a thesis that has been submitted for the award of any other degree or diploma.

This thesis has not used another person's work except where due reference is made in the text of the thesis.

This thesis is solely made by the author,
Signed by: Puspita Wulandari, sole author of this thesis.
Acknowledgements

I am pleased to acknowledge the supervision of my coordinating supervisor, Dr. Geoffrey Drummond. Supervision is a matter of blending professional practice with friendship and in this matter Dr. Drummond has been an outstanding supervisor. His interest in, and understanding of, narrative and learning has been inspirational. His humour, patience, and encouragement have also facilitated the completion of this thesis.

It is also appropriate to mention Dr. Jillian Stewart, who for some times was my associate supervisor. She helped me to shape my research proposal in the very early stages of this study.

I am indebted as well to Prof. Chris Christoudolou, the former Director at the Research of Australian Graduate School of Entrepreneurship, Faculty of Business and Enterprise, Swinburne University of Technology, for his encouragement.

To those many academic and administrative staff at Swinburne University whom I have met in the process of undertaking the Doctor of Business Administration, my deepest thanks for your kind help.

To those many staff of the Indonesian public service organisation, who supported, and participated in, my study for the Doctor of Business Administration, my deepest thanks for your kind help.
To those many friends whom I met in the process of completion of this thesis, my deepest thanks for your warm friendships which positively influenced my motivation to finish my study.

Many thank to Rob Sheehan, Sharp Words Editing and Writing Services, who provided editorial support on later drafts of my thesis.

Finally, I would like to give my deepest thanks to my husband, Surono, my daughters, Samy, Amy, Dine, for their love and patience, my parents for their support. They deserve as well my apologies for the inconvenience.
Table of Contents

Abstract
Confidentiality
Statement of authorship
Acknowledgements
Table of contents

Part 1 Overview & Theoretical Foundation

Chapter 1 Overview of the study

1.1. Topic of the study
1.3. Aims of the study
1.4. Learning and human performance
1.5. Learning and narrative
1.6. Phases of the inquiry
1.7. Setting of the study
1.8. Structure of the thesis

Chapter 2 Organisational Learning and Learning Theory

2.1. Organisational learning emergence and growth
2.2. Anthropomorphism of organisational learning
2.3. Relationship between individual learning and organisational Learning
2.4. Individual learning and learning incentives
2.5. Group learning
2.6. Organisational learning definitions 23
2.7. Single-loop and double-loop learning 27
2.8. Experiential learning and vicarious learning 29
  2.8.1. Experiential learning 30
  2.8.2. Vicarious learning 33
2.9. Organisational learning and effectiveness 35
  2.9.1. Organisational learning effectiveness - process view 35
  2.9.2. Organisational learning effectiveness - outcome view 38
2.10. Organisational learning and learning organisation 39
2.11. Organisational learning and learning theory and research Questions
  2.11.1. Identifying learning (the second sub research question) 40
  2.11.2. The occurrence of learning (the third sub research question) 41
  2.11.3. Identifying organisational learning (the fourth sub research question) 42
  2.11.4. Identifying effectiveness of organisational learning (the fifth sub research question) 43

Chapter 3 Social Cognitive Theory 44
3.1. The concept
  3.1.1. Triadic reciprocity 45
  3.1.2. Agency perspective 48
3.2. The basic human capabilities
  3.2.1. Symbolising capability 49
  3.2.2. Forethought capability 49
  3.2.3. Vicarious capability 50
  3.2.4. Self-regulatory capability 50
  3.2.5. Self-reflective capability 51
3.3. Linking social cognitive theory to narrative 52
3.4. Linking social cognitive theory to individual learning 54
  3.4.1. Experiential learning 55
  3.4.2. Vicarious learning 57
  3.4.3. Human capabilities and learning 58
3.5. Linking social cognitive theory to organisational learning 59
  3.5.1. Organisational learning and the context 59
  3.5.2. Agency perspective and learning level 61
3.6. Social cognitive theory and research question 61
  3.6.1. The occurrence of learning (the third sub research question)

Chapter 4 Narrative theory 63
  4.1. The existence of narrative 63
  4.2. Narrative knowing 64
  4.3. Narrative and human experience 66
  4.4. Plot and emplotment 68
  4.5. Narrative theory and research question 71
    4.5.1. Understanding of learning (the first sub research question) 71

Chapter 5 Research Methodology 72
  5.1. Research paradigm 72
  5.2. Research method 73
  5.3. Research design 75
  5.4. Data collection 77
  5.5. Data (evidence) presentation 80
  5.6. Data (evidence) analysis 83
Part 2 Empirical Description

Chapter 6 An overview of the Organisation

6.1. Introduction
6.2. A brief history of the Organisation
6.3. Vision, mission, functions and performance measurement of the Organisation
6.4. Hierarchy in the Organisation
   6.4.1. Office hierarchy
   6.4.2. Management level
6.5. Modernisation of tax administration
   6.5.1. Change of organisation structure
   6.5.2. Change of people attitude

Chapter 7 Individual Experience 1: People versus Organisation

7.1. Introduction
7.2. Modernisation
   7.2.1. The drivers
   7.2.2. Modernisation team
   7.2.3. Problems in modernisation
   7.2.4. Evaluation of modernisation
7.3. Career path

Chapter 8 Individual Experience 2: Commitment to change

8.1. Introduction
8.2. Commitment is everything
8.3. Modernisation and career path
8.4. Modernisation and account representatives
8.5. Modernisation team: ad hoc or permanent? 122
8.6. The importance of planning 123

Chapter 9 Individual Experience 3: We look like a fire brigade 124
9.1. Introduction 124
9.2. Tax administration process and organisation structure 124
  9.2.1. Organisation structure 127
9.3. Issues in modernisation 128
  9.3.1. Data Processing Centre (DPC) 129
  9.3.2. Database 129
  9.3.3. IT development 132
  9.3.4. IT-based work system and underused thinking ability 132
  9.3.5. IT, workflows, and form 134

Chapter 10 Individual Experience 4: 137
I am happy to benefit others
10.1. Introduction 137
10.2. Experiencing with lateral communication issues in work coordination 137
10.3. Experiencing with works 141
  10.3.1. Learning the new job 141
  10.3.2. Learning the job by experience 141
  10.3.3. Observe then reflect 143
  10.3.4. Modernisation and motivation 144
Chapter 11 Individual Experience 5: The interpersonal world 145

11.1. Introduction 145

11.2. Workplace environment 145
   11.2.1. Challenging the boss 146
   11.2.2. The boss reaction and the solution 148
   11.2.3. Maintaining relationships with the boss 149

Part 3 Discussion

Chapter 12 Syntheses of Theory and Practice 152

12.1. Understanding learning through narrative 152

12.2. Identifying learning through the effect - change 152
   12.2.1. Past experience and change 152
   12.2.2. Current experience and change 154

12.3. Understanding the causes that lead to learning 166
   12.3.1. Past experience and the occurrence of learning (the cause) 166
   12.3.2. Current experience and the occurrence of learning (the cause) 169

12.4. Understanding organisational learning 182
   12.4.1. Individual learning 183
   12.4.2. Group learning 186
   12.4.3. Organisational learning 188

12.5. Identifying the effectiveness of organisational learning 191
   12.5.1. Process view 191
   12.5.2. Outcome view 192

12.6. Conclusion 194

12.7. Direction for future research 196
References

Appendix

Appendix 1  Participants list 210
Appendix 2  Hierarchy of offices in the Organisation (in transition period to modernisation) 211
Appendix 3  Hierarchy of offices in the Organisation (after modernisation) 212
Appendix 4  Configuration of operational offices & regional offices in Jakarta area (in transition to modernisation) 213
Appendix 5  Configuration of operational offices & regional offices in Jakarta area (after modernisation) 214
Appendix 6  Hierarchy of position in the Organisation (before modernisation) 215
Appendix 7  Hierarchy of position in the Organisation (after modernisation) 216
Appendix 8  Breakdown of government revenue, taxation revenue, & tax revenue 1979 - 2005 (in million Rupiah) 217
Appendix 9  Breakdown of government revenue, taxation revenue, & tax revenue 1979 - 2005 (in percentage) 218
Appendix 10  Regional tax revenue between 2004 & 2006 219
Appendix 11  Starting & maximum grade for managerial & specialist positions 220
Appendix 12  Grade in managerial positions 221
Appendix 13  Grade & credit points in tax auditor positions 222
Appendix 14  Personnel statistic as 1 January 2006 223
Appendix 15  Actual & estimated tax revenue, tax ratio & GDP 1990 - 2009 224
List of Figures

Figure 1.1. Phases of the inquiry 10

Figure 2.1. Lewinian experiential learning model 19
Dewey's model of reflective thought and action 20

Figure 3.1. Triadic reciprocality between behaviour, cognition and Environment 44

Figure 3.2. Learning through the consequences of action 56

Figure 9.1. Tax administration process 126

Figure 12.1. Changes in past experiences of learning within the Organisation 154

Figure 12.2. Changes in individual experiences: People versus organisation, and commitment to change 158

Figure 12.3. Changes in IT learning 161

Figure 12.4. Changes in individual experience: I am happy to benefit others 164

Figure 12.5. IT learning to accommodate modernisation 175

Figure 12.6. IT learning to accommodate unexpected consequences 177

Figure 12.7. Creation & termination of temporary placement Program 180
List of Tables

Table 2.1. Definitions of organisational learning 24
Part 1 Overview & Theoretical Foundation
Part 1 Overview & Theoretical Foundation

Chapter 1
Overview of the Study

1.1. Topic of the study

This study is about organisational learning in a public service organisation in Indonesia. Organisational learning discourse has gained considerable attention since Cyert and March (1963) posited their behavioural theory of the firm and argued that organisations learn from their experience. Organisations learn by drawing lessons from their experience, that is, their past successes and failures (Argyris & Schon 1996). They argue that organisations may decline or close if they fail to identify and react to early warning signals calling for change. Organisations must learn to anticipate and respond to threats from rapidly changing environments, especially where globalisation and advanced technology introduce radical changes. It is hard to disagree with the view that learning is a requirement for the survival of organisations (Kim 1993; Dogson 1993; Lahteenmaki et al. 2001).

Organisational learning is a term used to explain learning activity in organisations (Tsang 1997). According to Tsang, research on organisational learning focuses on learning process in organisations and establishes an understanding about how the process works. However, the mainstream of empirical research on organisational learning has focused on organisational events involving innovation, technology diffusion, international joint ventures, and acquisitions. It has evaluated those events
(performance) using the organisational learning concept (Crossan & Bapuji 2004). In this kind of research organisational learning is not at the centre of investigation but emerges from analysis (Dogson 1993).

A minority of scholars have investigated organisational learning by exploring the processes that lead to its occurrence (Crossan & Bapuji 2004). These scholars focus on the learning process and analyse the influence of the internal and external context on learning process. Since the early 1990s many have noted the lack of research on organisational learning that scrutinises learning process and the context in which it takes place (Dogson 1993; Miller 1996; Lahteenmaki et al. 2001). Schein (1993) has observed, “…how little we know about the learning process”. To fill this gap the present study examines learning process in one organisation.

Research in private sector organisations has dominated the review literature on organisational learning (Easterby-Smith 1997; Crossan & Bapuji 2004). Two major concerns have been the drivers of research on organisational learning in private sector organisations since the 1990s: rapid environmental change (particularly technological change) and hyper-competition posed by globalisation (Easterby-Smith et al. 1998; Burnes et al. 2003).

Research on organisational learning in the public sector is sparse. Of all peer-reviewed articles on organisational learning published between 1992 and 2006, only 25 (less than 3%) are concerned with public administration or the public sector (source: Web of Science database). The lack of research on organisational learning in the public sector has motivated this study.
The public service organisation considered in this study is in Indonesia. During the Presidency of Megawati Soekarnoputri (2001-2004), transformation occurred in public sector organisations in Indonesia in order to improve its performance. This climate has been maintained by President Susilo Bambang Yudhoyono since his ascendancy in 2004. Implementation of the transformation is monitored by several independent bodies. Many cases of illegal and unethical conduct in public sector organisations have been prosecuted, poor conduct cases have been investigated, and transparency has being supported by freedom of the press. A further motivation for this study is to contribute knowledge about organisational learning that enhances transformation in public sector organisations in Indonesia and helps to shape a desirable future.

1.2. Research questions

This study is intended to answer two fundamental research questions: The first, “How does organisational learning occur in a public service organisation in Indonesia?” Secondly, “How effective is it?” From now on the public service organisation being studied is called “the Organisation”.

To be able to answer the research question, this study poses sub research questions as below:

1. How do we understand learning?
2. How do we identify learning in the Organisation?
3. How does learning happen in the Organisation?
4. How do we identify organisational learning in the Organisation?
5. Is organisational learning in the Organisation effective?
1.3. Aims of the study

This study has four aims. The first aim is to identify important elements of organisational learning in the Organisation. The second aim is to understand the process of organisational learning in the Organisation. (The first and second aims coincide somewhat). The third aim is to identify significant enablers and inhibitors of both the learning process and its elements in order to improve organisational learning in the Organisation. The final aim is to enrich knowledge of organisational learning within public sector organisations, thus bringing more insights to bear on the role of various enablers and inhibitors of organisational learning.

1.4. Learning and human performance

Learning is a human endeavour or human action (Bateson 1994). Thinking, conceptualising, and experimenting all lead to learning and finally memorising the knowledge that results from learning (Argyris & Schon 1996). The notion that learning is human action has brought this study to inquire how human action is generated. For this reason this study borrows concepts from social cognitive theory to facilitate understanding of how learning is generated.

Human performance is best explained by three determinants; action (behaviour), cognitive and personal factors, and environment factors which operate as interacting determinants of each other – this is known as the triadic reciprocal (Bandura 1986). People do not act merely driven by internal stimuli or external stimuli, but by interaction of those two stimuli. This theory informs the social cognitive perspective. The theory then
states that learning is determined reciprocally by inner forces and environmental stimulus.

Social cognitive theory fills a gap left by behaviourist theory and cognitive theory, and thus represents a more comprehensive and better understanding of human action (Akgun et al. 2003). Behaviourist theory (see Thordike 1913; Watson 1914; Pavlov 1927; Skinner 1938; Guthrie 1952) does not consider the mind, thought, or cognition (internal forces) in explaining human action, and leaves only external forces as the originator of human action. Behaviourist theory is criticised as it recognises humans as passive agents compelled by environmental influences (Rogers 2002), or in other words the human is regarded as a mechanical agent – behaviour is controlled automatically by environmental stimulus without mediation by cognitive process (Bandura 1986). In contrast, cognitive theory accounts for human action by reference to cognitive structures, and leaves aside the influences on external factors to human action.

Cognitive theory seeks to explain human action by understanding thinking, or cognition. This theory holds the assumption that effective understanding of human action can be achieved by appreciating the “origins and consequences of people’s cognitions” (Tavris & Wade 1995, p. 22). According to Bandura (1986), cognitivists acknowledge that personal determinants are the causes of human behaviour.

Piaget (1973) made a major contribution to cognitive theory. He identified that all children develop their cognitive capability across four developmental stages. Piaget argues that within those stages learning is revealed as developments in representational thinking, using symbols and language, concrete understanding of the physical world, and abstract
understanding of ideas and reasoning. A more recent theory of cognitive development was proposed by Kitchener and King (DeFilippi & Orstein 2003). They argue that the ability to employ reflective and critical thinking is the endpoint of cognitive development. In the cognitive theory, the aim of learning is to change the cognitive. In this sense, change and development are inseparable.


Social cognitive theory regards the person as interactive agent when dealing with environmental forces. It acknowledges that much human thought and action has social origin, and that human thought has influential contribution to human motivation, affect, and action. As Bandura (1986) argues, “Human thought is a powerful instrument for comprehending the environment and dealing with it” (p. xi). This theory recognises that human thought and action shapes and are shaped by social (the environment). Therefore this perspective explains the learning processes better than the behavioural theory of learning, the cognitive theory of learning, and the social constructivist theory of learning (Akgun et al. 2003).
1.5. Learning and narrative

Learning is acknowledged as human action, to understand learning means to understand human action. To understand human action is to recognise its form through which human action is meaningful (Polkinghorne 1988). Narrative is vital in understanding human action, because every form of human action (such as thinking, perceiving, imagining) is consistent with a narrative structure (Sarbin 1986). Czarniawska (1997) emphasises that “…the common way of understanding human action is by placing it in a narrative…” (p. 14). For example, we see a man performing actions in the park, pretending to fly like a bird. We know it visually. Still we cannot understand his actions until he explains in words that he is practising pantomime for a theatre performance. Macintyre (1984) argues that human action is enacted narrative. In the present study the word action is used interchangeably with behaviour.

Narrative works by delivering understanding of human actions through linking human actions and events into “interrelated aspects of an understandable composite” (Polkinghorne 1988, p.13). Narrative merges separate events into a meaningful whole. ‘The director resigned’ and ‘the company suffered fatal losses’ are two separate events. When these two events are joined to become ‘the company suffered fatal losses and the director resigned’, it is narrative. Without placing it in narrative, the two events are only chronicles, simply categorical events in a time line which do not render a meaning for the occurrence of understanding. From the narrative above, we can understand why the director took the action - to resign. There was a definite cause of his action – fatal losses suffered by the company. But, we can acquire different meaning if those two events are arranged in a different sequence, ‘the director resigned and the
company suffered fatal losses’. This example demonstrates that the
sequence of events affects the meaning frame. People make sense of
human events not because of their ability to place it in the proper category,
but of their ability to integrate events in the proper sequence so it can be
understood within a context (Polkinghorne 1988).

The result, the reward, the consequences of interaction between human
action and the environment is acknowledged as experience (Dewey 1934,
c1979; Polkinghorne 1988).

“Mere activity does not constitute experience…It is not experience when a
child merely sticks his finger into a flame; it is experience when the
movement is connected with the pain which he undergoes in consequence.
Henceforth the sticking of the finger into flame means a burn. Being burn
is mere physical change, like burning of a stick of wood, if it is not
perceived as a consequence of some other action.” (Dewey 1916, c 2004,
p. 133-134)

Learning is an experience. However, learning experience itself is no
ordinary experience, but rather reflective experience (Elkjaer 2001).
Individuals learn if they are able to reflect on the relation between their
action and the consequences of their action, to make inferences about its
meaning, and then to relate it to former experiences (experiences that have
been had). Narrative is the means through which humans make meanings
from experience (Sarbin 1986; Polkinghorne 1988; Bruner 1990).
Polkinghorne (1988) explained meaning in this way:

“The question, “What does that mean?”, asks how something is related or
connected to something else. To ask what a word means is to ask what it
stands for. To ask about the meaning or significance of an event is to ask
how it contributed to the conclusion of the episode. It is the connection or
relationships among events that is their meaning.” (p. 6)
Narrative is central to understanding human action and making meaning with regard to human experience.

Social cognitive theory acknowledges a remarkable human capability called symbolising capability. This capability enables humans to code information in images (visual) and linguistically (words). By using words humans arrange narrative to draw upon and make meaning of their experience in dealing with the environment and to describe their action.

1.6. Phases of the inquiry

Organisations are composed of individual members and therefore organisations learn through the experience and action of its individual members (Argyris & Schon 1978; Simon 1991; Hedberg 1981). However, organisational learning is not simply individual learning (Argyris & Schon 1978) or an accumulation of individual learning (Hedberg 1981). There are cases where organisations know less (Argyris & Schon 1978) or know more than their members (Huchins 1991). The crucial issue then is about how to translate individual learning into organisational learning. Individual learning becomes organisational learning when the lesson of individual learning is accessible to organisation (Levitt & March 1988; Argyris & Schon 1996).

This study begins with the notion that organisational learning is constructed by individual learning. Examining individual learning is then the start of the inquiry. This leads data collection to focus on the individual experience of learning in the Organisation. In the attempt to understand learning, identify learning, its process, and its route to
organisational learning, the concepts of narrative theory, social cognitive theory, learning theory and organisational learning theory are used.

The phases of the inquiry are summarised in Figure 1.1 below.

**Figure 1.1. Phases of the inquiry**

<table>
<thead>
<tr>
<th>The Research</th>
<th>Concepts used</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Phases of the inquiry:</strong></td>
<td></td>
</tr>
<tr>
<td>1. Learning experience</td>
<td>Narrative theory</td>
</tr>
<tr>
<td>2. Individual learning</td>
<td>Social cognitive theory</td>
</tr>
<tr>
<td>3. Group learning</td>
<td>Learning theory</td>
</tr>
<tr>
<td>4. Organisational learning</td>
<td>Organisational learning theory</td>
</tr>
</tbody>
</table>

**Explanation of figure 1.1.**

In the figure, the box shows the phases of inquiry undertaken by this study, starting with an examination of individual learning through individual experience of learning (phase 1 and 2), group learning (phase 3), and organisational learning as the endpoint of the inquiry (phase 4).

The four ellipses outside the box illustrate the theories (organisational learning theory, social cognitive theory, and narrative theory) from which the concepts are employed by the present study to answer the research questions.
1.7. Setting of the study

The present study took place in a public service organisation in Indonesia responsible for imposing and collecting tax (excluding customs). The Organisation was founded in 1945 and is under supervision of the Ministry of Finance.

To serve taxpayers in the whole country, the Organisation is hierarchically arranged. Until 2005 the Organisation consisted of its headquarters, 31 regional offices and 406 operational offices distributed throughout the country. The headquarters is located in Jakarta. Every office in the hierarchy has specific tasks. The peak of the hierarchy (headquarters) carries out tax policy making, regional offices undertake supervision and coordination of tax administration and operational offices carry out tax administration.

The Organisation covers taxpayers in 33 provinces, 91 cities, 349 municipalities, and 5,263 suburbs (Jumlah wilayah administrasi di Indonesia, 2006). The largest contribution to total tax comes from the capital city. Jakarta is currently served by 71 operational offices under supervision of 7 regional offices. The 71 operational offices in Jakarta collected around 79% of total tax revenue in 2005 and 2006 (see Appendix 4, p. 213 and Appendix 10, p. 219).

The highest managerial position in the Organisation is echelon 1 occupied by the General Director who is the leader of the Organisation. The next lower managerial position is echelon 2, and the lowest is echelon 5. Below echelon 5 there are people who carry out administration and clerical work. These people do not have managerial positions. They are usually called
regular staff. The total number of employees of the Organisation in early of 2006 was 29,514 consisting of 10,575 people in managerial positions and 18,939 regular staff (see Appendix 14, p. 223).

In 1980 the tax collected by the Organisation contributed 24% of government revenue, in 1990 40%, in 2000 55%, and in 2005 59%. Before 1986 government revenue was dominated by oil exports. After 1986 the oil price fell sharply which led to creating a world economic recession. From 1983 the Organisation prepared itself for the effort to replace government revenue lost from oil exporting. The increasing contribution of tax revenue to government revenue has proved the value of the ongoing efforts of the Organisation.

To boost its effort the Organisation begun a transformation in 2002 which is expected to be completed in 2008. The transformation has changed the Organisation structure, work system, job content, and personnel policies (particularly salary). This transformation has changed also the structure of the relationship between taxpayer and the Organisation. It moved from a relationship based on authority to a relationship based on client needs.

1.8. Structure of the thesis

This thesis is arranged in three parts. Part 1 incorporates an introduction and theoretical perspective and consists of five chapters. Chapter 1 addresses the topic of the study. It then proceeds to describe the basic research questions, sub research questions and aims of the study. The next section deals with how this study is constructed to answer the research questions. The last section in chapter 1 describes the structure of the
thesis. The next three chapters describe the theoretical perspective which informs this study starting with an explanation of organisational learning and learning theory in chapter 2. This study takes the stand that individual learning is the starting point of organisational learning. This study also argues that learning is human action and to understand learning is to understand how human action occurs. This brings the study to the notion of human performance which is best explained by the social cognitive theory of Bandura (1986). Chapter 3 presents this theory. As learning belongs to humans it involves cognitive process. Cognitive process cannot be observed (Polkinghorne 1988). The best method for comprehending the cognitive process is to place it into narratives. Narrative theory is then described in chapter 4. Part 1 closes with chapter 5 which explains the research method.

Part 2 presents the data collected from interviews and other sources. It focuses on peoples’ experience in the Organisation dealing with their jobs and environment. The narratives are constructed through different episodes. Every episode has an owner (the person who has the experience), circumstances and context. These episodes reflect peoples’ thoughts, feelings, insights, understandings and actions. Part 2 consists of six chapters (chapter 6 to chapter 11).

Part 3 unifies the literature review and the data collected. It cross-examines theoretical concepts with the realities in the Organisation represented by people’s episodes of learning in daily organisation life. It will be shown that to some extent the Organisation learns. Part 3 concludes with a discussion on improving organisational learning in the Organisation.
Chapter 2
Organisational Learning and Learning Theory

2.1. Organisational learning emergence and growth

Organisational learning discourse emerged as an attempt to understand organisational behaviour in decision making about unstructured and complex problems, due to dissatisfaction with earlier decision making tools such as operation research (OR) for such problems. The founder of OR, Russel Ackof, contends that operation research has little future because this hard knowledge only supplies managers with identified techniques, mathematical models and algorithms to solve structured and independent problems, while in practice problems are unstructured, interconnected and changing in a turbulent environment (Schon 2000).

As the limitations of OR were recognised, the behavioural theory of the organisation (Cyert & March 1963) emerged and was the origin of organisational learning. Cyert and March argue that organisations experience environmental or external shocks which lead them to change their goals and governing rules. While they focused on the influence of short term external shocks to organisational behaviour in decision making, Nelson and Winter (1982) enhanced the “short term characteristic” through proposing the evolutionary theory of economic change which posits that an organisation has the capability to adapt to long term external shocks through its top level routines (strategic routines). Top level routines determine the operational routines and are characterised by analysis and research. The two behavioural theories of organisation show how an organisation reacts to short term and long term external shocks.
The effort to theorise organisational learning was started in Cangelosi and Dill (1965) in their study of learning process with several participants undertaking complex management decision making in a simulation organisation. Since then, studies and discussions of organisational learning have grown in several academic disciplines such as psychology and organisational development, management science, sociology and organisational theory, strategy, production management, and cultural anthropology (Dogson 1993, Easterby-Smith 1997).

These academic disciplines have different standpoints and contexts, and therefore bring diversity of description and definition to organisational learning. However, the rich development of knowledge in organisational learning discourse is at a cost – a complete theory or definition of organisational learning has not yet appeared (Fiol & Lyles 1985; Tsang 1997; Prange 1999; Lahteenmaki et al. 2001).

Organisational learning has gained momentum in organisational studies since 1990 (Crossan & Guato 1996; Crossan & Bapuji 2004). Within the period 1990-1996, there were close to 200 articles about organisational learning and learning organisation, while between years 1996-2002, the publication of papers under the label of organisational learning increased to 707 articles. This fascination with organisational learning can be seen as a response to globalisation, hyper-competition, and rapid technological change (Easterby-Smith et al. 1998, Burnes et al. 2003).
2.2. Anthropomorphism of organisational learning

Organisational learning discourse assumes that organisations are capable of learning and memorising. Anthropomorphism, the attribution of human characteristics to organisations, is apparent since organisations are the subject of learning (Gherardi 2000). How can we comprehend that organisations know less (Argyris & Schon 1978) or know more than their members (Hutchins 1991), or that organisations have memory, expressed as routines (Cyert & March 1963; Nelson & Winter 1982)? The anthropomorphism of organisational learning emerges due to the transfer, without any filter, of learning concepts from their original domain of individual psychology to the different domain of organisation and management studies (Weick 1991).

The anthropomorphism of organisational learning highlights the metaphorical play of the term. Lakoff and Johnson (1980) argue that metaphor is used to understand one thing in terms of another. Organisational learning as a metaphor “enables exploration of the organisation as if it were a subject which learns, which processes information, which reflects on experiences, and which is endowed with a stock of knowledge, skills, and expertise.” (Gherardi 2000, p. 1059).

Scholars have different points of view upon this matter. Several scholars believe that organisations have the cognitive properties to permit learning (Hedberg 1981; Simon 1991). Other scholars reject the notion that organisations have cognitive properties and refuse to apply the cognitive theory of learning to the explanation of organisational learning. They posit the social constructivist theory of learning which conceives learning as inseparable from social practices - learning emerges from active

To avoid an anthropomorphism in organisational learning, this study follows the argument of Argyris and Schon (1996) who quoted Geoffrey Vickers’ notion that organisational learning is learning on the part of individuals in an organisational setting. Individuals are not independent agents of learning. Instead they are bound by organisational arrangements that are structural (technological, systems and procedures, policies, strategies, goals), cultural (shared norms, beliefs, values) or inter-personal. Weick (1979) illuminates the inter-personal, arguing that organisations “contain individual behaviours that are interlocked among two or more people.” (p. 90)

To comprehend learning on the part of individuals in an organisational setting, this study conceives an organisation as a system of relations.

“…organisation…is the set of relationships that exist among … parts, which bind them into a collectivity that makes the entity-as-a-whole something that is different from and more than the mere sum of its parts… It is the system of relations that makes the whole, which constitutes the essence of what we mean by the term organisation. Without a system of relations to draw the parts together into a whole, there is no organisation, just free floating parts. Hence to talk about organisation is to talk about relationship, relation among parts and relations among relations.” (Smith 1982, p.325-326).

Smith (1982) observes that the system of relations cannot be seen. It can only be inferred.

The question then is this: if an individual learns in an organisational setting, is this sufficient to argue that there is organisational learning. This issue is considered in the next section.
2.3. Relationship between individual learning and organisational learning

Scholars acknowledge that an organisation is composed of individuals: thus individual learning provides the building blocks for organisational learning (Argyris & Schon 1978; Hedberg 1981; Fiol & Lyles 1983; Dogson 1993; Kim 1993). However, individual learning does not ensure that organisational learning occurs (Argyris & Schon 1978, 1996; Hedberg 1981; Cook & Yanow 1993). Argyris and Schon (1978) argue that: “…there is no organisational learning without individual learning, and individual learning is a necessary but insufficient condition for organisational learning” (p. 20).

Individual learning becomes organisational learning when the lesson of individual learning is accessible to organisation (Levitt & March 1988; Argyris & Schon 1996). The critical issue is the accessibility of lessons of individual learning to the rest of people in organisation who need the lesson but have not experienced the learning (Levitt & March 1988; Argyris & Schon 1996). In other words, the lessons must be accessible within particular relation sub-systems.

The accessibility of the lesson of individual learning could be achieved through direct and indirect lesson distribution. Direct lesson distribution occurs when the insight, knowledge, or understanding resulting from learning is shared with people in the organisation who need it (Shaw & Perkins 1992; Kim 1993). Indirect lesson distribution occurs when the lessons of individual learning are recorded in organisational maps, memories, and programs (Argyris & Schon 1996). These can be used by people who need the lessons even if the original learner has left the
organisation. According to Argyris and Schon, organisational maps “include diagrams of workflow, organisation charts…. Organisational memories include files, records, data bases, and financial accounts, as well as the physical objects (tools, products, or working materials) that hold organisational knowledge. Programs are procedural descriptions of organisational routines … include plans, policies, protocols, guidelines, scripts, and templates.” (Argyris & Schon, 1996, p. 16)

Organisational learning is more than the sum of its parts: that is, it is more than the sum of any individual learning as there are interconnections between individuals and groups.

2.4. Individual learning and learning incentives

Most theory explains individual learning by reference to learning from experience as the groundwork. A well-known explanation along these lines comes from the work of Kolb (1984), borrowing from Lewin’s model of experiential learning as presented in Figure 2.1. below.

**Figure 2.1. Lewinian experiential learning model**

1. Concrete experience
2. Observation & reflection
3. Formation of abstract concepts
4. Testing implications of concepts in new situations

Explanation of Figure 2.1.

Figure 2.1. shows a cycle of how individuals engage in learning starting from concrete experiences, conducting observations and applying reflection, constructing concepts from observation and reflection, and then applying the concepts in real situations which lead to another concrete experience.

Kolb’s theory is widely recognised in the area of management, manifest in the concept of the Total Quality Management – Deming cycle of plan-do-check-act (Kim 1993). Despite being widely used by scholars in other areas, Kolb’s theory invites several critiques. Rogers (2002) questions where goals, purposes, intentions, choices and decision makings fit into the learning cycle. Miettinen (2000) criticises the missing link between concrete experience and reflection in Kolb’s model. Kolb did not consider individual reasons for reflection. The important question is: when do people reflect upon their experience. Miettinen argues that Dewey’s model in Figure 2.2. below is better than Kolb’s model in explaining individual learning.

![Figure 2.2. Dewey’s model of reflective thought and action](image)

6. Idea, concept
5. Testing the hypothesis in action
4. Reasoning
3. Studying the conditions of the situation and formation of a working hypothesis
2. Intellectualisation & definition of the problem
1. Disturbance & uncertainty: habit does not work
7. Solution of the problem & control of the action

**Explanation of Figure 2.2.**

Figure 2.2. shows Dewey’s model of reflective thought and action. It begins with disturbance in the environment and moves systematically to problem solution. It is important to note that the author adds movement from solution to the next disturbance, meaning the cycle may repeat if there is another environmental change.

This study follows Dewey’s model of individual learning. Dewey identifies that the necessity to solve problems becomes the motive for individuals to reflect upon their experience. The problems occur because habitual approaches are not effective, leading to disturbance and uncertainty. These consequences call for reflective thought and investigation of the situation: individuals attempt to define the problem, study the condition, and develop new hypotheses and reasoning (Miettinen 2000). The action starts when the individual tests the hypothesis as an approach to solving the problem.

Dewey acknowledges the crucial role of prior experience in producing reflective experience in the learning cycle, which is not apparent in Kolb’s model (Miettinen 2000). In Dewey’s model, prior experience manifests in habit, while reflective experience is the motive forces in the learning cycle.

Dewey’s theory illuminates that learning occurs because there is problem which cannot be solved by current habit or routine or knowledge. In other words, problems act as incentives for learning to occur. However, Dewey’s theory promotes the supremacy of individual cognition in guiding the action of learning. In his theory, individuals are independent agents of learning. In fact, individuals are bound by their social arrangements or, if we consider individuals in organisations, they are
bound by organisational arrangements which may substantially influence the thought and action of individuals in organisations. For example, Hedberg (1981) and Kerr (1995) argue that reward systems influence behaviour in organisations. In sum, Dewey’s theory may not be sufficient to explain the phenomenon of learning.

2.5. Group learning

An individual in an organisation works in a group according to their regular job, specific task, unit, division, or office. The function of the group is to accomplish the task that individuals cannot do by themselves. Individuals can either learn by themselves or learn collectively or mutually with other members within the group (intra-group learning) or with members from different groups (inter-group learning).

Most understandings of group learning are associated with collective learning in small or big groups in organisation where the salient characteristics are sharing (Edmonson 1999, 2002; Crossan 1999; Argote et al. 2001) and dialogue (Senge 1994). Research on group learning shows mixed results. Janis (1972, 1982) argues that the high level of cohesiveness of groups and stressful situation within groups may lead to poor intra-group learning as the group maintains unanimity. In this situation the group tends to reach a decision quickly because there is no attempt to appraise alternative solutions. On the other hand the stronger social integration among members characterised by psychological safety and trust (Edmonson 1999), the greater enhancement group learning. Psychological safety is defined as a feeling of confidence that the group will not “embarrass, reject, or punish someone for speaking up”

The variety of tenure and functional backgrounds of members of the group influences the capability of the group (Ancona & Caldwell 1992). Tenure diversity which implies multiple experiences and perspectives is argued to be positively correlated with clarity of goals and priorities, thus leading to performance in learning. Functional diversity is believed to increase external communication or knowledge sharing, thus leading to learning through innovation. Wong (2004) argues that intra-group learning is positively associated with improvement, while inter-group learning is positively associated with innovation. However, high inter-group learning interferes with improvement in intra-group learning. This means that intense simultaneous learning in the organisation may discourage local learning – departmental, divisional, or unit learning.

The accessibility of the lessons of group learning to the system or sub-systems of relations in the organisation follows the accessibility of the lessons of individual learning which is achieved through direct and indirect lesson distribution.

2.6. Organisational learning definitions

There is a diversity of definitions about organisational learning. Table 2.1. on the next page describes several definitions of organisational learning.
Table 2.1. Definitions of organisational learning

<table>
<thead>
<tr>
<th>Definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>“The process within the organisation by which knowledge about action-outcome relationships and the effect of the environment on these relationships is developed.” (Duncan &amp; Weiss 1979, p. 84).</td>
</tr>
<tr>
<td>“Organisational learning occurs when individuals within an organisation experience a problematic situation and inquire into it on the organisation’s behalf. They experience a surprising mismatch between expected and actual results of action and respond to that mismatch through a process of thought and further action that leads them to modify their images of organisation or their understandings of organisational phenomena and to restructure their activities so as bring outcomes and expectations into line, thereby changing organisational theory-in-use.” (Argyris &amp; Schon 1996, p. 16)</td>
</tr>
<tr>
<td>“Organisational learning means the process of improving actions through better knowledge and understanding.” ((Fiol &amp; Lyles 1985, p. 803)</td>
</tr>
<tr>
<td>“…organisations are seen as learning by encoding inferences from history into routines that guide behaviour.” (Levitt &amp; March 1988, p. 320)</td>
</tr>
<tr>
<td>“…the acquiring, sustaining, or changing of intersubjective meanings through the artifactual vehicles of their expression and transmission and [through] the collective actions of the group.” (Cook &amp; Yanow 1993, p. 384)</td>
</tr>
</tbody>
</table>

Explanation of Table 2.1.
Table 2.1. describes several well-knows definitions of organisational learning from different perspectives.

Duncan and Weiss (1979) conceive organisational learning as a process which results in development of knowledge about action-outcome relationships and the understanding of environmental effects on these relationships. However, in their terms any change of action following the developed action-outcome relationships is not a prerequisite of organisational learning.
Argyris and Schon (1996) see organisational learning as a process which results in a changed understanding of organisational phenomena and organisational action (organisational theory-in-use). Organisational theory-in-use is the actual behaviour pattern of the organisational theory of action, while the organisational theory of action is defined as “systems of beliefs that underlie action” (Argyris & Schon 1996, p.13). They include learning incentives (mismatch between expected and actual results of action) but do not concern the environment as the possible cause of the mismatch. In fact organisations always transact with their environments and organisations learn to anticipate and respond to the changing environment.

Fiol and Lyles (1985) offer a simple definition of organisational learning which results in a change of knowledge and understanding followed by change of action. However, they argue that organisational learning is a process but they only infer the process rather than explain it. This is also in evidence in the definition of Duncan and Weiss.

Levitt and March define organisational learning as encoding the lessons of past experience into organisational routines to guide future action. According to them, organisational routines in formal forms consist of forms, rules, procedures, conventions, strategies, and technologies, while in informal forms cover beliefs, frameworks, paradigms, codes, cultures, and knowledge that support, elaborate, and contradict the formal routines. However, this definition only explains the accessibility of individual learning to others in the organisation and sets aside individual learning as the building block for organisational learning.
Cook and Yanow (1993) exhibit the social constructivist perspective which conceives learning as socially constructed, and always occurring in relationship with other people and the context (Gergen 1982, 1985). The social constructivist perspective grasps the understanding of organisational learning from the study of collectives (Lave & Wenger 1991 – butchers, midwives; Cook & Yanow 1993 – flute makers) which lead to its emphasis on social construction. Organisational learning results in changes to inter-subjective meanings. However, despite its evidence, the theory has limited applicability to normal organisations as there is no formal structure of power in the collective (Easterby-Smith et al. 1998).

Of all the definitions of organisational learning, the definition of Argyris and Schon is relatively comprehensive (Argyris & Schon 1996, p. 16).

This study follows Argyris and Schon while acknowledging the influence of the organisational setting in the occurrence of learning. This study defines organisational learning as the process by which individuals in the organisation respond to unexpected results of action in an organisational setting, leading to changes in their understanding of organisational phenomena and in their action in order to maintain organisational continuity and to achieve the organisation’s desired future.

However, this study still needs a groundwork theory to explain how individual learning works in the organisation and to illuminate individual learning phenomena with respect to the influence of organisational setting.

Beside Kolb’s and Dewey’s models, several other models or theories offer a process for understanding learning phenomena; the knowledge creation model of Nonaka (1994) or Nonaka and Takeuchi (1995), the information
processing model of Huber (1991), and the 4-I model of organisational learning of Crossan et al. (1999). However, these theories use specific phenomena as the groundwork such as innovation (Nonaka 1994; Nonaka & Takeuchi 1995), information processing (Huber 1991), and strategic renewal (Crossan et al. 1999) to understand learning phenomena, and so are limited in their applicability. A theory that comprehends learning phenomena in the organisational learning discourse is not yet evident (Crossan & Bapuji 2004). For this reason this study borrows social cognitive theory to facilitate the understanding of learning phenomena with respect to the context or the environment which is explained in chapter 3.

2.7. Single-loop and double-loop learning

In organisational learning change of organisational action (theory-in-use) may not need changes to organisational norms, values, beliefs, or governing rules (theory of action). In other words, change of organisational action occurs within the existing organisational theory of action. In these circumstances, organisational learning is regarded as single-loop learning (Argyris & Schon 1978, 1996).

In single-loop learning, there is no inquiry into the reality behind the event or issue, or values or motives behind the action. Single-loop learning operates within existing norms or governing rules held by organisation (Argyris & Schon 1996). Single-loop learning focuses on immediate problem solving (Dogson 1991) or coping (Senge 1990). Single-loop learning is routine and repetitive and deals with familiar contexts (Fiol & Lyles 1985). However, in some cases single-loop organisational learning
is not purely behavioural as it has association with cognition. In improving its routines due to environmental shock the organisation undertakes interpretation of the shock which is influenced by organisational ideology (Meyer 1982), and identity and image (Dutton & Dukerich 1991).

Organisational learning could result in change both of organisational action and organisational norms, values, beliefs, or governing rules. This refers to double-loop learning. Double-loop learning involves understanding of the reality behind the trigger for learning (Hedberg 1981). Double-loop learning goes beyond a response to an immediate event or problem (Dogson 1991) and it is about creativity (Senge 1990). It requires inquiry or questioning of the reality behind existing norms (Argyris & Schon 1978, 1996). Therefore the context of this learning is rather ambiguous (Fiol & Lyles 1985) as it involves developing skill and competence within an organisation to provide a basis for future action (Dogson 1991).

According to Fiol & Lyles (1985) single-loop learning and double-loop learning should not be associated with a particular level of management within organisations. Any level of management may experience both kinds of learning. For example, a conflict between a division of sales and marketing and a production division could be resolved in a way that leads the production division to change its norm of performance from product quantity (volume) to product quality. Consequently, the production division might then create an internal research and development unit. In this case the production division may experience double-loop learning. This kind of learning may not change the norm of performance of an organisation, for example from ROI (return on investment) to increasing market share. From the perspective of the organisation it is single-loop
learning while from the perspective of the production division it is double-loop learning. Thus, in order to differentiate between single-loop learning and double-loop learning it is important to define the level of aggregation within organisation (Argyris & Schon 1996). In other cases, single-loop learning in one unit can lead to double-loop learning in the overall organisation depending on how tightly or loosely the unit is coupled to other units within organisation. Argyris and Schon (1996) offered an example:

“…a bank’s decision to introduce just-in-time paper processing in one of its divisions may provoke a shift in the norms by which the banks’ control system perceives, evaluates, and rewards production in all of its divisions. In this instance, what begins as single-loop learning at one level of aggregation stimulates double-loop learning at all levels.” (p. 26)

Double-loop learning may not be easy to put into practice due to the complex system of relationships within an organisation (Smith 1982). Friedman et al (2005) argued that intentional double-loop learning is relatively rare as it requires specific reasoning and action. A reversal to the direction of change in an organisation induced by dramatic environmental shock may lead to double-loop learning. However, the study of Miller and Friensen (1980) found that a reversal to the direction of change in an organisation is relatively rare.

2.8. Experiential learning and vicarious learning

There are two basic modes of learning; interactive and informational learning (Gnyawali & Stewart 2003). Interactive learning is learning through direct interaction with the environment inside and outside of
organisational boundaries. Interactive learning is acknowledged as experiential learning (learning by experience) in this study. Informational learning is learning based on information processing. To avoid overlapping with experiential learning, which also involves processing information in the form of feedback, the present study conceives informational learning as learning based on organisational intelligence gathered outside organisational boundaries and which is best captured by the concept of vicarious learning.

2.8.1. Experiential learning

Learning by experience reveals itself in two basic forms, behavioural and cognitive learning. However, literature on organisational learning provides evidence of a variety of modes of experiential learning. These modes are explained next in this section.

Learning by doing
The term learning by doing was popularised by Arrow (1962). He referred to Wright’s study of airplane body production and showed that the number of hours spend by workers decreases as the number of production units of the same type increases. In the next 50 years the evidence of learning by doing continues to build as shown by the study of Berggren (1994) of a car producer in Europe where the assembly time per car reduced with the passage of time.

Learning by doing is based on repetition and the incremental development of expertise which leads to increasing effectiveness of workers in doing their task (Adler & Clark 1991). Adler and Clark (1991) proposed that
learning by doing (behavioural learning) combined with cognitive learning (changing engineering design and providing training) may have more effect on productivity rather than learning by doing alone.

The study of Adler and Clark (1991) was confirmed by Argote et al. (1990). Argote et al. argue that learning by doing alone may have a negative effect on cost of production due to depreciation of knowledge gained from experience. They identified that experiential learning represented as cumulative production does not reduce the cost of production over time. They found that increasing cost of production is not associated with worker turnover because the work requires only low skill, but it may be due to technological obsolescence, standard operating procedures, communication and coordination methods, and shared understanding about how to perform the work.

**Exploitation and exploration**

The term exploitation and exploration was popularised by March (1991). Exploitation refers to the use and development of what has been learned, and embraces terms such as implementation, improvement, and refinement. Exploitation leads organisations to maintain stability in routines. On the other hand, exploration means an organisation engages in new learning to acquire new knowledge, and captures terms such as innovation, experimentation, discovery, invention, search, variation, risk taking. Exploitation refers to behavioural learning while exploration refers to cognitive learning.

To successfully deal with a changing and complex environment, March (1991) suggests that organisations create a balance between exploitation and exploration. A continuous focus on creating new knowledge
(exploration), while constantly maintaining improvement (exploitation), leads Japanese companies to be more innovative than European and American companies (Mansfield 1988; Katila & Ahuja 2002).

**Learning by sharing power**

Stability in routines might lead to defensive routines which are disincentives to double-loop learning occurring in an organisation. Argyris and Schon (1978, 1996) found such evidence in the interpersonal world of an organisation. They studied individual learning in an organisation and found that people do not express what they think. Their espoused theory is not congruent with their theories-in-use. This is evidenced when people are dealing with embarrassing or threatening issues. In such situations people apply defensive behaviour characterised by: defensive reasoning; inconsistency; incongruence; controlling behaviour; fearful of vulnerability; hiding of feelings; over-concern for self and others, or under-concern for self and others.

Defensive behaviour corresponds with politics (Zaleznik 1997). According to Zaleznik, people have a universal desire to control their own destiny. To do that people have to deal with differences, similarities, aversions, and affinities and engage in social relationship. People need to cooperate with others while controlling their own destiny. As a consequence they focus on “smoothing over conflict, greasing the wheels of human interaction, and unconsciously avoiding aggression” (Zaleznik 1997, p. 56). This means that Argyris and Schon point to politics as the source of dysfunction in organisations. However, politics should not be regarded as dysfunctional (Lawrence et al. 2005). Rather, politics should be seen as a natural process in organising process in an organisation when there are conflicts of interest among members of organisation. This
argument was confirmed by Dekker and Hansen (2004) who found that the political process can be either an enabler or an inhibitor of organisational learning in a public sector organisation.

People are relatively capable of changing behaviour, yet relatively incapable of more of fundamental change involving change of belief, norms, values, or governing rules (Argyris 2003). Such change requires patterns of behaviour like; making public of one’s private views about others in order to test them, and inquiring about the thinking, feeling and action of others, and sharing power. Thus Argyris and Schon argue that learning by sharing power leads to changes in belief, norms, values, or governing rules.

Learning by sharing power might be difficult to put into practice because it relates to power distribution. Redistributing powers requires a considerable willingness from people because of fear of losing control and position in the organisation (Zaleznik 1997).

2.8.2. Vicarious learning

Vicarious learning can be regarded as learning by second-hand experience Huber (1991), or observational learning (Bandura 1977, 1986). In this circumstance, an organisation does not need to reinvent the wheel (Bandura 1977) but rather to imitate the actions of other organisations which have been successful, or to avoid making the same mistakes if the actions of other organisations have failed. Scholars have found evidence of vicarious learning in a number of studies (Baum et al. 2000; Kraatz 1998; Greve 2000).
Vicarious learning brings results in several forms; new behaviour patterns, judgments, standards, cognitive competencies (knowledge), and generative rules for creating behaviours (Bandura 1986). An example of the acquisition of cognitive and technical competencies through vicarious learning is illustrated by Nonaka (1994) and Nonaka & Takeuchi (1995) in the case of knowledge creation in the Matsushita Electric Company. In 1985, the company devoted a lot of effort to develop a new home bread-making machine. The first machine was not successful: it overcooked the crust while the inside was hardly cooked at all. The employees had trouble getting the machine to knead dough correctly. A company software developer offered a creative solution: training in a hotel which had the best reputation for its bread. This employee then trained with the hotel’s head baker and observed that the baker had a distinctive way of stretching the dough with his hands. Finally, after a year’s trial and error, the software developer worked together with product developers and came up with the addition of special ribs inside the machine which replicated the stretching technique of the hotel’s baker. This innovation secured a sales record for a new kitchen appliance in the year it was launched.

Vicarious learning could be behavioural or cognitive. Behavioural vicarious learning means that organisations imitate the action of other organisations, whereas cognitive vicarious learning means that organisations adopt as well the knowledge, norms, belief, values, or governing rules of the model (other organisation).

In vicarious learning an organisation needs to recognise the value to it of the competency or knowledge of the model (other organisation) for its benefit. Organisations may not replicate precisely the competency of the model or apply directly the knowledge of the model. Organisations need
to assimilate the competency and knowledge of the model and apply it given its systems and internal environment. To do this an organisation may need the capability to recognise, assimilate and apply the competency or knowledge from the model. This ability is recognised as absorptive capacity (Cohen & Levinthal 1990). An extended definition of absorptive capacity proposed by Zahra and George (2002) is: “a set of organisational routines and strategic processes by which firms [or organisations] acquire, assimilate, transform, and exploit knowledge for purpose of value creation.” (p. 198).

2.9. Organisational learning and effectiveness

This thesis argues that there are two kinds of assessment of the effectiveness of organisational learning: the process view and the outcome view.

2.9.1. Organisational learning effectiveness – process view

As a process, effective organisational learning refers to two accumulated conditions. First, organisational learning occurs when the lesson of individual learning is accessible to other members of an organisation who need the knowledge but having no experience of learning (Levitt & March 1988; Argyris & Schon 1996). Second, the lesson can be put into practice. In other words, organisational learning is said to be effective if the lesson of individual learning is accessible and actionable.
Accessibility

Accessible means that the lesson of individual learning is available for the rest of people inside the organisation who need the lesson. This can be obtained by direct lesson distribution (Shaw & Perkins 1992, Kim 1993) and indirect lesson distribution through organisational maps, memories, plans (Argyris & Schon 1996). In other words, the accessibility of individual learning works through people inside the organisation and through organisational records and routines. Scholars acknowledge the retention of the lesson into organisational records and routines as institutionalising (Crossan 1999, de Holan 2004).

However, direct lesson distribution does not commonly happen, especially in large organisations. According to Shaw and Perkins (1992) there are several causes of this. One of the causes is related to past failure (learning is driven by unfavourable performance) which people are reluctant to share (defensive behaviour). Other potential causes are inter-group boundaries (departmentalisation) due to internal rivalry (common in a relatively stable environment) or holding important knowledge due to resource constraint or funding competition. Another possible cause is that people or divisions perceive the lesson as unique which leads them to be reluctant to share or to solicit the lesson. A further cause is focusing only on the short term financial relevance of the lesson which may distract from discussion about the long term outlook, thus inhibiting inquiry for in-depth learning. Shaw and Perkins (1992) call this “narrow bandwidths for acceptable information exchange”.

Accessibility through organisational records and routines requires the continuous effort of an organisation to embed the lesson into organisational systems and procedures. The lack of effort to retain the
lesson from individual learning in organisational systems and procedures becomes a significant problem when the individuals or people who hold the knowledge leave the organisation. This situation is referred to as organisational forgetting (de Holan et al 2004). However, the high reliance of organisations on standard operating procedures may hinder the search for new procedures when the environment greatly changes (Winter 1985; Perrow 1986).

**Actionability**

Ineffective organisational learning happens through the failure to put into action the knowledge resulting from learning into action, called implementation failure (Shaw 1992). According to Shaw there are several causes of this. Implementation failure may occur when managers fail to focus on core activities as there are many things to do (priority problem). Priority problems may arise from ambiguous organisational strategy and operating guidelines. It may also occur because of role ambiguity, role conflict, and role overload of managers.

Implementation failure may happen when managers prioritise the security of standard operating procedures over organisational performance (a bias toward activity versus result). In these circumstances managers perceive that the reward for solving an organisational performance problem may be equal to, or less than, the risks (punishment) due to the incongruity between the performance problem and standard operating procedures. The organisation may contribute to this perception by restraining managerial initiative and risk taking in organisational processes and activities.

Implementation failure may also happen when manager perceives lack of authority and power to make important decisions regarding
implementation. Lack of authority and power comes from unclear accountability or responsibility for key problems, uncertainty about control given policies and procedures which make it difficult to solve a problem and take effective and timely action, and from inadequate resources (people, money, and instruments).

However, in some circumstances there may be a delay of the process of translating the lesson into action (temporal issue) as it needs an appropriate structural arrangement in organisation.

2.9.2. Organisational learning effectiveness – outcome view

As an outcome, organisational learning is said to be effective when it has favourable effect on organisational outcomes or performance. In this sense, effectiveness is associated with positive or favourable outcomes or performance.

A few empirical works have examined the relationship between financial performance and the concept of learning organisation. Ellinger et al (2002) found that there is a positive relationship between learning organisation concepts and financial performance. An organisation that applies strategies in accordance with learning organisation concepts is argued to have improved performance. However, empirical works that examine the relationship between organisational learning (in real circumstances) and organisational performance are relatively rare (Lopez et al. 2005) although twenty years ago Fiol and Lyles (1985) argued that organisational learning which results in better knowledge and understanding improves organisational performance via improved organisational action. In their
study Ellinger et al. (2002) examined learning in organisations by using the learning organisation construct in a survey of middle managers. This means that the measurement of learning used an indirect approach.

Outcomes (performance) of an organisation are to be said favourable if they achieve or exceed the level of performance set by the organisation. However, as argued by Greve (2003) the level of performance targeted by the organisation has a crucial role in assessment of performance. Successful or positive performance may be caused by low performance expectations, or failure caused by high performance expectation. The issue then is about determining the level of future performance (aspiration level). According to Greve, actual organisational performance in the past, comparison with competitors and the industry average may influence determination of performance levels. The study of Halebian et al. (2006) showed that prior and recent acquisition determines the performance of subsequent acquisitions in US bank industry.

2.10. Organisational learning and learning organisation

Learning in an organisational context has been discussed in two discourses of the literature; organisational learning and the learning organisation. Organisational learning describes the learning (and unlearning) within organisations in an endeavour to discover understandings about how such processes work, while the learning organisation examines the development of normative models and methodologies for improving learning process (Easterby-Smith & Araujo 1999). Literature on organisational learning is concerned with the question of “how does an organisation learn?” while
literature on learning organisation seeks to answer the question “how should an organisation learn?” (Tsang 1997).

The pioneer of the learning organisation is Senge (1994) with his particular approach - the Fifth Discipline. Senge proposes five constructs of the learning organisation which are; mental models, shared vision, personal mastery, team learning, and system thinking. Mental models are deeply ingrained assumptions that guide interpretation of the world and inform action. Shared vision involves goals, values and missions that are deeply shared throughout an organisation. Personal mastery implies individual commitment to continuous learning and clarifying personal visions. Team learning is the commitment to collective learning through the discipline of dialogue that uncovers defensiveness amongst members which undermines learning. System thinking is a conceptual framework that binds together all constructs to allow people to see the whole. Senge defines a learning organisation as “an organisation that is continually expanding its capacity to create its future.”(p. 14).

2.11. Organisational learning and learning theory, and research questions.

2.11.1. Identifying learning (the second sub research question)

Most definitions of organisational learning (except Levitt and March’s definition) encompass change as the result of learning. Based on a cause-effect relationship, change is the effect of learning. According to Bateson (1994) and Rogers (2002), learning is associated with change. However,
not all change is learning because learning is more reinforcement than alteration (Bandura 1986; Rogers 2002). Rogers argues that learning encompasses change in the learner’s knowledge (I know), the learners’ understanding or insight (I see), the learners’ skills (I can), the learners’ attitudes (I feel or believe), and the learners’ behaviours (I do).

Change with reinforcement means that change produced by subsequent action strengthens or weakens the product of prior action (Rogers 2002). It is important to emphasise that in this study prior action and subsequent action are differentiated by which action precedes another. They are not necessarily carried out by the same individuals. They are carried out by individuals in the same organisation as the organisation is the larger unit of analysis in this study.

Reinforcement changes are an indicator used in this study to identify that there is learning in the Organisation. Organisational learning theory and learning theory facilitates this study in answering the second sub research question (“how do we identify learning?”). Learning is identified through recognising reinforcement changes. By recognising the kind of changes (whether involving underlying or governing rules or only covering immediate rules), learning can be identified as single-loop or double-loop learning.

2.11.2. The occurrence of learning (the third sub research question)

Learning and organisational learning theory state that learning happens because there is a problematic situation (Dewey in Miettinen 2000) or a mismatch between the expected and the actual results of action (Argyris
A problematic situation or a mismatch between the expected and the actual results of action are regarded as causes of learning. However, up to this point, the explanation of learning processes is not sufficient or complete. A further explanation is needed of why there is a problematic situation or a mismatch between the expected and the actual results of action. Social cognitive theory in the next chapter provides a response to this need. This further explanation is critical to understanding the learning processes which is the focus of this study. In sum, organisational learning theory, learning theory, and socio cognitive theory are used in this study to answer the third sub research question.

2.11.3. Identifying organisational learning (the fourth sub research question)

As mentioned in section 2.3 (p. 18) organisational learning occurs when the lessons of individual learning are accessible to the rest of the people in the organisation who need the lesson but have not experienced the learning (Levitt & March 1988; Argyris & Schon 1996). In other words, accessibility to the lessons of individual learning is an indicator that organisational learning occurs.

Accessibility could be achieved in two ways: through direct lesson distribution ((Shaw & Perkins 1992; Kim 1993), and indirect lesson distribution (Argyris & Schon 1996). Direct lesson distribution happens when the lessons of individual learning are shared with people in the organisation who need it (Shaw & Perkins 1992; Kim 1993). In other words, direct lesson distribution is distribution of lessons through people. Indirect lesson distribution happens when the lessons of individual
learning are recorded in organisational maps, memories, and programs (Argyris & Schon 1996).

To answer the fourth sub research question, the explanation begins with an analysis of individual learning, followed by an analysis of group learning, and finally organisational learning. According to Hedberg (1981) learning (by individuals) involves the understanding of causal links.

2.11.4. Identifying effectiveness of organisational learning (the fifth sub research question)

As explained in section 2.9 (p. 35), effectiveness of organisational learning can be evaluated using two views. Organisational learning effectiveness based on a process view requires criteria of accessibility and actionability. Accessibility is a determinant of organisational learning and alongside actionability leads to effective organisational learning. Actionability means that the lessons of individual learning can shape real actions.

Based on an outcome view, organisational learning can be said to be effective when it brings favourable outcomes to organisational performance. Evaluation of the effectiveness of organisational learning based on an outcome views leads organisational learning to be close to the world of practice. Organisational learning discourse is regarded as removed from the world of practice because it does not relate the research to the reality of the world of practice. That reality is best represented through the capability of organisations to achieve their goals, as demonstrated by quantitative measures.
Chapter 3
Social Cognitive Theory

3.1. The Concept

Social cognitive theory (Bandura 1986) deals with the interdependent relationship called the triadic reciprocality comprising cognitive and personal factors, behaviour, and environment which means that cognitive and personal factors, behaviour, and environment operate interactively as determinants of each other (see Figure 3.1 below).

**Figure 3.1. Triadic reciprocality between behaviour, cognition and environment**

![Triadic reciprocality diagram](source)


**Explanation of Figure 3.1.**
The power of social cognitive theory over behaviourist theory, cognitive theory, and social constructivist theory rests in the form of interaction between cognitive and personal factors, behaviour, and environment. Most of the theory on explanation of human behaviour contends that human behaviour is controlled and shaped by either internal forces – cognition (personal determinism) - or by environmental forces (environment determinism). These theories do not recognise further interaction
between behaviour and environment. Contrastingly, social cognitive theory conceptualises that the transaction between people – cognition, and environment produces behaviour, and in turn, behaviour affects the transaction between people and environment. People can change the environment with their behaviour and in turn, the response of environment upon their behaviour (the consequences) alters their cognition or thought about the environment and may lead to subsequent behaviour and so forth.

3.1.1. Triadic reciprocality

In understanding human behaviour, triadic reciprocality holds that the three determinants are highly interdependent, that there are interdependencies within each determinant, and that each determinant influences differently the whole set. The extent of influence of each determinant depends on the situation in which the transaction between the three determinants is played out, and on the temporal dynamics of the whole set.

Bandura (1986) quoted the study of television programs by Fenigsten and Brown to illustrate the highly interdependent nature of the three determinants. Fenigsten’s work showed that individuals choose when and which television program to watch (viewing behaviour) based on their personal preferences. In turn, this viewing behaviour partly shapes the nature of future television programs (televised environment). However, the television programs (televised environment) are determined by the production cost and commercial requirements. Thus, televised environment partly shapes the viewer’s preference as well. This represents the triadic reciprocality interaction between viewing preferences, viewing behaviour, and televised environment.
Interdependent relationships occur as well within the domain of each determinant. We can have diminishing work behaviour in the office after we eat a heavy lunch, because this action of eating provokes drowsiness as it generates a signal to the body to divert energy to digesting food. This means that our actions are mutually related, with two possibilities – positively related or negatively related. Interdependence in the cognitive determinant may lead to escalation. If one person behaves in an untrustworthy manner others may perceive subsequent behaviour as untrustworthy, even in the absence of evidence for that perception. Changes in the environmental determinant may generate other change in this domain. For example, the increasing price of fuel leads to the increasing price of consumer and industrial goods.

Each determinant has a bidirectional relationship with the other two determinants in the set. The interdependent relationship between the three determinants (which may be dynamic, or which may follow a fixed pattern) must be considered alongside the strength of influence in each bidirectional relationship. The relative influence of the whole set of determinants will change depending on the activities, individuals, and environments involved. In some circumstances one determinant will exert greater strength than the other two. For example, we may go to a party hosted by a close friend at a restaurant we would never choose to dine in ourselves, so the environmental determinant is more heavily weighted. Behaviour can also control our thoughts and the environment, such as when we watch a very good movie at home and forget everything else around us until the movie is over. The cognitive determinant might be more influential in a situation where thoughts or feelings are the major motivator, such as when someone is so happy, or so sad, that they spend
more money than usual on a shopping spree to celebrate, or to counter or mask the sadness.

The influences of each determinant on the others, whether in bidirectional relationship (subsystem) or in the whole system, do not occur simultaneously. Although the influence of bidirectional relations is almost immediate, there is a time lag between the stimuli and the response. In the example derived from the work of Fenigsten and Brown, there is an immediate influence between personal preference and viewing behaviour, and there are time lags of influences between viewing behaviour and the nature of future television programs, and between the future television programs and viewing preferences. This temporal dynamic of the triadic determinants is beneficial in the sense that we would not need to study the whole set at the same time to gain understanding. Bandura argues that: “It is important to understand how certain determinants produce change in the first place, regardless of how the resultant changes, in turn, affect the subsequent operation of the determinants.” (Bandura 1986, p. 28)

The interaction between behaviour and environmental events is determined both by the immediate consequences of action upon the environment represented by counteraction from environment, and by the cognitive process as well. During a transaction with the environment, people form beliefs about the regularities of outcomes of their action in a given situation, and in turn shape their behaviour to accord with those beliefs. Environmental consequences generate contextual and outcome information which is the source from which people build expectations of how actions in such situation results in outcomes. It may be that the same environmental consequences produce different effects on behaviour
because people hold different beliefs of how actions relate to outcomes and the meaning of the outcome (Bandura 1986).

Bandura (1986) has identified four processes through which people develop and verify their belief or thought about themselves and the world around them; direct experience of the effects resulting from their action, vicarious experience of the effect resulting from the action of others, judgements voiced by others, and using the rule of inferences from what they already know. Even it is evident that thought determines behaviour thought itself is partly created from direct or socially mediated transactions with the environment.

3.1.2. Agency perspective

Social cognitive theory adapts the concepts of agency and applies it to human adaptation, change, and development (Bandura 2002). Agency is defined as “the power to originate actions for given purposes” (Bandura 1997, p. 3). This agency concept works in triadic reciprocity and acknowledges the interaction between people as agents and environment as society. As agents, people shape and are shaped by environment.

Social cognitive theory adopts three modes of agency: personal agency, proxy agency, and collective agency (Bandura 2001, 2002). Personal agency means people conduct action individually to achieve their desired outcomes. Proxy agency means that people depend on the action of others to secure their desired outcomes. Collective agency refers to people acting mutually to attain their desired outcome.
3.2. The basic human capabilities

The social cognitive theory of Bandura (1986) posits that a person has five basic capabilities which are essential to the human performance: symbolising capability, forethought capability, vicarious capability, self-regulatory capability, and self-reflective capability.

3.2.1. Symbolising capability

People have been equipped by the extraordinary capability of symbolising which allows them successfully to react to, adapt to, and change the environment. By using symbols, people process and convert immediate experiences into internal modes which in turn serve as guides for their action in the future. Through symbolising, people give meaning, form, and continuity to their experience. Through the medium of symbols, they can make communication with others within any time and space. By using symbols, people can build models for solving problems, discard and retain them, and avoiding an action that would be costly or mistaken. Furthermore, the advanced cognitive capability of symbolisation, with its extraordinary flexibility, makes it possible for people to contemplate ideas which exceed their own sensory experience.

3.2.2. Forethought capability

Bandura (1986) argues that most people act or behave purposively. People act to gain benefits or to avoid problems in the future. People do not purely respond to immediate situation solely guided by their past
experience, rather they are regulated by forethought. Forethought represents images of desirable future events. The perspective of desirable future events manifests itself in many ways. People anticipate the likely consequences of their prospective action, establish a goal, and plan a course of action to gain future benefits. Forethought capability requires symbolising capability to project the desirable future events into current existence. The translation of forethought into action requires a self-regulating mechanism.

3.2.3. Vicarious capability

Vicarious capability enables people to act by matching other people’s behaviour with the consequences of their behaviour. Vicarious capability enables people to obtain and accumulate rules for producing and regulating their pattern of behaviour without risky trial and error experimentation. Vicarious action is vital for human development and survival, particularly in situations where mistakes from trial and error can lead to a huge cost, or even fatal consequences. Therefore, the more costly and hazardous the consequences of mistaken action, and the less people have inborn behaviour patterns, the stronger is the reliance of people choosing to act in ways modelled on the behaviour of competent actors.

3.2.4. Self-regulatory capability

The social cognitive theory gives a central role to self-regulatory capability in human behaviour. People conduct activities in current situations which are directed toward future outcomes. The anticipation of
future outcomes leads people to choose activities and become highly involved with them. However, the projected outcomes are often too far away or too general to give guidance to specific action in current situations, leaving many uncertainties and complexities. In this situation, people are strongly encouraged to construct for themselves guidance and self-motivation for courses of action directed to future outcomes.

In exercising self-regulation people need to follow a certain process: paying attention to relevant aspects of their behaviour (observing) and monitoring their ongoing behaviour; diagnosing or analysing their behaviour compared to personal standards, referential performances, valuation of activity, and performance attribution (personal locus or external locus), and evaluating the behaviour. Self-evaluation is activated when there is any perceived incongruity between behaviour and the standards they set themselves. This situation leads to the changing of subsequent behaviour. People may set higher standards for themselves and act to satisfy the new standards.

According to Bandura, self-regulation means that people have a freedom to select, influence and construct their circumstances and their own life course. Self-regulation enables people to determine their action through reflective thought.

3.2.5. Self-reflective capability

Self-reflective capability is a distinctive capability of humans which enables them to analyse their experience and thinking to gain knowledge about themselves and their environment. Self-reflective capability enables
people to alter their understanding about themselves and their environment. According to Boud et al. (1985), reflection is a cognitive activity in which people “recapture their experience, think about it, mull it over, and evaluate it” (p. 19). Without reflection it is hard to expect learning to occur.

3.3. Linking social cognitive theory to narrative

Social cognitive theory recognises that environment influences people’s behaviour through cognitive processes represented as a symbolisation process. Cognitive processes are personal activity which cannot be accessed directly. It can only be accessed indirectly through symbolisation. Temporal environmental events have lasting influences because the information they deliver is processed and transformed into symbols. The symbolic form of information derived from direct and vicarious experiences enables people to understand events and acquire new knowledge about them.

The dual-theory of representation argues that the form of information is coded in images (visual form) and linguistic (words) representation (Bandura 1986). However, the important information that people take from events is the meaning. When people hear or read, they do not remember the exact strings of words and sentences, rather they extract the meaning. Even if the verbal account of the same events is in different linguistic forms, people can still extract the same meaning. The visual display of information is not via pictures in the head. The visual display should be interpreted than simply recorded in raw sensory form. The same visual display can be seen as different things by different people. People
remember the meaning of what they see, rather replicas of the visual display. Representation can also be retrieved by the other form, which means that verbal descriptions evoke images, and visual displays evoke words.

Social cognitive theory acknowledges that meaning is the end result of encoding information into its dual form. In this sense, nothing can replace the role of narrative to produce the meaning of events. The power of narrative can be described in the subsequent explanation. We shall retrieve the example cited earlier of two narratives: the company suffered fatal losses and the director resigned, and the director resigned and the company suffered fatal losses. The first narrative shows that the environment provokes the behaviour, whereas the second narrative illustrates the behaviour results in a change of environment. From the social cognitive perspective, environment in the first narrative serves as stimuli, while in the second narrative it serves as response.

Social cognitive theory recognises symbolising as a remarkable human capability. This capability is basic to the functioning of other capabilities. Forethought needs symbolisation to bring a desirable future into current existence. Vicarious capability requires image and verbal representation to retain the knowledge of the model such as new behaviour patterns, standards of judgment, cognitive competencies, and rules for producing behaviour.

The self-regulation process needs the symbolic form to observe, monitor and evaluate self-behaviour. Observation of behaviour brings information about behaviour. Monitoring of behaviour requires self-standards which are developed from information brought by different modes of social
influence. Evaluation of behaviour generates information for producing subsequent behaviour. All this information requires representation either in image or verbal code in order to comprehend the meaning. The production of a self-standard of behaviour is itself facilitated by these two representational systems. For example, a ballerina may establish a self-standard for her ballet style through visual representation, while the writer sets his standard through verbal representation in writing style.

Self-reflective capability enables people to conduct reflection upon their behaviour. Reflection is a mental process aimed at reviewing experience and gaining knowledge from it. As it is a cognitive process, again the symbolising process plays a central role. People learn only a little from reviewed experiences unless they recognise that events are correlated. We shall again use the example narrative: the director resigned and the company suffered fatal losses. We know the meaning because there is correlation between the two events. We can develop our interpretation about the director that he is a very competent leader, and without him the company cannot make a profit. However, we can learn more from these events if we know the details of the correlations between them. Our interpretation would change if we knew that the director takes with him several big customers who are major contributors to profit, and that their business will follow the director to another company.

3.4. Linking social cognitive theory to individual learning

Bandura (1986) argues that people change their belief or thought through direct experience, vicarious experience, others’ judgment, and their rule of inferences. Bandura places emphasis on changing belief or thought
through direct and vicarious experience. Change through direct experience means that to change their belief or thought people engage in experiential learning which Bandura calls enactive learning. Vicarious experience means that people engage in vicarious learning (Bandura calls this observational learning).

3.4.1. Experiential learning

In experiential learning, Bandura describes how people learn from the consequences of their actions and this depends on the information generated by the effects of their actions. Consequences of action can be interpreted as effects on people and the environment. As effects on people, consequences of action strengthen or weaken people’s subsequent action. As impact on the environment, consequences of actions elicit responses from the environment. In the latter circumstance feedback is a central component of the model.

Consequences of action have significant functions, as information and as motivator. As information, consequences inform the appropriate structure of action to achieve a given purpose. Consequences of action as information also serve as an environmental predictor of the possibility of the occurrence of events. Consequences act as motivators because they provide incentives for people to prefer actions with consequences that are highly desirable to them.

For Bandura the fundamental issue is about how to develop competent behaviour instead of how knowledge is gained and represented. In learning through the consequences of action people must acquire a general
rule of governing action that suggests competency. Figure 3.2 below depicts the cycle of learning flowing from consequences of action.

**Figure 3.2. Learning through the consequences of action**

---

**Explanation of Figure 3.2.**

People’s actions result in consequences and through feedback they can be processed cognitively. Scholars acknowledge that the outcomes of learning are conceptual knowledge (Kim 1993) or declarative knowledge (Bandura 1986; Gupta & Cohen 2002) and operational knowledge (Bandura 1986; Kim 1993) or procedural knowledge (Gupta & Cohen 2002).

However, declarative and procedural knowledge is not enough for people to take effective action. People need conditional knowledge to determine the effective action (Schunk 2004). Conditional knowledge is the understanding about the timing (when) and the reason (why) for applying declarative and procedural knowledge (Schunk 2004). It
constitutes governing rules (Argyris & Schon 1978, 1992; Bandura 1986). An example offered by Schunk from education is knowing when skimming is appropriate is regarded as conditional knowledge or a governing rule.

In his explanation of experiential learning Bandura described behaviour as the originator of interactions between people and environment. However, he did not explain the environment as the originator of triadic reciprocality which may lead people to change their belief and behaviour.

### 3.4.2. Vicarious learning

Learning by experience could result in costly outcomes or even failure. This leads Bandura to propose highly vicarious learning through modelling against or matching with the competent model. Vicarious learning is constructed by four processes: attention, retention, production, and motivation.

Attention process is the process of exploration and building perceptions of the model performance and seeking information from it. To do this people selectively focus their attention on the model. The factors that influence this process are cognitive skills or competencies and prior knowledge which assist interpretation of the model performance.

Retention process is the process where “transitory experiences are converted from memory representation into symbolic conceptions that serve as internal models for response production and…response correction.” (Bandura 1986, p.51) In retention process, imaginary
representation and verbal symbols are the means of keeping transitory experiences as guidance for subsequent actions of the observer. Rehearsal plays an important role in keeping transitory experience in long term memory once the observer extracts information from modelling.

Production process is the process of converting symbolic conceptions into appropriate action. Motivational process is the process where the learner determines whether to use acquired competencies from modelling. According to Bandura people do not put into action everything they learn. Knowledge or competency acquisition is not always followed by performance. People need incentives to enact their lessons which can take forms such as valued outcomes, rewarding effect, material benefit, enjoyable sensory stimulation, giving benefit to others, personal standard of conduct, or even enforcement.

3.4.3. Human capabilities and learning

Above all, social cognitive theory confirms that learning is a fundamental property of humans. The five basic capabilities of humans enable them to gain knowledge and understanding, or to change their belief and behaviour. Forethought allows people to construct an image of their desirable future. Self-regulatory capability enables them to determine their actions based on their standards and evaluation. Self-reflection allows them to analyse their actions, experiences and thoughts. Vicarious capability enables them to act by matching the competent model. Symbolising capability enables these four capabilities to function.
3.5. Linking social cognitive theory to organisational learning

The social cognitive theory brings insights to the understanding of learning by recognising the drivers or incentives of learning. Learning is driven by internal and external forces. It acknowledges that the transaction or interaction between people and environment is crucial to determining the occurrence of learning. By examining the interaction between people and environment we can understand the occurrence of learning as we identify the determinants of triadic reciprocality which accompany change.

3.5.1. Organisational learning and the context

Social cognitive theory appreciates the role of context in the creation of action. The word context derives from the Latin “to make connection” or “to knit together”. To appreciate the context means to connect something with “a set of relevant facts, events, or points of view” (Rousseau & Fried 2001). Cappelli and Sherer (1991) defines context as “the surroundings associated with phenomena which help illuminate that phenomena…” (p. 56). Context in organisational behaviour research is important because it makes interpretation of research outcomes more meaningful (Schneider 1985). However, the influence of context upon organisational behaviour is under-examined (Johns 2006). This is true also of organisational learning (see Dogson 1993; Miller 1996; Lahteenmaki et al. 2001).

The internal context of an organisation refers to: “The internal environment consists of those relevant physical and social factors within the boundaries of the organisation or [the] specific decision unit that are
taken directly into consideration …” (Duncan 1972, p. 314). The context outside organisation is: “The external environment consists of those relevant physical and social factors outside the boundaries of the organisation or [the] specific decision unit that are taken directly into consideration” (Duncan 1972, p. 314). If the unit of analysis is a marketing division for example, the internal context lies within the boundaries of the marketing division, while the external context would be organisational features, customers, suppliers, advertising agents, banks, and other specific communities. If the unit of analysis is the individual in an organisation, the internal context refers to cognitive and personal factors, while the external context refers to the relevant physical and social factors inside the boundaries of the organisation including office layout, infrastructure, structure, culture, strategy, human resources practices, systems and procedures, and the current situation inside the organisation.

Scholars argue that the internal context of an organisation may encourage or hinder organisational learning. The structural, cultural and personal factors inside organisations have significant influence on organisational learning (Huysman 1999). The structural factors refer to organisation structure, systems and procedures, and policies, cultural factors refers to organisation culture or sub subcultures, and personal factors refers to the interpersonal world inside organisations including leadership.

Organisational structure influences learning possibilities through the mechanisms of control and coordination. For example, bureaucratic structures with formal control and coordination, highly standardised tasks and work roles can hinder learning by reinforcing past behaviours (Fiol & Lyles 1985). In Japanese companies organisation culture characterised by consensual decision making, group sharing, and participatory process in
labour - management relations contributes to continuous processing, integrating, sharing, and revising of information, thus increasing the organisation’s learning capability (Nonaka & Johansson 1985). Transformational leadership or relationship oriented leaders (Vera & Crossan 2004) contribute strongly to the encouragement and cultivation of learning (Senge 1990, 1994; Lipshitz & Popper 2000; Pisano et al. 2001).

3.5.2. Agency perspective and learning level

The other contribution of social cognitive theory to organisational learning is the agency perspective which illuminates the power of people to create their own action, depend on others’ action, and create collective action with others to attain desired outcomes. This brings insights about the level of learning: individual, group and organisational. By observing how people create their own action we can extract understandings about individual learning. Reflecting on how individual’s depending on the action of others, and on collective action, we can extract understandings about group learning and organisational learning.

3.6. Social cognitive theory and research question

3.6.1. The occurrence of learning (the third sub research question)

As mentioned in sub section 2.11.2 (chapter 2, pp. 41-42), a further explanation is needed of why there arises a problematic situation or a mismatch between the expected and the actual results of action (the cause of learning). Further inquiry into this issue leads this study to expand the
analysis to the surrounding context. Based on social cognitive theory, this study argues that a problematic situation or a mismatch between the expected and the actual results of action could emerge from the condition of the external context or environment, or the unexpected responses from the internal and external context of the organisation, thus arguing as well that people, through thought and action, transact with their environments.
Chapter 4
Narrative Theory

4.1. The existence of narrative

Narrative is found everywhere, in every aspect of human life. We watch television every day to listen to the weather forecast. We read the newspaper every morning for information about business, the economy, sport, from which we learn. In the office, we converse with others about jobs, assignments, problems, and we pay attention to reports, memos, and graphs to understand the circumstances of our jobs. We listen to others’ stories about their jobs, families, problems. We describe our past actions and experiences to explain our behaviour to others. We also listen to others describing their past actions and experiences. We encounter narrative in verbal and written form in our daily lives. We even encounter narrative in substantive form such as houses, cars, buildings, chairs, tables and so on. These things are performances (Polkinghorne 1988), they are the product of human action – enacted narratives. The ubiquity of narrative is expressed by Barthes (1977) below:

“*The narratives of the world are numberless. Narrative is first and foremost a prodigious variety of genres, themselves distributed amongst different substances …Able to be carried by articulate language, spoken or written, fixed or moving images, gestures, and the ordered mixture of all these substances, narrative is present in myth, legend, fable, tale, novella, epic, history, tragedy, drama, comedy, mime, painting, …stained glass windows, cinema, comics, news items, conversation. Moreover, under this almost infinite diversity of forms, narrative is present in every age, in every place, in every society; it begins with the very history of mankind and there nowhere is nor has been a people without narrative.” (p. 79)*
4.2. Narrative knowing

Bruner (1986) interestingly shows that the word “narrative” perhaps derives from the Latin word “gnarus” which means knowing. According to Bruner, there are two modes of knowing – the paradigmatic mode and the narrative mode - which offer different paths of arranging experience or constructing realities.

“(The paradigmatic mode) deals in general causes ...and makes use of procedures to assure verifiable reference and to test for empirical truth ...The imaginative application of the paradigmatic mode leads to good theory, tight analysis, logical proof, sound argument, and empirical discovery guided by reasoned hypothesis. The imaginative application of the narrative mode leads instead to good stories, gripping drama, believable historical accounts. It deals in human and human-like intention and action and the vicissitudes and consequences that mark their course.” (pp. 12-13)

Following Bruner (1986), Polkinghorne (1988) differentiates the process of the two modes: narrative mode looks for particular connections between events, whereas the paradigmatic mode searches for universal truth conditions. Unlike the paradigmatic mode, narrative mode is more concerned with the sequence of events to render meaning in order to understand experience (the reality) rather with the discrete or categorical events to generalise experience (the reality) in order to predict and control experience, and more concerned with connections rather than logical reasoning.

“The term paradigmatic is used to refer to those discourses that function to demonstrate or prove a statement by linking it to other statements through connectives of formal logic...[while]...narrative is used for discourses that demonstrate by the type of reasoning that understands ...the meaning of a whole...” (Polkinghorne 1988, p. 35).
Narrative knowing means that narrative is explanatory. Narrative explains human actions and experiences (realities). Narrative equates with story and is defined as a symbolised description of human actions and experiences (Sarbin 1986). Ricoeur (1984) argues that:

“A story describes a sequence of actions and experiences done or undergone by a certain number of people whether real or imaginary. These people are presented either in situations that change or as reacting to such change. In turn, these changes reveal hidden aspects of a situation and the people involved and engender a new predicament that calls for thought, action, or both. Their response to the new situation leads the story toward its conclusion.” (p. 150)

Human action can be understood as physical and mental activity (Polkinghorne 1988). According to Polkinghorne (1988), unintentional activities of humans such as falling, bleeding, trembling, dreaming, or habitual activity such as expert movement in playing tennis (except playing for the first time) are not actions. Physical activity involves bodily movement while mental activity involves communication through the use of linguistic forms. Linguistic forms are vital for human existence as “they filter and organise information from the physical and cultural realms and transform it into the meanings that make up human knowledge and experience” (Polkinghorne 1988, p. 158). Similarly, “Human reality is experienced only with the mediation of symbols …these symbols are seen as metaphoric and subjective” (Brown 1992, p. 118).

People experience change in situations and react to this change. This means that people’s experiences represent “connectedness … and …movement or direction through time” (Sarbin 1986, p. 25). As a consequence, narrative as means to explain human actions and experiences has a significant feature: temporality (Sarbin 1986; Polkinghorne 1988; Elliott 2005). Temporality of narrative means that
narrative has a beginning and an ending (Sarbin 1986, Elliott 2005). Ricoeur (1984) argues that narrative itself brings time into being. Without narrative people cannot recognise time markers such as two days ago, yesterday, tomorrow, next year. The exception may be markers such as day and night. Narrative allows us to understand for example, that a story began two days ago and ended today.

Further Ricoeur argues that narrative and action have a crucial connection. Narrative leads individuals to change their actions. Changed actions (intentional actions) are based on the particular narratives of individuals and follow concrete reflection (Ricoeur 1991), or changed actions may be simply appropriated from the culture (Ricoeur 1978) or environment. Changed actions lead to another narrative (new narrative).

4.3. Narrative and human experience

Human existence is constructed by three kinds of reality: the physical or material realm, the organic realm, and the mental realm. These realms represent the reality of matter, life, and consciousness or meaning (Polkinghorne 1988). The three realities interact through a complex pattern and are characterised by a peculiar system of organisation. They must adjust mutually (between lower and higher levels – mental realm is the highest level). Initially, behaviour and thought are created by the reflective operations of the mental realm. However, this pattern in particular can be passed over when behaviour and thought becomes habitual. This capacity to habituate is a genetically given disposition located in organic realm and comprises at the outset the structures of
language, understanding and meaningful interpretation (Polkinghorne 1988).

The three realms not only work internally (for individuals) but also form culture, meaning, and language systems in which individuals are bounded by their social environment. This cultural realm “provide[s] individuals with a common symbolic environment that informs their categories of thought and social actions while facilitating human interaction and the accomplishment of group projects.” (Polkinghorne 1988, p. 3).

According to Polkinghorne, the meaning realm is an activity not a substance or thing. He provided these examples:

“...the activity of building a house is different from the structure [of building] the activity produces, and the activity of the writing of a play is different from the manuscript that is produced. Building and writing are performances, not substances; it is the artifacts they produce that are substances [material realm].” (p. 4)

Thus, time and sequence of actions in the activity (which determine the kind of activity) becomes the crucial dimensions of the meaning realm. Further Polkinghorne argues that “…the products of the activity of the realm of meaning are both names of elements and connections or relations among elements.” (p. 4). Elements are the content of consciousness and they are produced by the organic realm (sensory and brain apparatus). The meaning realm adds this awareness by introducing the presence of relationships and connections among these basic perceptions (elements) such as whether the element is: the same or not the same, similar or dissimilar, an example of another, stands for the other, part of another, cause of the other.
According to Polkinghorne (1988) the meaning realm is not stagnant. It is enlarged and enriched by its own refiguring process and by the new experiences configured through recollection and reflection.

Narrative operates in the realm of meaning – the mental realm (Polkinghorne 1988). While the physical sciences study the realm of the material and the organic, social or human sciences study human experience and are concerned with the realm of the mental (meaning) – they scrutinise humans and their relationships with themselves and the environment. Social or human sciences “do not produce knowledge that leads to the prediction and control of human experience; they produce, instead, knowledge that deepens and enlarges the understanding of human experience” (Polkinghorne 1988, p. 159). Because it operates in the realm of meaning, narrative produces meaning by organising events into an integrated and meaningful unity. In summary, narrative “works to draw together human actions and the events that affect human beings…Narrative creates its meaning by noting contributions that actions and events make into a particular outcome and then configures these parts into a whole episode” (Polkinghorne 1988, p. 6). In other words, human experiences are produced by the realm of meaning.

4.4. Plot and emplotment

Narrative explains human actions and experiences through a plot. A plot within narrative relates events to each other by linking a happening to a subsequent event (Polkinghorne 1995). A plot is crucial in narrative as argued by Ricoeur (1984) who observes that through the plot, “…goals, causes and chance are brought together within the temporal unity of a
whole and complete actions. (p. ix). A plot is different to a chronicle. A chronicle is a chronological listing of events or actions without a causal link. Elliott (2005) offers examples of both a chronicle and a plot, taken from Forster: “the king died and then the queen died” is a chronicle, whereas “the king died and then the queen died of grief” is a plot. A plot conveys an explicit causal link “highlighting and recognising the contribution that certain events make to the development and outcome of the story [or narrative]” (Polkinghorne 1988, p. 19). The plot phrase “of grief” explains that the king’s death precipitated the queen’s death, or put another way, “the queen died” because “the king died”. To emphasise, causality in narrative is not the same as causal explanation which is associated with paradigmatic discourses and concerned with prediction and control. Ricoeur (1984) calls a plot a quasi-causal explanation. Narrative explanation emphasises particular things, while causal explanation is concerned with the applicability of causality beyond individual cases or tends to create generalisations (Elliott 2005) in order to predict and control.

However, even without an explicit causal link, the reader tends to read causality in a sequence of events described as narratives (Elliott 2005). Chatman (1978) argues that events are “linked to each other as cause to effect[s], effects in turn causing other effects, and until the final effect. And even if two events seem not obviously interrelated, we infer that they may be, on some larger principle that we will discover later.” (p. 46).

Arrangement of events in a plot requires a comprehension of reality of events. We shall take the example used in chapter 1: “the company suffered fatal losses and the director resigned”. Without explicit causal link, the reader tends to comprehend that the director resigned because of
the company’s substantial losses. In this circumstance, substantial losses of the company are the definite cause of the director’s action (resignation). This is the reality. However, when the actual reality is not comprehended, arrangement of events may lead to “the director resigned and the company suffered fatal losses”. Because the director resigned, the company suffered substantial losses. In the former narrative, the reader may infer that the director incompetent while in the latter the director is competent. This example demonstrates that the sequence of events affects the meaning frame and rearrangement of events or narrative clauses lead to a change in meaning (Franzosi 1998).

Because it deals with particular things or individual cases, “Narrative thinking sacrifices the generality of paradigmatic mode in favour of comprehensiveness. Rich accounts can encompass many features, and so narratives are more flexible and can accommodate more inconsistencies than paradigmatic thinking.” (Baumeister & Newman 1994, p. 678).

Plotting (Polkinghorne 1988) or emplotment (Ricoeur 1984) is the activity of ordering temporal happenings or events into meaningful units or the creation of plots. Ricoeur (1984) argues that emplotment is a crucial human function facilitated by the use of language. Emplotment is ceaseless in human life as it emerges in the construction of human experiences, in conversation and in literary creation, both in oral (primarily) and written forms (Polkinghorne 1988).
4.5. Narrative theory and research question

4.5.1. Understanding of learning (the first sub research question)

Narrative theory is useful to this study by contributing to an understanding of learning experiences of participants. The narratives of participants are rich data about learning experiences. Based on narrative theory the author is able to comprehend the reality of participants’ learning experiences. Through listening and paying full attention to their narratives, the author is able to grasp the meaning of their experiences showed by arrangements of events and actions and their causal links, either explicit or implicit. Narrative theory is used in this study to answer the first sub research question (“how do we understand learning?”)
Chapter 5  
Research Methodology

5.1. Research paradigm

This study is about organisational learning. Organisational learning is understood as learning by individuals in an organisational setting. The phases of this inquiry show that individual learning represented by learning experience is the primary focus of attention for data collection or analysis purposes, meaning that this study inquires into human experiences related to learning.

The study has led to an understanding that there is no single objective truth about reality (experience) to be discovered, but rather that reality (experience) is individually constructed. This study holds to a basic paradigm – interpretivism, which leads to an emphasis on subjectivity, individual perceptions, and the diversity of reality (experience). This is the opposite of positivism which acknowledges reality (experience) as external and objective (Easterby-Smith and Araujo; 1991). Easterby-Smith, Thorpe, and Lowe (1991) argue that in positivism, facts are value-free and measured objectively, while in the interpretive paradigm facts or things are value-laden and inferred subjectively through sensation, reflection, or intuition (Easterby-Smith and Araujo; 1991).

The nature of reality in this study, represented by individuals’ viewpoints, will then determine the nature of knowledge in this study which seeks to explain different viewpoints. At its conclusion this study unifies those different viewpoints using a theoretical base.
According to Kvale (1996), there are several philosophical lines of thought in the interpretive paradigm: post-modern, hermeneutics, phenomenology, and dialectics. This study locates itself in post-modern thought which recognises knowledge as the social construction of reality (Kvale 1996). Social construction of knowledge means that local or individual knowledge is influenced by social, economic, and cultural context (Boje 1998). Post-modern thought emphasises that knowledge and reality are inseparable from the context. In this circumstance, Lyotard (1991) argues that person and situation cannot be defined except in and by their relationship (Kvale 1996).

At first glance, phenomenology is appropriate for the present study as this study deals with learning phenomena. The focus of phenomenology is the consciousness of humans in experiencing phenomena. However, phenomenology attempts “…a direct description of experience, without any considerations about the origin or cause of an experience.” (Kvale 1996, p. 53).

5.2. Research method

The research paradigm chosen itself leads this study to employ qualitative research. There are also additional reasons for this study using qualitative research method (see Yin 1993, 1994; Creswell 1998; Leedy & Ormrod 2001). The research questions (start with “how”) require this study to obtain a full and rounded understanding. The study topic, organisational learning, needs to be explored as there is not yet a complete theory of it concerning learning processes and context. A detailed view of the topic needs to be presented in order to answer the research questions (a broad or
distant view is not sufficient to answer the research questions). The topic has many dimensions and needs to be examined in its multiple dimensions. The research questions require this study to examine the learning process in natural settings or real-life contexts. All these conditions can be satisfied by applying qualitative research method.

In several methods of qualitative research, the author selects a case study to answer the research question (see Creswell 1998; Stake 1995; Yin 1993, 1994). The author employs a case study called an intrinsic case study (Stake 1995). An intrinsic case study occurs when the case itself is the focus of the study. The purpose of an intrinsic case study is to obtain a full and rounded understanding of the case, in this study: organisational learning in a public service organisation in Indonesia called the Organisation. An alternative approach is to use an instrumental case study (Stake 1995), where “the case” is of secondary interest to the researcher while the primary concern is to pursue an external interest - to provide an insight into organisational learning in public organisation. In the latter, the researcher may attempt to create generalisations. By contrast, this study does not aim to formulate generalisations. Instead this study endeavours to elucidate experiences and viewpoints regarding learning in the Organisation.

A case study is suggested when the study intends to cover contextual issues, believing that they may be very significant to the topic (Yin 1994). A case study is also recommended when the purpose is to explain causality in natural settings. This study is attempting to discover the causality of learning within the Organisation. Following Yin’s notion (1994, 1993), this study is regarded as an explanatory case study as it attempts to explain the phenomena of learning and organisational learning.
In this circumstance, cause-effect relationships are significant. An explanatory case study begins with a theoretical foundation presented at the beginning, thus informing the explanation. Explanation involves narrative and “because such narrative cannot be precise, the better case studies are the ones in which the explanations have reflected some theoretically significant propositions.” (Yin 1994, p. 110) The theory is itself the subject of review.

5.3. Research design

Research design deals with issues such as unit of analysis, sample, time horizon, and conceptual elements (derived from the theory for the purpose of data collection and analysis).

This study is a single-case design with embedded characteristics (multiple units of analysis: individual) (Yin 1994). The case study is about organisational learning in a public service organisation in Indonesia which means that the organisation is the larger unit to be examined. The smaller unit of analysis is individuals and groups are embedded in the larger unit. The study also examines the group to which individuals belong in their current position in the Organisation using inference from individual cases.

The criteria used to select the sample of individuals are based on job tenure, location, kinds of office, and significance of individual experience to the study topic.

All participants have job tenure (in particular positions) of at least 1 year to ensure they have settled in. They work in offices in Jakarta based on the
justification that the Jakarta area covers 79% of tax revenue (see Appendix 10, p. 219), thus representing the most crucial area for the Organisation.

Interviews were arranged for 25 people. From those people, five participants (called Participant or P1, P2, P3, P4, and P5) are selected to be presented as individual cases as their narrative captures all important elements needed in the explanation (see Appendix 1, p. 210). In other words their narratives are highly significant to the topic. The rest interviews of 20 people are secondary information meaning that their information is used and embedded in the narrative of the primary participants in relevance places. The selection of five participants also represents the voice of people from different offices: non-modern operational offices, modern operational offices, and headquarters. Regional offices are not represented here. These offices may not give valuable information regarding the topic of the study as they function as mediators between headquarters and operational office.

This study is longitudinal meaning that data is collected is over time. This does not mean that the researcher follows participants over the course of phenomena being investigated (learning). The strength of narrative is that it captures past and current experience and also draws out reflections bout likely future experience (Elliott 2005) enabling the author to arrange data collection consisting of one or two interviews for each participant. The author conducted the total 43 interviews with 25 people in which 12 interviews were arranged for the five participants.

There are five important elements derived from the theory to be covered in data collection and for analysis purposes: change, learning incentives (stimulus), accessibility of the lessons from individual learning to others in
the Organisation who would benefit from them, actionability of the lessons, and the effects of learning on organisational outcomes or performances.

5.4. Data collection

Data (evidence) is collected mainly through interviews during 2005 till early 2006. According to Kvale (1996), “An interview is a conversation that has a structure and a purpose. It goes beyond the spontaneous exchange of views as in everyday conversation, and becomes a careful questioning and listening approach with the purpose of obtaining thoroughly tested knowledge.” (p. 6). The interview conversation has the ability “to capture the multitude of subjects’ view of a theme and to picture a manifold and controversial human world” (Kvale 1996, p. 7).

The author follows the approach of Sackmann (1991). Sackmann studied cultural knowledge in organisations and used innovation issues as a device to draw out responses form research participants. She calls her approach of interviewing “issue-focused interviews”. By this approach the researcher is able to focus on “…the insiders [or research participants] perspectives, their everyday theories of organisational life and what they consider relevant in the given setting.” (p. 189).

The interviews were arranged using issue focussed interviews to extract experiences and viewpoints about problem solving in organisational life. Based on Sackmann’s theory (1991), the author argues that learning is basically problem solving. By using this device, the author expects that
data collection will cover the five important elements noted above which represent human capabilities of Bandura, namely:

1. Symbolising capability,
2. Forethought capability,
3. Vicarious capability,
4. Self-regulatory capability and
5. Self-reflective capability.

The author did not ask participants directly about their experiences and viewpoints regarding the five important elements noted above in order to avoid bias issuing from their understanding of the theoretical meaning of the terms used to describe the elements. The terms are not as familiar in daily organisational life as the notion of problem solving.

The interview began with general questions such as “Would you tell me your responsibility regarding your job?, and later “What is it like to work around here?” Answers to these questions provided the author with an orientation about the Organisation and also segment of the Organisation (offices circumstances) where the participants work. Answers to these questions also helped the author to clarify if a question was misunderstood by participants. In addition, the author ensured understanding of participants’ responses by summarising their narratives at the end of a part of an interview; for example: “You mean that the problem arises because of ….”, or “You mean that there is not enough time for that.”

In the first instance the author gained access to participants through a letter directed to the most senior leader in the Organisation seeking his approval for the author to conduct research about organisational learning in the Organisation. Next the author contacted the personnel division to
obtain information about employees with job tenure of at least 1 year in Jakarta and wrote letters to eligible employees seeking their participation in the research. Letters were sent by fax to 257 people and 30 people agreed to participate.

The participation of respondents in this study was voluntary. In the official letter to them, it was stated that they could withdraw their participation at any time. There were five people who cancelled interviews because of workload and out of town assignments.

Each interview was tape recorded and the participant was informed beforehand about this procedure. After finishing the interview, the author gave the opportunity to each participant to listen to their narrative. Most agreed to do this at a later meeting. Several corrections made relating to “off-the-record” statements in an interview. The author made a specific note of this, recording the time when an “off-the-record” statement occurred, for example at the part of interview when 30 minutes and 30 seconds playing time had elapsed.

All interviews from 25 people were typed and the transcript amounted to 180 pages (single line spacing). The author made the first transcription in Bahasa Indonesia and then translated it into English.

This study also used secondary data or multiple evidence sources (Yin 1994) in data collection such as organisational archives consisting of reports, evaluation papers, and internal magazines or bulletins, and news about the Organisation in newspapers and online sources. This evidence is presented mostly in chapter 6 and is also incorporated into chapters 7 - 11.
5.5. Data (evidence) presentation

Interviews were conducted with twenty five people. These interviews were designed as exploratory interviews rather than full data recorded interviews for the purposes of inclusion in the thesis (although they were recorded, typed and translated into English). These interviews covered a wide range of employees of the organisation under study, including senior managers, middle-managers and other employees.

The interviews were narrative based, that is, they were conversations through which meanings were explored of the experiences of those being interviewed. Incidentally, they served the purpose of orienting me to the work world of the interviewees. They were in fact issue focussed interviews in which it was possible to gain an understanding of the interviewees’ thoughts about the learning organisation or organisational learning.

While it may seem a great number of people to interview by way of orientation for the interviewer, there were also political considerations to be taken into account. It is the customary in the research organisation to include a wide variety of people during which explanations could be provided that the orientation interview was to assist the researcher to gain a broad appreciation of the work place. It was also emphasised that in the end there would be a limited number of interviewees. This turned out to be five, in order to have depth in the interview material, a limited number of people to contain the conceptual material to make easier the task of rendering the data and finally, to have those who were finally selected as the most generally favoured by all those people who were interviewed.
In particular, the five people selected were in the best position to inform the researcher of detail relevant to the research questions. Additionally, the five people selected were also very competent in understanding English which assisted the researcher and vice versa to best explore the research questions.

It is appropriate here to have recourse to narrative theory in order to demonstrate how the narratives of those selected inform the exploration of the hypotheses.

Understanding how organisations learn, and how organisations reflect on the experiences they have is vital to the continued successful operation of the organisation. It is of great importance that organisations be able to acknowledge that occasionally mistakes occur, but it is of even greater importance that the organisation can pause at that point and reflect on the causes of the mistake. Morgan, in the ‘Images of Organization’ chapter 4’ is at pains to show that organisational learning can only proceed from a non-punitive environment in which organisational participants are encouraged to understand the complex situations in which the mistake occurred. This involves not only those individuals immediately involved in the mistake but also the way in which systems of the organisation have contributed to the mistake. But more than this, Morgan goes on to describe the positive benefits of an organisation using a mistake for organisational improvement. It is an opportunity to review the policies of the organisation, its strategies, its practices and systems in such a way as the benefits of such reflection far outweigh the ‘losses’ incurred in the mistake. In other words, it is possible to construct the concept of mistake as an opportunity, a very positive opportunity, for improvement in organisational functioning. Morgan refers to this as highly significant in
terms of it being continuous learning, or continuous adaptation to perform highly effectively in a super competitive and complex market. If there is one phrase which applies in this case it is “the learning organisation continuously learning” i.e. continuously reflecting on action in action. This is the ‘model two’ learning referred to in section 2.6.

It is timely at this point to establish the notion of causality in Narrative Theory. Narrative theory departs from the logico deductive theory used in science. It is rather dependent on the processes used in courts, and that is that on the basis of the evidence presented the judgement is based on the notion of “the most likely outcome for the evidence presented.” No proof can be brought forward but the decision in a court attempts to make is purported to be “beyond reasonable doubt.” This is the position adopted for this thesis. It is assumed that those who are respondents in the interviews are insightful people who report their experiences carefully and in depth. The researcher reads the interviews very carefully and makes thematic analysis of the material contained in them. When joining these ideas the notion of causality becomes that employed in courts that is, is this the most probable outcome given the evidence presented. It must be borne in mind that the material comes from participants in the organisation who have only the best interests of the organisation and most particularly organisational learning in mind.

Evidence (from five participants) is presented according to the interviews for each participant. The presentation of evidence (in chapters 7 – 11) is constructed through the narrative of the author about participants’ experiences, relying on the narratives of participants. The experiences of each participant are presented within the frame of an episode. Every episode has an owner (the person who has the experience), circumstances
and context. These episodes reflect peoples’ thoughts, feelings, insights, understandings and actions. The theme of each episode is captured by its title.

5.6. Data (evidence) analysis

In post-modern philosophy, the methodological approach focuses on interrelations in an interview, interactional aspects, and the narrative produced by the interview (Kvale 1991). In this circumstance, knowledge is interrelational. “Knowledge is neither inside a person nor outside in the world, but exists in the relationship between person and world.” (Kvale 1996, p. 44) It is beneficial for the purpose of this study (explanation) to uncover the relationship (causality) between actual events, and between events and actions of participants in the narrative constructed arising from the interviews. Events represent the world while actions represent the participants.

Narrative constructed by the interviews has the strength of arranging events and human actions in plots which makes the evidence understandable. This means that there is a chronological order of events and actions. The first order refers to cause and the second and following order refer to the effect. Through explicit causality links in plots, cause and effect can be identified directly. Without explicit causality links in plots, cause and effect can still be inferred using theory. In one part of the analysis (discussion) this study uses time-series analysis (Yin 1994), particularly for the attempt to answer the second and the third sub research questions because this mode of analysis accommodates the strength of narrative. In this circumstance, the goal of analysis is to compare the
chronology with that proposed by the theory. For the whole analysis (discussion) this study uses pattern-matching strategy (Yin 1994). In this strategy the goal of analysis is to compare the pattern of evidence with that proposed by theory.
Part 2 Empirical Description

Chapter 6
An Overview of the Organisation

6.1. Introduction

This thesis deals with the generation of narratives through the process of a joint conversation in meaning making between the interviewer and five organisational respondents. They were issue focussed interviews in which the interviewer played the role of attending to those issues related to organisational learning which the respondents deemed to be central to their workplace and the efficient and effective operation of the organisation.

Narratives are universal. They are the substance of our daily newspapers, government policy statements, organisational memo’s and which in the final analysis, lead to action. While statistics on the operation of an organisation are vital as a background to the operation of an organisation, it is the narratives, constructed in meetings and contained in minutes of the meetings which guide and constrain actions of members of the organisation. Senior members of the organisation have the power and the capital to set the parameters for action for all other members of the organisation. They do so through meetings which could just as easily be referred to as focussed conversations in which they map out the directions for the organisation. They have to meet the compliance requirements of government and many other bodies and ensure the satisfaction of their clients. Nevertheless, the meetings of directors and senior managers have
one over riding consideration and that is to create a narrative which members lower in the organisation can follow willingly and with understanding but in their individual roles. This is as true for the telephone operator as the head of Engineering. Each must represent the company in such a way that the appropriate image of the organisation is conveyed to customers and that the information they provide is accurate, timely, and of the highest quality.

Put another way, central narratives to an organisation embed accuracy, timeliness and quality, narratives which apply in every facet of the organisation.

With regard to those who were interviewed, they too were in positions within the organisation to provide information about organisational learning which was accurate, timely and of the highest quality. Naturally each respondent provided narratives from their own experience but it was up to the researcher to organise their narratives into a meta narrative, a narrative from which a higher perspective could be gained than that of any one respondent in relation to organisational learning. That higher perspective could be thought of as a wider view or a meta perspective.

A large number of interviews could have provided a broader set of narratives than those collected from five respondents. However, the selection of key organisational members who understood organisational learning who provided in depth reflections afforded an opportunity to go deeper than would have been possible with a broader number of respondents.
6.2. A brief history of the Organisation

The Organisation was founded to serve the purpose of imposing and collecting tax (excluding customs) and is under the supervision of the Ministry of Finance. Indigenous leadership of the Organisation started after Indonesia declared its independence on 17th August 1945 (source: Directorate of Tax Information). Previously, top management positions in the Organisation were occupied by the Dutch who had colonised the country in the 17th century.

In 1962 tax revenue made up 55.1% of total tax and customs revenue then decreased to 45.5% in 1963. In 1979/1980 tax revenue comprised around 70% of total tax and customs revenue. Since 1991/92, the total tax and customs revenue has comprised 80 - 90% of the tax revenue (see Appendix 9, p. 218).

Between 1967 and 1970 the Organisation undertook tax reform to overcome several weaknesses in the tax acts (Tjakradiwirja 1993, p. 35-38). Firstly, too many rules with different tariffs led to complicated tax collection and double taxation (the same tax object was taxed twice). Secondly, the official-assessment system of tax collection created low levels of responsibility within society toward tax. Under the official-assessment system, tax officials determined and calculated the tax base and tax amount to be paid by taxpayers. Finally, the procedure of tax collection was complex. Changes then were made to the tax acts but the philosophy and the tax collection system were not altered. The changes resulted in minor improvement but created even more and overlapping rules, and led to difficulty in administration and control of tax collection.
The aim of this partial tax reform was to increase effectiveness and efficiency of tax collection but the outcome was dissatisfaction.

The urgent need for the next tax reform arose from domestic and international conditions (Prawiro 1988). Domestic conditions were marked by a lower rate of economic growth in early of 1980s compared to the 1970s. Also a potential decline in the oil price in the international market was identified as an event that would undermine government revenue as Indonesia still relied heavily on oil exports at that time. In 1979/80, 66% of government revenue came from this source (together with other revenue) and only 34% came from tax and customs revenue, with just 24% from tax revenue alone (see Appendix 8, p. 217). These conditions pushed the Organisation to conduct a total tax reform in order to promote tax as a major source of government revenue and to increase economic growth. It is argued that tax policy influences economic growth (see Beach 1998; Diamond & Moomau 2003; Zagler & Durnecker 2003, Turnovsky 2004, Irons 2006). Studies from other countries’ experience in tax reform such as Japan, Venezuela, Columbia, Korea, Taiwan, and Bolivia were carried out to inform the creation of a new tax system and regulations.

A broad tax reform occurred at the end of 1983 when the old tax regulations were totally replaced by a new tax system and regulations. The tax reform introduced much simplified regulation reflected in the structure of 5 tax acts, 156 articles and only 9 tariffs, compared with the old tax regime which consisted of 13 tax acts, 587 articles, and 270 tariffs (Tjakradiwirja 1993, p. 67). The most crucial change in the 1983 tax reform was the replacement of the official-assessment with a self-assessment system for tax collection. Under the self-assessment system,
taxpayers are responsible for determining and calculating their tax base and the amount of tax to be paid (Chan 1997), and paying that amount directly at the bank or post office. After 1983 were changes to the five tax acts in 1994, 1997, 2000, and 2005, in order to adapt to economic conditions.

To facilitate the application of the new tax system and associated regulations, the Organisation conducted both an internal consolidation and implemented a strategy to embed in Indonesian society improved acceptance of the tax responsibilities of citizens. The strategy was imperfectly executed due to the short timeframe in which it was pursued. In most countries ten years is needed to educate society before the introduction of tax reform (Tjakradiwirja 1993, p. 245) while in Indonesia the time allotted to this task was approximately two years.

The lowest price of oil was reached in 1986 which dragged the world economy to recession. The recession hit Indonesia, but the application of the new tax acts and system minimised the negative impact of the recession on government revenue. In 1988/89 tax revenue almost tripled and in 2005 was around eighty times that of 1984/85 (see Appendix 8, p. 217). Since 1992/93, government revenue has comprised 60 - 70% of tax and customs revenue and 30 - 40% of oil exports and other revenue (see Appendix 9, p. 218).
6.3. Vision, mission, functions and performance measurement of the Organisation

The Organisation has a vision to become a public service organisation offering world class tax collection and administration. The mission is to collect and promote tax so that Indonesia can become financially self-sufficient. To accomplish the vision and mission there are two functions performed by the Organisation as ordered by the law: tax policy making and collection.

Tax policy making covers the creation of the whole properties of tax legislation from the tax acts themselves to the lowest level of rules; government decrees (rules regarding application of tax acts), Finance Minister decrees (rules regarding application of government decrees), and General Director decrees (rules regarding application of Finance Minister decrees). The tax policy determines tax subjects (those who are regarded as taxpayers), tax objects (income or revenue in any kind on which tax is imposed), tax tariffs (concerned with how tax liability will be calculated), and tax procedures (concerned with the system and process of tax collection).

Hereafter, this thesis uses the term tax administration instead of tax collection for the reason that under the self-assessment system the Organisation only maintains that the self-assessment system works in accordance with tax laws. In other words, the Organisation only administers tax.

Tax administration covers the process of registration of tax subjects, tax return administration, tax assessment (reminder and fine management), tax
arrears handling (instalment, delaying payment, seizing), tax audit, handling of taxpayer objections (taxpayer appeal is separately handled by the tax court) and delivery of tax facilities (tax exemption and reduction).

Besides the two core functions the Organisation also performs supporting functions such as human resources, finance, logistics, general affairs, and others. All supporting functions follow rules made by other ministries and other public organisations in the same ministry.

Performance of the Organisation is measured in several ways. Short term performance is measured by comparing achievement of tax revenue to the annual objective of tax revenue determined by the Ministry of Finance. Long term performance is measured by several indicators: tax ratio, tax compliance ratio, tax coverage ratio and cost collection ratio. Tax ratio is the ratio of tax and customs revenue over GDP (Gross Domestic Product). Tax compliance ratio is the ratio of the number of reported tax returns over the number of taxpayers. Tax coverage ratio is the ratio of potential tax revenue over achieved tax revenue. Cost collection ratio is the ratio of the total costs of the Organisation over achieved tax revenue.

Since 2003 the achievement of tax revenue (excluding tax payments in foreign currencies) can be monitored in real time under the on-line system called MP3 which the Organisation collaborate with banks and post office. Previously, there was a long delay before the achievement of tax revenue was known due to manual systems of reporting from the bank and post office to the Organisation.
6.4. Hierarchy in the Organisation

The highest authority in the Organisation is the General Director who is appointed by the Minister of Finance. The position of General Director is at headquarters.

6.4.1. Office hierarchy

The whole Organisation structure is hierarchical, meaning that higher level offices supervise lower level offices. There are three levels of office in the hierarchy and each level carries out different tasks (see Appendix 2, p. 211)

The highest level in the office hierarchy is headquarters which is responsible for tax policy making, tax administration policy making and supervision of regional offices and operational offices in the application of tax policy and tax administration policy.

The headquarters consists of five core directorates, three supporting directorates and one secretariat. The eight directorates are responsible for tax policy making and tax administration policy making. These directorates also coordinate and supervise regional offices and operational offices in the application of tax policy and tax administration policy. The secretariat covers supporting functions for the whole Organisation (human resources, finance, logistics, general affairs, and others) and supervises regional offices and operational offices in such areas.
Regional offices are the second level of office hierarchy and responsible for supervision and coordination of the activities of tax administration at operational offices which are located in each regional office’s defined areas.

The location of regional offices is mainly in the capital city of each province. The provinces with a high population density are usually served by several regional offices, such as provinces on the island of Java. Several provinces with a low population density are served by a single regional office.

Operational offices are the lowest office in the hierarchy and are responsible for running tax administration in day-to-day contact with taxpayers.

In summary, the configuration of all offices in the Organisation by 2005 consisted of:
- 1 headquarters located in Jakarta;
- 7 regional offices located in Jakarta and another 24 located in other provinces;
- 71 operational offices in Jakarta and another 335 located in other provinces.

6.4.2. Management level

There are two kinds of position in the Organisation; structural or managerial positions and functional or specialist positions. There are five
layers of managerial position or management levels (see Appendix 6, p. 215):

1. Echelon one, occupied by the General Director;
2. Echelon two, occupied by the Secretary of the Organisation, directors, and heads of regional offices;
3. Echelon three, occupied by heads of sub-directorates (at directorates), heads of divisions (at secretariat and regional offices), and heads of operational offices.
4. Echelon four, occupied by heads of units at operational offices, headquarters, and regional offices;
5. Echelon five, occupied by staff coordinators (lead sub-units in headquarters, regional offices, and operational offices).

Below echelon five are regular staff who do not occupy echelon positions but have an important role in office operation.

Appointment to managerial positions requires a minimum grade (see Appendix 12, p. 221). For example, to occupy the level of echelon four regular staff must hold III/b grade. Every managerial position holder reserves the right to increase their grade level to the highest grade in each echelon level.

Specialist positions such as tax auditor, land and building tax appraiser, and IT programmer are not determined by echelon level but by grade level. Appointment to specialist positions requires minimum grade and credit points (see Appendix 13, p. 222 - for tax auditors). Credit points depend on how many assignments are accomplished by the specialists.
Grade indicates the level of people inside the Organisation and functions as an indicator of basic salary level and job promotion. People are entitled to a starting grade when they join the Organisation which is determined by the level of formal education (see Appendix 11, p. 220). Starting grade can increase to the maximum grade at each education level. This means that people who do not occupy managerial positions reserve the right to achieve the highest grade (maximum grade) according to their education level. For example, a master holder can achieve the highest grade (IV/a) without occupying a managerial position or being a regular staff member.

6.5. Modernisation of tax administration

Since July 2002, the Organisation has undertaken the program called “modernisation of tax administration”. This program was initiated by several people in top management of the Organisation. The focus of the modernisation program is on organisation structure and people. To advance the program the Organisation has been supported and advised by the IMF (International Monetary Fund) and Aus-Aid.

Modernisation has been as motivated by the urgent expectations of stakeholders of the Organisation: government, taxpayer, organisation members and the public. Government expects continuous and significant increases in tax revenue to accelerate financial self-sufficiency. Taxpayers ask for impartial tax administration, cost efficiency in tax administration to the taxpayer, and professional service delivery. The employees ask for fair salary rewards, personnel development, and a comfortable working climate. The public expects high levels of integrity in tax administration. All of these factors have framed the goals of modernisation which are
significant increases in tax revenue, high taxpayer compliance, high productivity and professionalism of employees, and high levels of trust in tax administration.

The modernisation program has been carried out step by step. It was started by establishing both new modern operational offices (called large taxpayer offices) and a modern regional office (called large taxpayer regional office) which were used as the pilot project. The modernisation program is expected to be finished at the end of 2008. Until 2008 there is a dual system of tax administration, modern and non-modern tax administration. By 2005 there were 3 modern regional offices from the total of 31 regional offices, and 28 modern operational offices from the total of 406 operational offices and all offices are located in Jakarta. Modernisation will also cover headquarters in 2007.

6.5.1. Change of organisation structure

Modernisation aims to change the work system of tax administration at operational offices by merger and change in its organisation structure. In non-modern tax administration there are three kinds of operational office with the following task; administering income tax and VAT (value-added tax or GST in Australia), administering land and building tax; tax audit and investigation. Non-modern tax administration is characterised by scattered tax administration; different taxes administered in different kinds of operational offices and in particular income tax is administered by different core units in the operational office (unit of individual or personal income tax; unit of corporate income tax, and unit of withholding income
tax). The organisation structure of operational offices which administer income tax and VAT is based on tax type.

In modern tax administration these three kinds of operational office are merged into a new modern operational office with a taxpayer or customer based organisation structure. This change is made after evaluation of tax type based organisation structure of the old (non-modern) operational office administering income tax and VAT. This kind of operational office (called tax office) is used to lay the groundwork because it administers 95% of tax revenue (see Appendix 9, p. 218).

In modern tax administration, the operational office is differentiated based on the business size of the taxpayer. There are three kinds of modern operational office; large taxpayer office, medium taxpayer office, and small taxpayer office. At large and medium taxpayer offices, the organisation structure is based on their business or industry (banking, agriculture, chemical, food and beverage, retail business, oil manufacturing etc), while at small taxpayer offices the organisation structure is based on the region. The organisation structure of modern operational office aims to integrate tax administration.

The change of organisation structure in operational offices is accompanied by introducing an IT-based work system for tax administration. Modern operational offices adopt the IT-based work system which employs case management and workflow management. IT-based case management allows request for tax service by a taxpayer to be recorded as a case, the case is given the number and the name of the person assigned as their account representative (AR). This is very helpful in tracing the case and monitoring the tax affairs of taxpayers. Case management aims to
intensify control of the self-assessment system and to provide personal service. Examples case services include tax return correction, tax instalment reduction, tax exemption, tax clearance, tax account transfer, tax objection.

Every case is processed through workflow management starting at the front counter at operational office to the head of the operational office at the end of the process for approval. The workflow management under web-based application reduces paperwork, increases time efficiency, coordination and communication, improves productivity, and provides built-in-control. Under workflow management, every stage of the process of tax administration can be monitored. Workflow management aims to facilitate operational control.

Taxpayer orientation in the modern tax administration system created a new job of account representative. An account representative is a person who acts as a liaison officer between the Organisation and the taxpayer and works in core units in modern operational offices. Account representative holds non-echelon level. Each taxpayer is served by an account representative who has responsibility to serve taxpayers according to their needs, deliver information about new rules, systems, and procedures, monitor and guide “self-assessment tax collection”, maintain and encourage tax compliance. Each account representative is responsible for a number of taxpayers.
6.5.2. Change of people attitude

Modernisation aims to create a disciplined, highly-motivated, and high performing workforce. To achieve this, modern tax administration provides better work facilities and infrastructure, greater chance of self-development, increases salary almost four times accompanied by the application of an employee code of conduct (ethics). The application of the employee code of conduct is monitored by several special committees formed by government.

To maintain high levels of professionalism in modern tax administration, current employees have to sit a fit and proper test. Only those who pass the test can directly join the modern tax administration. Those who fail are required to attend compulsory training before joining the modern tax administration.
Chapter 7
Individual Experience 1: People versus Organisation

7.1. Introduction

Individual experience 1 belongs to P1. P1 has worked for more than ten years in the Organisation and his current managerial position is at headquarters. An additional assignment in the modernisation team (to create and deliver the concepts and programs of modernisation) has been given to P1. A member of the modernisation team acknowledges P1 as ‘the soul of the team’ meaning his presence on the team is central.

7.2. Modernisation

7.2.1. The drivers

P1 opened the conversation by acknowledging the bureaucratic approach by government to the design of public sector organisations in the country. P1 commented:

“We are bureaucratic … I am talking about four million government officers, all centralised and uniform. We have no discretion to act, to decide matters … For example, the General Director holds a position in Echelon one. Below that there are another four echelons. Let me compare our Organisation with another organisation in the same ministry. The latter has around 1,000 employees, while we have around 30,000 employees with around 400 [operational] offices throughout the country. Still both have five layers. That indicates the rigidity of bureaucracy.” P1-1/2
Every public sector organisation in Indonesia must comply with rules of organisation structure and personnel management set by a ministry which has authority in these matters. Rules of organisation structure of public sector organisations exhibit centralisation as commented by P1 in that public sector organisations do not have discretion. Uniformity is evident in five layers of management in public sector organisations and also in human resource policies (recruitment, grade, job promotion, salary, training, personnel leave and discipline procedures).

P1 placed considerable attention on human resources of the Organisation, ultimately comparing practice with the private sector. He argued that people in the Organisation perform less well, are less disciplined, and are less motivated compared to private sector employees. He believes that salary level is the salient cause for underperformance. P1 is also concerned that the public and taxpayers distrust the Organisation as they perceive corruption is evident within the Organisation. Their opinions are expressed by the media. They want professionalism in tax administration.

P1 contends that the professionalism requirement is reasonable but it cannot be achieved under the conditions of the old salary level. He refers to recent empirical studies by the International Monetary Fund (IMF) and World Bank (WB) which suggest that to combat corruption salary system improvement is essential. This issue was brought to the top people in the Ministry of Finance at the beginning of the creation of modernisation concepts and programs.

“In their empirical studies years ago the only suggestion of the IMF and the WB was to reduce corruption, full stop. They should have gone beyond that to say how to stop corruption. Only within the last five years have they become aware that to reduce corruption, our salary system has to be improved. It’s only empty words if we say we want to combat corruption
while our salary level remains the way it is. This is our [the modernisation team’s] statement to the government.” P1-1/3.2

“It’s not at all true that our people are left behind by people in private sector. Our people have not been optimally employed yet they are compared to the private sector, which is caused by their comparatively lower salary level. How can we work properly if we are poorly paid given the importance of our work – collecting money for government to run public services?” P1-3/2

“If people feel financially secure they perform better and give all their dedication to the Organisation.” P1-3/3

P1 argues that it is impossible to meet the urgent demands of stakeholders without changes to organisational design and human resources policies particularly in salary. This has become the proposition of modernisation: raise salaries and change organisational design to meet the demands of stakeholders. He said:

“We work in such conditions ... rigid organisational design, personnel policies determined by another organisation. Meanwhile it is insisted that we meet the urgent demands of stakeholders ... If the organisation is good but the people are mediocre, it’s useless. If the people are good but the organisation is mediocre, it’s sub-optimal.” P1-1/3.1

Extraordinary salary rises are accompanied by introduction of new rules of code of conduct. The rules govern the conduct of tax officials in their relationship with taxpayers, suppliers, and others who are outside the boundary of the Organisation. The purpose of the new code of conduct is to prevent corruption.

The proposition was tested through the pilot project in a newly built operational office (Large Taxpayer Office 1 – LTO1). The result was minimal infringements of the employee code of conduct.

“...we started the modernisation pilot project in 2002, LTO1. We have tested our propositions by increasing salary to an appropriate level for
LTO1 staff. Pay is still below the private sector but higher than in other public sector organisations. It is heartening that after three years of the pilot infringements have been very minimal. It indicates we can improve but the requirement is very clear: improve salary levels.” P1-1/4

7.2.2. Modernisation team

Modernisation concepts and programs have been created by the modernisation team – a matrix structure in the Organisation which is specially formed for the task. Modernisation is supposed to be the responsibility of a particular division at headquarters. P1 observed:

“Clearly this job is under this division, but there is not enough influence behind it because the division is led by an Echelon three. There is a problem of endorsement if this division proposes changes which affect a higher position like Echelon one. Besides we need a lot input from directors and regional office heads. Yeah, perhaps it’s a matter of process. We could ask for their input or feedback through the current structure and hierarchy, but there is no sense of ownership by them of [modernisation] concepts. If they were involved in discussing and creating ideas for modernisation they would feel acknowledged. But the matrix structure created for the modernisation team is based on a Finance Minister Decree and involves people from other directorates and other offices [regional and operational offices]. Based on this Decree as well, the General Director has authority to change or add to the team membership.” P1-4/3.5

The formal structure assigns a particular division to organise work inside the Organisation and this becomes problematic when there is change of organisation structure because of modernisation which will involve higher management level than the responsible division. The division is led by a person who is at the third level of management (Echelon 3). This becomes a consideration in creating a matrix structure. The modernisation team involves several people from headquarters, regional offices, and operational offices which cover all management levels. It is also expected
that by using a matrix structure, the direct involvement of these people may minimise disparity between the concepts and their application because team members come from different offices responsible for tax policy making and tax administration.

**Problems of a matrix structure**

P1 justified the matrix structure in the Organisation:

“We are human: we are always adapting to the situation. Our organisational design can’t cope with that so we need to form matrix structures internally. That’s how we survive. To some extent matrix structures aren’t healthy. But we need them for special cases. If there are too many, something is wrong with our structure.” P1-5/1

Because of rigid organisation design, the Organisation tends to create matrix structures if there is an issue or problem which cannot be solved under the current structure. Matrix structure has been the means of the Organisation to adapt to environmental demands. However, P1 believes that too frequent use of matrix structures indicates that the division of work of the Organisation is no longer appropriate.

Matrix structures cause the Organisation to depend more on people than the system (formal structure). This leads to workload problems. P1 commented:

“My boss knows that I have many matrix bosses. The weakness is we depend on people, not the system. The effect is that my workload is too great. But that’s our Organisation which can’t let go. That’s our weakness. Back to the cause, it’s because of our rigid organisational design.” P1-4/2

“… only 20% of my effort goes to my structural job, while 80% goes to my job in the matrix structure [modernisation team] …” P1-4/1
P1 is also concerned about people in strategic positions who have double assignments as he does. P1 questioned the ability of the Organisation to change and innovate in this circumstance because these people have to divide their attention between the structural job and the non-structural job (the matrix job). Regarding modernisation, he expects the Organisation to release strategic people from their structural job so they can concentrate only on modernisation as this is crucial to plans and actions for the desired future of the Organisation. This happens in tax organisations in Australia. P1 told:

“In Australia, they have three second commissioners perhaps similar to deputies to the General Director in our Organisation. One of them has been released from their structural job to concentrate only on a change program similar to our modernisation [program]. In our Organisation we’ve created the modernisation team but people in the team still have to think about their structural jobs. This is a very important moment, but where are we going?” P1-4/3

7.2.3. Problems in modernisation

The involvement of operational people from regional offices and operational offices (see Appendix 2, p. 211.) in the modernisation team does not ensure modernisation itself runs smoothly. Several problems have been identified by people in modern operational offices such as IT problems particularly system freezing interrupting workflows, errors in tax bills due to change of issuance procedures, and disharmonious relationships between account representatives and tax auditors in modern operational offices leading to problems in work management.

People make complaints about IT-based work system in modern tax administration: time consuming in job accomplishment if there are delays
in particular part of jobs in workflows, the frequency of system freezing and the time spent in responding to these problems, and the requirement that all system freezing problems are reported to the IT directorate for correction. Previously, the system freezing problems could be handled just by calling the IT people and they fixed it directly from the main system at the headquarters.

People found that the change of the process of issuing tax bills led to errors on the tax bills sent to taxpayers. Tax bills are reminder to taxpayers of their tax liability. In non-modern tax administration, the issuance of a tax bill passed two control points, the staff coordinator and the head of the core unit at the operational office. In modern tax administration a tax bill is only approved by the account representative before issuance. The problem then is that there can be errors in tax bill and taxpayers make formal complaints.

Disharmonious relationships between account representatives and tax auditors in modern operational offices are evident. Integrated tax administration in a modern operational office requires good coordination between them. It is expected that account representatives through their communication with taxpayers will generate valuable input for tax auditors and vice versa. However, this does not happen in the practice. Tax auditors are used to working independently and their workload leaves them little time to socialise with others. Account representatives recognise tax auditors as specialist elites and this leads account representatives to communicate with them formally through official notes which often create awkward relationships and conflicts.
P1 is aware of these problems in modernisation. P1 admitted the weakness of IT in the Organisation.

“To be honest our IT is unable to keep up with the pace of modernisation.
P1-7/5.6

However, he regards the consequences of changing procedures of tax bill issuance, and relationship problems between account representative and tax auditor as micro or internal problems which can be handled internally by operational office.

“Please be aware, this is something new, like trial and error. These problems are internal operational office problems which can be resolved by the office heads.” P1-7/7.1

Beside IT, P1 emphasises other macro problems including budget constraints and the requirement for changes to some rules which are under the authority of other ministry. The latter is not easy in practice as it requires intense coordination which consumes substantial time.

Budget constraints lead to problems of lack of building maintenance for newly built modern operational offices such as large and medium taxpayer offices and lack of operational vehicles. To save the budget, for the next round of modernisation the Organisation may renovate old office buildings rather than building new ones and focus the budget on IT development.

“…We do evaluate our performance [in the modernisation team]. This evaluation is undertaken for the Finance Minister. [He showed several papers to the author and opened some pages while explaining its content]. To do this I go to the field with several members of the team, visit operational offices, discuss things with employees and observe tax administration activities. That’s the first thing. Secondly, this is a new process. Support at the beginning wasn’t smooth, not 100 percent. Since
the beginning there have been budget constraints. This program needs a huge budget. Can you imagine: we have to modernise hundreds of offices. Plus there’s budget for additional salary for around thirty thousand people. The other constraint is that to do this, many rules have to be changed. This has led to long debates and discussions with other organisations which have the authority to make or approve those rules.”

P1 reflected about his modernisation team and thought the root of complaints which may be a lack of expertise and experience in the modernisation team, particularly in the area of human resources.

“Who are we? We have limitations. If a private sector organisation wants to reform itself, they certainly hire consultants with the right expertise. If we want to reform human resources management, a simple question: who is an expert in this field in our Organisation? We do not have that kind of person. Who are the guys in personnel division? They don’t have a human resources background. We are always learning. Because they are assigned to personnel division, they learn about human resources. If we look to Citibank, IBM, the person who handles human resource management is someone who has a human resources background.”

“If we want to reform human resource management, and I have to deal with it because of this assignment, I do what I can do to the best of my capability. Again, we have many limitations. That’s why that the kind contribution of all people is really needed for modernisation to succeed.”

His reflection exposes a flaw – the career path to managerial positions does not consider competencies but grade level. Because of their assignments managers in the Organisation often need to learn things outside their current competencies. The issue of career path will be described in the last part of this chapter.

Furthermore according to P1, people inside the Organisation place too many expectations on the modernisation team. They require that modernisation also handles operational problems while in fact the
The modernisation team is supposed to concentrate on broad concepts and programs, not detail operational details.

“Sometimes people expect too much from the modernisation team. Our task is conceptual. We deliver ideas for the modernisation of tax administration. All old operational offices have to be modernised. We need a people [Account Representatives] to serve several taxpayers. We would like to have built-in control in the work system by implementing case and workflow management where all work is tracked by computer-based systems so notices about particular tasks appear directly on monitors. These are the ideas, but we [the modernisation team] do not cover operational aspects. That’s because we don’t have expertise on the operational side, particularly about human resources. It’s beyond our capability and scope. Our ideas are not all-embracing. For example, with the AR [Account Representative] position we did not prepare for the problem of their relationship with tax auditors in practice.” P1-9/1

Modernisation is not a kind of detailed strategic planning. There could be many changes of direction in response to problems and constraints in the modernisation project. P1 said:

“The idea of building the Data Processing Centre (DPC) came up in the middle of the modernisation program and was aimed to accommodate the needs that arose. We were not aware of this need in the beginning when we formulated the core concept. So we identify the needs of modernisation while we are running.” P1-3/4

However, despite its deficiencies, modernisation has showed results in figures and positive acceptance by taxpayers as explained in the following section.

**7.2.4. Evaluation of modernisation**

During 2002 and 2005 modernisation resulted in increased tax revenue from modern operational offices. The tax revenue of large taxpayer
regional office which supervises two large taxpayer offices grew 16.51% in 2002, 36.26% in 2003, 24.27% in 2004, and 30.81% in 2005. Tax revenue of the special regional office grew 13.42% in 2004, and 45.64% in 2005, and Jakarta I regional office grew 35.09% in 2005. The tax revenue in 2005 of the three regional offices did not include income tax from the oil industry. The special regional office started to supervise ten medium taxpayer offices in 2004 while Jakarta I regional office began to supervise a medium taxpayer office and fifteen small taxpayer offices in 2005. Meanwhile the national tax revenue grew 15.01% in 2002; 17.05% in 2003, 13.19% in 2004, and 14.68% in 2005. It could be argued that most modern operational offices generate significant and increasing tax revenue, meaning the tax revenue of its respective regional office grows faster than the national rate.

Evaluation of modernisation from the lens of taxpayer was carried out as well by modern regional offices and operational offices in 2003 and by the Committee of Code of Conduct from the Ministry of Finance in 2004. This evaluation aimed to examine the impact of modernisation on taxpayer satisfaction. The method varied from interview to survey using a questionnaire. The result showed that more than 90% of respondent perceived their satisfaction as high or medium. To check whether there is bias in taxpayer evaluation because the research was carried by the Organisation, research by independent research institution, AC Nielsen, was undertaken twice in 2005. This research was fully funded by Aus-Aid. The first research activity used a questionnaire for data collection and the second used focus groups. The result showed that 74 - 83% of respondents were highly satisfied, and 14 - 17% was moderately satisfied about the overall performance of modern offices. Overall performance consisted of factors ranked by taxpayers according to importance;
professional integrity, simplicity and efficiency of the process, service provided, and information availability.

Research by AC Nielsen also recorded comments from taxpayers in regard to modernisation at a Large Taxpayer Office, such as:

“Once the AR came here at lunchtime and I asked him to go out for lunch but he refused. I mean, it was normal since it was lunchtime rather that for a different purpose. I became confused and didn’t know what to do.”

“What I like about them is they refuse any offers in a polite way. For example if we ask them to go for lunch with us, they always reply that they have other business to do, not because they must obey the code of ethics. So, I become more respectful of them.”

“For me the LTO [Large Tax Office] is fair … if we are wrong first they say we are wrong and then they tell us what the error is according to the tax regulations. But if we are right they also say we are right … I mean they’re not trying to look for mistakes like regular tax offices.”

“When we had a big case, the LTO was willing to accommodate our mistakes. Actually it was not our mistake, but our customer’s. However, they still wanted to help us by talking with other tax offices.”

“One thing what I like about the LTO is we can get information not only from the AR, but also from other staff since they are all knowledgeable about tax.”

7.3. Career path

The career path to managerial position in the Organisation is obscure. P1 commented:

“In practice, job promotion and rotation [for managerial position] is obscured: we don’t know the exact criterion. What’s worse, we don’t have career paths. You join the Organisation with a university degree and ten years from now you don’t know where you will be. That’s more or less the same with other public sector organisations.” P1-2/1.1
A career path is associated with job rotation and promotion. There are no definite rules of job rotations, except that job promotion requires a certain level of grade (minimum grade, see Appendix 12 p. 221). It does not mean that once an employee achieves the minimum grade he or she can occupy a higher position. Because there are more people than the number of managerial positions, a list is drawn up of eligible employees based on several criteria: seniority in grade, age, position, job tenure, attendance on compulsory training, and education. The list is sorted as follows:

- An employee with a higher grade is more eligible.
- If two employees or more have the same grade, the older is more eligible.
- If two employees or more have the same age and grade, the one who occupies the higher position is more eligible.
- If two employees or more have the same grade and position, the one with longer tenure is more eligible.
- If two employees or more have the same grade, position, tenure, the one who has attended compulsory training is more eligible.
- If two employees or more have the same grade, position, tenure, and compulsory training, the one with the higher level of education is more eligible.

Explicit rules in job promotion do not insist on educational background or specialisation, nor do such rules guide job rotation. In other words, placement to managerial position does not require competency for a particular position. That is why there are people with an economics background serving as the head of data processing section in an operational office, or people with a science background serving as the head of the corporate income tax unit.
In practice, job promotion does not exactly follow eligibility rules. However, over recent years, it is very clear that education level has been a crucial criterion for job promotion. P1 commented:

“There is encouragement in the Organisation to get into the job promotion list. If you want to get promoted to Echelon three you should have a masters degree, to get promoted to Echelon two you should possess a doctoral degree. It’s not written, but that’s the practice. Many people compete to pursue postgraduate study. That’s a good situation, even though there are some people who only pursue the degree, not the content. But I take a positive attitude that this condition encourages people to expand their knowledge through education. The signal from the Organisation is very clear: many people at the top level have high levels of education” P1-2/1.2

In practice, a certain level of position requires a certain level of education. In other words, the last criterion of eligibility (education level) becomes the first factor to be considered in practice. This condition is apparent in the education level of top people in the Organisation.
Chapter 8
Individual Experience 2: Commitment to change

8.1. Introduction

Individual experience 2 belongs to P2. The current position of P2 is head of a modern operational office. He is also a member of the modernisation team and has an important role in relation to human resource development.

8.2. Commitment is everything

To P2 commitment is everything, by which he means that though modernisation has not well performed yet because of some deficiencies in systems and practice, his office can still run well under such limitations because of commitment.

“We can still run modernisation in this office despite deficits in the system. That’s because of the commitment of people here. We are committed to change and we can see results because surveys have proved the results are good. Actually I mean it’s more than the Organisation and the system. Beyond that, commitment is everything.” P2-1/1.1

P2 argues that commitment is built on the shared understanding of all members of the organisation articulated through meetings and discussion. Organisation members are the people behind the system and they determine the direction of the organisation, to a great extent.
“We are always meeting and discussing to build commitment. There are one or two people who show high resistance. I always say to them that our world is here and now not yesterday or outside. That’s to convince them. So back to the basics, the most important thing is the man behind the system. If we say we want wide-ranging changes, that means we are willing to change, not because the system tells us to do so. What we are worried about is that we only get cosmetic change.” P2-1/1.2

A commitment expressed only in words, and not revealed in attitudes and behaviours, would undermine the progress of modernisation. P2 commented:

“What I mean is that the commitment to change can’t only at the surface, just formal. If it’s only formal, we are worried that within two or three years we could go backwards. Reform is not something new for us. In 1983/1984 we had reform, moving from official assessment to self assessment. I think that was a quantum leap, a paradigm change. However even now we don’t believe or trust taxpayers will pay the right amount of tax. On the other side, the public doesn’t trust the Organisation.” P2-1/2.1

According to P2, the previous reform did not work well in changing the paradigm from official-assessment to self-assessment. The self-assessment system relies on a fundamental belief: taxpayers are honest. However, in practice tax officials believe that taxpayers are dishonest (conceal financial information) which compromises tax payment (see Lerche 1980) and may lead to collusion between tax officials and taxpayers (see Besley & McLaren 1993). The public perception matches this scenario (see Simanjuntak 1979). P2 argued:

“We can’t continue to distrust that taxpayers will pay the right tax: no we can’t. We should start first with the modernisation process. For that we have facilitators – ARs. Under these arrangements tax auditors shouldn’t be arrogant … On the other side, taxpayers should be aware that we are not their problem solvers. But we give taxpayers the room to share their problems or complaints with us. That’s a quantum leap, a paradigm change.” P2-1/2.2
To P2, modernisation is expected to solve mutual distrust between the Organisation and taxpayer, the Organisation and the public. The Organisation must first trust the taxpayer to pay the right amount of tax. P2 expects that tax officials will not behave arrogantly towards taxpayers meaning that they will not be decisive in determining the tax liability of taxpayers in circumstances such as tax audit and investigation. In modernisation, account representatives act as facilitators, liaising between taxpayers and the Organisation so the Organisation has a clear picture of the taxpayers’ rights and liabilities. Account representatives can also inform tax auditors about aspects of a taxpayer’s business activities that create uncertainties in tax administration. This flow of communication helps to inform audit and investigation processes and ensures that decision-making about tax liabilities is fair.

P2 also emphasises that the commitment he mentions is organisational commitment not just individual commitment. Organisational commitment can only remain strong through constant reinforcement to every member of organisation and ensuring new staffs members are inducted appropriately.

“By commitment I mean organisational commitment, not individual commitment. Whoever you are, come and stay in the Organisation, and the Organisation will grow from that [organisational commitment]. I always train newcomers and tell them about the Organisation – values and norms.” P2-2/1

P2 is aware that a change in leadership could undermine organisational commitment if the new leader does not cultivate organisational commitment. However P2 is sure that by properly informing a new leader about the organisation’s situation, the importance of cultivating
organisational commitment will be understood. According to P2, sometimes a new leader does not understand organisational circumstances. Consequently they might take action that is not supportive of modernisation. The worst situation would be if subordinates do not have the confidence to give the right information to a new leader. P2 had an experience like this:

“I have a new boss who acts differently to the old boss. I think that his style will change the shape of organisation. Slowly I talked to him and give him the right and complete information about the situation. I think that it is more effective for reform from top-down. It does not mean that bottom-up is not successful, but top-down is more fast resulting than bottom-up because it needs more time as we have to give information every time.” P2-2/2.2

This experience leads P2 to believe that modernisation will occur more quickly through top-down action than bottom-up action.

8.3. Modernisation and career path

According to P2, modernisation is like an infant. The legs are not yet strong. A new leader may wish to change direction. The members of the organisation should be strong retaining commitment and informing the new leader. Remaining strong requires confidence in their roles and careers within the Organisation.

P2 argues that employee motivation and confidence in particular lead to positive contributions to organisational performance and they are crucial to the continuation of modernisation. By the end of 2009 the government expects the tax ratio is 19% or around seven hundred and fifty trillion
rupiah of tax revenue. This is double the expected 2006 result. P2 commented:

“We’ve achieved a dramatic leap in tax revenue. Before, we experienced only ten to fifteen percent of the national annual growth. The moment of modernisation should never end. We have to ensure our employees are confident in their job security. We also have to maintain their motivation to give their best contribution to modernisation.” P2-3/3

However, he is sceptical about modernisation for a particular reason:

“I have heard people saying that if the headquarters is modernised they’d prefer to work in the Organisation library. This means they’d prefer to have simple and uncomplicated jobs than have a high workload and complicated job like AR. I am sceptical about the future of modernisation if employees relate the dramatic salary increases only with increasing workload.” P2-3/4

P2 continued:

“That’s why performance measurement is needed. There are still many people who think modernisation just means a dramatic salary rise and they ask why they have to face an ombudsman’s commission, a special force task to combat corruption, prosecutors, etc. So it’s safer for them to have a job that’s not related directly with technical or substantive issues of taxation. We have to reckon with this kind of response.” P2-3/5

A substantial salary increase will not automatically motivate employee. This is suggested by the preference of some people for assignment to simple, non-complicated and low risk jobs which do not have a direct effect on organisational performance. This occurrence has led the modernisation team to believe that it is important to link performance measurement with both salary and career advancement. The modernisation team intends to seek expert outside advice on this issue.
Motivation to contribute to organisational performance is also influenced by workload. High workload tends to increase motivation while low workload and obscured career path tends to decrease motivation. A subordinate of P2, a head of a core unit reported:

“I’ve been here several years. When this office was divided into two offices in 2003 my unit became four units; the workload has decreased a lot as I have only had to manage a quarter of the previous number of taxpayers. Furthermore, everything was established: we already had taxpayer profiles, and we had developed good communication with taxpayers. The rest is only maintenance. Before that there were so many challenges, lot of problems which encouraged us to look for solutions. We were happy to do that. It seemed that our adrenalin was spurred and we had the spirit to find new ways of working. But currently, it seems that we are idle. We can finish our jobs in a quarter of a day. We are no longer motivated to do the best for the Organisation. What’s worse is we don’t know where we’ll go next. Our career path is obscured.”

It is obvious that a clear career path is crucial to maintain the spirit to contribute to organisational performance. The modernisation team thinks linking employee performance with career paths may build motivation to do the best for the Organisation.

8.4. Modernisation and account representatives

The account representative (AR) has a crucial position in modernisation as they liaise between the Organisation and taxpayer. However, the status of the account representative position remains unclear. Is it to be considered in future as a managerial or specialist position? Currently the account representative position is regarded as a managerial position at the fifth level (Echelon 5). P2 described the situation like this:
“It’s still under discussion whether in future the AR position will be a managerial or specialist position. We know that in developed countries the number of managerial positions is less than that of specialist positions. For example in The Netherlands they have many specialists such as auditors, ARs, account officers or whatever who act as the knowledge-keepers of the Organisation.” P2-4/4

P2 continued:

“In developed countries, auditors, enquiries officers or service officers, help desk centre staff are specialists. For example, a call from outside if it’s related to a formal issue is straight away answered by an officer in a managerial position, but if the case is very specific then it goes to their supervisor who is a specialist. The operational side of call centres is overseen by managerial people, but when it relates to technical issues regarding taxation, it’s the task of a specialist to respond. In the future we expect that core knowledge of taxation will be in the hands of specialists while the authority to organise office management will be in the hands of managerial people. Currently we mix them both up.” P2-5/1

The Organisation has several plans for maintaining support for modernisation amongst staff, including account representatives. The first is to establish an employee performance system linked to career paths. A second plan is to separate managerial and specialist positions so that the locus of tax knowledge and the locus of managerial knowledge are clear. Currently, managerial positions (such as the supervisor of account representatives) involve both supervision and decision making about taxation issues requiring tax knowledge. Separation would facilitate efforts to improve organisational performance under modernisation.

In practice, people remain confused about the responsibility of account representatives as no formal guidance about their job descriptions has been issued. P2 made clarification on this:

“The quality of service expected in large and medium taxpayer offices is definitely different to small taxpayer offices. In the large and medium
operational offices because they serve big companies, the service to individual taxpayer comes first. On the contrary, in small taxpayer offices most taxpayers are small companies and individual taxpayer and the number is huge. ARs in small operational offices hopefully concentrate more on monitoring their services because they are required to cover well the region under their responsibility. In small taxpayer offices the compliance of taxpayers is lower than in large and medium taxpayer offices so an AR there has to look for people who have not registered though they are eligible to have a tax file number. For example, they coordinate with local government to identify people who haven’t registered yet. We have introduced this idea into small taxpayer offices but they still use large and medium taxpayer offices as the benchmark." P2-4/2

People at small taxpayer offices use large and medium taxpayer offices as a model to determine responsibilities of account representative. According to P2 the responsibilities of account representative are different in small taxpayer offices and large and medium taxpayer offices. In small taxpayer offices account representatives should cover well the region under their responsibility. While in large and medium taxpayer offices AR should focus on providing individual service to taxpayers according to their needs.

P3 gave an example of one small taxpayer office which has within its region a large building where mobile shops reside. The head of the office has allocated account representative responsibilities according to floors of the building. This arrangement means account representatives can provide better service and monitoring to all taxpayers (mobile shops) in the building. This modern operational office has demonstrated comparatively superior performance. However, according to P2 the head office has final authority on such arrangements and support for them relies on the creativity of the head of office.
8.5. Modernisation team: ad hoc or permanent?

It is apparent that formal channels of feedback from employees involved in modernisation are absent. A subordinate of P2 commented:

“The way hasn’t been identified yet to deal with under-utilised skills and knowledge. However, the formal channel for feedback hasn’t been established yet.”

P2 acknowledged that currently feedback channels are informal and based on peer information:

“We have only informal feedback channel. In our organisation if we talk about team it is regarded as temporary means that if the job accomplished the team is dismissed. We have modernisation team but it seems like temporary when all the entire of organisation has been modernised then the team will be dismissed. It should not be like that. We have the tendency that effectiveness will be evidence if the team is under formal structure. For example, if the main job in my formal structure or position requires my attendance, at the same time I could not attend the meeting of modernisation team because that is not my main jobs whereas modernisation is a very important moment as it determines the future of our organisation.” P2-5/5.1

P2 continued:

“I think to have formal feedback channels dealing with modernisation we have to establish a unit within the formal structure to only manage modernisation, like happens in Australia. Furthermore, there are too few people on the modernisation team to handle organisational problems.” P2-5/5.2

According to P2, formal feedback channels are necessary during the implementation of modernisation. However, P2 believes effective use of
feedback mechanisms will only occur if a special unit dedicated to modernisation is established at headquarters.

8.6. The importance of planning

To ensure his office runs smoothly (even without a formal job description for the head of a modern operational office) P2 plans for the achievement of tax revenue targets required by headquarters.

“We developed a plan for 2006. The plan detailed things like what the AR should do to achieve tax revenue based on their individual taxpayer base, and what auditors should concentrate on in their tax audits to generate additional tax revenue. I ask my ARs to make detailed plans of their own covering what they will do, which taxpayer they’d focus on, how they’d monitor taxpayers, and what the results of their monitoring would be, etc. I need to know that to calculate our office’s capacity to achieve the tax revenue targets. I need more than their verbal say so. For example, if they say they are going to explore sales, I ask what the result will be, how they calculate it. Another example; banks could pay different instalments of income tax for several months in a year; I will ask the AR why their payments fluctuate, why their payments decrease. Say the AR finds something through examination of sales and suggests a taxpayer correct their tax return. I ask if there is any clarification from the taxpayer and if not and the taxpayer hasn’t made a correction yet, has the case been referred to the auditor for examination. Based on our predictions we were too optimistic when looking at our target. However, we will try our best to achieve next year’s target which is well beyond our estimate of our office’s capability.” P2-7/1

P2 requires his account representatives and tax auditors to draw up plans (in both qualitative and quantitative terms) that focus on activity targets for tax revenue. With his plans, P2 can estimate the achievement of tax revenue. If it is still below the target he can find a creative way to enhance his office capability to collect tax through discussion with his subordinates. P2 manages his office through bottom-up planning and action.
Chapter 9

Individual Experience 3: We look like a fire brigade

9.1. Introduction

This individual experience belongs to P3. He has held managerial position in the IT directorate for twenty years. He evaluates things based on their purpose and to him consistency to purposes is the key for a leader to achieve outcomes.

“We don't have to exert power over subordinates in order to achieve the goal, but we need to be consistent. That I think is the key as a leader.” P3-13/7

P3 is a member of modernisation team and with his IT team creates the IT architecture for modern tax administration. Previously, IT was only a support function, but in modern tax administration the role of IT is crucial as the work system is based on IT. When the IT-based system is down, people in operational offices cannot do their jobs. In the first years of the new IT system and applications, it was common that people at operational office could not perform tax administration for up to two days.

9.2. Tax administration process and organisation structure

According to P3, the tax administration process is universal. Ideally, the organisation structure for a tax organisation should reflect the process of tax administration. P3 commented:
“In general, the process of taxation all over the world is the same. It covers five functions: taxpayer registration, tax payment, filling out tax returns, issuing reminders, and determining fines and penalties. Talking about the way to go about registration, for example, is a different thing. If we run a tax organisation we should focus on these five activities. That’s the essence of tax administration.” P3-I/1

The process of tax administration is shown in Figure 9.1. on the next page.

**Explanation of Figure 9.1**

The tax administration process begins with the registration of the taxpayer. The taxpayer then pays tax. If the taxpayer forgets to pay tax reminders are sent. If taxpayer still does not pay the tax and the amount is significant, a fine and penalty process then follows. Every year the taxpayer fills out a tax return where every tax payment for the year is summarised and underpayment or overpayment of tax is settled. Audit will proceed if the tax return shows overpayment or if a reminder or fine and penalty are ignored by the taxpayer. It then proceeds to notice of underpayment or overpayment of tax. If the taxpayer does not pay tax as mentioned in the notice, the activities of arrears, warrant, seize, and auction will proceed. If the taxpayer receives notice of overpayment of tax, offset process will establish if the taxpayer has underpayments for other kinds of tax. Payment notice is issued for part or the whole amount of the tax overpayment.

Taxpayers can object to a tax audit decision. An objection is processed by the Organisation. If the decision about objection does not satisfy the taxpayer, they can appeal to the tax court. The Organisation follows decisions of the tax court which is the highest decision maker regarding disputes between taxpayers and the Organisation. The appeal process is not included in Figure 9.1. because it is outside the boundaries of the Organisation.
Figure 9.1. Tax administration process

1. Taxpayer Registration
2. Tax Payment
3. Filing Tax Return
4. Reminder
5. Fine and Penalty

- Taxpayer Registration
- Tax Payment
- Filing Tax Return
- Reminder
- Fine and Penalty

- Arrear, Warrant, Seize, Auction
- Notice of Tax Underpayment Assessment
- Claim of Refund
- Audit
- Notice of Tax Overpayment Assessment
- Offset
- Objection
- Payment Notice
9.2.1. Organisation structure

P3 argues that the structure of the Organisation does not reflect the process of tax administration. In changing the organisation structure, the responsible people for that task in the modernisation team always consider first the old structure instead of listing the needs of modern tax administration. He commented:

"Let's imagine what kind of design is appropriate for modernisation. Is the Organisation's current design proper? ... I am sorry to say this, we always mess around with and change the design we have inherited from the past ... Myself, I'm not confident enough to say and specify what kind of design we should have, but I know what kind of needs we have. I don't think we ever make a list of needs at the beginning. We jump into something – activities or programs or projects – without carefully listing what we need." P3-8/3

"What I say may hurt some people. They should make the list of needs first. ... Now, what are we doing? We always keep saying that there should be a unit for data and information processing, a unit for income tax, and so on [the old structure]." P3-8/4

According to P3, the change of organisation structure under modernisation still maintains the old division of work within though with some adaptation. This could limit the Organisation in strategic innovation because strategy development still occurs within the old structure. He argues that it is better for structure to follow strategy rather than strategy to follow structure. He told:

"What I saw in New Zealand, Australia, is registration management. People just concerned with registration. They examine where you live, your husband or wife, what they do, their children, their age, etc. There is also a payment management function called a payment processing centre, tax return processing centre. They have advanced systems for tax return processing. People here do not care about the content. They're just concerned with transforming information into digital form and passing the data to the tax office. They have also debt management, audit management and investigation management. They seem separate but actually are integrated because they have only one database." P3-3/1
In New Zealand and Australia tax organisation design follows the process of tax administration. However, in the Organisation there is no clear cut distinction between the process of tax administration and management control of the process at headquarters. P3 argues that because of this design there is nobody or division at headquarters monitoring and assessing each process of tax administration. Policy making about the process of tax administration is scattered across divisions and directorates at headquarters.

Because the division of work in headquarters reflects the tax type rather than the process of tax administration, the response to problems or environmental demand often is managed through matrix structures. This leads the Organisation to rely heavily on people such as those in the modernisation team. P3 commented:

“We have reminded the top managers that there should be people ready to come into all these jobs. You know, it seems that I and several of my subordinates in the IT team, part of modernisation team, have been locked out [of job enrichment activities]. We can’t go anywhere.” P3-11/3

9.3. Issues in modernisation

P3 discussed two issues in the modernisation project; Data Processing Centre (DPC) and database.
9.3.1. Data Processing Centre (DPC)

There is a need to establish Data Processing Centre which is expected to be functional in 2006. P1 said:

“… and then there is the thinking behind creation of the DPC. The idea is that a tax return submitted by a taxpayer to an operational office is picked up and then processed in the DPC. Here there is a separation between recording, possession and utilisation of data. Currently recording is done at operational offices which means recording and utilisation of data is in one set of hands. [The DPC] may reduce the possibility of a dishonest employee corrupting data for their own or a taxpayer’s interest. The other reason is to reduce human error in data entry.” P3-1/4

The reason for establishing DPC is to prevent human error and data corruption by dishonest employees in the data entry of tax returns at operational offices. Currently, many taxpayers submit their tax returns in paper form either by hand at an operational office or by post. However, there are new rules which allow taxpayers to submit their tax returns digitally on CD or via the internet and the Organisation runs a program on the digitally submitted return which calculates the tax liability. Digital submission means that tax return can be loaded directly into the Organisation system thus eliminating data entry. However, the taxpayer is still required to submit a summary tax return in paper form with an original signature because digital signatures are not accepted under the law.

9.3.2. Database

Data is crucial in tax administration. Data such as the taxpayer’s identity (tax file number), sales, profit, and asset are needed in the process of tax
administration activities such as tax assessment, tax audit, tax reduction or exemption, tax refund.

In non-modern tax administration, data was locally kept at the operational office or was owned by each operational office even or even by each unit within the office due to scattered tax administration.

In modernisation, integrated tax administration requires data to be centrally kept or owned by headquarters (IT directorate). The separation between data production and utilisation, and data recording lead the IT directorate to require a correction report if there is a mistaken amount, figure or number entered into the system in order to clarify accountability. This correction report clarifies the nature and purpose of any correction and requires signatures from people involved in the process of tax administration. The correction report then is sent to the modernisation help desk at the IT directorate and within three days it is fixed. Very often this procedure frustrates people in operational offices due to taxpayer dissatisfaction about delays. In consequence operational people often express anger when dealing with the help desk people under the supervision of P3. P3 commented:

“That is the nature of human character. If there is a mistake they blame others. This becomes difficult because data has been kept centralised. Years ago, they were used to having data decentralised, kept at their office, where they can make corrections any time in minutes. What is wrong with asking them to be a little more careful in doing their job by checking the computer monitor, watching the screen and only then giving their approval? However, such cases have decreased significantly when compared to the first years of modernisation.” P3-5/1

“If we make corrections because we hold the data, there should be people [in operational offices] who take responsibility for the revised data and the reason for the revision. That’s why it seems that we make it difficult by implementing the correction report. It’s fair that people in operational
offices get angry, because the taxpayer gets angry as well with them. It’s clear that they are like the skipper who wants to get their way. When the system has been locked up because of their mistake, they become frustrated. Why is the computer so slow or not working properly? Actually, the key is just to be careful at the beginning.” P3-4/3

According to P3, the underlying cause of such errors is careless data entry because in the past they could fix errors at any time as data was locally kept so they were no need to exercise care.

Currently, there are two means of storing data. The first is data being temporarily stored at operational office then being sent to headquarters to be permanently stored. In this case, the problems usually arise due to technical problems in data flows from local to the central storage or the other way around. This often leads to system freezing problems being experienced by operational people. P3 commented shortly:

“Indeed …we still have many technical problems.”P3-4/4

In response the IT team has established a second means of data storage which allows data to be stored directly at headquarters, thus eliminating the problem of insufficient space for temporary storage at operational offices due to expansive growth of data. This leaves operational offices without temporary data storage. Four modern operational offices have trialled this system and it runs well. P1 said:

“There is more and more data. This has led us to set up operational offices without temporary local data storage. We have tried this in four modern operational offices. They all run perfectly.” P3-14/6
9.3.3. IT development

P3 and his subordinates said that the IT team did not have detailed communication with users when developing the concept of modern IT. The team had only six months to develop the concepts to be directly applied at operational offices. P3 described:

“ Ideally, we should have what is called system development, followed by system testing, then proceed to application testing, parallel testing, and finally user acceptance testing. But we never passed through these stages. We just created the concept and then implemented it. When it ran, users made complaints. They didn’t know that we were not given the time to do it properly. We didn’t have the time to discuss with the user their needs and problems. So we just referred to the rules and policies and existing procedures of tax administration.” P3-10/1

A subordinate added:

“ We did not follow the proper stage. We just followed the instruction from the top. The top said we should do this and we did this.”

The short time for IT development was requested by the Organisation’s leader.

9.3.4. IT-based work system and underused thinking ability

According to P3, there have been many complaints from operational offices regarding the IT based work system:

“They complain to us that currently they become bored because they are just driven by the case. For example, Taxpayer A is late in paying and should be issued a notice, B asks for a tax refund and should be audited, C did not follow up the notice issued and should be managed as arrears, and so on.” P3-2/3
The creation of case and workflow management in modernisation, which require the centralisation of data, has led people in modern operational offices to perceive that control of their work has been taken over by IT. They feel their job is just as an operator and their thinking abilities are underused. Data centralisation is identified as the cause. When data was decentralised, operational office had full autonomy to use the data to increase tax payments and increase the number of taxpayers. Currently, they depend on the IT directorate to provide the data. Very often the problem is not about the data itself but the time needed to have the data available for use. People in operational offices said that “the momentum is not there”. When the data can be available, seen and read any time, they are able to comprehensively analyse data. For example, they can compare and explore related data as most data searching is not deliberate but intuitive.

Encouraging data analysis may resolve this problem. This could be done, even though data is stored centrally, through the use of a data retrieval engine. Such an engine allows data stored at headquarters to be returned to operational offices according to their specific needs. It is expected that a data retrieval facility could be launched in 2007. P1 commented:

“But the content of a retrieval engine is not the domain of IT people. We just provide the data, we don’t create the content. We don’t know exactly what kind of data is needed by each operational office which has different taxpayer characteristics. The content is under the responsibility of operational people. They know exactly what they want. This is a kind of decision support system (DSS). Operational people would have the creativity to design the content. It’s user computing. We have asked them to provide input about the content, about what kind of data they need. But we have never got a response …” P3-18/2.3.5

The content of a data retrieval facility which P3 calls Decision Support System (DSS) is within the competence of operational people. P3 has
advised operational offices of this and has sought his views on the use of DSS, but received no response. This lack of response may be due to a misperception of operational people that the DSS holds all information about their taxpayers such as tax payments, tax returns and tax credits (like database). P1 said:

"Many people wrongly perceive that the DSS is a bundle of data about taxpayers such as their tax payment history, tax returns, etc. Actually it’s more a bundle of information which provides direction; it empowers the Organisation to keep up or to secure a better position. DSS is like the navigation system of an aeroplane. DSS is like a system for SWOT analysis. It gives us indicators. But in the field people perceive that with DSS, if a taxpayer’s tax number is entered into the system, the screen then will display all information about the taxpayer." P3-18/2

9.3.5. IT, workflows, and forms

In non-modern administration, the role of IT as a support function led to an emphasis on data entry, data recording, and database maintenance. IT gave little attention to procedures (work flow) and forms used in tax administration. Modernisation pushes IT to focus on the process and to emphasis procedures (workflow) and the forms used. This required IT at the beginning of the production stage to transfer procedures and forms from paper to digital form, stored so they can be used in case and workflow management using web-based application. According to P3 the idea of workflow management is adopted from a large private bank in Indonesia famous for excellent service, while the idea of web-based application is adopted from a young man who completed his apprenticeship in the IT directorate.

P3 stated that the number of reporting forms used in tax administration is huge. There are 111 forms and there are 58 procedures. The author
identified 44 forms that taxpayers complete. For example there are four kinds of income tax return: the simple tax return for individual taxpayers, the special tax return for an individual who conducts a professional business, the company tax return, and the tax return for reporting employee tax. P3 argues that the essence of tax administration lies in the forms and procedures. P1 commented:

“We have many complicated forms and procedures. We should redesign these together across the Organisation. We should have the same mission on this matter. For example, I have long asked people from the income tax directorate why the income tax return form is so complex. Their answer is that they can see what kind of taxpayer they are dealing with once they read the form. As I know, we only need the headlines such as sales volume, cost. Why do we make it difficult for taxpayer to fill in the form?” P3-9/1

P3 believes that the redesign forms and procedures must focus on simplification for system efficiency. However, the view of core directorates that tax returns should capture extensive information about taxpayer leads them to design detailed and complicated forms. Furthermore, P3 said it is often the case that if there in urgent or important case (for example tax fraud is identified) new forms or procedures are created. Sometimes this additional procedures and forms are used only once but are never withdrawn.

The need to redesign forms and work flows is urgent in modernisation. Detailed communication and close coordination is needed among the IT directorate, core and supporting directorates. However, P3 does not they are enthusiastic.

“They are not reluctant to do this, but are less enthusiastic. Our rhythm and theirs is not the same: we are computerising their jobs. It should be that they lead us and we back them up. What we are modernising through IT is the tax system, not anything else.” P3-19/3
Furthermore, P3 commented:

“We act reactively, like the fire brigade. We do not explore the purpose. It should be that procedures and forms follow purpose. For example, the purpose of taxpayer registration is to give a tax file number to a taxpayer so they are recognised by the system. But what do we do? We are busy thinking about how to encourage taxpayers to register willingly, etc. For example there are a hundred taxpayers named A. For each of them we should be able to identify personal and business address, date of birth, business, shares in other companies, etc. Thus we can follow the activity of each person named A. That’s the purpose behind taxpayer registration. Currently, we are only busy on technical particulars – this undermines that, we should put barriers on this, etc – but we forget the purpose.” P3-10/3

According to P3, the Organisation acts like fire brigade which means that it solves immediate problems (extinguishing the fire) but does not inquire about the underlying values.
Chapter 10
Individual Experience 4: I am happy to benefit others

10.1. Introduction

This individual experience belongs to P4. Currently P4 works in a division at headquarters and is responsible for recruitment and the enhancement of human resources capability through training, education, workshops, seminars in internal and external forums, organised by the Organisation or in cooperation with other organisation such as government bodies, universities, consultants, and Government to Government projects (G to G). Under modernisation he is responsible as well for arranging several training programs funded by Aus-Aid for employees who have joined the modern tax administration. His motto is: “I am happy to benefit others”.

10.2. Experience with lateral communication – issues in work coordination

P4 has two lateral colleagues at the same division. Formal and informal lateral communication works comfortably among them. He said:

“I don’t have any problem with lateral communication. But sometimes there are issues of coordination.”

However, there are issues of coordination. Two examples highlight problems with coordination of work. The first example concerns the unexpected outcome from the temporary placement of Diploma graduates
in the Organisation. The second example concerns a violation of the rules governing an employee’s grade level advancement. In the first example Diploma graduates from a state college under supervision of the Ministry of Finance were temporarily placed in the Organisation. There is always a period of about 6 months between recruitment and definitive placement. Considering that they have no allocated work during this time while still receiving a salary, P4 arranged a temporary placement for them at an operational office in Jakarta. P4 explained:

The definitive placement of Diploma graduates in the Organisation is the responsibility of P4’s colleague in the same division. Problems arose when the operational office requested that the graduates continue to work in their office. However, these requests did not align with the definitive placement decisions of his colleague. Definitive placement for Diploma graduates is based on graduation marks. The rule applying to definitive placement is that the employee with highest mark is assigned to big cities or capital cities of provinces. For example, the city of Jakarta is the highest in the placement ranking.

“The graduates finish their study in September, then they are recruited as employees and get paid, but they wait for a placement until April in the following year. I thought, better than being unemployed, I would put them in an operational office in Jakarta on temporary placement. But this created problems for the other unit led by my colleague which sets and decides the definitive placement. After the program finished, people at the operational office (head of office or head of unit) asked him to definitively place the graduates in their offices.” P4-4/2

Problem arose when there was asking from people at the operational office to keep the graduate works in their office. The things is most of the asking was against definitive placement decided by his colleague. Definitive
placement for Diploma graduates are based on their graduation mark. The rule of definitive placement applies that employee with high mark will be assigned at big cities or capital cities of the province. For example, the city of Jakarta is the highest rank of placement. P4 said:

“Graduates with low marks worked extra hard in their temporary office, expected a good recommendation from their temporary boss. When the program was almost finished, the temporary boss then asked my colleague to keep them working definitively in their office. On the other side, graduates with good marks worked ordinarily, not so hard. The problem was that definitive assignment for them is arranged based on their mark, so that such requests undermine the system of placement.” P4-4/2

“I then realised ...ohhh, it’s like that. You know, I thought simply, assign them temporarily to fully utilise them before their definitive assignments as their salary was paid from the time they joined the Organisation. But the consequences were unexpected.” P4-4/2

“Since then I always coordinate with my colleague before I decide to send anyone on temporary placement. But I think if my colleague had been faster in deciding their definitive placements, they would not have formed such a close relationship with their temporary boss. If they spend too long in a temporary placement, close relationships develop. In 2004 I didn’t put them on temporary placements because of the unexpected consequences.” P4-4/2

“Actually I am happy to help operational offices through temporary placements because they lack regular staff, but it caused trouble for my colleague. That was really an experience.” P4-4/4

His initiative of temporary assignment to fully utilise Diploma graduates in their period before their first definitive assignment brought unexpected consequences for his colleague. However, he suspects that a relatively long period of temporary placement creates close relationships between the graduates and their supervisor which leads to such problems. This experience told P4 to coordinate first with his colleague before arranging temporary placement.
The second example related to grade level advancement. Advancement is the responsibility of his colleague as well. Each employee reserves the right to secure a higher grade level through tenure or completing a higher degree. The latter is regarded as the faster route and is called educational grade level advancement.

A proposal for grade level advancement has to be sent by the office where employee works to the unit of P4’s colleague to be processed and approved. To obtain educational grade level advancement, an employee should fulfil the requirements of validity and legitimacy of the study. Validity refers to the holding of a permit letter from the authorised person according to the rules; bachelor study needs a permit letter from people at the third management level, masters study need a permit letter from people at the second management level, and doctoral study needs a permit letter from the Secretary of the Organisation. Legitimacy means that the school is on an approved list. The Organisation maintains a list of good quality schools. If the employee studies and ignores validity and legitimacy, the Organisation does not acknowledge his or her degree. Administration of validity and legitimacy of study is the responsibility of P4. On one occasion someone obtained educational grade level advancement but held no permit letter. The problem was referred to P4’s unit. He said:

“All study should have a permit from the authorised person. The fact is that sometimes the employee doesn’t have a permit letter for his or her study. Or, in the extreme case, they can not show the legitimacy of their study because they enrol for their degree from school which is not registered on our list. There were some cases that slipped through. That was perhaps because of lack of coordination between my unit and my colleague’s unit.”

“Since then, my colleague always coordinates by sending the case to me first to check the validity and legitimacy of the study before sending it to
the Ministry of Finance to be processed. I co-sign. Before this, all cases of advancing educational levels for grading purposes went directly to his unit. From now on, it will pass across my desk before being sent to Ministry of Finance.” P5-5/3

“The job description doesn’t say anything about such coordination. Because of our experiences, we develop procedures. We face problems then work out how to solve them.” P4-5/4

P4 has learned from experience that lateral coordination is very important in his job.

10.3. Experience with works

10.3.1. Learning the new job

When P4 joined the unit for the first time he learned his new jobs by asking many questions to former employee in his unit whom he knows.

“When I came in the staff coordinators at that time who are my friends had received promotions. I was confused about my new job at that time because I didn’t have someone directly below me who I could ask. There was a former head of unit but he was my senior. I preferred to ask my friends. Fortunately, one of my friends was promoted in the modern regional office located close to my office. We often had a chat and I always asked him for examples if there was a decree or policy that I didn’t know the reason behind.” P4-7/6

10.3.2. Learning the job by experience

According to P4, learning by experience comes from daily job accomplishments. This is how people acquire most lessons. There is guidance provided by the Organisation; job descriptions and work
procedures. Job descriptions explain the general responsibilities of each managerial position. Work procedures broadly describe the procedure for every job in the Organisation. However, managers in the Organisation tend not to rely on job descriptions and work procedures as these give only broad guidance.

“I think we just read the job description and the work procedure manual when we start, then we just go on and learn from experience. We learn because we face problems. Job descriptions only tell about the core things – for example, my responsibilities. It doesn’t clarify the process or details. The process or details are in other technical rules, scattered. Whereas work procedures tell us broadly how all tasks in the Organisation must proceed.” P4-5/5

“Yeah, definitely we hit the wall first and then we realise that something should be improved in the process or procedure.” P4-6/2

P4 argues that the lessons from learning by experience are not directly embedded in the work guidance provided by the Organisation. The reason is that it takes a long time to change the manuals as they must be approved by the Ministry of Finance. It could be that while a proposal of change is still in process in the Ministry of Finance, another change occurs which requires further approval.

“I don’t think that our learning are directly recorded in job descriptions and work procedures. It takes a long time with slow processes to change these manuals.” P4-5/7

“The newest work procedure was created in 2002 the modern operational office. The approval from Ministry of Finance came in 2004. So between 2002 and 2004 there was no formal guidance for modern offices.” P4-8/2

According to P4, no-one should worry that the lessons will be lost just because they are not directly recorded in formal guidance. The lessons are shared among his subordinates and embedded in the daily practice of job accomplishment. And he believes that because of the job promotion and
rotation system which is arranged separately based on management level there are always people stay in the unit who can share the lessons.

“People do not have to reinvent the wheel. There will be always someone who has stayed in the unit.” P4-5/8

“…For example, my colleague asks me – please check this. I then tell my staff coordinator. My staff coordinator then orders his or her regular staff to do it. After that, my colleague doesn’t need to ask me every time there is a similar case, only the verbal [colloquial term for a document requiring signature] comes to me. Henceforth, the process of checking has been established in our work procedure and everyone who is related to this job knows it. If for example, I, my staff coordinator, and my regular staff have been moved, the system is still running because there is still my colleague, his staff coordinator and his regular staff. But maybe if six of us were moved, the chain would be broken. That would be impossible in our system of job promotion and rotation. As I say, there will be always someone who has stayed.” P4-6/1

10.3.3. Observe then reflect

P4 observes how people (subordinates, friends) work and he argues that there is a difference in the knowledge possessed by employees with education background from a state college under supervision of the Ministry of Finance and employees with a university background. University graduates possess conceptual knowledge whereas a state college graduates possess technical knowledge.

“I believe that a university graduate is better in conceptual matters than Diploma graduates, but Diploma graduates are better in technical knowledge meaning better in the details of procedure. Ha ha ha (laughs). University graduates include me.” P4-7/4

P4 is aware that he lacks technical knowledge about his job. Based on his experience dealing with technical knowledge, he has recorded all the work in his unit since the second year of his assignment in the unit. P4 decided
to maintain such a record because there are no procedures provided by the Organisation for many of the tasks his staffs undertake. His records cover technical matters such as rules, policies and methods for properly executing tasks.

“Our weakness is we seldom write down what we have done. We don’t have the habit of recording. In 2002 I never made a record of my work. I started in 2003, so that people after me can continue it. An example is creating a flowchart that specifies the kinds of documents needed, so we can check the process for accomplishing the job. It is all here; I keep the record neatly. The new guy doesn’t have to start from zero. We don’t have to change the formal work procedure, but we can make an interim record.” P4-8/2

10.3.4. Modernisation and motivation

P4 also has observed changes in the characteristic of his work. Previously most of the jobs in the unit were routine. But since modernisation started in 2002, there are more non-routine jobs in his unit which call for a lot of attention.

“Now, variation in my job has increased. Previously most of the job in this unit was routine except recruitment of undergraduates according to the needs of the Organisation. Indeed, when I came in 2002, there was the establishment of a Large Taxpayer Office (LTO). Suddenly since then my job has been dominated by non-routine matters which really need a lot of energy such as determining the test for ARs, and creating an LTO profile which were never done previously.” P4-7/7

Modernisation has created a new job for P4 and he is excited by a move into human resource development to go along with modernisation. He said:

“My job becomes more challenging in the era of modernisation.” P4-7/9
11.1. Introduction

The following individual experience belongs to P5. Currently P5 works as the head of a core unit in a non-modern operational office which administers income tax and VAT.

11.2. Workplace environment

P5 began his narratives with an explanation of the environment in his office. The office was full of interpersonal issues. He said:

“I observed in the first week I came to this office, the boss uses management by conflict. His style confirms this. He always talks negatively about people behind their back. For example, he tells me some bad things about the other unit head, or talks negatively about at least one of our subordinates in the meeting with all unit heads. I knew something about this beforehand from a friend who had been his subordinate at headquarters. So in such a meeting, if he behaves in this way, immediately I distance myself from his stories by countering him, saying something like: ‘it’s not like that – my subordinate does that because of bla bla bla’ – and I think that he still can be managed and directed.” P5-1/2

P5 describes how his boss (the head of the operational office) runs the office in the style of management by conflict. He criticises people behind their back. P5 tries to keep away from such conversation and turns to positive comments about the person being discussed by the boss.
11.2.1. Challenging the boss

P5 then told his experience about this. There is an employee who has been attributed by the boss that she always interferes others’ business and this leads to no unit in the office would like to accept her. Finally the boss asked P5 to accept her in P5’s unit. P5 said:

“This person worked in general affairs unit in this office. Though she is not a treasurer she helps the treasurer who manages our employee salaries and payments in coordination with the other public sector organisation which has authority for the national treasury. She helps because she has a friend there [at the other organisation] and she worked there before moving to our Organisation. The boss was not happy about what she was doing and called the treasurer and said negative things about her. The treasurer was provoked by the boss and she confirmed his view: ‘yes, sir, she always goes with me to the general directorates of treasury and I feel annoyed’. I knew this from the treasurer.” P5-1/3

“The boss asked me to accept her in my unit through a heartbreaking short message via mobile phone – I entrust her to you, please give her a corner seat and a toy (in quotation mark), whatever there is, so she can’t go anywhere. But I didn’t do as he said. At the beginning, my subordinates resisted because the whole office regarded her as an enemy of society due to the boss’s character assassination. I called my subordinates and talked – do you want somebody executed without proof? Just be neutral first; we’ll see in a couple of months.” P5-2/1

P5 then accepted her into his unit, but his subordinates rejected her from the beginning. He then asked his subordinates to give her time to prove whether the attribution that she always interferes in others’ business is true.

P5’s view is that it is good practice to gather evidence about staff behaviour before deciding who or what is at fault. He is open to receiving information from others but he believes it is important to test such information through further inquiries.
According to P5, she is an enthusiastic person who needs a room for self actualisation. P5 accepted her in his unit and regarded it as a challenge to prove his initial assessment. P5 continued his story:

“I asked her - do you know your position in front of our boss? She replied, ‘yes, I know’. I said: ‘you don’t have to be upset because you are a blank sheet of paper to me, so this is your chance. If you join this unit within two or three months you should know tax administration’. She doesn’t have the capability to do tax audits so I directed her to do administration. I said to her, ‘so please don’t attend to any other job outside this unit. You should learn your own job.” P5-2/1

P5 directed her to sort monthly tax payment receipts from taxpayers, record it, and then allocate them to others in the unit who are responsible for monitoring monthly tax payments. She performs well and P5 feels satisfied. P1 commented:

“Before she came administration here was not tidy. My subordinates concentrated on tax audits as we have so many auditing tasks. After she came administration became tidy, and we can find documents fast. My subordinates feel she has contributed to this section. She has been working hard, and she never been absent unless for something important and she has told me or my staff coordinator beforehand.” P5-2/1

According to P5, his boss insists that he wants his subordinates working in line with his own expectations while P5 looks for things that could done well by his subordinates to contribute to the Organisation. P5 explained:

“It was very obvious that if the boss likes singing he thinks everybody should be able to sing. He forgets that there are people who only can dance. It is different with my principle. I look at people not from the standpoint of whether they are good or bad at something, but what they can do or contribute. If they can only sing just let them sing, or only dance just let them dance.” P5-2/2.2
Because the boss frequently criticises people behind their backs without being specific or having evidence he influences his staff to behave in the same way. Yet P5 showed that this behaviour was unfair and unjust.

“This environment is crazy. It can make people very biased in the way they see other people because of the boss and others gossip. If I had followed what he said to me I would never have made anything to this employee. In fact I can prove the judgment of the boss is wrong.” P5-2/2.3

11.2.2. The boss reaction and the solution

P5 then gave feedback about her performance to his boss whose reaction was as P5 expected by him. P5 said:

“After I told him about her performance he said that that it's only in front of me that she behaves well, but outside my unit I don’t know.” P5-2/2.4

The boss would not accept the evidence, causing P5 to prepare for further reactions from him. He felt that his boss resented the prospect of P5’s success in this matter. P5 described his subsequent actions:

“Concerning the boss’s reaction to my report about her, I prepared a counter attack if my boss had another shot at me. I applied a policy not common in my unit. I called my subordinates together and said that if they have some urgent business please do it when I am in the room. They can ask me to go outside the office for such things either by direct communication or by short message via mobile. But, if I am going outside for a meeting or going to headquarters or whatever, they all should stay in the room until I’m back, unless there is an urgent need because of official duties.” P5-3/1.1
P5 tells his subordinates they can go outside the office if there is something important only when he is at the office. On the other hand P5 asks his subordinates to stay at the office while he is away.

P5’s predicting was correct. If his boss knew that P5 was going out, he tried to expose his weaknesses by speaking to P5’s staff. P5 always told to the boss when he was going out whether his reasons for going out were acceptable to the boss or not.

“Two or three times after I applied the policy, it happened. The boss tried to find anything wrong by calling my subordinates and ask about something when I was away. If I was in the room he never called my subordinates because I have an agreement with him that if he wants to call my subordinate I ask him to go through me first. I do that because I don’t want him to unsettle my subordinates without my knowing. Regarding his style I always cover my subordinates’ weaknesses by saying that it’s my fault or I have not told them something or that is because of my carelessness. I often do that in the meeting with other unit heads.” P5-3.2

11.2.3. Maintaining relationship with the boss

In maintaining his relationship with his boss P5 holds a belief that the boss cannot feel weaker than his subordinates or feel defeated in discussion with subordinates. The response of the boss in words and actions upon feedback from P5 about the case above proved this. P5 said:

“We can’t talk to him like this – I think this wrong that we should do this because of bla bla bla. Ha ha ha (laughs). Until the end of the world he cannot accept statements like that even if we speak gently.” P5-13/1
P5 believes that his boss should be given the room to show his superiority. When people disturb his superiority the boss regards them as out of step. P5 told:

“It is better for me to say: ‘In my opinion it is better if we take this decision, direction whatever because of bla bla bla. You may be right on this factor but when you take into account other factors it will cause bla bla bla because bla bla bla. The key is, don’t push him to make a decision at that time. Make room for his sense of superiority by giving him time to think about it. We just wait for his decision. His decision will accord strongly with our suggestions even if he doesn’t admit that in front of us.’” P5-13/2

To suggest problem solving in a way that can be accepted by his boss, P5 arranges his narratives in a way that allows boss feels comfortable with his superiority.

P5 believes that he is not influenced by the situation because he has values which more or less are informed or formed by his work experience before at headquarters. Instead he influences the environment (not included his boss). This may due to P5’s governing values which concern more the “how” rather than “what” of every problem solving. He gave an illustration:

“Actually I want to say that your dress is bad. Others prefer not to say anything because it can hurt the person who dresses badly. If it’s me, I know I should say it but the question is how to say it so the person will not feel hurt. The object is still: your dress is bad. But I say it in different way, like: you look great when you wear the colourful dress that you wore yesterday.” P5-10/3&4

P5 never thinks deeply about how to say things in order for them to be accepted. P5 sees that many people have in their minds “what” they want to share or to express, but feel reluctant to speak because it could hurt other people. P5 offers the solution that it is better to think hard about how
to say it to avoid hurting the feelings of others while maintaining the intended message (the “what”).

However, P5 acknowledges that while his boss’ management of relationships is weak, in collecting tax revenue his professionalism is strong and enhances the performance of the office. The office is in the top rank among other operational offices in its regional office area. This is also confirmed by two other heads of unit:

“Beside his negativity, the boss never feels overwhelmed. He is hard working. He attends to details when he does something.”

“He never stops at one point. He always wants to find other arguments. He doesn’t want to lose.”
Part 3 Discussion

Chapter 12
Syntheses of Theory and Practice

12.1. Understanding learning through narrative

This section answers the first sub research question (“how do we understand learning?”). Narrative is an efficient and fascinating means for understanding human action, including learning. It is not necessary to follow in person each step in another’s course of action in order to determine what learning has emerged from taking that course, nor is it necessary wait until the all the outcomes from a course of action are identified. So long as the participants (the learners) are honest, the author can capture the reality of their learning through their narratives or stories.

12.2. Identifying learning through the effect - change

Section 12.2 answers the second sub research question (“how do we identify learning in the Organisation?”).

12.2.1. Past experience and change

During the period 1967 – 1970, the Organisation implemented partial tax reform. It is called partial tax reform because it only improved the tax acts by changing its content (tax rules and procedures) but not the underlying
system of tax collection which governs or dictates the content. In 1983 the Organisation carried out full tax reform which changed the content (rules and procedures) and the system of tax collection. The system of tax collection changed from an official-assessment system to a self-assessment system.

Individuals in the Organisation developed tax policy proposals adopted into law by the Indonesian parliament (Dewan Perwakilan Rakyat). The development of policy proposals represents human thought and action. Though the intention of change in partial tax reform was to strengthen the tax acts by improving them, the subsequent action of changing the content but not the system of tax collection weakened the tax acts. Change of the content of tax acts created even more and overlapping rules, and led to difficulty in administration and control of tax collection. On the other hand, in full tax reform (1983), the subsequent action of changing the content of tax acts and the system of tax collection strengthened the tax acts and their application (tax administration).

Partial tax reform illustrated single-loop learning because the change did not cover the governing rules while full tax reform showed double-loop learning as it involved changes to the governing rules.

Changes in past experience of learning within the Organisation are summarised in Figure 12.1. on the next page.
**Figure 12.1. Changes in past experiences of learning within the Organisation**


Old tax acts → Improve tax acts → Weak tax acts  
(change - improved content)

(product of prior action) → (subsequent action and its product – the change) → (weakened the product of prior action - tax acts)

**b. Period 1985 and after**

Old tax acts → Change tax acts and system → Strong tax acts  
(change - new content and self-assessment system)

(product of prior action) → (subsequent action and its product – the change) → (strengthened the product of prior action - tax acts)

**Explanation Figure 12.1.**

Figure 12.1. shows that people’s subsequent action produces change which reinforces (strengthens or weakens) the product or creation of prior action.

**12.2.2. Current experience and change**

**Episodes: people versus organisation, and commitment to change**

The episode “people versus organisation” (chapter 7, pp. 100-113) and “commitment to change” (chapter 8, pp. 114-123) exhibit the dramatic change in the salary levels tax officials (substantial salary increases) starting in 2002. The salary increases do not follow the policy about
salaries for government officials made by the ministry which has authority on this matter. The salaries of tax officials are now much higher than the salaries of other government officials. The substantial salary increases means that the value of their jobs has risen relative to opportunities outside the Organisation. Outside opportunities in this refer to bribes from dishonest taxpayers. The purpose of the substantial salary increases is to reduce the intention of tax officials to take bribes.

Extraordinary salary increases are accompanied by the creation of a new code of conduct (COC) for tax officials. This new code of conduct states the detailed rules that govern the conduct of tax officials in their relationships with taxpayers, suppliers, and others who are outside the boundary of the Organisation. The new code of conduct aims to prevent corruption. The application of the new code of conduct for tax officials is monitored by several special committees formed by government. In fact, there is a code of conduct for all government officials but it only mentions general and broad matters and there is no government board or body specially appointed to monitor its application.

These changes (new salaries and the code of conduct) are not only alterations. They strengthen tax administration by combating corruption and by improving performance, discipline and motivation of tax officials (the quality). Through this quality focus it is expected that transparency and professionalism of tax administration will follow which is required by taxpayers and the general public.

These changes are the result of human resources reform within the Organisation framed by the program called modernisation. The Organisation is also implementing structural reform at the same time,
changing the organisation, design particularly of operational offices. The change of organisation design of regional offices and headquarters will occur alongside implementation of the new organisation design for operational offices.

While human resources reform aims to combat corruption, the combination of human resource and structural reform aims to substantially increase tax revenue (required by the government) and service levels (required by taxpayers). The structural reform transforms the tax type oriented organisation design to taxpayer oriented organisation design. Tax type oriented organisation design is associated with scattered tax administration while taxpayer oriented organisation design represents an integrated tax administration.

Taxpayer oriented organisation design at the operational level, based on taxpayers’ business (in large taxpayer and medium taxpayer offices), may significantly support identification of taxpayer revenue not yet taxed, and based on maps of land and buildings (in small taxpayer offices) might help identify people not yet registered as taxpayers. This will enhance the capability of the Organisation to collect more tax. Meanwhile the new design is expected as well to enhance services to taxpayer. In return their compliance is expected to increase meaning they pay their tax at the right amount thus generating more tax revenues.

To boost the capability of the Organisation to increase tax revenue, the change of organisation design is combined with the creation of a new position called Account Representative. Account Representatives are intended to support the application of integrated tax administration. With their close involvement in the tax affairs of taxpayers, Account
Representatives are expected to inform the Organisation through a clearer picture of whether taxpayers are paying the right amount of tax. The change of organisation design and the creation of Account Representatives strengthen tax administration particularly in generating more tax revenue.

Employee motivation and confidence in particular lead to positive contributions to organisational performance and they are crucial to the continuation of modernisation. Substantial salary increases are not enough to ensure employee motivation and confidence. Other change is needed which links salary, career path, and performance of people (performance measurement). This change is imminent. This change emerges because of the unexpected responses of employees (such as described in the episode “commitment to change” – chapter 8, p. 118). This change strengthens human resource development.

All these changes are regarded as radical because they involve change of governing values (salary policy, taxpayer orientation, process or workflow orientation, and control and monitoring based on process and performance). All these changes are framed by the program called modernisation. Modernisation exhibits double-loop learning. Changes in the two episodes are summarised in Figure 12.2. on the following page.
Figure 12.2. Changes in individual experiences: people versus organisation, and commitment to change

<table>
<thead>
<tr>
<th>Non-modern tax administration</th>
<th>Modern tax administration</th>
<th>Strengthen tax administration (including HR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>characterised by:</td>
<td>characterised by:</td>
<td></td>
</tr>
<tr>
<td>low salary, general</td>
<td>high salary, detail and</td>
<td></td>
</tr>
<tr>
<td>and unmonitored COC,</td>
<td>monitored COC, taxpayer</td>
<td></td>
</tr>
<tr>
<td>tax type design, no</td>
<td>oriented design,</td>
<td></td>
</tr>
<tr>
<td>performance measurement,</td>
<td>performance measurement,</td>
<td></td>
</tr>
<tr>
<td>work specialisation.</td>
<td>workflow oriented (AR).</td>
<td></td>
</tr>
</tbody>
</table>

Explanation Figure 12.2.
The figure above illustrates that people’s subsequent action produces changes which reinforce (strengthen or weaken) the product or creation of prior action.

Episode: we look like a fire brigade

The episode “we look like a fire brigade” (chapter 9, pp. 124-136) shows change in IT orientation from data entry, data recording, and database maintenance to the process of tax administration (in operational offices). This change led to the creation of a case and workflow management system with web-based applications in the work systems of tax administration.

Process orientation has led to the formulation of the principle of unification of the database. By this is meant that database ownership
changes from locally owned (by operational office) to centrally owned (by IT directorate).

Combination of centrally owned database and IT-based work system leads to unexpected consequences. Employees in operational offices feel that their thinking ability is underused as their work is directed the work system. Worse, they cannot utilise their spare time to scrutinise data, so intuitively recognising patterns of similarity and dissimilarity, as the database is not accessible to them and they have to ask IT directorate to prepare data (data centralisation). The feeling of employees in operational offices that their thinking capability is underused could undermine their confidence and motivation to contribute to organisational performance.

The creation of a retrieval engine called the Decision Support System (DSS) may solve these unexpected consequences. This is done by sending data from headquarters (IT directorate) back to operational offices according to their needs. The retrieval engine is expected to encourage the data analysis activity of operational people while at the same time eliminating the feeling that their thinking capability is underused.

Central database ownership leads also to the creation of new procedures for correction of IT problems (operational offices must report IT problems to the IT directorate for correction). The new procedures for correction of IT problems aim both to increase accountability and to educate operational people to take care in data entry.

In modern tax administration, data storage works in two-steps. First, data produced by operational offices is temporarily stored in operational offices. Second, the data is then sent to the IT directorate for permanent
storage in. This two-steps system is similar to that used in non-modern tax administration in which data is kept permanently at operational offices and every month IT people in operational offices back up the data and send it to headquarters to update the national database. There is an important difference between the two approaches to data flows. In non-modern tax administration, data flows in one direction (from operational offices to IT directorate). In modern tax administration, data flows in both directions (that is, both to and from operational offices and the IT directorate) every time there is a work task which requires data. Problems do occur in two direction data flows such as system freezing. Unexpected consequences such as this have led the IT directorate to store data permanently in the IT directorate (one-step system of data storage).

In line with the effort to combat data and human corruption through IT, a Data Processing Centre (DPC) is imminently created to prevent human error and data corruption by dishonest employees, in data entry of tax returns in operational offices. Tax return is the most important data for tax administration as it exhibits self-assessment of taxpayers. In other words, through imaging processes (scanning tax returns) the DPC ensures data accuracy, reliability of the database, and recording of all data.

The second purpose of the DPC is to allow Account Representatives to concentrate on their job of serving and monitoring the tax affairs of taxpayers as the DPC releases them from recording and administering tax returns.

The salient change in IT learning is to the process orientation of tax administration in operational offices. Process orientation leads to changes in other areas such as database ownership, procedures for the correction of
IT problems, implementation of a one-step data storage system and creation of DSS and DPC. These changes are regarded as radical for IT. However, these changes are not being introduced simultaneously. Implementation is incremental and guided by responses from the internal environment. A process orientation also leads IT to attend to employee concerns because there it involves a partnership between IT and other employees in task accomplishment in tax administration.

The change to process orientation is a change to the governing values of IT. This refers to double loop learning. These IT changes strengthen IT in tax administration. Changes in IT learning can be summarised in Figure 12.3. below.

**Figure 12.3. Changes in IT learning**

<table>
<thead>
<tr>
<th>Old IT</th>
<th>New IT</th>
<th>Strengthen IT in tax administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>characterised by:</td>
<td>characterised by</td>
<td></td>
</tr>
<tr>
<td>non IT-based work system, local data storage, data decentralisation. (non process oriented)</td>
<td>IT-based work system, central data storage, data centralisation, DSS, DPC. (process oriented)</td>
<td></td>
</tr>
</tbody>
</table>

Functions:
- data entry, data storage, and database maintenance
- task accomplishment in tax administration

Explanation Figure 12.3.

The figure above illustrates that people’s subsequent action produces changes which reinforce (strengthen or weaken) the product or creation of prior action.
Episode: I am happy to benefit others

This episode (chapter 10, pp. 137-144) illustrates two cases of learning. The first case is related to temporary placement of Diploma graduates in operational offices in Jakarta and the second case is about grade advancement based on educational attainment.

The first case started when P4 created a new program - temporary placement of Diploma graduates at operational offices in Jakarta. He did this for two reasons: first, to utilise them while they were waiting for definitive placement and were being paid while they waited, and second because of a lack of regular staff at operational offices in Jakarta. Temporary placement is a result of P4 learning at the first stage.

At the second stage of learning for P4, the change is a termination of the temporary placement program due to unexpected consequences when operational offices asked that the graduates be definitively placed within their offices which runs counter to definitive placement policy. In this situation, the short term benefits of temporary placement undermined the long term human resource development strategies of the Organisation and compromised the career path of Diploma graduates which is safeguarded by the Organisation’s people placement policy. Unexpected consequences weakened the action (temporary placement) and led P4 to terminate the program. At the same time P4 acknowledged that coordination with colleagues is important in such matters.

In the second case there was a change of procedures for approving proposal of grade advancement following higher education attainments by
employees. The change of procedures consisted in introducing a check of validity and legitimacy of study before giving approval for grade advancement.

Previously, the two units worked separately based on their job description (personnel development and personnel movement) and there was no coordination about the process of approving grade advancement. The unexpected consequence was identified by P4 when an employee who received grade advancement did not hold validity and legitimacy of study which are the prerequisites of grade advancement based on higher levels of education. The unexpected consequence led to coordination between the two units in the same division (P4’s unit which carries out validity and legitimacy checks and the personnel movement unit led by his colleague which processes approval for grade advancement).

It seemed that the unit of P4’s colleague did not check with P4’s unit about validity and legitimacy of study prior to granting approval of grade advancement for employees, despite the rules requiring this. The possible cause was that the unit of P4’s colleague perceived that every employee knew the rules and complied with them.

At a glance, learning here resulted in change of action from no coordination to coordination thus improving organisational routines for approving grade advancement. From the Organisation’s point of view this is single loop learning. However, if we look deeply there is a change to P4’s framework of thinking from being job description oriented (departmental, divisional or unit thinking) to being process oriented (organisational thinking) which encourages coordination and
communication. In this circumstance (from P4’s point of view) it is argued that P4’s learning is double-loop learning.

The changes to P4’s learning are summarised in Figure 12.4. below.

**Figure 12.4. Changes in individual experience:**

**I am happy to benefit others**

1. **Case: temporary placement of Diploma graduates**

<table>
<thead>
<tr>
<th>No temporary placement</th>
<th>Temporary placement</th>
<th>Unexpected consequences</th>
<th>No temporary placement</th>
</tr>
</thead>
<tbody>
<tr>
<td>(product of prior action 1 in 1st learning)</td>
<td>(product of subsequent action 1 in 1st learning or prior action 1 in 2nd learning)</td>
<td>(weakened the product of subsequent action 1 in 1st learning or prior action 1 in 2nd learning)</td>
<td>(product of subsequent action 2 in 1st learning or subsequent action in 2nd learning)</td>
</tr>
</tbody>
</table>

2. **Case: Approval of educational grade advancement**

<table>
<thead>
<tr>
<th>No check of validity and legitimacy of study</th>
<th>Approval without validity and legitimacy of study (against the rules)</th>
<th>Check of validity and legitimacy of study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval of grade advancement without coordination</td>
<td>Approval of grade advancement with coordination</td>
<td>(subsequent action and its product – the change strengthens approval of grade advancement)</td>
</tr>
<tr>
<td>(product of prior action)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Explanation Figure 12.4.
The figure above illustrates that people’s subsequent action produces changes which reinforce (strengthen or weaken) the product or creation of prior action. In the second case there is only one stage of learning while in first case there are two stages of learning.

Episode: the interpersonal world

This episode (chapter 11, pp. 145-151) is regarded unique compared to other episodes. The reason for this is that the learner (P5) is already capable of double-loop learning due to his behavioural pattern: he inquires about his views of others and tests them. This is different with the behaviour of his boss who criticises people behind their backs without being specific or having evidence. Besides, P5 holds values which can be articulated as “do not state your intention baldly (what) because it could hurt people; rather think of ways (how) to express achieve your intention so that it is accepted by others and still achieve your objective”.

With his capacity for double-loop learning, P5 proved that the view of the boss toward others is not reasonable. P5 succeeded in proving that an employee whom the boss believed always interfered in other’s business lacked of opportunities for self actualisation. Even though P5 failed to convince the boss about this, he succeeded through giving the employee a chance to self actualise and to change the thinking framework of his other subordinates in his unit on this matter. This led them to accept the employee and acknowledge her performance.
P5’s double-loop learning capacity saved him and his subordinates from bias in towards others which are fostered in this workplace by the behaviour of the boss. Instead of being influenced by the environment, P5 changes the environment.

**Summary of current experience and change**

The analysis in this section shows that there is change to the governing rules in P1’s, P2’s, P3’s, and P4’s learning experience, which indicates that there is double-loop learning in the Organisation. In P5’s learning experience, it is illustrated that the individual is capable of double-loop learning.

**12.3. Understanding the causes that lead to learning**

This section answers the third sub research question (“how does learning happen in the Organisation?”).

**12.3.1. Past experience and the occurrence of learning (the cause)**

Partial tax reform was introduced to correct the weaknesses of the tax acts. The weaknesses of the tax acts were indicated by problems such as complicated tax collection, double taxation, low opinion within society of tax, and complex procedures. Partial reform showed that the content of the tax acts represented by rules and procedures led to unexpected problems in application and an unexpected attitude within society toward tax.
Tax acts are the creation of human thought and action. In this circumstance, the weak tax acts led to problems in application. The creator actions (the actions of those who developed the tax acts) led to the problems in the executor’s actions (operational people). Further this means that the actions of the tax acts developer influenced others’ actions within the Organisation or influenced unfavourably the internal context of the Organisation. The tax acts developer also influenced unfavourably the external context of the Organisation, in this sense at large society. The tax acts caused an unfavourable attitude within society toward tax collection and the Organisation.

In summary, the action of tax acts developer (the product: tax acts) influenced the internal context (application of the tax acts) and external context (attitude of the society toward tax). The unfavourable responses of both induced change to the content of the tax acts (partial reform). In other words, unfavourable responses from internal and external contexts toward the tax acts became the incentive or the cause of learning which resulted in change of the content of tax acts (improved content).

In 1983, the Organisation carried out full tax reform motivated by domestic and international conditions. Domestic conditions were characterised by low economic growth.

Indonesia’s heavy reliance on oil exports meant the oil price became the crucial indicator of government revenue. It was feared that potential oil price declines in the early 1980s could reduce government revenues substantially. The potential declining of oil price and low economic growth in the early 1980s motivated the Organisation to implement full tax reform which changed totally the content of tax administration (the
rules and procedures) and transformed the system of tax collection itself into a self-assessment system. With the new tax acts and tax system, the Organisation intended to promote tax as the major source of government revenue and to contribute to increased economic growth.

The second past experience illustrates the role of the external context in influencing the learning possibilities within the Organisation. The external context represented a problematic domestic situation (low economic growth) linked to adverse international conditions (a potential decrease in the oil price in international markets). This outlook became the incentive for double-loop learning because it involved a change to governing rules (the system of tax collection). It can be argued then that double-loop learning within the Organisation was driven by external forces. The situation shows as well that an environmental threat made double-loop learning possible.

This past experience shows that people, on behalf of the Organisation, transact with the context or environment. The first experience illustrated that people’s thought and action unfavourably shaped both the internal contexts (the application of the tax acts) and the external context (social attitudes toward tax). The direction of relationship moved first from people’s thought and action influenced the internal and external environment. Then the unexpected responses from both contexts prompted subsequent thought and action (change of the content only of tax acts). The relationship in the second past experience showed the relationship moving in the opposite direction. Domestic and international conditions, which represented the external context, influenced people’s thought and action leading to change in both the content and governing rules of the tax acts.
12.3.2. Current experience and the occurrence of learning (the cause)

Episodes: people versus organisation, and commitment to change

The episodes of “people versus organisation” (chapter 7, pp. 100-113) and “commitment to change” (chapter 8, pp. 114-123) described the urgent demand of the public and taxpayers for the Organisation to combat corruption. The public and taxpayers perceive that corruption is evident in the Organisation. In other words they perceive that tax officials are dishonest. On the other hand, tax officials perceive that taxpayers are dishonest, even though the system of tax collection is based on self-assessment. Self-assessment system requires a fundamental belief by tax officials (and ultimately tax auditors) that taxpayers are honest. This attitude of tax auditors reflected official-system of tax collection which offers the chance to dishonest tax officials, particularly tax auditors, to take bribes from dishonest taxpayers when tax audits and investigations take place.

The perception of the “dishonest taxpayer” held by tax auditors is the possible consequence of prior organisational arrangements. For forty years (1945 – 1985) tax officials worked under the official-assessment system of tax collection which has shaped their perception that taxpayers are dishonest. This perception then is passed from generation to generation of people in the Organisation. Even though the system of tax collection has been changed to self-assessment since 1985 (when the new tax acts came into effect), this perception is still embedded in tax officials thinking.

Removing this perception is difficult because of the very low salary levels relative to outside opportunities, which leads dishonest tax officials to take
advantage of the situation by compromising tax payments (in tax audit and investigation) or by colluding with taxpayers.

For “dishonest taxpayers” this condition benefits them, but for “honest taxpayers” they perceive that tax auditors are not transparent in their tax assessments in order to push taxpayers to negotiate their tax payments.

In summary, there is incongruence between organisational theory-in-use (the official-assessment system which proceeds on the general assumption that taxpayers are dishonest) and organisational theory-of-action (the self-assessment system) which applied in the period 1985-2001. This incongruence is possibly caused by the long period during which the official-assessment system was in use, allied with low salary, poor monitoring of tax officials’ conduct due to the weak code of conduct for government officials. Loose monitoring of tax officials’ conduct is caused by the difficulty of establishing effective operational control due to the scattered nature of tax administration.

In P2’s term (chapter 8, p. 114-116), whatever the advances of the system it is useless if people do not have commitment. The commitment should be to the self-assessment system which requires a fundamental belief that taxpayers are honest. But the behaviour of tax officials reflected the official-assessment system which recognises that taxpayers are dishonest. This shows that organisational theory-in-use is not congruent with the organisational theory of action.

The incongruence between the organisational theory of action and theory-in-use in tax administration (internal context) has shaped the attitudes of the public and taxpayers (distrust of and low satisfaction with the
Organisation). Distrust of taxpayers about the Organisation (the perception that tax officials are dishonest) may diminish voluntary compliance of honest taxpayers. On the other hand distrust of tax officials toward taxpayers leads to compromise of tax payments and may increase tax fraud by dishonest taxpayers. Diminishing voluntary compliance and increasing tax fraud may also be caused by the low satisfaction of the public and taxpayers due to poor service. Public and taxpayers urgently require excellent service in tax administration which actually provides poor service in tax administration. Poor service might be caused by less motivated, less disciplined, and underperforming tax officials, and scattered tax administration.

In this circumstance, distrust of and low satisfaction with tax administration by public and taxpayers represented unexpected consequences of tax administration. If no action was taken to reduce or eliminate the unexpected consequences, it would create another unexpected consequence – an unfavourable impact to tax revenue. These attitudes undermine the intention of the Organisation to significantly increase tax revenue.

Modernisation of tax administration began in 2002 which was the first year of the Megawati Soekarnoputri presidency. The economic conditions at that time were still struggling to recover from the monetary crises in 1998. The monetary crises began in 1997 when the exchange value of the Rupiah against strong foreign currencies (especially the US dollar) decreased dramatically from Rp. 2,450 in June 1997 to Rp. 6,000 per US$1 at the end of the year and continued downwards to Rp. 16,000 in 1998. As a consequence the price of goods soared in the country because many industries use imported materials and machinery.
In 2001 economic growth was 3.37%. It decreased from its 2000 level of 4.77%, while before monetary crises economic growth was around 7 to 8% (see Appendix 15, p. 224). These circumstances repeated the phenomena of the early of 1980s when economic growth fell below the levels of previous years.

The other concern was the diminishing share of taxation revenue (tax and customs revenue) as a proportion of government revenue between 1998 and 2001 (see Appendix 9, p. 218). Shares of tax and customs revenue as a proportion of government revenue decreased from a high of 69.7% in 1997/1998, falling to 65.5% in 1998/1999, 61.6% in 1999/2000, 54.3% in 2000, and rebounding to 60.9% in 2001. Shares of tax revenue (excluding customs revenues) as a proportion of government revenue decreased from 61.7% in 1997/1998 to 59% in 1998/1999, 54.5% in 1999/2000, 45.4% in 2000, and 52% in 2001.

The description above highlights the problematic domestic situation (low economic growth) and unexpectedly poor performance (diminishing shares of tax revenue in government revenue). These problems along with the unexpected response of the public and taxpayers toward the Organisation (distrust and low satisfaction) drove the Organisation to change its structure and its human resources arrangement (modernisation). This means that the unexpected response from the internal context (diminishing shares of tax revenue in government revenue) and the unexpected conditions in and responses from the external context (low economic growth, distrust and low satisfaction of public and taxpayers) became the incentive for learning of the Organisation that was framed in the modernisation program.
The Organisation was required to accelerate modernisation starting in 2004 when the new president, Susilo Bambang Yudhoyono, wanted the Organisation secure a 16% tax ratio by 2009. The new government expects average annual economic growth of 6.6% during 2004 – 2009 (the period of his presidency). This requires tax revenue of Rp. 622 trillion in 2009 (see Appendix 15, p. 224). In other words, tax revenue must grow 22.77% annually between 2006 and 2009. This increase is higher than the average tax revenue growth during 2002 - 2005 of 15% annually.

**Episode: we look like a fire brigade**

This episode (chapter 9, pp. 124-136) shows IT learning to accommodate modernisation. Modernisation leads to the integration of tax administration in operational offices. Integrated tax administration is the result of taxpayer or customer oriented organisation design of operational offices. The taxpayer or customer oriented design of operational office requires operational offices to focus on tax activities carried out by taxpayers. Further this means that operational offices should focus on the whole process of tax administration.

The shift in orientation of operational offices from the product (tax type) to the process of tax administration requires IT people to create IT-based workflow management. IT-based workflow management works as follows. People in operational offices watch their computer monitor each day to see which jobs should be finished, which forms should be filled, which reports should be made and use their keyboards to do their jobs. Next, the job is delivered to other units for completion of another part of
the tax administration process, or it goes to the head office when is finished for approval and signature.

In modern tax administration all tax enquiries from taxpayers are handled by Account Representatives. This led IT people to create IT-based case management to process tax enquiries from taxpayers. IT-based case management allows requests for tax services by a taxpayer to be recorded as a case, the case is given a number and the name of the person assigned as their Account Representative is provided. This is very helpful in tracing a case and monitoring the tax affairs of taxpayers.

The process of IT learning is summarised in Figure 12.5. on the following page.
Explanation of Figure 12.5.
The change of internal context of the Organisation due to integration of tax administration shifts the focus of IT from data entry, data recording, and database maintenance to the process of tax administration in operational offices which creates IT-based case management and IT-based workflow management. This means that change of internal context becomes the incentive or the cause of IT learning (at the first stage).
IT learning at the second stage emerges because of unexpected responses from employees following their work directed by IT (case and workflow management) and from data centralisation. Unexpected responses from employees are represented by their feeling that their thinking ability is underused. These unexpected responses are the incentive for, or the cause of IT creating the DSS.

The condition shows that Account Representatives have heavy workloads. They are responsible for handling all tax enquiries from taxpayers and at the same time they also have responsibility for recording and administering tax returns. For example, an Account Representative in a modern operational office in Jakarta has to process around 20 cases daily of tax enquiries, before any recording and administering of tax returns. Moreover, lack of regular staff to do administrative work is apparent in operational offices. This means an Account Representative has to deal both with strategic work (intensification of tax payments and broadening the taxpayer base) and administrative work. One Account Representative said that the time for strategic thinking and action (such as visiting taxpayers, discussing tax problems) is very limited compared with the time taken to do administrative work. These circumstances were the secondary cause for IT to create the DPC in the second stage of learning, while the primary cause is the intention to prevent human error, and data corruption by dishonest employees, in data entry of tax returns in operational offices. In the second stage of IT learning also, the unexpected consequences of central data storage in two-steps (system freezing problems) led IT to create one-step central data storage.

The second stage of IT learning is summarised in Figure 12.6. on the next page.
Figure 12.6. IT learning to accommodate unexpected consequences

Figure 12.6. shows that the unexpected responses from the internal context (perception of underused thinking ability and frustration with system freezing) and the condition of the internal context (heavy work load of ARs and lack of regular staff in operational offices) are the cause of the second stage of IT learning resulting in creation of the DSS, the DPC, and one-step data storage.
**Episode: I am happy to benefit others**

This episode (chapter 10, pp. 137-144) shows that the broad guidance of job descriptions and work procedures in the Organisation brings freedom for P4 to introduce initiatives in his job - recruitment and personnel development. His initiatives contributed to the establishment of the temporary placement program for Diploma graduates. His initiative to create the temporary placement program emerged after observing the condition that there was a six months vacuum before definitive placement of Diploma graduates during which time they received salary and in addition operational offices in Jakarta lacked regular staff. The program of temporary placement for Diploma graduates was undertaken based on P4’s view that it was of benefit to put them into apprenticeships in operational offices in Jakarta to support tax administration.

This shows that the broad guidance of job description and work procedures, and inoperative employees – Diploma graduates (internal context) were the incentives for P4’s learning in the first stage resulting in the creation of the temporary placement program for Diploma graduates. This learning was possible by the value P4 pleases on benefiting others. Without this value, first stage learning would not have occurred.

The temporary placement program invited responses from the internal context. Graduates with low graduation marks (graduation mark is the base for definitive placement) used the temporary placement to improve their position in definitive placement by impressing their temporary bosses through their job performance.
The time in temporary placement gave them a chance to impress. The time in temporary placement is the time needed by P4’s colleague (6 months) to arrange definitive placement for around 2,000 diploma graduates every year. The longer it took to arrange definitive placement, the longer the time in temporary placement and the greater chance that graduates with low marks could impress their temporary bosses in operational offices.

In turn, good job performance led their bosses to address the request to the unit of P4’s colleague to have them stay. These requests were regarded as unexpected consequences as they undermined the continuity of the policy of definitive placement for Diploma graduates. The policy of definitive placement for Diploma graduates is based on the criterion of graduation marks from study at a state college under the supervision of the Ministry of Finance. These unexpected consequences were the cause of the second stage of P4’s learning resulting in termination of the temporary placement program.

Two stages of P4 learning in the case of the temporary placement program is summarised in Figure 12.7. on following page.

With regard to P4’s other learning, he improves the existing organisational routines for the process of approving of educational grade advancement which is the responsibility of his colleague’s unit. P4 improves this routine by establishing coordination between his unit and his colleague’s unit. Coordination is achieved through P4’s unit checking the validity and legitimacy of study taken before approval for grade advancement is processed in his colleague’s unit. In this learning the incentive came from observing that an employee had received grade advancement (internal context) without validity and legitimacy being first recorded in P4’s unit.
**Figure 12.7. Creation & termination of temporary placement program**

**Internal environment**

- Broad guidance of job descriptions & work procedures
- Six months vacuum before definitive placement of D3
- Lack of regular staff at operational office
- Hard work of Diploma graduates with low mark
- The operational office asks to retain D3
- The system & policy of definitive placement does not work

**Cognitive & personal factor of P4**

- Value of benefiting others
- Makes difficulties for work colleague

**Action of P4 (the product)**

- Temporary placement program for Diploma graduates
- Termination of temporary placement program

(The first stage of learning) (The second stage of learning)

**Explanation of Figure 12.7.**

The figure above shows that at the first stage of learning, the condition of the internal context motivated the first stage of learning which resulted in the temporary placement program. The unexpected consequences of the temporary placement program, due to the unexpected responses of the internal context drove the second stage of learning which resulted in termination of the temporary placement program.
Episode: the interpersonal world

This episode (chapter 11, pp. 145-151) shows P5 learning to challenge his boss’s attributions about other people in his office. This started when P5 was asked by his boss to accept an employee who his boss believes “always interferes in other’s business”. The boss asked P5 to accept her because no other units in the office would do so. Because the boss frequently criticises people behind their backs without being specific or having evidence he influences his staff to behave in the same way.

His boss’s request motivated P5 to challenge his boss’s view about the employee while at the same time proving his own assessment of her (following inquiries) that she is an enthusiastic person who needs room for self actualisation. In other words, the request of from his boss was the cause of P5 learning to challenge his boss’s views. This was done by P5 by giving her a chance to self-actualise in administrative jobs. The employee showed good performance. This means that P5 succeeded in proving that his boss’s view was wrong while his initial assessment was right. For P5 it is not about wrong or right views, but fundamentally it is about the behaviour of his boss which leads to the possibility of wrong assessments about others.

Summary of current experience and the occurrence of learning (the cause)

As with the past experience, the current experience shows that people transact with the context or environment on behalf of the Organisation. In the episodes “people versus organisation” (chapter 7, pp. 100-113), and
“commitment to change” (chapter 8, pp. 114-123), tax officials’ actions are incongruent with organisational theory-of action (the self-assessment system of tax collection) thus causing unexpected responses from the external context (distrust and low satisfaction of public and taxpayers) and the internal context (unexpected performance - diminishing shares of tax revenue as a proportion of government revenue). The unexpected responses from environment prompted thought and action by people in the Organisation to conduct modernisation. The problematic domestic situation (low economic growth) was also a cause for people in the Organisation to carry out modernisation.

In the episodes “we look like a fire brigade” (chapter 9, pp. 124-136) and “I am happy to benefit others” (chapter 10, pp. 137-144), the internal context led people to take action, and the unexpected response of internal context led people to take other actions.

In the episode “the interpersonal world” (chapter 11, pp. 145-151), the chance given by the internal context led to people taking action in order to challenge other people’s views (thought) and to prove their own views.

12.4. Understanding organisational learning

This section answers the fourth sub research question ("how do we identify organisational learning in the Organisation?"). The analysis begins with individual learning as the building blocks of organisational learning, following by group learning, and finally organisational learning.
12.4.1. Individual learning

In sections 12.2 (pp. 156-170) and 12.3 (pp. 170-186), the explanation is focused on the products created by individual thought and action in learning from an organisational point of view. The products reveal in programs, routines, procedures, and policies. In sections 12.2 and 12.3, organisation is the unit of analysis. In this subsection (12.4.1) the explanation emphasises individual points of view, particularly their thought (understanding) so that the individual is the unit of analysis.

An understanding of causal link is crucial in individual learning. In P1’s individual learning (chapter 7, pp. 100-113) there was an understanding of causal links after reflection on conditions of human resources in the Organisation when compared with the private sector. He believed that the low salaries of tax officials caused underperformance and corruption. His understanding was strengthened by the empirical studies of the IMF and the WB on Indonesia’s situation.

P1 also believed that the Organisation must be given the freedom to organise and manage itself to achieve those urgent goals determined by the government, particularly the Ministry of Finance. This understanding was based on his observation of the creation of matrix structure in the Organisation. According to P1, rigid design (following the rules created by the other ministry) caused the creation of matrix structures.

From his experience of learning, he found that many organisational aspects should be restructured such as division of work (particularly in headquarters) and career paths. The heavy workload of P1 regarding his modernisation jobs and his regular jobs, and also his observation about
other country’s tax organisations, convinced P1 that the modernisation program should be specially managed and organised (not as additional jobs). Similar with this, P2 argues that there should be a special division or unit in headquarters to organise and manage the modernisation program as this program will continue into the future to create a desired future for the Organisation (chapter 8, p. 122).

The salient feature of P2’s learning is the understanding of how important commitment is. Incongruence between the organisational theory of action and the organisational theory-in-use requires an immediate response if the Organisation is to achieve its critical goals (chapter 8, pp. 114-123). His observation reveals that organisational theory of action is not congruent with organisational theory-in-use. Organisational theory of action is reflected in the self-assessment system of tax collection which acknowledges taxpayers are honest. In contrast, the organisational theory-in-use reflects the official-system of tax collection which recognises that taxpayers are dishonest and there should be decisive actions in respect of their tax affairs. This is very apparent in cases of tax auditing and investigation.

P2 also found from his work experience that change of leadership could influence the depth of commitment possibly due to lack of awareness about situations in the organisation. According to P2, subordinates must inform leaders properly about situations in the organisation so that the leader is always aware and able to cultivate organisational commitment. He believes that modernisation will occur more quickly through top-down action than bottom-up action.
P3’s individual learning (chapter 9, 124-136) shows an understanding that people’s actions on behalf of the Organisation are incremental. Their organisational outlook is short term. People actions are immediate responses to the environment. According to P3, the cause is that people do not list the needs of jobs, events, and processes they deal with. This makes people in the Organisation more focussed on matters things (concepts, ideas) rather than details (applications, practicalities). This is apparent in the modernisation team.

Based on his experience in developing IT in modernisation, P3 found that a very decisive leader is not conducive for learning. He found that consistency with the purpose is the crucial key if leadership is to achieve the goals of the organisation.

P4’s individual learning shows an understanding that coordination is important in job accomplishment (chapter 10, pp. 137-144). Further, within the conditions of job descriptions and work procedures of the Organisation (which are broad), he found that it is important to maintain records of activities and procedures to avoid wasting time asking former employees, reinventing the wheel, and ineffective learning (the case of temporary placement).

P5’s individual learning reveals his understanding of the character and personality of other people (in his case the employee and his boss) whom he deals with (chapter 11, pp. 145-151). His behaviour and values allow P5 to maintain good relationships with them even when their character and personality is very different from his own (in this case his boss) and to develop other people (in this case the employee and his other subordinates).
12.4.2. Group learning

Group learning is not specifically examined in this study. This is due to limited time for field research. Group learning is inferred from the narratives of individuals and other evidence.

The modernisation team is an obvious example of group learning. This group exemplifies inter-group learning meaning that the people in the modernisation team come from different groups of offices, divisions, and units. Inter-group learning in the modernisation team results in exploration or innovation projects (modernisation program). Inter-group learning in the modernisation team has resulted in many advances for the Organisation. The variety of tenure and functional backgrounds of members of the group influences the capability of the group, thus leading performance in learning.

P1 (chapter 7, pp. 100-113), P2 (chapter 8, pp. 114-123), and P3 (chapter 9, pp. 124-136) are members of the modernisation team. Their understanding contributes (is shared) to modernisation team learning about matters such as salary, performance measurement, and process orientation.

Interestingly, P2 is also a head of modern operational office and in this office intra-group learning occurs. Intra-group learning in P2’s office reveals an understanding that commitment and planning is crucial to achieve the goal (tax revenue target of his office).

In the modernisation team there is an IT team led by P3. The IT team represents intra-group learning as the members come from the same
directorate (IT directorate). The crucial characteristic of IT team learning is that their learning occurs through modelling the actions and ideas of competent models (in this case a large private bank and a young man in apprenticeship in the IT directorate who has expertise in web-based applications). Through their vicarious learning, they were able to create the IT-based workflow management built on a web-based application which is the fundamental means of managing the work system for tax administration.

After scrutinising the manual about workflow (procedures) of the Organisation in order to transform it into computer program for the IT-based workflow management system (the commencement phase of modernisation in IT), the IT team believed it was urgent to redesign procedures and forms for system efficiency. However, the response from the directorates which create such forms and procedures was not enthusiastic.

P4 is the head of a unit in headquarters. His learning experience in the creation and termination of the temporary placement program, and the creation of new procedures for approval of grade advancement is actually inter-group learning (it involves his colleague from a different unit) which resulted in establishing the coordination requirement for the process (chapter 10, pp. 137-144).

P4’s learning which resulted in recording the activities and procedures in his unit refers to intra-group learning which benefits efficiency in task completion by his subordinates and other newcomers to his unit. Intra-group learning results in efficiency (Wong 2004).
P5’s learning to challenge his boss (chapter 11, pp. 145-151) involved his subordinates in his unit (intra-group learning) who benefited from the performance of the employee assigned to his unit at the request of his boss.

12.4.3. Organisational learning

According to organisational learning theory, individual learning becomes organisational learning when the lesson of individual learning is accessible (available) to the rest of the people in the organisation who need the lesson but have not experienced the learning. In this circumstance, it can be argued that the lessons are the products, creations, inventions flowing from individual learning and the knowledge, understanding, insight, skill, attitude, and behaviour of the learner that resulted from the learning.

The products of individual learning of P1 (chapter 7, pp. 100-113), P2 (chapter 8, pp. 114-123) and P3 (chapter 9, pp. 124-136) in the modernisation team are accessible to members of the Organisation who join modern offices, mostly through direct lesson distribution. Direct lesson distribution occurs when the lessons resulting from learning are shared with people in the organisation who need them. In this circumstance, direct lesson distribution is done in the Organisation by induction and training.

In contrast, the product of individual learning of P4 (chapter 10, pp. 137-144), coordination in the approval of grade advancement following attainment of education levels, is accessible through indirect lesson distribution. This is revealed in procedures for approval of grade
advancement which are internally recorded (in his unit) in maps, notes, and diagrams. P4’s creation, the temporary placement program was made available to operational offices in Jakarta (accessible), and through memos, and official letters (indirect lesson distribution).

The individual learning of P5 (chapter 11, pp. 145-151) did not generate a specific product, but resulted in the improvement of administrative work in his unit. The framework for improvement is available to his subordinates through direct lessons distribution.

However, not all a learner’s knowledge, understanding, insight, skill, attitude, and behaviour related to their learning is available to all people in the Organisation who need the lesson but have not experienced the learning. It is accessible only to people close to them, such as their subordinates, peers, or friends, with whom they are comfortable to share their learning. This lack of accessibility arises from the learner’s view that the lessons they draw are best held close because if they were expressed widely they might offend or discourage people with different views. As P3 said:

“What I say may hurt some people. They should make the list of needs first. ... Now, what are we doing? We always keep saying that there should be a unit for data and information processing, a unit for income tax, and so on [the old structure].” P3-8/4

In this case, this means that even in the modernisation team, P3’s understanding that people should list the needs of their jobs, events, and the processes they deal with, is not accessible to others.
Based on the accessibility of the products of individual learning to the rest of the people in the Organisation who need the lessons but have not experienced the learning, this study argues that there is an organisational learning in the Organisation. The reason is that, the products of individual learning revealed through programs, procedures, policies are most important for the Organisation in achieving its urgent goals and its desired future (the cases of P1, P2, P3, and P4) and they are also revealed through performance (the case of P5) which enables P5’s unit to achieve its goals.

It is apparent that behaviour, insight, and understanding of people at the operational level (those who implement tax acts) do not influence organisational performance greatly (as described in the case of P5’s learning regarding his boss). A part of the narrative from the episode “the interpersonal world” (chapter 11, p. 151) is presented below.

“However, P5 acknowledges that while his boss’ management of relationships is weak, in collecting tax revenue his professionalism is strong and enhances the performance of the office. The office is in the top rank among other operational offices in its regional office area. This is also confirmed by two other heads of unit:”

“Beside his negativity, the boss never feels overwhelmed. He is hard working. He attends to details when he does something.”

“He never stops at one point. He always wants to find other arguments. He doesn’t want to lose.”

The possible explanation is that there are factors inside and outside the Organisation which influence tax revenue substantially. The thought and actions of tax acts developers influence tax revenue through their products
(tax acts). The external factors which influence tax revenue are profitability of taxpayers’ business (corporate taxpayers) and taxpayers’ revenue (individual taxpayers). Revenue of individual taxpayers is influenced by the condition in society and the economy such as inflation, family matters (number of children, dependants), fuel price, needs and wants, job availability, employment conditions, or productivity. Profitability of corporate taxpayers is influenced by inflation, domestic and international supply and demand, fuel price, other government rules besides tax, and so on.

12.5. Identifying the effectiveness of organisational learning

This section answers the fifth sub research question (“is organisational learning in the Organisation effective?”).

12.5.1. Process view

Based on a process view, two requirements are needed to determine whether organisational learning in the Organisation is effective – the lessons are accessible and actionable. Accessibility of the lessons was explained in the previous section. Accessibility is apparent in all learning (based on accessibility of the products of individual learning)

Actionability means that the lesson can be realised in real action. The lessons reflected by the products of individual learning are mostly actionable, such as the products of individual learning related with modernisation program. For several program such as performance
measurement (P2 in chapter 8, p. 118), DPC and DSS (P3 in chapter 9, p. 129 and 134), it is regarded that they will be actionable though they are only ideas currently.

The lessons as reflected in the understanding of the learner are definitely actionable for the learner but perhaps for those people with whom they share the understanding, actionability depend on the context.

However, the bottom line is the products of individual learning, and it is argued that all products of individual learning reflected in programs, policies, procedures are actionable.

12.5.2. Outcome view

Past experience

It is argued that single-loop learning in past experience of tax administration (period 1967 – 1970) led to unfavourable results while double-loop learning in tax administration (period 1985 and after) generated favourable results though there was leakage in the system (corruption). The quantitative results could be seen to show that under the new system of tax collection Indonesia passed through the recession which hit the world in 1986 and that the shares of tax and customs revenue as proportion of government revenue increased from 30.1% in 1984/1985 to between 58.5% and 72.7% since 1992/1993. This means that tax and customs revenue has replaced oil exporting revenue as the dominant contributor to government revenue (see Appendix 9, p. 218).
**Current experience**

Organisational learning from current experience which can be measured is the organisational learning related to the modernisation program (chapter 7, pp. 100-113); chapter 8, pp. 114-123; chapter 9, pp. 124-136) which can be divided into two measurements of organisational performance: taxpayer satisfaction and tax revenue performance.

Measurement of taxpayer satisfaction was conducted in 2003, 2004, 2005. The result of measurement for 2003 and 2004 showed that more than 90% of respondents perceived their satisfaction with modern offices as high or medium. Measurement in 2005 showed that 74 - 83% of respondents were very satisfied, and 14 - 17% of them were moderately satisfied about the overall performance of modern offices.

Measurement of tax revenue performance showed an increasing share of tax revenue as a proportion of government revenue in 2002 (70.3%) and 2003 (72.7%). The share then decreased in 2004 (68.7%) and 2005 (68.9%) (see Appendix 9, p. 218).

It can be seen from Appendix 15 in page 224, that there was a fluctuation of tax revenue growth and the tax ratio in the era of modernisation. The fluctuation of tax revenue may relate to tax rules and policies such as the increasing of tax thresholds for individual taxpayer which started in 2004, the elimination and reduction of sales tax on luxury goods which started in 2003, and tax incentives for a certain business started in 2005 all of which influences the amount of tax revenue.

It also can be seen that even though there was a fluctuation in tax revenue growth and the tax ratio in the period 2002 - 2005, economic growth
increases at that period. Economic growth is the increasing real value of GDP (GDP based on constant price at a particular year to eliminate the effect of inflation). Scholars believe that tax rules and policies influence economic growth (Beach 1998; Irons 2006). However, the investigation of all these phenomena is beyond the scope of this study.

To recap, modernisation of the Organisation to 2005 covers 28 operational offices (2 large taxpayer offices; 11 medium taxpayer offices and 15 small taxpayer offices) from the total of 214 operational offices throughout the country. In other words, modernisation to 2005 covered 13% of tax administration (based on the number of offices).

12.6. Conclusion

From the discussion it is concluded that there is simultaneous learning (modernisation) and local learning. Local learning occurs in the case of P2 in his modern office (chapter 8, pp. 114-123), P4 in his unit (chapter 10, pp. 137-144), and P5 in his office (chapter 11, pp. 145-151). All learning is identified as resulting in reinforcement changes and as double-loop learning.

All learning occurred because there was a problematic situation or a mismatch between expected and actual results of action. A problematic situation and a mismatch between expected and actual results of action emerged from unexpected responses from either the internal or external contexts of the organisation.
All learning occurrences (including past experiences) show that there is a continual transaction between people through thought and action, and the environment or context. Both past and current experiences confirm that learning cannot be detached from the context in which it occurs. This thesis supports Bandura’s social cognitive theory as having relevance and depth for organisational learning discourse.

From all learning occurrences it is argued that people in the Organisation are enablers while the structural arrangements of the Organisation are inhibitors. Deficiencies in structural arrangements of the Organisation lead people inside the Organisation to engage in experiential and vicarious learning.

All learning can be characterised as organisational learning based on the accessibility of the products of individual learning for all other people in the organisation who need the lessons but have not experienced the learning.

All learning is regarded as effective organisational learning, based on a process view. However, based on an outcome view, only organisational learning related to the modernisation program can be regarded as currently effective. Current effectiveness means that while covering 13% of all offices, the modernisation program achieves reasonably favourable performance. Even if there is diminishing share of tax revenue as a proportion of government revenue, fluctuation of tax revenue growth and tax ratio, economic growth increases. It is argued then that there are other factors of tax administration beyond the scope of this study that influence economic growth. These are tax rules and policies.
Based on the above explanations, the earlier definition of organisational learning used by this study needs to change, thus becoming:

“Organisational learning is the process by which individuals in the organisation respond to unexpected results of action in an organisational setting which emerges from unexpected responses from either the internal or external context of the organisation, leading to changes in their understanding of organisational phenomena and in their action in order to maintain organisational continuity and to achieve the organisation’s desired future.” (Words in italic represent the change to the earlier definition of organisational learning).

12.7. Direction for future research

An examination of learning processes is of benefit in a full understanding of organisational learning. A similar case study can be conducted in public sector organisations and private companies with respect to the role of contextual factors in the occurrence of learning. A longer period in field research and a greater number of participants would improve the depth and the breadth of the study. For future research in organisational learning discourse, the suggested bottom line is clear that using Bandura’s social cognitive theory would strengthen research in organisational learning.
References


Franzosi, R 1998, ‘Narrative analysis – or why (and how) sociologists should be interested in narrative’, *Annual Review of Sociology*, vol. 24, no. , pp. 517-554.


Prawiro, R. 1988, Empat faktor penentu keberhasilan pembaruan sistem perpajakan, Yayasan Bina Pembangunan, Jakarta


## Appendix 1

### Participants list

<table>
<thead>
<tr>
<th>No.</th>
<th>Participants</th>
<th>Position</th>
<th>Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>P3</td>
<td>Echelon 3</td>
<td>Headquarters</td>
</tr>
<tr>
<td>2</td>
<td>P1</td>
<td>Echelon 4</td>
<td>Headquarters</td>
</tr>
<tr>
<td>3</td>
<td>P4</td>
<td>Echelon 4</td>
<td>Headquarters</td>
</tr>
<tr>
<td>4</td>
<td>P2</td>
<td>Echelon 3</td>
<td>Modem operational office</td>
</tr>
<tr>
<td>5</td>
<td>P5</td>
<td>Echelon 4</td>
<td>Non-modem operational office</td>
</tr>
</tbody>
</table>
Appendix 2
Hierarchy of offices in the Organisation (in transition period to modernisation)

GENERAL DIRECTOR

HEADQUARTERS
28 NON MODERN REGIONAL OFFICE (RO) & 3 MODERN RO

REGIONAL OFFICE (RO)

OPERATIONAL OFFICE

MODERN- & NON MODERN TAX OFFICE
28 MODERN TO (MTO)
157 NON MODERN TO (NMTO)

LAND & BUILDING TAX OFFICE
166 LBTO

TAX AUDIT & INVESTIGATION OFFICE
55 TAIO

Note: The boxes do not represent the number of regional offices and operational offices.
Appendix 3
Hierarchy of offices in the Organisation (after modernisation)

Note: The boxes do not represent the number of regional offices and operational offices.
Appendix 4
Configuration of operational offices & regional offices in Jakarta area (in transition period to modernisation)

Summary operational office in Jakarta area:
- 7 Regional Offices (3 Modern RO)
- 28 Modern Tax Offices
- 28 Non Modern Tax Offices
- 9 Land and Building Tax Offices
- 6 Tax Audit & Investigation Offices
Appendix 5
Configuration of operational offices & regional offices in Jakarta area (after modernisation)

Summary operational office in Jakarta Area:
- 7 Modern Regional Offices
- 3 Large Taxpayer Offices
- 14 Medium Taxpayer Offices
- 52 Small Taxpayer Offices
Appendix 6
Hierarchy of position in the Organisation (before modernisation)

Note:
* Not all specialist positions are covered by the figure above:
  - There are tax auditors both at headquarters and regional offices
  - There are other specialists at headquarters (in IT and appraisal), at regional offices (in IT), in tax offices (in IT), and in land and building tax offices (IT and appraisal).
Appendix 7
Hierarchy of position in the Organisation (after modernisation)

SECRETARIAT

Echelon 2
Secretary of the Org.

Echelon 3
Head of Division

Echelon 4
Head of Section

Regular Staff

Echelon 1
GENERAL DIRECTOR

DIRECTORATE

Echelon 2
Director

Echelon 3
Head of Sub-Directorate

Echelon 4
Head of Section

Regular Staff

REG. OFFICE (RO)

Echelon 2
Head of RO

Echelon 3
Head of Division

Echelon 4
Head of Section

Regular Staff

LARGE/MEDIUM/SMALL TAXPAYER OFFICE

Echelon 2
Head of Office

Echelon 3
Head of Section

AR

Regular Staff

MANAGERIAL

Echelon 4
Head of Section

SPECIALIST (auditor)

Supervisor

Team Leader

Tax Auditor

Note:
* Not all specialist positions are covered by the figure above:
- There are tax auditors both at headquarters and regional offices. There are other specialists at headquarters (in IT and appraisal), at regional offices (in IT), at all operational offices (in IT), and at small taxpayer offices (in appraisal).
- AR is assigned to core sections only in operational offices, while in supporting sections there is only regular staff.
## Appendix 8

Breakdown of government revenue, taxation revenue, and tax revenue during 1979 - 2005 (in million Rupiah)

<table>
<thead>
<tr>
<th>Fiscal-Year</th>
<th>Government Revenue</th>
<th>Oil Exports &amp; Others</th>
<th>Taxation Revenue</th>
<th>Taxation Revenue</th>
<th>Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>IT</td>
</tr>
<tr>
<td>1979/80*</td>
<td>6,733.2</td>
<td>4,499.3</td>
<td>2,283.9</td>
<td>1,614.0</td>
<td>669.9</td>
</tr>
<tr>
<td>1980/81*</td>
<td>9,933.2</td>
<td>7,021.5</td>
<td>2,911.7</td>
<td>2,000.3</td>
<td>911.4</td>
</tr>
<tr>
<td>1981/82*</td>
<td>12,162.4</td>
<td>8,960.6</td>
<td>3,201.8</td>
<td>2,167.0</td>
<td>1,034.8</td>
</tr>
<tr>
<td>1982/83*</td>
<td>12,373.8</td>
<td>8,603.3</td>
<td>3,770.5</td>
<td>2,621.6</td>
<td>1,148.9</td>
</tr>
<tr>
<td>1983/84*</td>
<td>16,366.7</td>
<td>11,862.4</td>
<td>4,504.3</td>
<td>3,090.5</td>
<td>1,413.8</td>
</tr>
<tr>
<td>1984/85*</td>
<td>15,931.3</td>
<td>11,137.6</td>
<td>4,793.7</td>
<td>3,378.6</td>
<td>1,415.1</td>
</tr>
<tr>
<td>1985/86*</td>
<td>20,939.4</td>
<td>14,609.9</td>
<td>6,329.5</td>
<td>4,775.3</td>
<td>1,554.2</td>
</tr>
<tr>
<td>1986/87*</td>
<td>18,385.3</td>
<td>8,903.1</td>
<td>8,482.2</td>
<td>6,210.3</td>
<td>2,271.9</td>
</tr>
<tr>
<td>1987/88*</td>
<td>21,730.7</td>
<td>11,800.2</td>
<td>9,930.5</td>
<td>7,383.6</td>
<td>2,546.9</td>
</tr>
<tr>
<td>1988/89*</td>
<td>23,413.8</td>
<td>11,069.2</td>
<td>12,344.6</td>
<td>9,558.1</td>
<td>2,786.5</td>
</tr>
<tr>
<td>1989/90*</td>
<td>31,504.2</td>
<td>15,420.1</td>
<td>16,084.1</td>
<td>12,709.7</td>
<td>3,374.4</td>
</tr>
<tr>
<td>1990/91*</td>
<td>42,193.0</td>
<td>20,182.1</td>
<td>22,010.9</td>
<td>17,411.3</td>
<td>4,599.6</td>
</tr>
<tr>
<td>1991/92*</td>
<td>42,582.0</td>
<td>17,662.7</td>
<td>24,919.3</td>
<td>20,133.2</td>
<td>4,786.1</td>
</tr>
<tr>
<td>1992/93*</td>
<td>48,862.6</td>
<td>18,771.1</td>
<td>30,091.5</td>
<td>24,626.6</td>
<td>5,464.9</td>
</tr>
<tr>
<td>1993/94*</td>
<td>56,113.1</td>
<td>19,448.0</td>
<td>36,665.1</td>
<td>30,484.0</td>
<td>6,181.1</td>
</tr>
<tr>
<td>1994/95*</td>
<td>66,418.0</td>
<td>21,975.9</td>
<td>44,442.1</td>
<td>37,388.7</td>
<td>7,053.4</td>
</tr>
<tr>
<td>1995/96*</td>
<td>71,340.1</td>
<td>22,653.8</td>
<td>48,686.3</td>
<td>42,064.2</td>
<td>6,622.1</td>
</tr>
<tr>
<td>1996/97*</td>
<td>86,278.1</td>
<td>28,938.2</td>
<td>57,339.9</td>
<td>50,498.2</td>
<td>6,841.7</td>
</tr>
<tr>
<td>1997/98*</td>
<td>101,768.7</td>
<td>30,834.5</td>
<td>70,934.2</td>
<td>62,834.3</td>
<td>8,099.9</td>
</tr>
<tr>
<td>1998/99*</td>
<td>156,408.5</td>
<td>54,014.0</td>
<td>102,394.5</td>
<td>92,356.0</td>
<td>10,038.5</td>
</tr>
<tr>
<td>1999/2000*</td>
<td>204,432.6</td>
<td>78,481.6</td>
<td>125,951.0</td>
<td>111,392.8</td>
<td>14,558.2</td>
</tr>
<tr>
<td>2000/2001*</td>
<td>273,779.3</td>
<td>125,054.6</td>
<td>148,724.7</td>
<td>124,304.8</td>
<td>24,419.9</td>
</tr>
<tr>
<td>2001/2002*</td>
<td>303,077.7</td>
<td>117,819.7</td>
<td>183,258.0</td>
<td>156,566.9</td>
<td>26,691.1</td>
</tr>
<tr>
<td>2002/2003*</td>
<td>305,151.2</td>
<td>190,743.1</td>
<td>214,408.1</td>
<td>180,099.8</td>
<td>34,308.3</td>
</tr>
<tr>
<td>2003/2004*</td>
<td>341,095.2</td>
<td>93,064.2</td>
<td>248,031.0</td>
<td>210,787.3</td>
<td>37,243.7</td>
</tr>
<tr>
<td>2004/2005*</td>
<td>403,769.6</td>
<td>126,409.1</td>
<td>277,360.5</td>
<td>238,591.5</td>
<td>38,769.0</td>
</tr>
<tr>
<td>2005/2006*</td>
<td>463,331.9</td>
<td>143,891.4</td>
<td>319,440.5</td>
<td>273,629.4</td>
<td>45,811.1</td>
</tr>
</tbody>
</table>

Source: Badan Pengkajian Ekonomi, Keuangan dan Kerjasama Internasional (Bapekki) and the Organisation.

Note: IT=Income Tax; VAT=Value-added Tax; LBT=Land and Building Tax.

* Fiscal year: April-March; ** Fiscal year: January-December.
# Appendix 9

Breakdown of government revenue, taxation revenue, & tax revenue during 1979 - 2005 *(in percentage)*

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Government Revenue</th>
<th>Taxation Revenue</th>
<th>Tax Revenue</th>
<th>Shares of Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Oil Exports &amp; Others</td>
<td>Taxation Revenue</td>
<td>IT</td>
<td>VAT</td>
</tr>
<tr>
<td>1979/80</td>
<td>66.1</td>
<td>33.9</td>
<td>70.7</td>
<td>29.3</td>
</tr>
<tr>
<td>1980/81</td>
<td>70.7</td>
<td>29.3</td>
<td>68.7</td>
<td>31.3</td>
</tr>
<tr>
<td>1981/82</td>
<td>73.7</td>
<td>26.3</td>
<td>67.7</td>
<td>32.3</td>
</tr>
<tr>
<td>1982/83</td>
<td>69.5</td>
<td>30.5</td>
<td>69.5</td>
<td>30.5</td>
</tr>
<tr>
<td>1983/84</td>
<td>72.5</td>
<td>27.5</td>
<td>68.6</td>
<td>31.4</td>
</tr>
<tr>
<td>1984/85</td>
<td>69.9</td>
<td>30.1</td>
<td>70.5</td>
<td>29.5</td>
</tr>
<tr>
<td>1985/86</td>
<td>69.8</td>
<td>30.2</td>
<td>75.4</td>
<td>24.6</td>
</tr>
<tr>
<td>1986/87</td>
<td>51.2</td>
<td>48.8</td>
<td>73.2</td>
<td>26.8</td>
</tr>
<tr>
<td>1987/88</td>
<td>54.3</td>
<td>45.7</td>
<td>74.4</td>
<td>25.6</td>
</tr>
<tr>
<td>1988/89</td>
<td>47.3</td>
<td>52.7</td>
<td>77.4</td>
<td>22.6</td>
</tr>
<tr>
<td>1989/90</td>
<td>48.9</td>
<td>51.1</td>
<td>79.0</td>
<td>21.0</td>
</tr>
<tr>
<td>1990/91</td>
<td>47.8</td>
<td>52.2</td>
<td>79.1</td>
<td>20.9</td>
</tr>
<tr>
<td>1991/92</td>
<td>41.5</td>
<td>58.5</td>
<td>80.8</td>
<td>19.2</td>
</tr>
<tr>
<td>1992/93</td>
<td>38.4</td>
<td>61.6</td>
<td>81.8</td>
<td>18.2</td>
</tr>
<tr>
<td>1993/94</td>
<td>34.7</td>
<td>65.3</td>
<td>83.1</td>
<td>16.9</td>
</tr>
<tr>
<td>1994/95</td>
<td>33.1</td>
<td>66.9</td>
<td>84.1</td>
<td>15.9</td>
</tr>
<tr>
<td>1995/96</td>
<td>31.8</td>
<td>68.2</td>
<td>86.4</td>
<td>13.6</td>
</tr>
<tr>
<td>1996/97</td>
<td>33.5</td>
<td>66.5</td>
<td>88.1</td>
<td>11.9</td>
</tr>
<tr>
<td>1997/98</td>
<td>30.3</td>
<td>69.7</td>
<td>88.6</td>
<td>11.4</td>
</tr>
<tr>
<td>1998/99</td>
<td>34.5</td>
<td>65.5</td>
<td>90.2</td>
<td>9.8</td>
</tr>
<tr>
<td>1999/2000</td>
<td>38.4</td>
<td>61.6</td>
<td>88.4</td>
<td>11.6</td>
</tr>
<tr>
<td>2000</td>
<td>45.7</td>
<td>54.3</td>
<td>83.6</td>
<td>16.4</td>
</tr>
<tr>
<td>2001</td>
<td>39.1</td>
<td>60.9</td>
<td>85.4</td>
<td>14.6</td>
</tr>
<tr>
<td>2002</td>
<td>29.7</td>
<td>70.3</td>
<td>84.0</td>
<td>16.0</td>
</tr>
<tr>
<td>2003</td>
<td>27.3</td>
<td>72.7</td>
<td>85.0</td>
<td>15.0</td>
</tr>
<tr>
<td>2004</td>
<td>31.3</td>
<td>68.7</td>
<td>86.0</td>
<td>14.0</td>
</tr>
<tr>
<td>2005</td>
<td>31.1</td>
<td>68.9</td>
<td>85.7</td>
<td>14.3</td>
</tr>
</tbody>
</table>

Note: Recalculation of Appendix 8 to percentages.
### Appendix 10

**Regional tax revenue between 2004 & 2006**

<table>
<thead>
<tr>
<th>No</th>
<th>Regional Office</th>
<th>Tax Revenue As 28 August 2006</th>
<th>%</th>
<th>Tax Revenue 2005</th>
<th>%</th>
<th>Tax Revenue 2004</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Large Taxpayer Regional Office (LTO)</td>
<td>51,066,365,734,654</td>
<td>29.1</td>
<td>67,490,888,782,480</td>
<td>29.7</td>
<td>52,569,596,292,296</td>
<td>27.5</td>
</tr>
<tr>
<td>2</td>
<td>Special RO</td>
<td>62,386,164,941,689</td>
<td>35.6</td>
<td>77,920,921,400,258</td>
<td>34.2</td>
<td>58,406,524,945,590</td>
<td>30.6</td>
</tr>
<tr>
<td>3</td>
<td>Jakarta II RO</td>
<td>7,531,689,516,660</td>
<td>4.3</td>
<td>10,652,537,994,924</td>
<td>4.7</td>
<td>8,476,698,728,569</td>
<td>4.4</td>
</tr>
<tr>
<td>4</td>
<td>Jakarta II BO</td>
<td>3,369,138,483,875</td>
<td>1.9</td>
<td>4,749,661,870,394</td>
<td>2.1</td>
<td>4,294,511,598,117</td>
<td>2.2</td>
</tr>
<tr>
<td>5</td>
<td>Jakarta III RO</td>
<td>2,666,939,418,243</td>
<td>4.4</td>
<td>2,923,706,667,432</td>
<td>4.4</td>
<td>7,756,790,235,173</td>
<td>4.1</td>
</tr>
<tr>
<td>6</td>
<td>Jakarta NRO</td>
<td>3,161,982,954,360</td>
<td>1.8</td>
<td>4,550,337,437,670</td>
<td>2.0</td>
<td>3,606,627,370,784</td>
<td>2.0</td>
</tr>
<tr>
<td>7</td>
<td>Jakarta V RO</td>
<td>3,246,028,786,314</td>
<td>1.9</td>
<td>4,582,159,625,558</td>
<td>2.0</td>
<td>3,944,705,757,821</td>
<td>2.1</td>
</tr>
<tr>
<td>8</td>
<td>Tax Total of all Jakarta RO</td>
<td>138,434,288,835,795</td>
<td>79.0</td>
<td>179,209,659,538,734</td>
<td>78.8</td>
<td>139,309,453,659,156</td>
<td>72.9</td>
</tr>
<tr>
<td>9</td>
<td>Regional Offices outside Jakarta</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>North Java I BO</td>
<td>4,095,192,906,815</td>
<td>5.7</td>
<td>5,104,942,981,864</td>
<td>3.9</td>
<td>3,926,738,165,286</td>
<td>2.7</td>
</tr>
<tr>
<td>11</td>
<td>North Java II RO</td>
<td>2,722,140,196,805</td>
<td>3.5</td>
<td>3,514,942,981,864</td>
<td>2.7</td>
<td>2,392,738,165,286</td>
<td>1.5</td>
</tr>
<tr>
<td>12</td>
<td>Central Java I BO</td>
<td>3,708,917,245,881</td>
<td>5.4</td>
<td>4,713,958,701,167</td>
<td>3.4</td>
<td>3,456,618,655,870</td>
<td>2.1</td>
</tr>
<tr>
<td>13</td>
<td>Central Java II BO</td>
<td>2,087,290,479,871</td>
<td>3.0</td>
<td>2,799,156,393,648</td>
<td>1.9</td>
<td>2,489,095,439,900</td>
<td>1.5</td>
</tr>
<tr>
<td>14</td>
<td>East Java RO</td>
<td>1,170,940,668,960</td>
<td>1.8</td>
<td>1,814,387,169,152</td>
<td>1.2</td>
<td>1,766,405,756,533</td>
<td>1.0</td>
</tr>
<tr>
<td>15</td>
<td>East Java II BO</td>
<td>3,690,518,947,621</td>
<td>5.4</td>
<td>5,068,367,507,883</td>
<td>3.4</td>
<td>4,909,799,574,083</td>
<td>2.8</td>
</tr>
<tr>
<td>16</td>
<td>East Java II RO</td>
<td>1,719,540,052,281</td>
<td>2.6</td>
<td>2,084,353,162,789</td>
<td>1.4</td>
<td>2,340,349,361,753</td>
<td>1.4</td>
</tr>
<tr>
<td>17</td>
<td>East Java III RO</td>
<td>1,669,350,457,318</td>
<td>2.6</td>
<td>2,198,546,351,576</td>
<td>1.5</td>
<td>2,440,859,131,021</td>
<td>1.4</td>
</tr>
<tr>
<td>19</td>
<td>West Nusa Tenggara &amp; East Nusa Tenggara RO</td>
<td>431,032,399,736</td>
<td>6.5</td>
<td>574,650,431,955</td>
<td>4.0</td>
<td>461,231,234,476</td>
<td>2.6</td>
</tr>
<tr>
<td>20</td>
<td>West Nusa Tenggara RO</td>
<td>357,151,933,891</td>
<td>5.4</td>
<td>574,650,431,955</td>
<td>4.0</td>
<td>461,231,234,476</td>
<td>2.6</td>
</tr>
<tr>
<td>21</td>
<td>South Nusa Tenggara RO</td>
<td>1,335,185,930,072</td>
<td>2.1</td>
<td>1,468,911,615,685</td>
<td>1.0</td>
<td>2,470,135,229,614</td>
<td>1.4</td>
</tr>
<tr>
<td>22</td>
<td>South Kalimantan RO</td>
<td>527,380,447,350</td>
<td>0.8</td>
<td>648,694,755,741</td>
<td>0.4</td>
<td>761,615,628,587</td>
<td>0.4</td>
</tr>
<tr>
<td>23</td>
<td>Central Kalimantan RO</td>
<td>1,452,161,141,778</td>
<td>2.2</td>
<td>1,667,110,478,302</td>
<td>1.0</td>
<td>1,439,086,540,540</td>
<td>0.8</td>
</tr>
<tr>
<td>24</td>
<td>Jambi RO</td>
<td>316,594,522,203</td>
<td>0.5</td>
<td>538,134,147,746</td>
<td>0.4</td>
<td>543,076,580,187</td>
<td>0.3</td>
</tr>
<tr>
<td>25</td>
<td>South Sumatera RO</td>
<td>1,592,141,277,177</td>
<td>2.5</td>
<td>1,814,430,112,625</td>
<td>1.3</td>
<td>1,783,466,060,367</td>
<td>1.0</td>
</tr>
<tr>
<td>26</td>
<td>Riau RO</td>
<td>812,214,651,389</td>
<td>1.3</td>
<td>936,171,271,513</td>
<td>0.6</td>
<td>968,572,855,729</td>
<td>0.5</td>
</tr>
<tr>
<td>27</td>
<td>South Sumatera &amp; Belitung Island RO</td>
<td>1,261,612,729,390</td>
<td>2.0</td>
<td>1,402,480,401,571</td>
<td>1.0</td>
<td>1216,548,757,059</td>
<td>0.7</td>
</tr>
<tr>
<td>28</td>
<td>West Kalimantan RO</td>
<td>1,575,377,026,613</td>
<td>2.5</td>
<td>1,814,430,112,625</td>
<td>1.3</td>
<td>1,783,466,060,367</td>
<td>1.0</td>
</tr>
<tr>
<td>29</td>
<td>South Sulawesi &amp; South East Sulawesi RO</td>
<td>995,442,820,036</td>
<td>1.6</td>
<td>1,188,504,522,771</td>
<td>0.8</td>
<td>1,104,315,717,754</td>
<td>0.6</td>
</tr>
<tr>
<td>30</td>
<td>Central Sulawesi RO</td>
<td>118,912,317,982</td>
<td>0.2</td>
<td>146,731,282,080</td>
<td>0.1</td>
<td>98,551,523,848</td>
<td>0.0</td>
</tr>
<tr>
<td>31</td>
<td>North Sulawesi RO</td>
<td>292,281,311,322</td>
<td>0.5</td>
<td>356,490,106,959</td>
<td>0.2</td>
<td>287,158,920,701</td>
<td>0.2</td>
</tr>
<tr>
<td>32</td>
<td>South Maluku RO</td>
<td>898,581,983,384</td>
<td>1.5</td>
<td>1,042,684,802,261</td>
<td>0.8</td>
<td>826,974,643,312</td>
<td>0.5</td>
</tr>
<tr>
<td>33</td>
<td>Total tax revenue of all RO outside Jakarta</td>
<td>36,765,159,297,044</td>
<td>21.0</td>
<td>48,355,813,019,871</td>
<td>21.2</td>
<td>51,768,903,356,007</td>
<td>27.1</td>
</tr>
<tr>
<td>34</td>
<td>TOTAL TAX REVENUE</td>
<td>175,199,448,132,839</td>
<td>100.0</td>
<td>227,567,472,556,605</td>
<td>100.0</td>
<td>191,078,357,013,159</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source: On-line Tax Payment Reporting System (MP3), Directorate of IT, Headquarters.*

*Note: * Not including tax payments in foreign currencies and non MP3 tax payment.
Note:
- Maximum grade is the highest grades which can be achieved by each holder of formal education certificate without considering the position.
- During working in the organisation, higher grade than starting grade can be achieved by:
  a. having 4 years in the last grade and good qualification on work performance in the last 2 years (regular increasing grade), or;
  b. finishing higher education, for example graduates of certificate IV or university undergraduates can get IIIb in less than 4 years by finishing master degree in 2 years study which means 2 years shorter to have higher grade than the regular increasing (educational increasing grade).
- Higher grade can be achieved as long does not exceed the grade of superordinate.

Source:

### Appendix 11

<table>
<thead>
<tr>
<th>No</th>
<th>The Last Formal Education When Joining the Organisation</th>
<th>Starting Grade</th>
<th>Maximum Grade</th>
<th>Grade Path</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Elementary School</td>
<td>IIa</td>
<td>II/a</td>
<td>IIa → I/b → IIc → IIId → IIId</td>
</tr>
<tr>
<td>2</td>
<td>Junior High School</td>
<td>IIc</td>
<td>II/c</td>
<td>IIc → I/d → IIa → IIIb → Wc → IIIId</td>
</tr>
<tr>
<td>3</td>
<td>Vocational Junior High School</td>
<td>IIc</td>
<td>II/d</td>
<td>IIc → I/d → IIa → IIIb → Wc → IIIId</td>
</tr>
<tr>
<td>4</td>
<td>Senior High School</td>
<td>n/a</td>
<td>nI/b</td>
<td>n/a → IIb → IIa → IIIa → nI/b</td>
</tr>
<tr>
<td>5</td>
<td>Vocational Senior High School (3 years)</td>
<td>IIIa</td>
<td>IIIb</td>
<td>IIIa → II/b → IIc → IIId → IIIa → nI/b</td>
</tr>
<tr>
<td>6</td>
<td>Vocational Senior High School (4 years)</td>
<td>IIIa</td>
<td>IIIb</td>
<td>IIIa → II/b → IIc → IIId → IIIa → nI/b</td>
</tr>
<tr>
<td>7</td>
<td>Certificate I (1 year voc. ed. after senior high school)</td>
<td>IIIa</td>
<td>IIIb</td>
<td>IIIa → II/b → IIc → IIId → IIIa → nI/b</td>
</tr>
<tr>
<td>8</td>
<td>Certificate II (2 years voc. ed. after senior high school)</td>
<td>IIIb</td>
<td>IIIb</td>
<td>IIIb → II/c → IIId → IIIa → nIb</td>
</tr>
<tr>
<td>9</td>
<td>Certificate III (3 years voc. ed. after senior high school)</td>
<td>n/c</td>
<td>nIc</td>
<td>n/c → II/d → IIIa → IIIb → IIIc</td>
</tr>
<tr>
<td>10</td>
<td>Certificate IV (4 years voc. ed. after senior high school)</td>
<td>nIla</td>
<td>nIld</td>
<td>nIla → IIIIb → nIId → IIIId</td>
</tr>
<tr>
<td>11</td>
<td>University undergraduate</td>
<td>IIIa</td>
<td>nIld</td>
<td>IIIa → IIIIb → nIId → IIIId</td>
</tr>
<tr>
<td>12</td>
<td>Postgraduate (Master)</td>
<td>nIla</td>
<td>IVla</td>
<td>nIla → IIIIb → nIId → IVla</td>
</tr>
<tr>
<td>13</td>
<td>Postgraduate (Doctor)</td>
<td>nIla</td>
<td>IVla</td>
<td>nIla → IIIIb → IVla → IVlb</td>
</tr>
</tbody>
</table>
## Appendix 12
### Grades in managerial positions

<table>
<thead>
<tr>
<th>No</th>
<th>Position</th>
<th>Minimum Grade</th>
<th>Maximum Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Echelon one</td>
<td>IV/d</td>
<td>IV/e</td>
</tr>
<tr>
<td>2</td>
<td>Echelon two</td>
<td>IV/b</td>
<td>IV/d</td>
</tr>
<tr>
<td>3</td>
<td>Echelon three</td>
<td>III/d</td>
<td>Ni/b</td>
</tr>
<tr>
<td>4</td>
<td>Echelon four:</td>
<td>III/b</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Certificate III</td>
<td></td>
<td>III/c</td>
</tr>
<tr>
<td></td>
<td>- Certificate IV!Undergraduate</td>
<td></td>
<td>III/d</td>
</tr>
<tr>
<td></td>
<td>- Master</td>
<td></td>
<td>IV/a</td>
</tr>
<tr>
<td>5</td>
<td>Echelon five:</td>
<td>III/Ja</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Certificate III</td>
<td></td>
<td>III/J/c</td>
</tr>
<tr>
<td></td>
<td>- Certificate IV!Undergraduate</td>
<td></td>
<td>III/J/d</td>
</tr>
<tr>
<td></td>
<td>- Master</td>
<td></td>
<td>IV/a</td>
</tr>
</tbody>
</table>

Source: Government Decree no. 99/2000 and no. 13/2002 about promotion to managerial positions,

Note:
- Minimum grade is the requirement to occupy the position.
- Maximum grade is the highest grades in the echelon.
- Higher grade than in the range of an echelon can be achieved only by promotion to higher position.
Appendix 13
Grade & credit points in tax auditor positions

<table>
<thead>
<tr>
<th>No</th>
<th>Grade \ Position</th>
<th>Credit Points (cumulative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>IVlc Tax Auditor Madya</td>
<td>700</td>
</tr>
<tr>
<td>2</td>
<td>IVlb Tax Auditor Madya</td>
<td>550</td>
</tr>
<tr>
<td>3</td>
<td>IVla Tax Auditor Madya</td>
<td>400</td>
</tr>
<tr>
<td>4</td>
<td>III/d (expert) Tax Auditor Muda</td>
<td>300</td>
</tr>
<tr>
<td>5</td>
<td>III/c (expert) Tax Auditor Muda</td>
<td>200</td>
</tr>
<tr>
<td>6</td>
<td>III/d (technician) Tax Auditor Penyelia</td>
<td>300</td>
</tr>
<tr>
<td>7</td>
<td>III/c (technician) Tax Auditor Penyelia</td>
<td>200</td>
</tr>
<tr>
<td>8</td>
<td>III/b (expert) Tax Auditor Pertama</td>
<td>150</td>
</tr>
<tr>
<td>9</td>
<td>III/a (expert) Tax Auditor Pertama</td>
<td>100</td>
</tr>
<tr>
<td>10</td>
<td>III/b (technician) Tax Auditor Pelaksana Lanjutan</td>
<td>150</td>
</tr>
<tr>
<td>11</td>
<td>III/a (technician) Tax Auditor Pelaksana Lanjutan</td>
<td>100</td>
</tr>
<tr>
<td>12</td>
<td>II/d Tax Auditor Pelaksana</td>
<td>80</td>
</tr>
<tr>
<td>13</td>
<td>II/c Tax Auditor Pelaksana</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Personnel Division

Note:
- Expert: the last education level is certificate IV or university undergraduate and above.
- Technician: the last education level is certificate III.
Appendix 14
Personnel statistic as 1 January 2006

<table>
<thead>
<tr>
<th>No</th>
<th>Description</th>
<th>Headquarters</th>
<th>Jakarta</th>
<th>Outside Jakarta</th>
<th>Total Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Echelon</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1</td>
<td>Echelon one</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>1.2</td>
<td>Echelon two</td>
<td>12</td>
<td>7</td>
<td>16</td>
<td>35</td>
</tr>
<tr>
<td>1.3</td>
<td>Echelon three</td>
<td>30</td>
<td>108</td>
<td>370</td>
<td>508</td>
</tr>
<tr>
<td>1.4</td>
<td>Echelon four</td>
<td>111</td>
<td>654</td>
<td>2,569</td>
<td>3,334</td>
</tr>
<tr>
<td>1.5</td>
<td>Echelon five</td>
<td>240</td>
<td>1,193</td>
<td>5,264</td>
<td>6,697</td>
</tr>
<tr>
<td>1.6</td>
<td>Regular staff</td>
<td>1,512</td>
<td>5,605</td>
<td>11,822</td>
<td>18,939</td>
</tr>
<tr>
<td>2</td>
<td>Education</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1</td>
<td>Doctoral</td>
<td>8</td>
<td>3</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>2.2</td>
<td>Master</td>
<td>135</td>
<td>474</td>
<td>559</td>
<td>1,168</td>
</tr>
<tr>
<td>2.3</td>
<td>Undergraduate/C. IV</td>
<td>369</td>
<td>1,908</td>
<td>4,249</td>
<td>6,526</td>
</tr>
<tr>
<td>2.4</td>
<td>Certificate iII</td>
<td>878</td>
<td>1,941</td>
<td>4,392</td>
<td>7,211</td>
</tr>
<tr>
<td>2.5</td>
<td>Certificate I</td>
<td>280</td>
<td>910</td>
<td>3,017</td>
<td>4,207</td>
</tr>
<tr>
<td>2.6</td>
<td>Senior High School</td>
<td>227</td>
<td>2,163</td>
<td>6,680</td>
<td>9,070</td>
</tr>
<tr>
<td>2.7</td>
<td>Junior High School</td>
<td>21</td>
<td>130</td>
<td>605</td>
<td>756</td>
</tr>
<tr>
<td>2.8</td>
<td>Elementary High School</td>
<td>31</td>
<td>103</td>
<td>465</td>
<td>599</td>
</tr>
<tr>
<td>3</td>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1</td>
<td>Male</td>
<td>1,463</td>
<td>5,745</td>
<td>15,657</td>
<td>22,865</td>
</tr>
<tr>
<td>3.2</td>
<td>Female</td>
<td>443</td>
<td>1,822</td>
<td>4,384</td>
<td>6,649</td>
</tr>
<tr>
<td>4</td>
<td>Age</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.1</td>
<td>Below 36</td>
<td>1,585</td>
<td>4,344</td>
<td>9,927</td>
<td>15,856</td>
</tr>
<tr>
<td>4.2</td>
<td>36 - 40</td>
<td>151</td>
<td>902</td>
<td>1,853</td>
<td>2,906</td>
</tr>
<tr>
<td>4.3</td>
<td>Above 40</td>
<td>170</td>
<td>2,321</td>
<td>8,261</td>
<td>10,752</td>
</tr>
<tr>
<td></td>
<td>Total Number</td>
<td>1,906</td>
<td>7,567</td>
<td>20,041</td>
<td>29,514</td>
</tr>
</tbody>
</table>

Source: Personnel Division
### Appendix 15
Actual & estimated tax revenue, tax ratio & GDP
1990-2009

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax Revenue (Trillion Rp)</th>
<th>Growth (%)</th>
<th>GDP</th>
<th>Economic Growth (%)</th>
<th>Tax &amp; Customs Revenue (Trillion Rp)</th>
<th>Tax Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Nominal (Trillion Rp)</td>
<td>Increasing (%)</td>
<td>Constant Price (Trillion Rp)</td>
<td>Year 1993</td>
</tr>
<tr>
<td>1990</td>
<td>17.4</td>
<td></td>
<td>210.9</td>
<td>263.3</td>
<td>8.93</td>
<td>22.0</td>
</tr>
<tr>
<td>1991</td>
<td>20.1</td>
<td>15.52</td>
<td>245.0</td>
<td>286.8</td>
<td>7.22</td>
<td>24.9</td>
</tr>
<tr>
<td>1992</td>
<td>24.6</td>
<td>22.39</td>
<td>282.4</td>
<td>307.5</td>
<td>7.25</td>
<td>30.1</td>
</tr>
<tr>
<td>1993</td>
<td>30.5</td>
<td>23.98</td>
<td>329.8</td>
<td>329.8</td>
<td>7.25</td>
<td>36.7</td>
</tr>
<tr>
<td>1994</td>
<td>37.4</td>
<td>22.62</td>
<td>382.2</td>
<td>354.6</td>
<td>7.52</td>
<td>44.4</td>
</tr>
<tr>
<td>1995</td>
<td>42.1</td>
<td>12.47</td>
<td>454.5</td>
<td>383.8</td>
<td>7.83</td>
<td>48.7</td>
</tr>
<tr>
<td>1996</td>
<td>50.5</td>
<td>20.05</td>
<td>532.6</td>
<td>414.4</td>
<td>7.97</td>
<td>57.3</td>
</tr>
<tr>
<td>1997</td>
<td>62.8</td>
<td>24.43</td>
<td>627.7</td>
<td>433.2</td>
<td>4.54</td>
<td>70.9</td>
</tr>
<tr>
<td>1998*</td>
<td>92.4</td>
<td>46.98</td>
<td>955.8</td>
<td>376.4</td>
<td>-13.11</td>
<td>102.4</td>
</tr>
<tr>
<td>1999</td>
<td>111.4</td>
<td>20.61</td>
<td>1,110.0</td>
<td>379.6</td>
<td>0.85</td>
<td>126.0</td>
</tr>
<tr>
<td>2000</td>
<td>124.3</td>
<td>11.59</td>
<td>1,290.7</td>
<td>397.7</td>
<td>4.77</td>
<td>114.8</td>
</tr>
<tr>
<td>2001</td>
<td>156.6</td>
<td>25.99</td>
<td>1,491.0</td>
<td>411.1</td>
<td>3.37</td>
<td>183.2</td>
</tr>
<tr>
<td>2002</td>
<td>180.1</td>
<td>15.01</td>
<td>1,610.0</td>
<td>426.7</td>
<td>3.79</td>
<td>214.4</td>
</tr>
<tr>
<td>2003</td>
<td>210.8</td>
<td>17.05</td>
<td>1,786.7</td>
<td>444.5</td>
<td>4.17</td>
<td>248.0</td>
</tr>
<tr>
<td>2004</td>
<td>238.6</td>
<td>13.19</td>
<td>2,303.0</td>
<td>467.2</td>
<td>5.11</td>
<td>277.4</td>
</tr>
<tr>
<td>2005</td>
<td>273.6</td>
<td>14.68</td>
<td>2,729.7</td>
<td>1,660.6</td>
<td>5.60</td>
<td>319.4</td>
</tr>
<tr>
<td>2006***</td>
<td>335.9</td>
<td>22.77</td>
<td>3,053.2</td>
<td>1,753.6</td>
<td>5.80</td>
<td>387.8</td>
</tr>
<tr>
<td>2007***</td>
<td>412.4</td>
<td>22.77</td>
<td>3,415.0</td>
<td>1,855.3</td>
<td>6.30</td>
<td>467.4</td>
</tr>
<tr>
<td>2008***</td>
<td>506.3</td>
<td>22.77</td>
<td>3,819.6</td>
<td>1,972.2</td>
<td>7.65</td>
<td>564.6</td>
</tr>
<tr>
<td>2009***</td>
<td>621.6</td>
<td>22.77</td>
<td>4,272.3</td>
<td>2,284.4</td>
<td>7.60</td>
<td>683.4</td>
</tr>
</tbody>
</table>

**Source**: Tax & customs revenue: Bapekki & the Organisation; GDP: BPS (Centre Bureau of Statistic)

**Note**:  
)* Moneter crises take place  
)** Estimated figures  
Economic growth = increasing GDP based on constant prices  
Tax ratio = tax & customs revenue/nominal GDP  
Assumption: GDP (nominal value) of Rp. 4,272.3 trillion and 16% tax ratio in 2009 for calculation of estimated figures