ETHICS MANAGEMENT IN
THE PUBLIC SECTOR:
THE CASE OF INDONESIAN TAX
ADMINISTRATION REFORM

by
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Abstract

The thesis investigates the implementation of ethics management in the Indonesian DGT (Directorate General of Taxes). Ethics management is the sum of efforts taken to create public servants’ ethical sensitivity and consciousness in performing their duties. In the ethics management literature, the compliance and integrity approaches are commonly distinguished and represented as two opposing ends of a continuum. The literature also stresses that the two approaches should be combined and a balance struck between them. This study examines how the two approaches are mixed in the DGT.

There are two dimensions of ethics management: “the what”, which refers to the specific instruments and policies, and “the how”, which comprises the design and formalisation of structures and processes. “The how” dimension is known as ethics institutionalisation. This study seeks to show how these two dimensions of ethics management have been implemented and how they have evolved over time in the DGT. Further, it observes how the change has affected the ethics management approach.

The study found that the evolution of the ethics management approach in the DGT conforms to international studies, in which the approach and decisions tend to be pragmatic and scandal-driven. It also discovered that the compliance-integrity continuum has limitations as an analytical tool and proposed the use of the compliance-integrity matrix. Lastly, the study argued that formal ethics institutionalisation and the compliance approach do not always converge, and neither do informal ethics institutionalisation and the integrity approach.

The research presents three recommendations for DGT. First, the DGT’s internal compliance function should be in a unit of its own, rather than combined with other functions. Second, for more improved ethics management, the DGT should use surveys as an ethics instrument. Third, the DGT should apply more informal and implicit ethics institutionalisation, such as ethical leadership.
Dedication

In loving memories of my parents, Abdul Hanan and Mariam (born Maemunah), this thesis is dedicated to them for their unconditional love and affection that I can never repay, and for their trust and faith in me that I will never forget.
Acknowledgement

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<tr>
<td>CEC</td>
<td>Corruption Eradication Commission</td>
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<tr>
<td>DGT</td>
<td>Directorate General of Taxes</td>
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<tr>
<td>DJP</td>
<td>Direktur Jenderal Pajak (English: DGT)</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>KEMENKEU</td>
<td>Kementerian Keuangan (English: MOF)</td>
</tr>
<tr>
<td>KEMENKUMHAM</td>
<td>Kementerian Hukum dan Hak Asasi Manusia (Ministry of Justice and Human Rights)</td>
</tr>
<tr>
<td>KEMENPAN</td>
<td>Kementerian Pendayagunaan Aparatur Negara (Ministry of State Apparatus Empowerment)</td>
</tr>
<tr>
<td>KITSDA</td>
<td>Kepatuhan Internal dan Sumber Daya Aparatur (Internal Compliance and Transformation of Human Resources)</td>
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<tr>
<td>KPK</td>
<td>Komisi Pemberantasan Korupsi (English: CEC)</td>
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<td>LOI</td>
<td>Letter of Intent</td>
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<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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CHAPTER 1 INTRODUCTION

This thesis examines the ethics management in the Indonesian Directorate General of Taxes (DGT), which was implemented under the framework of the Indonesian tax administration reform. The thesis discusses first the increasing interest in ethics in organisations and how this relates to the Indonesian tax administration reform. Further, it discusses how ethics management has become the crucial part of the reform. It then explores the idea of managing ethics in organisations and also the approaches and elements suggested for implementing this idea. As regards to the approaches, the thesis discusses more deeply the two major approaches in ethics management, namely the compliance approach and the integrity approach. Further, it accentuates the compliance-integrity continuum as the main reference and analytical tool for ethics management. Concerning the elements, the OECD’s integrity management framework with its three pillars is employed as well to examine the implementation of ethics management in the DGT. The focus of this thesis is to investigate the DGT’s ethics management’s approach, which is analysed by casting its integrity management framework in the compliance-integrity continuum.

1.1 Background

There has been an increasing interest in ethics in public organisations over the last several decades. Concern for ethics has become an integral part of public service and “is not a ‘left-over’ to be considered after other issues” (Lawton, Rayner & Lasthuizen 2013, p. 1). At the international level, ethics in public service has turned into a global movement, as countries across regions have adopted normative and institutional measures to promote integrity and avoid misconduct in public service.
Drivers of this movement have been identified, including one that is related to foreign aid in developing countries (Evans 2012). In line with this, it has been noted that the surge of concern for ethics was, among others, due to the realisation by donor countries and organisations that the effectiveness of the aid was badly impacted by a lack of integrity in the recipient countries’ public administrators (Lewis & Gilman 2005a). Integrity in public administration is crucial for the accountability of aid, and this understanding had an impact on foreign aid as donors imposed integrity conditionality as a requirement.

One of the recipient countries is Indonesia. In Indonesia, corruption is like Coca Cola – you can find it everywhere (Newman 2011). For Indonesians, corruption is entrenched in their daily life; “(i) it is a constant topic of conversation, a media fixture, and the focus of countless conferences” (Newman 2011). The type and amount of the corruption varies: from Rp50,000 (around US$5), to billions of rupiah, and from bribes in weigh stations paid by truck drivers to graft involving high officials and political figures. In the Suharto era, the corruption was more centralised. In that period, “Indonesia and India were about equally corrupt, … but Indonesia’s economic performance was healthier” (Kuncoro as cited in Newman 2011, p. 86). During his reign, with an annual salary of approximately only $200,000 a year, “Suharto's alleged misappropriation has been estimated to be about $73 billion” (Rizvi as cited in MacMillan 2011, p. 591).

Referring to integrity conditionality discussed in the earlier paragraph, in the case of Indonesia it could be related to the implementation of ethics management in the Indonesian tax administration reform. The reform heavily concerned the Indonesian Directorate General of Taxes (DGT). The DGT is an agency under the Indonesian
Ministry of Finance responsible for collecting tax revenues. Prior to the reform that was initiated in 2002, the public had a tendency to see the DGT as something negative. In general, the DGT was perceived as having the characteristics of a typical Indonesian government agency in the New Order Era, whose practice was mostly based on a discretionary, corruption-ridden, and patrimonial system (Rizal 2011). The term KKN, or Korupsi, Kolusi, dan Nepotisme (corruption, collusion and nepotism) was popular to illustrate the system at that time (Rizal 2011). In particular, as a survey revealed, the negative stereotypes attached to the DGT were: the lack of transparency in tax collection, tax laws that were ambiguous, and the tax officers who made tax payment complicated and who were unwilling to serve the public; moreover, everything was negotiable with tax officers (Kompas 2005). Another survey placed the DGT as the second institution of Indonesian central government with the highest bribery index (Transparency International Indonesia 2004). Although these surveys were published shortly after the reform was initiated, they fairly reflected public perception towards the DGT prior to the reform.

In July 2002, the Large Taxpayers Office was established as a pilot project for the DGT modern office. It marked the beginning of the Indonesian tax administration reform, a movement that transformed the DGT and changed the perceptions of parties external to the organisation. With its notoriety in the past, it was quite a surprise that the DGT became the first government institution proclaiming an administration reform (KPK 2012); yet, the result was fairly noteworthy. In addition to achievements in tax revenues (Brondolo et al. 2008; Rizal 2006), the reform gained recognition on the national as well as international level for efforts in overcoming corruption problems. In 2010, in an evaluation by the Indonesian Corruption Eradication Commission (CEC), the DGT gained the fourth rank as a public institution with the
highest anti-corruption initiative among 183 units in 18 Ministries. Previously, in the 2008 Report on Corruption Perception Index, Indonesia showed an increase in its score from 2.3 in the previous year to 2.6 (Transparency International 2008). In regards to this improvement, the Transparency International remarked that, although corruption problems remained prevalent in Indonesia, there were huge perceptions that corruption was being addressed more aggressively in Indonesia, due to audacious reform in its tax and custom administration and the ability of the CEC to bring out high profile cases (Transparency International 2008). Although after the reform there were still cases of unethical behaviour involving the DGT’s employees, which indicated that there was still room for improvement, the reform was viewed as a shift of paradigm in the way DGT perceived itself and its duties, and the reform was labelled a silent revolution (MOF 2010).

The DGT reform has infused good governance practices into its initiatives (Rizal 2006). As part of the reform strategy, a governance framework was designed, aiming at promoting transparency in tax administration and integrity among officers (Rizal 2006). The framework included the creation of a code of conduct, control mechanisms, statement of values, values internalisation, and interactive ethics training. It also involved establishing a special unit to organise these instruments and activities and to function as a control institution. These are known as measures and instruments of ethics management.

1.2 Ethics management

Problems of misconduct are not just typical of modern public administration. The problems did not just arise three or four decades ago; in fact, they already existed as early as the government itself (Bowman & Williams 1997). What changed in the last
several decades was the way ethics was perceived. Ethics is now understood not only as an attribute of a person but also of an organisation (Unruh 2008). Its prominence has increased from making organisations better to being absolutely critical for effective organisations (Trevino & Nelson 2010). Moreover, a prevalent assumption has emerged that ethics improves organisations’ performance (Menzel 2005). Ethics management therefore has been pervasively accepted as the best practice standard in dealing with employees’ ethical and unethical behaviours. As such, ethics management has been understood as an effort to maintain public service values and standards, a solution for the declining public trust in government, and a response to society's changing values in which citizens are increasingly more assertive and demanding (Maesschalck 2004).

The rapid change in the way ethics is perceived can also be seen from the manner in which ethics issues are treated in organisations. Nowadays, it is common to find public and private organisations managing ethics “in the same breath and manner in which we talk about managing budgets, policies or people” (Menzel 2001, p. 355). This is reflected in the flourishing measures and policy instruments that are typical of ethics management, such as a code of conduct, statement of values, and ethics training. Depending on the size of the organisation, the policy involves appointing ethics officers or even establishing a designated ethics office responsible for ethics management activities and policies (Hoekstra & Kaptein 2012).

The term “ethics management” is not the only alternative in referring to such management activity. Another preferred term is “integrity management”. Rather than ethics, European academics feel more comfortable using the concept of integrity (Cox 2009). Integrity covers both the thinking and the doing. It is about doing things right,
and does not imply an activist or “make things right approach” common to some American academics. Integrity is about “values that are central to the operations of government as a tool of governance” (Cox 2009, p. viii). A similar notion can be seen in a study by the OECD (2009), which suggested an integrity management framework for promoting integrity and preventing misconduct in organisations. In earlier OECD publications (such as OECD 1996; OECD 2000), the term “ethics management” was used. The shift of the terminology from ethics management to integrity management was due to “a growing understanding that integrity is a keystone of good governance” and that integrity is a condition for all activities in government to be legitimate, trusted and effective (OECD 2009, p. 6). However, the term “ethics management” is still widely used and applied in recent readings (see for example Năstasee 2012; Stevulak and Brown 2011).

In this thesis, the terms ethics and integrity are used interchangeably. The term ethics management is preferred since it suggests an active approach in making ethical decisions (discussed further in Chapter 3). However, this thesis is in agreement with the OECD (2009, p. 9), which states that “[w]hat matters much more than the term is the definition of the concept [...] and its further operationalisation.”

**Approaches in ethics management**

In ethics management, two major approaches have been distinguished in the literature (Maesschalck 2004). The first approach is the compliance approach, or “the low road”. It relies on controls outside individuals, or external controls, namely ethics legislation, codes of ethics and other rules, control mechanisms, and control institutions with extensive powers. The stress is put on checking and monitoring in order for the employees at least to comply with the law. The second approach is
referred to as the integrity approach, also called “the high road”. It emphasises individuals’ internal controls, specifically the self-control exercised by each individual which is expected to guide them to their highest potential of the highest moral integrity. The related measures are, among others, a statement of values and interactive ethics training.

Nevertheless, the two approaches should not be seen as a dichotomy. They can be understood as the opposite ends of a continuum, the compliance-integrity continuum. In real life, the two approaches should be combined and complement each other. Internal and external controls should support each other and should not give contradictory indications. As stated in Cooper (2011, p. 163) “the critical task is to design a balance between internal and external controls, as well as congruence between them.” The search for this balance was understood in this study as efforts to seek the appropriate combination of the two approaches and to locate the DGT’s position on the compliance-integrity continuum.

**Elements of ethics management**

Several systems for defining and organising elements of ethics management have been suggested in the literature on managing ethics in organisations. Several that are referred to quite often are the ethics infrastructure (OECD 1996), the National Integrity System (NIS) by the Transparency International (Pope 2000), and the latest introduced, the integrity management framework (OECD 2009). This thesis will utilise the integrity management framework, for two reasons. First, while the other two are more on the national level, the integrity management framework focuses on the organisational level, and nicely fits the context of this research which studies ethics management in the DGT, an Indonesian public sector organisation. Second, the
The integrity management framework consists of three pillars: instruments, processes, and structures (OECD 2009). The integrity instruments are the first and most obvious pillar, employed to stimulate and enforce integrity and prevent corruption and other integrity violations within a particular organisation. However, the instruments will only be a list of intentions if not implemented. This is where the second and third pillars come into play. The second pillar, or processes, is to assure that the instruments are planned, implemented and evaluated. The third pillar, or the structures, is to make sure that responsibilities for the activities are delegated. Following Hoekstra and Kaptein (2012), the instruments and related policies can be seen as the “what” dimension of ethics management, while the processes and the structures provide the “how” dimension, dealing with how organisations should manage ethics. The latter dimension is also called ethics institutionalisation, which can be divided further into formal and informal institutionalisation. In Hoekstra and Kaptein (2012) it is envisaged that there will be a strong convergence between the formal ethics institutionalisation and the compliance approach of ethics management, as well as between the informal institutionalisation and the integrity approach. Such predictions need further study.

1.3 Aims and approach of the research

This thesis investigates the implementation of ethics management in the Indonesian Directorate General of Taxes (DGT) as part of the tax administration reform. As discussed in the previous section, in the ethics management literature the compliance and integrity approaches are commonly distinguished and represented as two
opposing ends of a continuum. The literature also stresses that the two approaches should be combined and a balance struck between them. Using the compliance-integrity continuum as the analytical device, this study examines two dimensions of ethics management in the DGT: “the what”, which refers to the specific instruments and policies, and “the how”, which comprises the design and formalisation of structures and processes. It seeks to show how ethics has been implemented and institutionalised and how the mix between the compliance and integrity approaches has changed over time. To guide the research the following main research question has been formulated:

How are the approaches of ethics management combined in the DGT?

The question builds on a premise in Cooper (2011), which states that the critical task is to find the right balance between the two approaches. The balance should be reflected in the way ethics management is implemented. The integrity management framework is then used to analyse the implementation, looking at the instruments, processes and structures of the ethics management.

As stepping stones to address the main research question, four sub research questions are formulated as follows:

1. What are the instruments adopted in ethics management in the DGT?
2. How are the instruments adopted in ethics management in the DGT?
3. How is ethics institutionalised in the DGT?
4. How does ethics institutionalisation in the DGT influence the approaches of its ethics management?
The sub research questions mainly relate to the pillars of the integrity management framework. The first two sub research questions relate to the first pillar, the instruments. They examine what instruments are adopted in the DGT and, to a certain extent, how they are adopted. Sub research question 2, although it has the word “how”, is not to be confused with sub research questions 3 and 4, which relate to the “how” dimension of ethics management. Sub research question 2 is necessary for classifying the instruments either as compliance-based or integrity-based. Certain ethics instruments, such as ethics training, could be classified as both compliance-based and integrity-based depending the manner it is conducted (OECD 2009).

The second and third pillars of the integrity management framework are addressed in sub research question 3. It covers both the process, in which the instruments are developed, and the structure, in which the responsibilities of the ethics activities are delegated. Sub question 4 tries to deal with the presumption of Hoekstra and Kaptein (2012) that the formal institutionalisation and the compliance approach strongly converge, as do the informal institutionalisation and the integrity approach.

The approach applied in the study is a case study qualitative research. The qualitative paradigm is suitable for this research based on the following three reasons. First, the aim of this research is to understand the process, rather than searching for laws. Second, a subject-subject relationship is created between the researcher and the informants. Third, facts are the main sources for the research, with a high awareness that values are taken into consideration. In the meantime, the case study approach is chosen for this research. According to Creswell (1998), the case study is an exploration of a system, bounded by time and place. The case being studied could be in the form of a program, an event, an activity, or individuals. A case study is a good
approach for a researcher who “has a clearly identifiable case with boundaries and seeks to provide an in depth understanding of the case or cases” (Creswell 1998, p. 62). The case in this thesis is the form of the implementation of ethics management in the DGT. The place is the DGT and the time is between 2002, when the reform was initiated, and 2012, when data collection took place.

1.4 Why study ethics management in the DGT?

For more than a decade, the DGT has implemented ethics management under the Indonesian tax administration reform. The implementation, as well as the reform, has transformed the DGT in an unprecedented manner; the DGT has changed from a typical New Order Era public organisation, which was based on a discretionary, corruption-ridden, and patrimonial system, to a modern, transparent and accountable public organisation. While the change has been nationally and internationally recognised, little has been done to study how the implementation took place.

In terms of academic literature, this study has three aspects to offer. First is the focus on the distinction of the compliance and the integrity approaches of ethics management. Second is the shift in the systems of ethics management. Third is the examination of the relationship between ethics institutionalisation and the approach of ethics management.

The distinction between the compliance and the integrity approaches is fundamental in the study of ethics management (Hoekstra, Belling and van der Heide 2008; Lawton and Macaulay 2004; Paine 1994). However, most of the research with such a focus is conducted in OECD and developed countries. One of the exceptions is Stevulak and Brown (2011), who study ethics management in eight former Soviet Union countries.
Study about ethics and ethics management in countries other than OECD members or developed countries has been flourishing, but rarely focuses on the distinction.

This thesis also examines the shift of ethics management approach in the DGT over time. In this regard, this thesis follows Hoekstra, Belling and van der Heide (2008), who study the shift of ethics management systems implemented in the Dutch government. In this thesis, it is assumed that the ethics activities and policies adopted and taken in the DGT are not static, but rather they are dynamic and change over time.

A novel aspect of ethics management study, which is offered in this thesis, is the relationship between ethics institutionalisation and the approach of ethics management. Ethics institutionalisation in this context is perceived as the “how” dimension of ethics management (Hoekstra & Kaptein 2012). In general, there are two ways in which ethics is institutionalised: formal and informal. Hoekstra and Kaptein (2012) presume that the compliance approach of ethics management strongly converges with the formal ethics institutionalisation, as do the integrity approach and the informal ethics institutionalisation. This thesis is to assess the relationship in the DGT.

Moreover, the importance of this research can also be perceived in the context of Indonesian bureaucracy reform. In this context, the DGT pioneered the reform in the Ministry of Finance. Later on, the Ministry of Finance, as well as the Supreme Court and the Supreme Audit Office, were selected as the pilot projects of the Bureaucracy Reform on the national level (MOF 2010). The reform in the DGT became more important as the Indonesian Government’s commitment to continue with the second wave of reform was confirmed in the President’s speech on 14 August 2009 (Kemenkeu 2010). As the pioneer of the national bureaucracy reform in Indonesia, the
DGT, as well as the Ministry of Finance, became the laboratory of the reform where policies and procedures are tested before being implemented in other Indonesian government institutions. In 2010, the Grand Design and Road Map of Bureaucracy Reform were established (Kemenkeu 2010). The research will provide insights on the implementation of ethics management in a public sector reform, which is fruitful for reforms in other institutions in Indonesia.

1.5 Overview of the thesis

This chapter provides an introduction to the research topic and outlines the rationale and justification for this project.

In Chapter 2, the research background will be explained. The chapter will begin with the global increase of interest in organisational ethics and how it relates to the Indonesian tax administration reform. It will continue with a brief description of the DGT, as the Indonesian tax administration, and the important role that it has. Then the chapter will explain the background of the Indonesian tax administration reform and how it was executed. After that, it will discuss how measures to promote ethics and integrity of the DGT’s employees were integrated as a crucial part of the reform. This chapter will also demonstrate the results achieved after the reform and the implementation of ethics management.

Chapter 3 will review the literature in ethics management. It will begin with the change of perceptions towards ethics in organisations. It will then discuss ethics management as well as the approaches. That will lead to a discussion of methods to manage ethics in organisations. This chapter will end with the gap in the body of knowledge.
In Chapter 4, methodological choices in undertaking the research will be discussed. The previous chapters lead to the establishment of research questions. Following the questions, a conceptual framework for this thesis will be explained to address these questions. Then, ontological, epistemological and methodological assumptions underpinning this study’s qualitative research strategy will be discussed. Afterwards, the approach and methods for the research will be described and justified.

Chapter 5 is the first of the thesis’ results chapters. It will discuss the first pillar of the DGT’s integrity management framework and examines what instruments of ethics management were adopted and how they were adopted. It will also explore the policies and ideas behind them. The chapter will seek to explain how the ethics management in the DGT design the balance between the two approaches based on the instruments adopted.

Chapter 6 is the second result chapter. It will discuss the second and third pillars of the DGT’s integrity management; in other words, how ethics was institutionalised in the DGT. Following Hoekstra and Kaptein (2012), the institutionalisation involves the design and formalisation of structures and processes, which include the creation of an office or appointing officers. The chapter will see whether the manner in which ethics was institutionalised influences the balance.

Chapter 7 will summarise the previous chapters. It will also recognise the key implications of the findings. Moreover, contributions to theory and practice are identified.
This chapter provides an overview of ethics management in the DGT (Directorate General of Taxes) under the framework of the Indonesian tax administration reform. To put the DGT’s ethics management in a broader context of what was happening globally, the chapter begins with the increasing interest in ethics at the international level. This section also discusses the drivers of this trend, which includes integrity conditionality imposed by donor countries and organisations. The following part deals with the implementation of ethics management in the DGT. It commences with a brief depiction of the DGT, as an important agency under the Indonesian Ministry of Finance. This is followed by a discussion of the background and the implementation of the Indonesian tax administration reform. The chapter concludes with an account of ethics management in the DGT as a crucial part of the reform.

2.1 Increasing interest in ethics

Over the last few decades, there has been a growing concern with managing ethics in public organisations. Ethics in public service has become a global movement (Lewis and Gilman 2005b; Menzel 2006), as countries across regions took normative and institutional measures to promote integrity and avoid misconduct in the public services. In the American context, the 1980s was an important period, as it witnessed not only shameful events in public organisations, but also an increasing interest in ethics (Bowman 1990). In the UK, the Nolan Committee set out the Seven Principles of Public Life in 1995, which marked a starting point for more aggressive efforts to deal with ethical problems in government (Menzel 2006). In the Netherlands, its ethics and integrity policy shifted to focus more on personal integrity and moral
judgment (Hoekstra, Belling & van der Heide 2008), a strategy that began in the 1990s. Furthermore, based on a survey conducted in 29 OECD countries, the OECD (2000) reports increasing efforts and progress in ethics management.

Managing ethics in public organisations is not confined to OECD member countries. By the mid-1990s, other countries like Argentina, South Africa, Uganda, the Philippines, Lithuania, Namibia, and Chile, all had ethics institutions (Lewis & Gilman 2005b). Before that, in 1974 Hong Kong had established the powerful Independent Commission against Corruption (ICAC), which is famous for its success in fighting corruption (Huberts 2000). China has 311 anti-corruption and ethics entities at various levels of government, consisting of audit bureaus, centres for reporting corruption, offices of general inspection of financial and fiscal discipline, and non-official corruption monitors and bureaus of anti-graft and bribery (Smith 2004). This is perhaps more than any other country.

Ethical challenges are not unique to modern public administration. The problem did not just arise three or four decades ago. In fact, “[t]he issue of ethics in public service is as old as government itself” (Bowman & Williams 1997, p.517). Public administrators today share ethical challenges with those in the past, such as the eras of Athens and the Roman Republic, as well as the Victorian Age of Great Britain (Lewis & Gilman 2005a). The United States, according to Gilman (1995), has faced ethical issues from the very beginning since George Washington’s first administration. The focused attention to these ethical issues, however, has only been given more recently.

Why the recent surge of concern? Various factors have been suggested as a response to this question. As stated above in the earlier paragraph, Bowman (1990) claimed that scandals resulted in the increasing attention to ethics. Shameful events both in
public and private organisations have increased the importance of ethics to organisations (Rossouw 2005; Unruh 2008). In the private sector, corporate scandals led to the rise in prominence of corporate governance, which coincided with the increase of importance of business ethics (Rossouw 2005). In public sector, ethics is an integral part; people should be concerned with ethics since bad practices of corrupt public officials and other unethical behaviours persist to happen, even in countries where the misconducts are thought as unlikely to happen (Lawton, Rayner & Lasthuizen 2013).

In the public sector, reforms in public management have been identified as another major factor for the attention given to ethics in public organisations (Maesschalck 2004). These reforms influenced the traditional values and standard of public service; hence, the ethics infrastructure had to change to ensure that excellent service was provided and public interest was served (OECD 2000). In the context of developing countries, particularly in Asia, measures on ethics have also been suggested as part of the public sector reform. The suggestions include the appointment of ethics officers and the setting up of ethical policies in the reform in order to improve transparency and accountability in the public service (Kim 2008).

In addition to the reforms in public management, the increasing interest in ethics management has also been associated with broader changes in society (Maesschalck 2004). One of the changes relates to the escalating concern about public trust in government with ethics management being proposed to restore trust in government (Maesschalck 2004). Also, ethics management is a way to deal with society’s changing values, where citizens are increasingly more assertive and are demanding direct horizontal accountability from public administrators (Maesschalck 2004).
Integrity conditionality as one of the factors

According to Evans (2012), there have been three main drivers of practice-based thinking on integrity and public administration. While the first driver is related to developing countries, which is discussed in the following paragraph, the second and third drivers are associated with conditions in developed countries. The second driver is the influence of new public management (NPM), where there is the need to adapt to the changing norms and values of the public service. This driver is in line with the OECD (2000) and Maesschalck (2004). The third driver is the shift from government to governance and the need to respond to various integrity crises that have affected the advanced liberal democracies. This is in agreement with Bowman (1990), Rossouw (2005) and Unruh (2008).

The first driver suggested in Evans (2012) relates to foreign aid in developing countries, in which integrity in public administration is crucial for the accountability of the aid. It then “led to the growth of integrity conditionality on overseas aid, to more rigorous monitoring and evaluation mechanisms, to the development of codes of conduct for civil servants and to the funding of anti-corruption institutions” (Evans 2012, p. 98). Such a notion of integrity conditionality is in line with Lewis and Gilman (2005a), who note that one of the causes of the recent surge of concern with ethics in public service is the change of multinational organisations’ policy for giving grants and loans. The World Bank, for example, “reversed its policy of not ‘meddling’ in recipients’ internal affairs and refocused on corruption as a major inhibitor of development” (Lewis & Gilman 2005a, p. 333).

Conditionality in the development and international relations literature is known as “the practice of giving financial or technical assistance contingent on the
implementation of specific policies” (Dreher 2009, p. 233). It is typically imposed by donor countries, regional organisations, or international financial institutions, such as World Bank and IMF. In the case of World Bank and IMF, when these two financial institutions were founded in 1944, there was no deliberation of conditionality on their loans (Dreher 2002). However, through time, there has been an increase in conditionality and it has become an inseparable attachment to their aid. IMF conditionality, for example, “traditionally focused on macroeconomic policies aimed at overcoming balance of payment difficulties” (Stewart 2009, p. 17). Nevertheless, since the 1980s there have been “significant changes in the technical features of conditionality to encompass wide-ranging economic, legal and institutional reforms” (Stewart 2009, p. 17). In the years that follow, other features, such as structural adjustment and specific benchmarks for performance, were also included (Stewart 2009).

In the case of Indonesia, such integrity conditionality can be related at least to two events. Both of these events were covered in the letter of intent (LOI) from the Government of Indonesia to the IMF in December 2001 (IMF 2001). Indonesian letters of intent to the IMF are letters that describe the policies that Indonesia intends to implement in regard to its request for financial support from the IMF.

The first event was the priority placed by the government on addressing problems in the court system and government governance, in particular in dealing with corruption. There was actually an institutional framework to combat corruption; yet, it did not work (MacMillan 2011). The framework “theoretically covered deterrence, detection, and punishment of corrupt practices” (Assegaf as cited in MacMillan 2011, p. 593). It comprised various agencies, such as the National Police and the Attorney General
Office who investigate cases of corruption, as well as financial agencies that perform audits and detect possible corruption. What happened was almost every agency “had become its own micro-centre for corruption” (Assegaf as cited in MacMillan 2011, p. 594). "Centres of corruption" then developed, since the majority of the judiciary, executive agencies, and legislative branches of government were corrupt. Moreover, there was a term known as a "three-level food chain" (Assegaf as cited in MacMillan 2011, p. 594), involving the processes of investigation, prosecution and trial of corruption cases. Throughout the process, “(l)awyers representing the alleged corruptor act as corruption brokers” (Assegaf as cited in MacMillan, 2011, p. 594).

The priority led to the establishment of the Corruption Eradication Commission (CEC, or Komisi Pemberantasan Korupsi, KPK) in 2002 (Schütte 2012). Despite the imminent threats to its existence (Butt 2011), CEC has continued to play an important role. The Commission has put previously untouchable high-profile perpetrators in prison, recovered stolen assets, and increased public trust and support compared to that given to other government agencies (Schütte 2012).

The second event was the implementation of ethics management in the DGT. This event was not as high profile as the establishment of the CEC, nor was it expressly stated in the LOI. With regards to fiscal policy, the Indonesian government emphasised the importance of increasing non-oil revenues to reduce the budget deficit (IMF 2001). To achieve the target four major initiatives were proposed to strengthen tax administration, leading to the reform of the DGT as the agency responsible for Indonesian tax administration. The reform, as discussed in a later section, included measures to promote the ethics and integrity of the DGT’s employees. In the next
sections, the second event will be discussed further, beginning with an introduction to the DGT.

2.2 The DGT in brief

The DGT is an agency under the Ministry of Finance that has the main duties of formulating and implementing policies and standards in taxation (DJP 2011c). To undertake these duties, the DGT has to perform several functions, namely preparing policy formulation for the Ministry, implementing tax policies, preparing norms, standards, procedures, and criteria in the taxation area, providing technical guidance and evaluation in taxation area, and performing tax administration.

There are two types of taxes in Indonesia based on the levels of governments collecting them. The first type is central taxes, which are managed by the Indonesian central government. The second type is local taxes, which are administered by provinces and municipalities. The DGT is the unit in the central government that is in charge of collecting central taxes, which include income tax, value added tax (VAT), and land and property tax. In this thesis, the term “tax” shall refer to Indonesian central taxes.

The DGT is one of several institutions in Indonesia that had existed before Indonesia’s independence. Under the Dutch colonial government, the DGT was known as Djawatan Pajak, or Tax Agency, and was supervised under the Department van Financien, an agency dealing with monetary issues (DJP 2011c). Later on in the Japanese occupation era, Zaimubu, an agency in charge of state revenue was established. Zaimubu was to supervise the Tax Agency, the Customs and Excise

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1By 1 January 2014, Land and Property Tax for urban and rural areas, areas other than plantation, forestry, and mining, will be transferred to local governments
Agency, and also the Agency for Land Produce. After Indonesian independence, the Tax Agency was placed under the Ministry of Finance. In 1966 its name was modified to Directorate General of Taxes.

The DGT is part of a big machine of Indonesian bureaucracy. Indonesian public administration, as in other East Asian countries, is a diverse combination of local traditions and foreign imports (Painter & Peters 2009). Particularly in Indonesia, public administration is a mix of Continental Europe, having a Dutch colonial background, and Islamic influences. The organisational structure is rigid and very uniform. One of the characteristics of Indonesian bureaucracy has been the high level of formality; bureaucracy is essentially identical to the formalisation (Labolo 2013). In the public service, it is important that officials operate on the basis of clear legal conditions (Anwaruddin 2005).

In Indonesian central government at the moment there are 32 ministries and 27 agencies (Kemenpan 2013). This does not include several other commissions, councils and boards created for certain tasks. There are two types of ministries: coordinating ministries and ministries. Ministries have standardised units that can be categorised as “assisting units” (the secretariats general), “controlling units” (the inspectorates general), and “implementing units” (the directorates general) (Rohdewohld 1995). In addition to these units, there are also badan (boards) and pusat (centres) to execute tasks of the ministries or to support other executing units (Rohdewohld 1995). Several experts are appointed to help the ministers. A typical example of a ministry’s organisational structure can be seen in the Ministry of Finance’s organisation structure (Figure 2.1).
Another important attribute is the representations of the ministries at the regional and local levels (Rohdewohld 1995). These representations are called *instansi vertikal*, or vertical units or offices. There are two types or systems for the representations. The first is the “holding company” type as in the case of the Ministry of Finance, in which the vertical units represent the directorates general of the Ministry. The second type is the integrated type, as in the cases of the other ministries, in which the vertical units are the apparatus located in the regions to execute the ministerial services.

Currently the DGT is the largest of the 12 agencies under the Ministry of Finance, based on the number of employees and offices coordinated. In 2012, there were 31,316 employees working for the DGT (DJP 2013). This number was almost half of the total number of employees in the Ministry, which were about 64,000. The DGT’s large size can also be observed from the number of offices coordinated. In addition to the head office, there are 574 DGT offices that come in various types and sizes and
are located across the country (DJP 2013). The number of offices for each office type can be found in Table 2.1.

<table>
<thead>
<tr>
<th>No.</th>
<th>Office type</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Tax Regional Office (TRO)</td>
<td>31</td>
</tr>
<tr>
<td>2.</td>
<td>Tax Service Office (TSO):</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Large Taxpayers Office (LTO)</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>• Medium Taxpayers Office (MTO)</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>• Small Taxpayers Office (STO)</td>
<td>299</td>
</tr>
<tr>
<td></td>
<td></td>
<td>331</td>
</tr>
<tr>
<td>3.</td>
<td>TSDCO</td>
<td>207</td>
</tr>
<tr>
<td>4.</td>
<td>Technical Units</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>574</td>
</tr>
</tbody>
</table>

(Adapted from DJP 2013)

The DGT offices can be divided into two groups: vertical units and technical units (DJP 2013). The vertical units have the function of performing the DGT tasks on operational levels and become the DGT’s representative offices in regions. They consist of Tax Regional Offices (TRO), Tax Service Offices (TSO), and Tax Service, Dissemination and Consultation Offices (TSDCO). TROs are responsible for coordinating, supervising, controlling and evaluating TSOs in their regions. There are three types of TSO: Large Taxpayers Office (LTO), Medium Taxpayers Office (MTO), and Small Taxpayers Office (STO). The names of the types indicate the size of taxpayers administered in each office, mainly in term of tax payment. Meanwhile TSDCOs have duties to perform tax service, dissemination, and consultation activities for taxpayers in certain remote areas. These relatively small offices are supervised by the adjacent TSOs. The structure can be seen in Figure 2.2.
The DGT’s technical units have the function of implementing operational and technical duties not directly related to the formulating and enacting public policies (DJP 2013). Their duties are generally supporting in nature. There are five technical units in the DGT. Four of them are related to tax data. They are: the Centre of Tax Data and Document Processing, two Offices for Tax Data and Document Processing, and one Office for External Data Processing. The other technical unit is the Office for Information and Denunciation Service with the function of disseminating tax general information and the management of complaint and denunciation (DJP 2013).

However, the DGT’s high importance is not simply observed from its long history or the number of its employees and offices. On the national level, the DGT’s significance is reflected in the proportion of the revenue that becomes its responsibility as compared to total national revenue. In 2012, for example, the national revenue was Rp1,357.38 trillion and tax revenue reached Rp835.83 trillion, which accounted for 61.58% of the total national revenue of that year (DJP 2013)
(Figure 2.3). For the last several decades, tax revenue has always been a major contributor to the Indonesian national revenue. The contribution of tax revenue to national revenue in the last ten years, from 2003 to 2012 can be seen in Figure 2.4. Since collecting tax revenue is its responsibility, these two figures demonstrate how important the DGT is to Indonesia.

**Figure 2.3: Indonesia’s total national revenue in 2012 in trillion Rp.**

![Pie chart showing tax revenue and other revenue]

(Adapted from DJP 2013)

Indonesia began to rely more on the role of tax to support national revenue in the 1980s. At that time the Indonesian Government realised that its economy was greatly dependent on revenues from oil and gas for both its foreign exchange earnings and domestic revenues (Stern 2003). To have a sound economy, it was necessary for Indonesia to develop a stable tax base, which meant a tax system that was less dependent on the energy sector. Knowing the situation, the Indonesian government began a series of tax reforms early in that decade.
2.3 Previous tax reforms

Perhaps the foremost tax reform in Indonesia is the one which occurred in 1983, when a bundle of radical tax reforms was adopted. It was such a major reform that it was considered as an overhaul of the Indonesian tax system (Heij 2001). There were three minor tax reforms in the following decades but these reforms were only to adjust some tax bases and procedures of the laws enacted as a result of the 1983 tax reform (Artjan 2011).

In 1983 and 1984, several new tax laws were enacted. These laws replaced previous tax laws inherited from the Dutch colonial government, as well as the 1951 sales tax law. At the core of the 1980s tax reform was a shift from official-assessment system to self-assessment system. By having these changes, this major reform attempted to achieve several goals; they are, among others, “to have more people’s participation, to have a good distribution of income, and to promote a self-reliant state budget” (Rizal
In addition to the major purpose of raising non-oil tax revenue, it also aimed to streamline the tax laws and to improve service and efficiency in tax administration (Heij 2001).

Figure 2.5: Comparison of oil & gas revenue and tax revenue from 1984/1985 to 1993/1994

(Adapted from Satiotomo 1998)

Nevertheless, to increase the amount of tax revenue remained the main drive for the 1980s tax reform (Rizal 2011). In that regard, as a result of the 1980s reform, national revenues increased substantially and at the same time revenue sources also diversified, reducing dependency on the energy sector (Stern 2003). In the budget year of 1994/1995\(^2\), a decade after the reform in 1983, income tax revenue increased ten-fold, and began to exceed revenues from the oil and gas sector. In the case of VAT, the increase was quite remarkable: a seven-fold increase of VAT revenue over the period 1985 to 1995 (Stern 2003). The increase of importance can be seen from

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\(^2\) Before 2000, Indonesia had adopted financial year that began on 1 April and ended on 31 March every year.
Figure 2.5, which demonstrates the fluctuation in oil and gas revenue as compared to tax revenue from 1983/1984 to 1993/1994. From then on, tax revenue gained its role as the main contributor to national revenue. As tax revenue rose in prominence, so did the DGT.

In spite of outstanding results in terms of tax revenue generated, there was an issue of little local ownership of the reform. The reform was initiated by a relatively small group of people who were somewhat dependant on the key foreign consultant from the Harvard Institute for International Development (HIID) (Heij 2001). The HIID, and particularly Gillis, maintained that the Indonesian policy makers had the final words concerning steps and strategies of the reform (Heij 2001). However, the facts indicate that the foreign advisers “clearly had the upper hand” (Heij 2001, p. 247). Early in the 1990s, the foreign advisers went home as Indonesia prospered. Later on in the late 1990s, foreign advisers returned to Indonesia in the framework of IMF assistance as part of the good governance agenda.

Apart from the ownership issue, in general, the Indonesian major tax reform of 1983 is considered as an example of successful comprehensive tax reform. The unique features of the reform include, inter alia, that it was well-planned, comprehensive, and not in response to a revenue crisis. In a study about tax reform in Indonesia (and some other countries), Harberger (1989) indicates the major lessons from such experiences; they are: the clarity of conception in designing a reform, professional-level attention to detail in converting that conception into laws, regulations, and procedures, and the administrative machinery for implementing the reform efficiently, fairly, and above all in the long run. While it did well for the first two, the Indonesian major tax reform of 1983 did not score well in the last point. In fact the major problems encountered
with the tax reform turned out to be the general lack of support and enthusiasm for reform from the tax administration. Indonesia offers yet another instance demonstrating that close attention must always be paid to the administrative dimension of tax reform.

2.4 The current Indonesian tax administration reform

According to MOF (2010), the Indonesian tax administration reform was the continuation of the reform initiated earlier in 1983. The administrative dimension of the 1983 tax reform was somehow overlooked (Bird 2004), hence it was not until 2002, the unobserved aspect was addressed. However, the triggers of the two reforms, the tax reform of 1983 and the tax administration reform of 2002, were quite different. Although both involved foreign advisers, the players were not the same, as can be seen in the following part.

The background of the reform

The starting place of the Indonesian tax administration reform could be dated back to 1997. This was the year when the Asian financial crisis badly affected Indonesia, more severely than most economies (Brondolo et al. 2008). The crisis placed Indonesia into deep economic recession, as the GDP contracted by 13 percent, the Rupiah depreciated by about 80 percent, and inflation rocketed to about 70 percent per annum. The situation worsened as the banking system was also damaged, leaving many banks insolvent (Brondolo et al. 2008). The impact of the 1997 Asian financial crisis on Indonesia seemed to be the strongest and most lasting among other Asian countries (Stern 2003). Indonesia’s economic recovery was slower and more uncertain than that of the other affected Asian countries, indicating that it was less resilient to the Asian financial turmoil (Stern 2003).
This caught many economic analysts by surprise (Stern 2003). Indonesia’s economic achievements had just earned increasing respect and its economic performance indicated that it was on the track to joining the ranks of the “Asian tigers” (Stern 2003), the countries like Singapore, Hong Kong, Taiwan and South Korea. Several years before the crisis, Indonesia was complimented by the World Bank and considered as one of the East Asian Miracles (Rizal 2011). On 20 June 1997, not long after the crisis first struck Thailand, the IMF even wrote in its staff report for the 1997 Article IV Consultation that “[t]he limited contagion effects from recent events in Thailand reflect the solid fundamentals of the Indonesian economy” (Stern 2003, p. 1). However, by the end of the decade a much more diverse opinion on Indonesia emerged. Compared to other Asian miracle economies that were also severely affected by the Asian financial crisis, Indonesia suffered the worst. It quickly transformed “from a ‘star performer’ to the ‘sick man’ of East Asia” (Stern 2003, p. 3).

Several factors were deemed to be the reasons. The economic turmoil of 1997, in Indonesia’s case, had quickly expanded to dramatic changes in social and politics. In 1998, Soeharto resigned as the President of Indonesia, marking the end of the New Order Era, a regime that ruled the country for over three decades (Rizal 2011). Soeharto’s regime, although focusing on economic growth, was characterised by “a discretionary, corruption-ridden, and patrimonial system” in its socio-economy and political development” (Rizal 2011, pp. 418-419). This increasingly uncertain political climate and slippages in reforms contributed to renew downward pressure on the Rupiah, and new inflationary pressures developed (Brondolo et al. 2008). In addition to the above factors, there was also an unstable international financial and capital market, weaknesses in macroeconomic policy and the domestic financial
sector, and the IMF’s failed recipe at the early stage of the crisis; all of these had worsened the Indonesian economic crisis (Rizal 2011).

**The surge to reform the tax administration**

In 2000, the Indonesian authorities then formulated an economic reform program to achieve economic stability and growth (MOF 2010). With support from the IMF financial and technical assistance, the Indonesian government implemented the program and gave a lot of attention to the tax sector, recognising its importance (MOF 2010). Amendments of tax laws, as well as audits of tax offices, were included in the economic reform. The amendment of Law on Tax General Rules and Procedures, Income Tax Law, and Law on VAT and Tax on Sales on Luxury Goods immediately commenced, applying the principles of legal certainty, fairness and simplicity.

However, the crisis certainly had a bad impact on tax revenue, as the purchasing parity power of the society had decreased and some corporate taxpayers had liquidity or even solvency problems since the real value of their debt was in foreign currency denominations (Rizal 2011). As the economy was slowly recovering, it was not feasible to increase the tax yield by relying completely on tax changes. Therefore, the Indonesian authorities searched for ways to generate as much revenue as possible through improvements in tax administration (Brondolo et al. 2008).

Indonesia actually had a sound tax structure (World Bank 2003). Indonesia’s tax system strikes a balance between direct income taxes and indirect consumption taxes. In practice, however, the system was unsuccessful due to the corrupt and inefficient tax collection service. The World Bank (2003) also reported that Indonesia had a low tax ratio and assumed that this might be partly due to Indonesia's reliance on oil and gas revenues. Given that the structure of the tax system in Indonesia was
fundamentally sound after a major reform in the mid-1980s, the World Bank argued that future revenue growth would come mainly from improving the weak tax administration (Rizal 2011). Ikhsan, Trialdi and Syahrial (2005), indicated that there was still the opportunity to increase national revenue without increasing rates; it could be achieved by increasing the capacity of tax administration, in addition to expanding the tax base.

The need to reform the tax system in Indonesia was also raised from the perspective of business competitiveness (Ikhsan et al. 2005). With a more integrated world economy, a tax system provides one of the main indicators for investment climate (Ikhsan et al. 2005). Problems in tax administration were considered as among the top hindrance to doing business in Indonesia; hence, tax administration reform was seen as more crucial than simply generating revenue (Brondolo et al. 2008).

Moreover, the 2002 budget targeted a substantial reduction in the deficit, and tax revenue was relied as one of the main sources to cover the reduction (Brondolo et al. 2008). As stated above, it is not reasonable to increase tax revenue by changing the tax rates; hence, the improvement of tax administration becomes a more sensible way. To achieve the targeted increase, the government called upon the DGT to identify specific administrative measures for increasing tax collection (Brondolo et al. 2008).

In an agreement dated 13 December 2001 between the Indonesian government and the IMF, a plan was proposed to undertake four major initiatives to strengthen the Indonesian tax administration (MOF 2010). The tax administration reform was then boosted to a prominent position in Indonesia’s economic policy agenda, which triggered a series of tax administration reforms that began in late 2001 (Brondolo et al. 2008).
**The implementation of the reform**

Immediately after the signing of the agreement, a working group was established (MOF 2010). The group, which was later known as the Tax Modernisation Team, conducted the gradual comprehensive administration reform with well-defined and appropriate strategies and programs. In generating the capacities to implement tax administration reform leading to good governance practices, the DGT has enjoyed an explicit and sustainable political commitment from the Indonesian government regardless of the change of the regime (Rizal 2011).

According to Rizal (2011), there were three areas covered in the reform, namely: (1) organisation, (2) business process, and (3) human resource management (HRM). Concerning the organisation, the reform includes three important steps. In the first step of reform in the organisation area, three existing operational offices, namely the Tax Service Office, the Land and Building Tax Office, and the Tax Audit and Investigation Office, were merged into one office. Further, the offices were segmented into three types: Large Taxpayers Office (LTO), Medium Taxpayers Office (MTO) and Small Taxpayers Office, depending on the size of taxpayers, which is mainly based on taxpayers’ tax payment. Further, the organisation restructure took place not only at the operational level, but also at the DGT head office. The new organisational structure of the DGT head office in principle consists of two major groups: three units that handle daily operations and three units that manage development and transformation (Figure 2.6).
One of the units that manages development and transformation is the Directorate of Internal Compliance and Transformation of Human Resource (Kepatuhan Internal dan Transformasi Sumber Daya Aparatur, or KITSDA) (MOF 2010). As the name suggests, it consists of two main functions: an Internal Compliance function and a Transformation of Human Resource function. The Internal Compliance function in the DGT is responsible for all activities in managing ethics in the DGT. The function has two units: Sub-directorate of Internal Compliance and Sub-directorate of Internal Investigation (Figure 2.7). The Internal Compliance function and these two units will be the focus of this thesis. Unless otherwise stated, the term KITSDA in this thesis will refer to this function.
The second and third steps in the area of organisation in the reform are restructuring operational offices’ structures and the introduction of the function of Account Representative (AR). In the second step, the application of function-based organisational structure and segmentation of tax offices based on the size of taxpayers are involved (MOF 2010). The shifting from a type of tax-based organisation structure into a function-based organisation structure is due to the inefficiency of the former, resulting from the duplication of functions (Rizal 2011). In the third step, the new function of the AR was introduced. An AR assists taxpayers with the help of advanced information technology and at the same time monitors and evaluates taxpayers’ compliance.

Business process improvement is a key pillar in the Indonesian tax administration reform (MOF 2010). It is the key to bureaucratic reform, which requires a strong commitment to good governance to provide public service that is qualified, satisfactory, transparent and accountable (MOF 2010). As part of the reform in this area, Standards Operating Procedures (SOP) were formulated and documented to give certainty and standards in the conduct of each task. The methods, systems, and
procedures were created in such a way that the process would become faster, easier and more accurate (MOF 2010). It was extensively utilised both for the DGT internal purposes and for service provision to taxpayers. One example would be the development of software and facilities for taxpayers to file tax returns through electronic filing (e-filing) and tax electronic payment, or e-payment (MOF 2010).

In HRM, several steps and measures were taken to increase the capacity of the DGT’s human resource. They included staff selection procedures, the creation of special allowance, and training in tax management and procedures for new and existing tax officers (Rizal 2011). Further, a comprehensive set of performance evaluation measures, establishment of a new job classification system, introduction of a new appraisal system, and setting up the sustainable new compensation system were formulated. More importantly, reform in human resources is highly crucial to achieving sustainable performance improvements; hence, it demands fundamental changes in employees’ behaviour.

**Stages of implementation**

In the earlier stages, the reform strategy implementation was constrained by several factors (Brondolo et al. 2008). One of them was the limited experience that the DGT had in conducting such a comprehensive reform. Also, the DGT had to produce results in very little time (Brondolo et al. 2008). In addition, there were limited resources available, in term of financial, human and infrastructure resources (MOF 2010). As a result, the reform was focusing more “on a few major initiatives and piloting their implementation wherever possible” (Brondolo et al. 2008, p. 20).

The LTO initiative was the pilot project of a modern tax office (Brondolo et al. 2008). It consisted of one Large Taxpayers Regional Office and two Large Taxpayers
Offices. At the time the pilot project was launched, it administered 200 large enterprises and their 300 branches, which contributed 23 percent of total tax collections. The LTO initiative comprised several major reforms as stated in the previous section. The function-based organisation was first introduced and tested here. Also there was improvement in service provision, the refund process, and tax enforcement, including audit. In particular, “the LTO provided for a careful vetting of staff, substantially higher wages, a widely publicised code of conduct” along with superb IT and other facilities (Brondolo et al. 2008, p. 27). Hence, such a “quality work environment was crucial in promoting productivity and non-corrupt behaviour” (Brondolo et al. 2008, p. 27). The LTO initiative produced excellent results and later on its new tax administration features would “become the standard for the DGT and were gradually rolled-out to additional field offices” (Brondolo et al. 2008, p. 28). The stages of this process can be seen in Figure 2.8.

**Figure 2.8: Stages of implementation of the tax administration reform**

(Adapted and simplified from MOF 2010)

From 2002 to 2006, the prototype of the tax modern office was improved. In early 2003, the DGT decided to commence the roll-out of the large taxpayer reforms to its
administrative Region VII (now known as Special Region) (Brondolo et al. 2008). This region had a number of similarities to the LTO – including significant numbers of large taxpayers and large investors – which made it an ideal candidate for adopting the large taxpayer reforms. Then, the DGT turned its attention to developing new approaches for administering other categories of taxpayers. The DGT’s Jakarta Region VI (now the DGT’s Central Jakarta Regional Office) was selected as the pilot region for designing and testing the reforms. In early 2005, the region created two special tax offices: a Medium Taxpayer Office (MTO) to administer the region’s 200 largest taxpayers and a Small Taxpayer Office (STO) for businesses with small amounts of turnover. These offices mainly implemented the more generic reforms that had been introduced for large taxpayers, with some modifications. These reforms included re-organising the offices into units based on tax administration function, increasing staff salaries, enhancing communications with taxpayers, and introducing modern technology and improved office accommodation (MOF 2010).

In 2006, the administration modernisation was accelerated. The acceleration was intended not only to speed up the process of modernisation, but also to focus more on the reform spirit to materialise it into a clearer purpose for all the people involved in the reform process. By November 2008, the DGT had modernised its entire offices, covering (at that time) 31 TROs, 330 TSOs, and 207 (TDSCOs) (MOF 2010).

**Effect on the DGT performance**

The tax administration reform had positive effects on Indonesia’s fiscal performance. In 2003, tax revenue (including excise and international tax) increased by 75% of the national revenue, while the tax ratio improved from 12.6% in 2001 to 13.6% in 2003 (Rizal 2006). From 2002 to 2006, the DGT’s tax administration reforms are estimated
to have accounted for over half of the GDP increase in tax collection. From this angle, the contribution of the tax administration reforms to the overall fiscal adjustment effort during 2001-2006 was significant. Tax revenue was the only revenue that did not decline over the period. Without this tax administration-induced increase in tax revenue, there would have been no increase in total revenue and grants over the period.

The reform also improved the number of registered taxpayers. Overlooked in the previous era, the number of registered taxpayers is an important aspect particularly for a country applying the self-assessment system. The number of registered taxpayers increased significantly, from 2.39 million in 2001 to 3.33 million in 2003 (DJP 2013).

The efforts to increase the number of registered taxpayers is maintained up to the present and the number of registered taxpayers from 2008-1012 can be seen in Figure 2.9.

**Figure 2.9: Number of registered taxpayers from 2008-1012**

(Adapted and simplified from DJP 2013)
In the meantime, surveys conducted from 2005-2007 revealed high satisfaction from taxpayers administered from reformed offices (Brondolo et al. 2008). The surveys were performed by an independent institution, A.C. Nielsen, using its eQ index as a measurement device. Their surveys showed that LTOs, 2 MTOs, and 15 STOs selected as pilot project offices achieved eQ indexes of 81, 78, and 74, respectively. These results are relatively well by international comparison, compared with other countries such as Australia, Hong Kong and Singapore (See Table 2.2).

Table 2.2: Comparison of Nielsen’s eQ Satisfaction Ratings for selected Asian economies

<table>
<thead>
<tr>
<th>Country</th>
<th>Pilot offices</th>
<th>Overall</th>
<th>Public sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia (LTO, MTO, STO)</td>
<td>81, 78, 74</td>
<td>…</td>
<td>…</td>
</tr>
<tr>
<td>Australia</td>
<td>…</td>
<td>66</td>
<td>74</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>…</td>
<td>75</td>
<td>71</td>
</tr>
<tr>
<td>Singapore</td>
<td>…</td>
<td>76</td>
<td>76</td>
</tr>
</tbody>
</table>

(Adapted from Brondolo et al. 2008)

2.5 Ethics management as part of the reform

The Indonesian tax administration reform that was initiated in 2002 had adopted efforts to promote ethical behaviours and prevent misconduct in organisations. Such efforts include the introduction of the code of conduct, ethics training, and control of the implementation (Rizal 2006). These efforts, collectively known as ethics management, distinguished the current reform from the previous tax reforms. The following sections discuss ethics management implementation in the DGT. They begin with the context of Indonesian tax administration prior to the reform. Then it continues with the measures and steps taken in the implementation of ethics management in the DGT. The results achieved are also highlighted.
A focus on ethics and integrity

Prior to the tax administration reform, the public had a tendency to see tax as something negative, in particular when it concerned the unethical conduct of DGT employees (MOF 2010). A survey conducted by the biggest daily newspaper in Indonesia indicated negative stereotypes of the tax apparatus in that era (Kompas 2005). The negative stereotypes revealed were: lack of transparency in tax collection, ambiguous tax laws, tax officers who made tax payment complicated, tax officers who were unwilling to serve the public, and the belief that everything was negotiable with tax officers. Aside from certain deficiency in the tax laws, the bad impressions of the DGT came from its employees’ unethical behaviours.

It was quite a surprise that the DGT was the first government institution proclaiming an administration reform (KPK 2012). It was publicly known, that the DGT was a highly corrupt state agency. Massively corrupt behaviour in the DGT had become engrained in the culture, even formalised. Another survey from the Transparency International Indonesia published in 2004 placed the DGT as the second institution of central government with the highest bribery index, after the Directorate General of Customs and Excise, which is another unit under the Ministry of Finance (Transparency International Indonesia 2004).

Such negative stereotypes portrayed the characteristics of the New Order regime (Rizal 2011). This period during the Suharto era (1967-1998) is acknowledged by scholars of corruption as the time “where corruption flourished in many public sector institutions at all levels of government, facilitated by a period of weak administrative structures and general lack of enforcement of accountability processes,” (Budiman, Roan & Callan 2012, p. 140). Corruption, collusion and nepotism or KKN, was the...
term used to symbolize the social costs, inequities, and abuses of the Soeharto regime (Rizal 2011). That was the way public depicted the Indonesian public service in general, and the DGT in particular. After the fall of the New Order regime, the public in a now democratic Indonesia demanded a modern, democratic public administration, including tax administration. In this context the DGT must be reformed and has to satisfy two complementary sides of requirements (Rizal 2011). On one side, it must be effective and efficient, and on the other side it must also fulfil the democratic requirements such as fair, just, transparent, and accountable.

Those findings and the occurrences above concern the importance of ethical behaviour, which were taken into account in the tax administration reform. Measures and steps to promote ethics and integrity in the DGT were then implemented.

**Measures of ethics management applied**

One of the most important momentums in the DGT reform was the introduction of the code of ethics (MOF 2010). It consists of guidelines of accepted and unaccepted behaviours, or duties and prohibitions, for employees. It aims to stimulate integrity and prevent misconduct among the DGT employees. The survey by A. C. Nielsen in 2005 revealed that one of the LTO’s strong points was its professional integrity, which was strongly connected to, as one the crucial factors, the rigorous application of a code of conduct (Brondolo et al. 2008). The current DGT’s code of ethics contains nine duties and eight prohibitions (DJP 2013).

KITSDA was created as part of the DGT head office restructuring, as one of the stages in tax modernisation. The DGT head office was modified to keep up with the change in the operational offices and as a strategic measure to cope with the reform (MOF 2010). As previously discussed, KITSDA is in responsible for the Internal
Compliance function and the Transformation of Human Resources function. The Internal Compliance function is in charge of all activities in managing ethics in the DGT. The establishment of KITSDA was based on the idea that there has to be a special unit designated to handle issues of good governance (MOF 2010).

Figure 2.10: Indonesian Corruption Perception Index 2006-2011

(Compiled from Transparency International 2006-2011)

Ethics management in the DGT as part of the DGT reform began to show good results. In its 2008 Report of Corruption Perception Index, Transparency International acknowledged the efforts in the DGT (Transparency International 2008). In that report Indonesia reached the score of 2.6, which was an increase from 2.3 in the previous year (Transparency International 2008) (See Figure 2.10). The Transparency International remarked that “(b)old reform in the tax and custom administration and the ability of Corruption Eradication Commission (KPK) to bring forward high profile cases have recently bolstered the perception that corruption is being addressed more aggressively, even though the problem remains widespread” (Transparency International 2008, Regional Highlights: Asia-Pacific, p. 1). In the meantime, in a
survey by the Transparency International Indonesia (TII) on Indonesia’s Bribery Index of 2008, the DGT was placed as the government institution with the third lowest index out of 15 institutions (Transparency International Indonesia 2008). This was also an improvement since it was ranked the second highest in 2004 (Transparency International Indonesia 2004).

The Indonesian Corruption Eradication Commission has also been giving good marks to the DGT for its ethics management. In 2008, the Indonesian CEC listed public service units with the lowest integrity. None of the DGT offices were on the list. Then, in 2010 in another evaluation by the CEC, the DGT gained the fourth rank as a public institution with the highest anti-corruption initiative among 183 units in 18 Ministries (detikfinance 2010). Recently in 2012 KPK published a report on a study on the application of the code of ethics in the DGT (KPK 2012). With several suggestions on the shortcomings, the report states that in the DGT the code of ethics is not simply conceptualised, it is also well-spread and implemented. In general the application of the code of ethics in the DGT is evaluated as fairly well implemented through policies, communications, risk management, and evaluation as well as monitoring (KPK 2012).

However, in the middle of the reform, several cases of misconduct exploded involving the DGT’s employees. The cases involved employees of different levels and different jobs. The first case surfaced in March 2010. It involved an employee by the name of Gayus, a IIIa-rank tax officer who had tens of billions in his bank account as a result of a tax manipulation practices, in particular in the tax appellate system (Rizal 2011). To make matters worse, during the judicial process, he paid millions of rupiah to be

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3 IIIa rank is usually given to a university fresh graduate.
able to illegally left his detention cell to go to Bali and abroad (Rizal 2011), such
behaviour that would invite wider coverage of the case.

Following the case of Gayus, several other cases erupted. Six of them got high media
coverage. One of these cases is that of Bahasyim, the former head of Jakarta Palmerah
Tax Office, who was arrested by the police following a report from the PPATK
(Indonesian Financial Transaction Report and Analysis Centre). He was indicted for
abusing his positions and also charged with money laundering (Rizal 2011). Then
there was also the case of Dhana Widyatmika, a former junior taxman who was
working for the Jakarta Local Government. He was convicted of compiling a bogus
assessment that lowered a firm’s tax obligation. Dhana was also charged with taking
bribes and money laundering (Jakarta Post 2012).

The other four cases with high media coverage involved employees caught red-
handed taking bribes. On 6 June 2012, Tommy Hindratno was caught receiving bribes
in a restaurant in South Jakarta. The bribe was in exchange for a tax reduction for an
investment firm PT Bhakti Investama (Jakarta Post 2012). Then on 13 July 2012,
Anggrah Suryo, Head of Bogor Tax office was caught by KPK receiving money from
taxpayer (Jakarta Globe 2012). He was suspected of receiving alleged bribes for
waving a company’s taxes. The case was then handed by KPK to the Attorney
General. On 9 April 2013, the DGT was once again put under the spotlight as a DGT
employee, Pargono Royadi, was caught red-handed receiving an alleged bribe from a
courier in Gambir Train Station (Jakarta Post 2013). Pargono was charged with tax
extortion against an automotive businessman Asep Hendro. Lastly, on 15 May 2013,
two employees of the DGT, Eko Darmayanto and Mohammad Dian Nuqisra, were
caught receiving bribes at the Soekarno-Hatta Airport (Jakarta Post 2013). The money was given allegedly to settle tax issues of a company named PT Master Steel.

Of all these cases, the case of Gayus was probably the one that had the most impact on the DGT reform (KPK 2012). It seriously damaged public perception of the DGT and its employees (Rizal 2011). It emerged only several months after President Yudhoyono commended the DGT reform for its contribution to the decrease in the 2008 Indonesian Corruption Perception Index. Moreover, massive coverage of the case significantly lowered public trust in the DGT and had a considerable influence on it employees. There was even a movement in public to not pay tax, which potentially decreased tax revenues (KPK 2012). The case significantly lowered the faith and confidence of the DGT’s employees in the reform. The shame and embarrassment that it caused made many of the DGT employees become secretive about their jobs (KPK 2012). This case, and the other cases above, demonstrated that, although the DGT reform has made some progress, there was still room for improvement.

The DGT pioneered the reform in the Ministry of Finance, and later on, the Ministry of Finance, as well as the Supreme Court and the Supreme Audit Office, were selected as the pilot projects of the Bureaucracy Reform on the national level (Kemenkeu 2010). The reform in the DGT became more important as the Indonesian Government’s commitment to continue with the second wave of reform was confirmed in the President’s speech on 14 August 2009. In 2010, the Grand Design and Road Map of Bureaucracy Reform were commenced (Kemenkeu 2010). It has been more than a decade since the Indonesian tax administration reform was launched. It is the right time to review and study the reform to give insights into the
reform process. As the pioneer of the national bureaucracy reform, the insights will be fruitful for other government institutions in Indonesia.

Many cases of tax reforms, in Indonesia and elsewhere in the world, involved aid from overseas. The foreign aid is given conditional to the implementation of certain courses of action, the practice of which is known as conditionality. There have been plenty of studies critiquing the conditionality policy imposed by international institutions, such as the IMF and the World Bank (Stewart 2009). In the Indonesian context, the policy to obtain foreign aid, including that from multilateral agencies, was often under attack by the public (KPK 2012). However, there was a blessing in disguise in respect of IMF assistance in 2000 (KPK 2012). It required, inter alia, a reform in Indonesian taxation, in particular its tax administration. That was where the Indonesian tax administration reform began. An important aspect of the Indonesian tax administration reform was the introduction of ethics management in the DGT. The reform emphasises a concern, a converging one around the world, that failures in organisations could be better handled, prevented and overcome, by focusing on ethical aspects at organisational levels. In the following chapter, it is discussed what ethics is and how the idea of managing ethics comes into play.
This chapter analyses the themes of ethics management that are found in the literature. It provides the analytical framework for this thesis. The themes are taken from the academic literature, mostly on administrative ethics from the public administration discipline. In some part, it is also supported by literature found in business ethics.

The chapter consists of four sections. The first discusses ethics management in general and how the idea of managing ethics in organisations arises. In the second section, approaches to ethics management are explained, leading to a discussion on the compliance integrity continuum as the main analytical tool for classifying ethics management approaches. The third section explores practice-based thinking in managing ethics, mainly concerning the integrity management framework, a holistic approach to stimulate and enforce ethics and integrity in organisations. Both the second and third sections provide the analytical framework of this thesis. This chapter then concludes with the position that there is a gap in the literature particularly concerning how a public organisation in a developing country combines approaches in ethics management.

3.1 Ethics in organisations

Earlier in the beginning of the previous chapter, there was a discussion about the growing concern for and the increasing interest in ethics in organisations. These occurrences have led to the development of ethics management, which has come to be considered as the best standard in practice (Năstasee 2012). This is evidenced by “a mushrooming of codes of conduct, ethics trainings, specialised counselling and other
similar policy instruments, within public and business organisations alike” (Năstasee 2012, p. 2). As such, ethics management has been understood as an effort to maintain public service values and standards, a solution for the declining public trust in government, and an answer to society’s changing values in which citizens are increasingly more assertive and demanding (Maesschalck 2004).

Ethics is defined as “the principles, norms and standards of conduct governing an individual or group” (Trevino & Nelson 2010, p. 19). The focus is on conduct or behaviours. Ethical behaviour is “behaviour that is consistent with the principles, norms, and standards […] agreed upon” (Trevino & Nelson 2010, p. 19). More specifically, public ethics “refers to appropriate behaviour in public office [... and] it concerns the values which ground the operation of the public service” (Năstasee 2012, p. 4). By focusing on conduct, organisations can see ethics as an extension of management. Guidelines for ethical conduct are similar to those for other conduct, such as the time to arrive and leave, whether or not smoking is allowed, and how to treat employees. In guiding ethical conduct, “leaders identify appropriate and inappropriate conduct, and they communicate their expectations to employees through ethics codes, training programs, and other communication channels” (Trevino & Nelson 2010, p. 18).

Behaviours might be illegal or unethical; and it is useful to differentiate these two to understand better the concept of ethics management. In a study by OECD (1996), illegal behaviours are defined as those against the law, while unethical behaviours are those inconsistent with ethical guidelines, principles, or values. The difference lies in the concept underlying them: ethics or laws. Laws are the regulations established by a

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4 In OECD (1996), in addition to illegal and unethical, there is also an explanation about inappropriate behaviours, not discussed in this thesis.
governing power, usually written. Ethics, as discussed above, is related to morality and values. Often ethics informs the laws that are made. The distinction has “implications for how various problems are addressed” (OECD 1996, p. 11). The relationship between the two is illustrated in Figure 3.1.

**Figure 3.1: The relationship between Law and Ethics**

A conduct might be illegal but ethical, or unethical but legal. Having an affair with a subordinate might be legal before the law, but in some companies it is considered unethical. Racial discrimination, an example of an unethical conduct, was once legal in the USA (Trevino & Nelson 2010). Corruption may fall under both categories, illegal and unethical. In this case, actions vary in organisations, generally polarised between those that prefer applying both legal and ethics procedures and those that favour one procedure over the other (for example, legal procedures over ethics procedures).

Bowman (1981) suggested that setting up a code of ethics for an organisation is an act of ethics management. Nevertheless, ethics management comprises a wide range of ethics instruments and activities. It involves all measures for promoting ethical conduct and preventing misconduct (OECD 2000); or as stated in Menzel (2007, p.
10), ethics management “is the cumulative actions taken by managers to engender an ethical sensitivity and consciousness that permeates all aspects of getting things done in a public-service agency.” In brief, it is the promotion and maintenance of a strong ethics culture in the workplace. More importantly, it can be asserted that there is such a thing as ethics management if it is viewed as a systematic and conscious effort to promote ethics and integrity in organisations (Menzel 2007).

According to Cooper (2011), it was in James Bowman’s article ‘Ethical Issues for the Public Manager’ in 1981 that the idea of managing organisational ethics seemed to have first appeared. As a term, ethics management might initially be found in the said article; however, as an idea, it could be dated back many years before. Lewis and Gilman (2005b) create a chronology of theoretical and applied ethics in public service. It includes, among others, works by Aristotle, who lived from 384–322 B.C. and wrote about moral virtues, such as courage, honesty, temperance, and responsibility and that possession of these virtues will allow us to thrive as human beings. There is also Plato (428-347 B.C.) in the chronology, whose works addressed political questions of good government, right conduct, and justice. The list includes works from other backgrounds, like Chinese and Indian, as well from various beliefs, that are too many to discuss here.

What was new perhaps was the way ethics has been perceived. As Unruh (2008) pointed out, the understanding of ethics has evolved from an “ethics is personal” tradition, to an “ethics is organisational” thinking, and then to an “ethics is culture” perspective. Ethics has increased in prominence from making organisations better to being absolutely critical for effective organisations (Trevino & Nelson 2010). Nowadays, it is common to find public and private organisations managing ethics “in
the same breath and manner in which we talk about managing budgets, policies or people” (Menzel 2001, p. 355). Moreover, a prevalent assumption has emerged that ethics improves organisations’ performance (Menzel 2005). As stated earlier in the first chapter, ethics management consequently has been pervasively perceived as the best practice standard in dealing with employees’ ethical and unethical behaviours.

The changing attitudes towards the understanding of ethics has been highlighted by Unruh (2008). First, ethics for many years was not viewed as a characteristic of an organisation but as an individual personal attribute. Second, to have an idea about the ethics of an organisation is quite recent, let alone to manage it.

Ethics is an organisational issue, as much as a personal one. Thinking ethics as simply personal proved to be insufficient (Unruh 2008). Many cases in both the private and public sectors indicate that organisations cannot and must not rely on ethics at individual levels. Even supposedly ethical people in supposedly ethical environments, such as religious and educational organisations, behave unethically. Moreover, as Paine (1994) argued, more often than not misconduct in organisations involves cooperation, be it tacit or explicit, between two or a group of its members, rather than involving a lone actor. Ethical as well as unethical practices in organisations, therefore, reflect “the values, attitudes, beliefs, language, and behavioural patterns that define an organisation's operating culture” (Paine 1994, p. 106). These lead to an idea that organisations must not leave the issue of ethical behaviours to their employees; they need to manage ethics.

But, can ethics be managed? In the following sections, this question, which is related to Unruh’s second point mentioned above, is addressed, starting with the meaning of the word “ethics”, its comparison with other terms: values and morality, and the
theory on ethics. As Lawton (1998, p. 34) points out “[p]ractical guidance is grounded in theory” and “theory can inform practice”. To emphasise its importance, one may refer to an argument by Lawton (1998, p. 37) that “theory can help us find a reasoned and systematic approach to individual moral problems and can inform the kind of practical judgement that we need in order to make decisions.”

**Ethics, morality, and values**

Ethics come from the Greek words ‘ethikos’ and ‘ethos’, which mean custom or usage (Wiley 1995). The term includes the idea of character and disposition; thus, ethics suggests the character of an individual, which is reflected in the individual’s behaviours. According to Preston (2007), ethics in general is concerned about what is right, fair, just, or good. It is concerned with “what we ought to do”, and not just about “what is” (Preston 2007, p. 16). In other words, ethics is about how people should behave. It suggests how social and individual behaviour can be improved; at this stage, it becomes contestable and debatable since people have different ethical perspectives.

Values are closely related to ethics. They are what we believe and we uphold in life. They become our guidelines for action with moral significance (Preston 2007). Values are defined as principles or attitudes that we cherish or praise. Ethics, on the other hand, are defined as the study of values and theories about these rules. It questions and justifies the values and rules we live by (Rosenstand 2008). Our behaviours are determined by the values that we uphold.

Ethics should be seen as an “active process of design” (Cooper 2011, p. 7). It should be understood in dynamic terms, rather than static. As ethics is “a science of human intentionality (Winter as cited in Cooper 2011, p. 7). To behave ethically “involves
thinking more systematically about the values that are embedded in the choices we otherwise would make on practical or political grounds alone” (Cooper 2011, p. 7). It may happen when situations force us to cope with “conflict, tension, uncertainty, and risk” (Cooper 2011, p. 8). In making decisions, we question values, and justify them, or perhaps reject them if we think they are inconsistent with our obligations and objectives.

The terms ethics and morality are often interchanged. However, ethics and morality should not be seen as equal, as doing so will lead to a “fundamental misunderstanding” (Stahl 2003, p. 217). “[M]orality refers to the actual content of right and wrong, and ethics refers to determining right and wrong” (Rae 2009, p. 15). In other words, morality copes with moral knowledge, ethics with moral reasoning. Ethics is also understood as the “revision and check for inconsistencies” of morality (Stahl 2003, p. 217).

Behaviours are determined by the values upheld. However, the values advocated vary from one country to another and from one culture to another culture. Such a notion of cultural relativism was pointed out in Lawton (1998) when public sector organisations operate across national boundaries or interact with supra-national organisations. Examples are behaviours considered as acceptable in Asia, East India and Latin America (Lawton 1998). In Asia, people value highly loyalty to supervisors and honouring authority. In East India managerial leadership at the lower level tends to be paternalistic and autocratic. Meanwhile in Latin America, it is acceptable and an expected form of doing business to hand out gratuities for getting something done.

OECD (2000) emphasises that values form the foundation of the public service. Collectively shared values in public organisations become principles that guide the
judgement of members about what is right and what is wrong, what is acceptable and what is not. The shared values should be documented publicly to provide members of the organisations with overall guidance for daily public service operations (OECD 2000).

The above description of ethics and its comparison with values and morality leads to two main points. First, ethics should be seen as an active process and in dynamic terms, rather than as passive and static. It should be understood that we sometimes are at different levels of ethical reflection when faced with conflict, tension, uncertainty, and risk. At one time we use our moral reasoning and check first with our values in handling a situation, while at other times we might react spontaneously and emotionally. This understanding allows us to think of skills in ethical decision making as something that may be cultivated and trained. Second, ethics is also about behaviours. Our skills in ethical decision making will determine to what extent our behaviours are consistent with the values, be it individual or organisational. Our ethics may be shaped. Organisationally speaking, it may be managed.

**Main theoretical traditions of ethics**

There are a number of schools of thoughts about ethics and there are commonalities in the way an individual chooses to face certain situations (Martinez 2009). This section will discuss three main ethics theoretical traditions: deontological theories, teleological theories and virtue ethics.

Deontological theories focus on duties, obligations, and principles. The word *deon* is a Greek word that means duty (Trevino & Nelson 2010). These theories hold that the right action to pursue is one that is performed out of duty and independent of the consequences of that action. According to these theories, a doctor must tell the truth to
his or her patient concerning the patient’s condition, regardless of the impact. Although the moral philosophy is elegant and naturally fascinating, a deontological approach has a weak point. Such philosophy has no practical answer in situations where universal maxims conflict with each other and a decision has to be made (Martinez 2009); for example, with a limited budget, how a town council with a limited budget chooses between building an energy plant or finding a cure for a lethal disease.

Teleological theories on the other hand focus on consequences. Teleological comes from the Greek word telos (Trevino & Nelson 2010), which means end, or purpose. The best consequentialist theory is utilitarianism, which says that an action is morally justifiable if it leads to the greatest happiness of the greatest number. With an argument that choices can be made, utilitarianism avoids the flaw in a deontological approach. However, it is not without risks. Once the universal standards are rejected, “ethics is a slippery slope where bargaining and negotiation, dressed up with eloquent rhetoric, allow for all manner of rationalisation and mischief” (Martinez 2009, p. viii).

The virtue ethics approach was first adopted by Aristotle (Lawton 1998). It considers the actor’s character, motivations and intentions (Trevino & Nelson 2010). This by no means indicates that rules and consequences are not relevant; “they are considered in the context of assessing the actor’s character and integrity” (Trevino & Nelson 2010, p. 46). The virtue ethics approach, in some ways, “can be seen in terms of the characteristics that we believe to make a good manager or a good person” (Lawton 1998, p. 42).

In daily living, the above philosophies – virtue ethics, deontological and teleological - hardly ever function as pure philosophies (Menzel 2007). Public administrators draw
on all of them but are closer to what might be dubbed as “pragmatic utilitarianism” (Menzel 2007); hence, they are constantly exploring decision choices that generate satisfactory outcomes for their elected bosses, employees, and citizens.

The paradox

In the discussion on the necessity of ethics management, a debate on the ethics management paradox brought to the surface by Bouckaert (2006a) is worth noting. Although the context was business ethics, the content is relevant for ethics management in general. The debate was initially based on the EU document of corporate social responsibility (CSR) policies, which puts ethics on the political agenda and regulates partnership partnerships between business, government and civil society. Bouckaert (2006a) indicates that by introducing economic incentives for CSR, moral feelings were replaced by economic calculations, and genuine moral commitment by rational and technocratic management tools. Ethics, in his opinion (Bouckaert 2006a), should be operational as well as genuinely ethical.

Several scholars responded to the position, which at the same time emphasised the necessity of ethics management. Bouckaert’s idea is said to be “like an all-too-purist view, as if moral motives are only of value as long as they are pure and uncontaminated” (Van Luijk 2006, p. 196). According to Rossouw (2006, p. 202) ethical behaviour is not only about “non-self-interested or altruistic behaviour”; it is about considering both “what is good for oneself” and “what is good for others”, and more importantly, balancing between the two. Bereinbeim (2006) asserts that an ethical decision in this context entails the exercise of moral restraint, that is how to make a difficult choice between business success and doing the right thing. Hence, the problem is not so much an ethics management paradox, but a business paradox.
As a consequence, at the organisational level, ethics “is a too serious matter to make it depend on the morality and spirituality of individuals” (Van Luijk 2006, p. 196). One can only hope for personal moral excellence, but in organisations we should create the conditions or the institutional configurations that define the behavioural alternatives (Van Luijk 2006).

In his clarification, Bouckaert (2006b) indicates that the problem behind the ethics management paradox is not the conflict between self-interested versus ethical or altruistic behaviour. Rather, it is a distinction between intrinsic versus instrumental motivations. “The claim is more restrictive: genuine ethical behaviour gives intrinsic motivation priority over instrumental motivation” (Bouckaert 2006b, p. 209).

### 3.2 Approaches in ethics management

In general, there are two major approaches in ethics management: the compliance approach and the integrity approach. The compliance approach is also referred to as the rules-based approach, the low road, or external controls. The integrity approach is also known as the values-based approach, the high road, or internal controls. Historically, these approaches are associated with the famous Friedrich-Finer debate in the 1930s and 1940s (Cooper 2011). After more than 60 years, their basic stances are still relevant today among scholars and practitioners (Cooper 2011).

Herman Finer emphasised the importance of the essential nature of political and institutional controls, or external controls (Cooper 2011). External controls are defined in Lawton, Rayner and Lasthuizen (2013, p. 117) as “imposed, top down instruments to steer employee ethical conduct.” They consist of ethics legislation, codes of ethics and other rules, control mechanisms, and control institutions with
extensive powers (Maesschalck 2004). These controls are necessary to require public managers at least to comply with the law and at best to encourage them to conduct themselves in accordance with the ethical standards of their professions (Hejka-Ekins 1994). The weakness of stressing external controls in ethics management is the “largely reactive and sometimes negative” effect because such an approach tends to convey what administrators should not do and should do (Hejka-Ekins 1994, p. 81). It can “dampen the motivation and impede an administrator’s commitment to live to the moral idealism of the profession” (Hejka-Ekins 1994, p. 81).

On the other hand Carl Friedrich stressed internal controls (Cooper 2011). Internal controls in this context refer to the self-control exercised by each individual public servant (Maesschalck 2004), defined as “instruments that aim to internalise moral values and foster employee ethical conduct” (Lawton et al. 2013, p. 117). They consist of two components: moral judgment and moral character (Hejka-Ekins 1994). Moral judgment capacity can be strengthened in two ways: by learning and understanding the necessary values and norms and by developing the skills in ethical decision making needed to apply those values (particularly when they conflict with one another) in daily practice. Moral character is the intrinsic will to act upon judgments reached through ethical decision-making. Although internal controls can guide public servants to the highest potential of their moral integrity in serving the public, it is still “ambiguous as to what content and methods ought to be used to produce the desired results” (Hejka-Ekins 1994, p. 82).

Rohr (1988) distinguished between “the low road” and “the high road” approaches to ethics management. The low road emphasises adherence to formal rules and shows what conducts are or are not allowed under the regulations. This approach, Rohr
(1988) argues, reduces ethical behaviour to simply stay out of trouble. It creates a perception in public servants that if it is not illegal, then it is ethical (Menzel 2007). The high road, on the other hand, stresses the adherence to morals and principles. It relies on moral characters of public servants to reflect, decide, and act (Lewis & Gilman 2005b). However, Rohr (1988) criticises this approach as too high-ceilinged that sometimes it is irrelevant to the basis of administrative ethics.

Lewis (as cited in Hejka-Ekins 1994) clarifies Rohr’s “low road” and “high road” and labels them “compliance ethics” and “integrity ethics”. Compliance ethics refers to what employees should not do, and is designed “to spur obedience to the maximum standards and legal prohibitions”, in which oversights and control become the duties of management (Lewis as cited in Hejka-Ekins 1994, p. 80). Integrity ethics attempts to communicate ethical standards and values, added with the process of moral reasoning to motivate exemplary conduct of what employees should do (Hejka-Ekins 1994). It aims to encourage ethical character and develop skills in ethical decision-making by various ways, such as interactive training sessions, workshops, codes of values, coaching, and similar measures (Maesschalck 2004).

In OECD (1996), the two opposing approaches are associated with two main ethics traditional traditions. The compliance-based ethics management is understood of as deontological, which emphasises duties and rules. The integrity-based is thought of as teleological, focusing on consequences.

Despite the debate about which of the two approaches is the better, Gilman (1999) emphasised that the two approaches should not be seen as a dichotomy. They should be understood as the opposite ends of a continuum, the compliance-integrity continuum. In real life, the approaches should be combined and complementary to
each other. Further Cooper (2011, p. 180) asserts that “the critical task is to design a balance between internal and external control, as well as congruence between them.” Internal and external controls should support each other and should not give contradictory indications.

In practice, most countries manage the behaviour and ethics of public servants through a range of systems and processes based on combinations of rules and managerial incentives (OECD 1996). In OECD (2000), it is reported that two international meetings held in November 1997 in Paris showed a common opinion on the elements of the ethics infrastructure and also the need for a tool to help review the functionality of ethics management systems on the national level. The meetings attended by senior participants and observers from OECD countries, Central and Eastern European countries, and international organisations, mostly emphasised “the strong complementarity between traditional compliance-based management and integrity based management” (OECD 2000, p. 26). The participating countries discovered that, without supporting guidance and incentives, regulations and control, although essential, are not sufficient to maintain integrity (OECD 2000).

This position is consistent with a recent article by Stevulak and Brown (2011), taking a case of several former Soviet Union countries. Although the compliance model has often proved to be the more convenient solution in public sector reforms (Roberts 2009), “[t]he compliance-based measures are a necessary but not sufficient means of achieving ethical public service organisations in transitional societies” (Stevulak & Brown 2011, p. 97). Despite the fact that the compliance approach reduces organisational penalties for the illegal behaviour of their employees and encourages internal conformity and at the same time satisfies public demands that something
should be done about ethical standards (Roberts 2009), it lacks the flexibility necessary to respond to ethical dilemmas in practice (Stevulak & Brown 2011). Public sector reform efforts to combat corruption in the countries of the former Soviet Union can be taken as an example. The efforts have, to date, focused heavily on control and compliance measures, such as the adoption of legal frameworks. However, in 2010, eight of the former Soviet Union countries continued to suffer the damage of corruption regardless of the application of such approaches. On the Transparency International’s Corruption Perception Index, the range of scores for the eight countries was very low, between 2.0 and 3.8 (Stevulak & Brown 2011). Again, integrity-based measures are needed to be applied together with compliance-based instruments to promote ethical behaviours in the public service.

Besides the compliance-integrity continuum, another tool is employed in some literature to analyse ethical guidelines and ethics policy. This other tool is labelled as the ethical or ethics triangle and was introduced by Svara (1997). Rather than using only two ethics traditions as in the compliance-integrity continuum, the ethics triangle also uses the other theory, virtue ethics; hence, the triangle. Bowman and West (2009) argue that the ethics triangle facilitates the management to make ethical compromises in cases of ethical ambiguity. The ethics triangle can be used to assess the ethical content of a legislation that regulates the political activities of civil servants (Bowman & West 2009) and also to analyse ethical guidelines in the central civil service in Norway (Christensen & Lægreid 2011). However, the use of the compliance-integrity continuum is omnipresent and it remains as the main analytical tool in analysing ethics policy (Nästasee 2012). The thesis will employ the compliance-integrity continuum.
3.3 Practice-based thinking on ethics

This section draws on the practitioner-oriented literature that deals with ethics management. It looks at the elements and functions of ethics management; both at the instruments and the systems. To this end, various systems have been offered and suggested in literature concerning practice-based thinking on ethics in public administration. Three of these systems are discussed in this thesis: the ethics infrastructure (OECD 1996), the National Integrity System (Pope 2000), and the integrity management framework (OECD 2009). The earlier part of this section explores these systems.

The ethics infrastructure was proposed in the OECD (1996). It identifies eight important ethical elements to promote good conduct and to prevent misconduct. The eight elements serve three functions. The first function is control, which could be achieved through three elements: an effective legal framework, an efficient accountability mechanism, and public involvement and scrutiny. The second function is guidance, comprising three elements: political commitment, workable codes of conduct, and professional socialisation. The last function is management, which can be realised through supportive public service conditions and an effective ethics coordinating body.

The National Integrity System (NIS) was developed by Jeremy Pope and the Transparency International (Brown & Uhr 2004). It can be pictured as a Greek temple, with a roof, ten pillars, and foundations (Pope 2000). The roof of the temple is the nation’s integrity. It has three balls resting on it: “quality of life”, “rule of law” and “sustainable development”. The round balls are not in any condition to roll off to ensure that the roof is kept level. The roof is supported by a series of pillars, each of which is an individual element of the National Integrity System. The actual pillars may vary from one society to another, but in general they include the legislature, executive, judiciary,
Both the ethics infrastructure and NIS have gained high recognition. The ethics infrastructure has been acknowledged in the literature; for example Trevino et al. (2006, in Năstasee 2012, p. 40) identify “research on ethical infrastructures as a distinct trend in a larger body of work dealing with behavioural ethics in organisations.” Likewise, the NIS is highly recognised and used as a tool to assess countries’ integrity (Brown & Uhr 2004). Further, it was modified into a Local Integrity System, or LIS, for application to local governments (Huberts, Anechiarico & Six 2008). However, both the ethics infrastructure and the NIS work on the national level, or at least with local government in the case of the LIS. In 2009, the OECD (2009) introduced the integrity management framework, which, on the other hand, operates on the organisational level. This is one of two reasons it is chosen for analysis in this thesis. Another reason is that the integrity management framework was more developed and advanced analytical device (Năstasee’s 2012).

The integrity management framework

The integrity management framework consists of three pillars: instruments, processes, and structures (OECD 2009). Further, each of these pillars is classified into two groups: the core and the complementary. The core instruments, processes, and actors of the structure are at the central part of the integrity management framework. Nevertheless, these are not sufficient to achieve the goals of strengthening integrity in public sector organisations. The complementary instruments, processes and actors of the structure are fundamental. Examples of these are procurement activities and the
personnel department. Although ethics and integrity are not their main aim, they play a crucial role in the integrity management framework.

**Table 3.1: The integrity management instruments**

<table>
<thead>
<tr>
<th>Functions</th>
<th>Determining and defining</th>
<th>Guiding</th>
<th>Monitoring</th>
<th>Enforcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rules-based</td>
<td>- risk analysis</td>
<td>- rules-based integrity/ethics training</td>
<td>- formal sanctions</td>
<td></td>
</tr>
<tr>
<td>Core instruments</td>
<td>- codes of conduct</td>
<td>- values-based integrity/ethics training</td>
<td>- for handling violations</td>
<td></td>
</tr>
<tr>
<td>- conflict of interest policy</td>
<td>- conflict of interest policy</td>
<td>- integrating integrity in regular discourse</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- gifts</td>
<td>- gifts</td>
<td>- exemplary behaviour by management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and gratuities policy</td>
<td>- post-employment arrangements</td>
<td>- coaching and counselling for integrity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- structural measures</td>
<td>- structural measures (e.g. function rotation)</td>
<td>- survey measures of integrity dilemmas</td>
<td>- informal sanctions</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- probing for ethical dilemmas and issues among staff</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Values-based</td>
<td>- codes of ethics</td>
<td>- internal control and audit</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- analysis of ethical dilemmas</td>
<td>- external control and audit</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>- non-written standard settings</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>- consultation of staff and stakeholders</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Complementary instruments</td>
<td>- assessing the fairness of reward and promotion systems</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- appropriate procedures for procurement, contract management and payment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- measures in personnel management (e.g. integrity as a criterion for selection, promotion etc.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- measures in financial control (e.g. ‘double key’, transparency of financial information)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- measures in information management (e.g. protecting automated databases)</td>
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</tr>
</tbody>
</table>

(Adapted from OECD 2009)

The integrity instruments are the first and most obvious pillar, employed to stimulate and enforce integrity and prevent corruption and other integrity violations within a particular organisation. The instruments are classified into four functions: determining and defining integrity, guiding towards integrity, monitoring integrity and enforcing
integrity. The classification is presented in Table 3.1. The framework combines the instruments that have a rules-based approach and a values-based approach, and ensures the coherent balance of their components. These approaches are also known as the compliance approach and the integrity approach and were discussed in the previous section.

These instruments, although they are highly important, are essentially “only a list of intentions” (OECD 2009, p. 7). They will be useless unless they are “institutionalised in the daily functioning of the organisation” (OECD 2009, p. 59). For this reason, the second pillar, ‘process’, is needed; it specifies “the development process through which the integrity management framework is developed and maintained within the organisation” (OECD 2009, p. 59). There are two types of processes. First is the continuous development process, which involves a recurring cycle of planning, implementing, evaluating and adapting. Second is one-off projects, which are “limited in time and are typically to introduce or change the integrity management framework or particular instruments within it” (OECD 2009, p. 59).

Meanwhile, the third pillar, structures, is related to the structural organisational element of assigning responsibilities (OECD 2009). Structures not only refer to the main integrity actors, whose main responsibility is to stimulate and enforce integrity within the organisation, they also refer to those who are crucial to the success of ethics management. Eventually, integrity is the responsibility of all organisational members.

Integrity actors can be grouped into two layers: core and complementary (OECD 2009). At the core of the system are managers and integrity actors. Meanwhile, the complementary actors of the integrity management framework may include staff of
personnel management, procurement, contract and finance management, quality management, information management, etc. Often they are as crucial for the success of integrity management as the core actors. However, they are complementary since integrity is not their primary concern.

Compared to integrity actors, managers are the more important actors since they play a crucial role in shaping the integrity of the organisational members (OECD 2009). This role is known as ethical leadership (Trevino, Hartman & Brown 2000); it is owned and performed by persons in managerial positions in organisations, be it managers, supervisors, or those with other similar titles (OECD 2009). Trevino, Hartman and Brown (2000) emphasise the importance of being a moral manager in addition to being a moral person. A moral person is related to a person’s good characteristics, while moral manager requires more in “taking the ethics message to the rest of the organisation” (Trevino, Hartman & Brown 2000, p. 133).

To be a moral manager, there are three ways suggested in Trevino, Hartman and Brown (2000): to be a role model, to communicate ethics, and to apply a fair reward system. Without undermining the other two ways, it is understood that to be a role model is highly critical in ethical leadership. Effective moral managers know that employees are watching them (Trevino et al. 2000). The employees are looking for the clues as to what values are important and what behaviours are ethically acceptable based on the managers’ words and actions. Role modelling point out visible actions and an “effective moral manager understands which words and actions are noticed and how they will be interpreted by others” (Trevino et al. 2000, p. 134). Ethical role modelling is a “side by side phenomenon” because “ethical role models are well
known by their daily conduct and interactions — the way they behave and the way they treat other people” (Weaver, Trevino & Agle 2005).

Integrity actors are those whose main task is to stimulate integrity and they are typically responsible for the core integrity instruments and the integrity management process at the core of the Integrity Framework. The OECD (2009, p. 63) stresses that it is necessary for the integrity actor to have “a clear place within the organisational structure and that it is visible in the organisational chart”.

Two possible options are suggested for adopting integrity actors in an organisation (OECD 2009). On one side, an organisation can establish a large integrity bureau, which assembles all the main tasks of ethics management in one place. It consists of a significant amount of expertise. At the same time, to avoid this office working in isolation, integrity administrators can be appointed. These administrators are particular persons that combine their regular jobs with a responsibility in ethics management. They could become representatives of the integrity bureau, and simultaneously they can provide the integrity bureau with useful information resulting from their understanding of the local circumstances (OECD 2009).

The second option to have integrity actors in an organisation is by appointing an integrity co-ordinator(s) (OECD 2009). In this option, at least one person is appointed with formal responsibility to ensure that the basic elements of ethics management are in place. This option is labelled in OECD (2009) as the absolute minimum any organisation should have.
Ethical climate and ethical culture

At this point, it is quite appropriate to discuss ethical climate and ethical culture. These are the two main areas of research on the role of the organisational environment in organisational ethics (Mayer 2014, p. 415). As stated in Trevino et al (2006), organisational environment plays a critical role in encouraging and discouraging unethical behaviour. The two constructs – ethical climate and ethical culture – represent primarily the ethical organisational context as perceived by employees (Treviño & Weaver 2003). Ethical climate is generally defined as those aspects that determine what constitutes ethical conduct while ethical culture is typically defined as those aspects that stimulate ethical conduct (Kaptein 2007).

In the first area, Victor and Cullen (1987, 1988) introduced the concept of ethical climate and published influential works in 1987 and 1988 that pioneered the research in the field (Mayer 2014). Their works had a dramatic effect as more than 75 articles on ethical climate have been published based on their works and in the last 25 years the articles have been cited more than 1,300 times according to Google Scholar (Mayer 2014). Moreover, their work presented a new perspective to the conventional understanding, which suggested that individuals’ behaviours were driven by their characteristics. Victor and Cullen’s work “provided a unique lens to the business ethics literature by highlighting the role of the organisational environment on employees’ unethical behaviour” (Mayer 2014, p. 415).

In the meantime, the literature on the second area, ethical culture, has also emerged and developed in the past 25 years. However, while the construct of ethical climate has been carefully developed and widely studied, the construct of ethical culture is still underdeveloped (Kaptein 2007). Unlike that in ethical climate, the literature in
ethical culture is smaller and more fragmented (Mayer 2014). Nevertheless, the results of research in ethical culture demonstrate many similarities to those in ethical climate (Mayer 2014). Ethics program and ethical leadership are positively associated with ethical culture. Also there is a consistently positive relationship between ethical culture on one side and ethical intention and employees’ behaviour on the other side.

Trevino et al (1998) try to incorporate the literatures on ethical climate and culture, and construct the following definition: “a subset of organisational culture, representing a multidimensional interplay among various ‘formal’ and ‘informal’ systems of behavioural control that are capable of promoting either ethical or unethical behaviour” (p. 451). This is where the OECD’s integrity management framework intersects with ethical climate and culture. As explained earlier, the framework consists of three pillars, one of which is called the instruments. The instruments are said to be the most obvious pillar and are employed to enforce and stimulate integrity for the employees to behave ethically. As in ethical climate, some of the instruments determine what constitutes ethical conduct, such as code of conduct and code of ethics. Also, like in ethical culture some of the instruments stimulate ethical conduct, such as rewards and promotion.

**Ethics institutionalisation**

Equally important with how ethics is managed is how ethics is institutionalised. The field of ethics and integrity with specific focus on institutionalising is still under-researched (Hoekstra & Kaptein 2012). In the private sector, where the institutionalisation of ethics has become more popular, research in this area is still lacking (Jose & Thibodeaux 1999). In the public sector, the situation is no better. The
attention paid to the institutionalisation of integrity in public sector organisations is limited (Hoekstra & Kaptein 2012).

There are several views on the understanding of ethics institutionalisation. These views are generally based on institutional theory, which “attends to the deeper and more resilient aspect of social structure. It considers the process by which structures, including schemas, rules, norms, and routines, become established as authoritative guidelines for social behaviour” (Scott 2001, p. 408). Sims (1991, p. 494) emphasises that “institutionalisation should be examined in terms of specific behaviours or acts.” Hence, “an institutionalised act is defined as a behaviour that is performed by two or more individuals, persists over time, and exists as a part of the daily functioning of the organisation” (Sims 1991, p. 495). Ethics institutionalisation is defined in Purcell and Weber (1979, p. 6) as “getting ethics formally and explicitly into daily business life.” However, it has to be noted that the institutionalisation of ethics “must be more than drafting a code of ethics; it has to involve top management support, ethical leadership, and changes in organisational culture and operating policies” (Jose & Thibodeaux 1999, p.140). It involves two aspects: implicit institutionalisation, referring to “a work climate that encourages all to demonstrate a high level of professionalism, honesty, and integrity”; and explicit institutionalisation, which “refers to the codification of ethical behaviour” (Singhapakdi et al. 2010, p. 77).

Similar to ethics management, ethics institutionalisation also triggers a debate between two approaches: explicit and implicit, or formal and informal. Supporters of the informal approach argue that organisations do not have enough time and resources to develop and implement formal ethics programs and structures (Weaver, Treviño & Cochran 1999) and therefore emphasise the more informal, culturally oriented,
strategy with a central role for managers encouraging ethical conduct (Vitell & Singhapakdi 2008). Moreover, a formally institutionalised approach is often only symbolic and misleading. It has been dubbed “Enron ethics” to show a contrast “between words and deeds, between a deceiving glossy facade and a rotten structure behind” (Sims & Brinkmann 2003, p. 243). The term “Enron ethics” refers to the emphasis on “organisational ‘deep’ culture rather than of cultural artefacts like ethics codes, ethics officers and the like” (Sims & Brinkmann 2003, p. 243).

On the other hand, proponents of the formal approach maintain that relying only on informal institutionalisation approaches is risky. Ethical leadership is inconsistent among managers. Ethics in the informal approach is seldom a factor in hiring and ethics training is often not mandatory (Berman, West & Cava 1994). Formal structures and processes and having designated ethics officials can support managers and enable them to give substance to their responsibility to foster ethics and integrity. The OECD (2009) also stresses that the importance of formalised, structured, visible, and explicit institutionalisation improves coordination, allows for synergies, and clearly signals that ethics is considered important within the organisation. Rossouw and van Vuuren (2003, p. 400) point out that the efforts to embed ethics in an organisation “will require not only an informal commitment to ethical behaviour, but also a formal and sustained institutionalisation”. Both approaches have their strong points, but it is agreed that a combination of the two is the most effective and that “the right combination probably depends on the specific organisational context and characteristics” (Hoekstra & Kaptein 2012, p. 11).

There is a strong resemblance between ethics management and ethics institutionalisation. To some extent, there might be some confusion as to what is
included in ethics institutionalisation. However, an explanation by Hoekstra and Kaptein (2012) highlights the difference and clarifies. Ethics institutionalisation is defined as “the process of transferring integrity ambitions into intended outcomes by means of support structures, specialised agencies and officers, and formalisation processes within a given context” (Hoekstra & Kaptein 2012, p. 6). Going back to the integrity management framework explained in the previous section, the last two pillars of the framework (process and structure) are highly related to Hoekstra and Kaptein (2012) deliberation of how integrity is institutionalised in organisations. In other words, it focuses on “the how” dimension of ethics management. It takes a narrower approach than that of ethics management, which encompasses both the substantive content of specific integrity measures and policies (the “what”), and the methods to embed integrity (the “how”), as well as the monitoring and evaluative aspects of the integrity policy cycle (Hoekstra & Kaptein 2012). This thesis follows this definition of ethics institutionalisation.

Further, Hoekstra and Kaptein (2012) developed a typology of different approaches to the institutionalisation of ethics, based on interviews with integrity officials in Dutch local government organisations (see Table 3.2). In general the approaches are divided into formal and informal (Hoekstra & Kaptein 2012). The characteristics of the formal approach are explicit and intentional ethics activities, clear delegation of responsibilities and visible structures for specialised ethics officials. The informal approach on the other hand is characterised by indirect activities, an emphasis on the general responsibility of all employees, and a strong reliance on managers. For the latter, ethics management is less tangible and visible. Deriving from two forms, three types of ethics institutionalisation are created: office organisation, project organisation and line staff organisation (see Table 3.2).
According to Hoekstra and Kaptein (2012), there is a connection between the size of organisations and the manner in which ethics is institutionalised. Large organisations and a small number of medium organisations show strong commitment to institutionalise ethics formally. In most cases, these organisations have enough resources for that. Meanwhile, “all of the small and most of the medium-sized organisations follow a line-staff integrity approach and show no clear commitment to formalise and address integrity as an explicit theme” (Hoekstra & Kaptein 2012, p. 14).

**Table 3.2: A typology of institutionalisation**

<table>
<thead>
<tr>
<th>Form</th>
<th>Type</th>
<th>Subtype</th>
<th>Description</th>
<th>Size and commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal</td>
<td>Office organisation</td>
<td>central</td>
<td>Centralised integrity office, no integrity officers in decentralised departments.</td>
<td>Large but flat organisations with positive commitment to institutionalise integrity.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>decentral</td>
<td>Centralised integrity office, supported by integrity officers in decentralised departments.</td>
<td>Large but hierarchic organisations with positive commitment to institutionalise integrity.</td>
</tr>
<tr>
<td></td>
<td>Project organisation</td>
<td>internal</td>
<td>Internal interdisciplinary integrity project group, coordinated by integrity officer.</td>
<td>Medium-sized organisations with positive commitment to institutionalise integrity that value internal support.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>external</td>
<td>Organisation’s integrity officer participates in external intergovernmental project group.</td>
<td>Medium-sized organisations with positive commitment to institutionalise integrity that value external support.</td>
</tr>
<tr>
<td>Informal</td>
<td>Line-staff organisation</td>
<td>reactive</td>
<td>Organisation reacts to incidents as they occur; responsibility for integrity is delegated to line management.</td>
<td>Small organisations with virtually no commitment to institutionalise integrity.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>passive</td>
<td>Organisation undertakes no initiative to organise integrity; responsibility for integrity is delegated to line management.</td>
<td>Medium-sized organisations with negative commitment to institutionalise integrity.</td>
</tr>
</tbody>
</table>

(Adapted from Hoekstra and Kaptein 2012)

In general, the way ethics is institutionalised in an organisation does not clearly show an inclination towards either of the two approaches in ethics management. However, as stated in Hoekstra and Kaptein (2012, p. 23), “[i]ntuitively, one would proclaim that the formal and compliance approaches strongly converge, as do the informal and integrity approaches.”
**Internal control to support ethical conduct**

Internal control is a common measure to help management identify and reveal events that make corruption possible (OECD 2000). The objectives of internal control are both the detection of irregularities and the identification of sources of irregularities. The activities cover a wide range of actions, from general ones, such as financial control, internal audits and management control, to more specific types, such as fraud control, security control, and property control. The forms of control vary from one organisation to another (OECD 2000). Quite recently, there has been a tendency for organisations to move their units that handle ethics and values from HR divisions to their internal control units, due to the increasing dominance of the modern internal control units, which also concerns managing risk, including ethical risk (Treasury Board of Canada Secretariat 2011, p. 1).

In regards to internal control, it is worth noting a framework published for the first time in 1992 by COSO (The Committee of Sponsoring Organisation of the Treadway Commission) (Nelson 2013). The Treadway Commission was formed in 1985 in the United States to study the financial reporting system. The framework published by COSO was titled ‘Internal Control – Integrated Framework’ and it is important because in 2003 it has been recognised by the US’s Security Exchange Commission (SEC) as an effective system for corporate governance.

In 2004, COSO’s published an updated framework (Nelson 2013). It also included ethical values, in line with the Sarbanes-Oxley Act of 2002, which was enacted to protect investors in corporations listed on the stock exchanges in US. In its updated internal control framework, “COSO intends for ethics to become a standard for judging all corporate behaviours” (Nelson 2013, p. 9). The first component of internal
control is control environment, a term used in internal audit that influences “the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.” (COSO 2004, p. 2). Control environment covers several factors, including integrity and ethical values. Promoting integrity and ethical values directly supports the internal control by creating a positive and supportive environment. COSO’s principles of internal control were adopted in the Indonesian public organisations, in accordance with Government Regulation (Peraturan Pemerintah) No. 60 of 2008 concerning Government Internal Control System (Kemenkumham 2008).

3.4 The gap in the literature

Ethics management is part of a larger sub-field, termed administrative ethics, in the discipline of public administration (Năstasee 2012). In general, it focuses on preventing misconduct and promoting ethical behaviour in organisations. As noted in Cooper (2001, p. 3), “the study of administrative ethics has lacked sufficient emphasis on some of the elements necessary to come to full fruition as a developmental subfield”. At the same time, understanding the situation, the thesis also employs insights from business ethics.

In ethics management literature, the distinction of the compliance and integrity approaches is fundamental (see Hoekstra, Belling and van der Heide 2008; Lawton and Macaulay 2004; Lewis and Gilman 2005b; Paine 1994; Rohr 1988). In Paine (1994), for example, the integrity approach is suggested as the better approach to manage ethics in organisations. A similar notion is found in Hoekstra, Belling and van der Heide (2008), only in the latter it also indicates a transition in the ethics management approach in the Dutch Government. At the other end, Roberts (2009)
proposed the compliance-based ethics management to maintain ethical standards in organisations and to keep public trust towards government organisations. Stevulak and Brown (2011), in the meantime, demonstrated that compliance-based approaches, although necessary, are not sufficient. Taking the case of several Former Soviet Union (FSU) countries, they suggest the potential of integrity-based approaches to improve ethical behaviours in public service (Stevulak & Brown 2011).

This study does not aim to emphasise one approach over another, nor does it try to demonstrate the equal importance both approaches have. Borrowing the terms from Wittmer (2001, pp. 481-482), this research describes “the world as it is” rather than portraying “the world as it should be”. It departs from a position that the right framework for the ethics management of a country (or an organisation) depends on a thorough assessment of that country (or organisation) (OECD 1996). The study takes on the understanding that in ethics management the crucial part is to decide the right balance between the two approaches (Cooper 2011). Finding the right balance, as this study sees it, means placing ethics management on the right spot along the compliance-integrity continuum. Further, this thesis also follows the work of Hoekstra, Belling and van der Heide (2008), which analyses the shift of ethics approach emphasis over time.

Research on organisational ethics in developing countries has also been flourishing. The topics vary, such as the development of business ethics in African countries (Rossouw 1994), ethical perspectives on relationships with colleagues in Gulf countries (Al-Khatib, Rawwas & Vitell 2004), and challenges faced by business in China to respond to ethical issues of business scandals, labour issues, and environmental degradation (Ip 2009). Research in ethics management in developing
countries, as part of that on organisational ethics, shows increasing numbers. Menzel (2006), for example, includes in his report increasing activities in ethics management in Central and Eastern Europe, the Pacific, Asia, and South East Asia. Meanwhile, the importance of adopting a more values-based ethics management in FSU (former Soviet Union) countries is strongly emphasised (Stevulak and Brown 2011).

In Indonesia’s context, research on ethics and integrity is by no means less flourishing. Some studies cover a wide period, such as Newman (2011) that investigates corrupt behaviour during and after the Suharto era. Some cover a narrower, more specific period, such as Setiyono and McLeod (2010) and Budiman, Roan and Callan (2012), who study, respectively, the role of civil society’s organisations (CSO) in eradicating corruption in the Suharto era and how social identities influence individuals’ rationalisation for their corrupt acts also in the Suharto era. Ethics in certain professions is also part of the topics, as demonstrated in Pelizzo and Ang (2008) who study Indonesian parliament members’ homogeneity of ethical standards and in Gaffikin and Lindawati (2012) who conduct a research on public accountants’ perception of the role of moral reasoning in the implementation of a code of ethics.

However, there are few examples of research on ethics in organisations. Butt (2011) and Schütte (2012) studied the same organisation, the CEC, with quite opposing attitudes. Butt (2011) points out the imminent threat to the CEC as well to efforts to eradicate corruption in Indonesia. Meanwhile Schütte (2012) more optimistically stresses the importance of local ownership to sustainable change for the anti-corruption movement. KPK (2012), similar to this thesis, also studies the DGT, only
with a different angle; they look closely at how the code of ethics is implemented in
the DGT.

Most of the literature in developing countries focuses on managing ethics at the
national level, with some exceptions, such as, in addition to the above, Huberts (2000)
investigates the strategies and practices of the Hong Kong Independent Commission
Against Corruption (ICAC) and Webb (2010) explores the impact of public
management reform in South Africa to ethics management in its Department of
Correctional Services. In the Indonesian context, as previously stated, a study by the
Indonesian CEC (KPK 2012) investigates the adoption of a code of ethics in the DGT.
The study concludes that the DGT in general has applied the code well and of the ten
strategies being assessed in the adoption, none received unsatisfactory indicators.
Nevertheless, among these rare studies, very few, if any, focus on the approach of
ethics management and the distinction between the compliance and integrity
approaches. This is where the thesis fills in.
CHAPTER 4 METHODOLOGY

The previous two chapters described the background and the literature review of this research. The description and the review have exposed a lack of studies on ethics management at the organisational level in developing countries, particularly in Indonesia, that focus on the distinction of the compliance and integrity approaches. This chapter establishes the research questions emerging from the literature review in this area, describes the conceptual framework, and defines the research methodology applied to address these questions.

4.1 Research questions

This research aims to explore the ethics management in the DGT as part of the Indonesian tax administration reform. To guide the research, research questions have been developed. The main research question is:

*How are the approaches in ethics management combined in the DGT?*

In the previous chapter, the compliance approach and the integrity approach were identified as the major approaches in ethics management. The distinction between the two approaches and their implementation in organisations are fundamental in ethics management literature. However, scholars suggested that the two approaches should not be seen as a dichotomy and they should be complementary to each other. As asserted by Cooper (2011), the crucial task is to find the right balance between the two approaches. The above research question was built on that argument.

Moreover, the balance between the approaches should be reflected in the way ethics management is implemented. To analyse the implementation, the integrity
management framework (OECD 2009) is utilised. As discussed in Chapter 3, the framework consists of three pillars: the instruments, the processes and the structures. The implementation of ethics management in the DGT is determined by looking at these three pillars.

As stepping stones, below are the sub research questions:

1. What are the instruments adopted in ethics management in the DGT?
2. How are the instruments adopted in ethics management in the DGT?
3. How is ethics institutionalised in the DGT?
4. How does ethics institutionalisation in the DGT influence the approaches of its ethics management?

These sub research questions relate to the pillars of the integrity management framework, which was discussed in the previous chapter. The first two sub research questions relate to the first pillar, the instruments. While sub research question 1 clearly attempts to reveal what instruments were adopted in the DGT, sub research question 2 is to find out how they are adopted. Sub research questions 2 is not to be confused with “the how” dimension of ethics management as in Hoekstra and Kaptein (2012). Sub research questions 2 is necessary since a same ethics instrument, such as ethics training, could be classified as both compliance-based and integrity-based depending the manner it is conducted (OECD 2009).

Sub research questions 3 and 4 deal with the second and third pillars of the integrity management framework. Sub research question 3 covers both the process, by which the instruments are developed, and the structure, by which the responsibilities of the ethics activities are delegated. Meanwhile, sub question 4 tries to deal with the presumption made in Hoekstra and Kaptein (2012) that the formal institutionalisation
and compliance approaches converge, as do the informal institutionalisation and integrity approaches.

### 4.2 Conceptual framework

This thesis utilises the compliance-integrity continuum and the integrity management framework for its conceptual framework. Each of these is discussed further in this section.

The compliance-integrity continuum, as explained in the previous chapter, refers to the distinction between two major approaches in ethics management, the compliance approach and the integrity approach. The compliance approach focuses on external controls, which consist of ethics legislation, a code of ethics and other rules, control mechanisms, and control institutions with extensive powers (Maesschalck 2004). The integrity approach, on the other hand, stresses internal controls (Hejka-Ekins 1994), specifically self-control exercised by each individual (Maesschalck 2004). It relies on moral character and counts on each individual to reflect, decide, and act (Lewis & Gilman 2005b).

![Figure 4.1: The compliance-integrity continuum](Source: Năstasee 2012)

It was Gilman who initially used the term ‘continuum’ to demonstrate how the two approaches should be seen. In line with the definition of the word continuum above, Gilman indicates that these two approaches do not create a simple dichotomy but
should be understood as the opposite ends of a continuum (Gilman 1999), the compliance-integrity continuum (Figure 4.1). In real life, the approaches should be combined and complementary to each other. Internal and external controls should support each other and not give contradictory indications (Cooper 2011).

As an example of the use of the continuum, a study by the OECD (1996) shall be utilised. In that study, the OECD suggested a typology of the nine countries participating to describe their stage of ethics management and public administration. The typology can be seen in Figure 4.2. The typology places the nine countries under scrutiny along two dimensions — an integrity-compliance dimension and a public administration-managerialism dimension.

**Figure 4.2: Countries by overall management and ethics regime**

(Source: OECD 1996)
In Figure 4.2, the continuum is drawn as a vertical line with the integrity-based ethics management at the top and the compliance-based ethics management at the bottom. The continuum helps in understanding how a country implements its ethics management. New Zealand, for example, is the closest to the integrity-based approach according to its own positioning (OECD 1996). In Norway, a central change in management principles has been perceived; however there was also an increasing production of rules in the public service. On the other end, the United States demonstrates “a very complex and comprehensive rules-based system” (OECD 1996, p. 60). Meanwhile Portugal and Mexico, although focusing largely on rules, were also beginning to develop measures to stimulate good behaviours (OECD 1996). It is concluded that none of the countries above falls precisely on one of the two extremes (OECD 1996). The OECD (1996) suggests that countries should draw their own conclusions for the most fitting strategies of ethics management, taking into account their individual political and administrative traditions.

The compliance-integrity continuum is a helpful tool to picture how ethics management is actually implemented. It frames both theory and practice around the polarising concepts of “low road” and “high road” ethics (Năstasee 2012). The continuum is a useful way to understand the implementation of ethics management (Maesschalck 2004).

Currently, the compliance-integrity continuum serves as the main analytical device in analysing and classifying approaches to ethics management (Năstasee 2012). It has been consistently used to survey ethics measures in OECD member states (OECD 1996; OECD 2000), and has also been deployed for analysing ethics at the European Commission (Cini 2007a; Cini 2007b). The continuum has been used to analyse
ethics management in English local governments (Lawton & Macaulay 2004) as well as in Dutch government (Hoekstra, Belling & van der Heide 2008).

However, the continuum is not without limitations. It tends to be too simple and deterministic; it leads us to think that there are simply two approaches in ethics management, while in fact there are other approaches that are overlooked (Maesschalck 2004). Following the application of grid-group theory in public management by Hood (1998), Maesschalck (2004) suggests that there are four, rather than two, approaches in ethics management. The four approaches are based on the types, or cultural biases, of organisations. Meanwhile, as stated earlier, another alternative to the compliance-integrity continuum was introduced by Svara (1997), and labelled the ethical or ethics triangle. Nonetheless, although not without its critics and despite other alternatives, the compliance-integrity continuum is still the principal reference point when discussing approaches in ethics management (Năstasee 2012).

To analyse the approach of an ethics management, one needs to see how it is actually implemented. As discussed in Chapter 3, the integrity management framework is the most suitable system for the organisational level. In this thesis the framework will be utilised to examine how ethics management is implemented in practice in the DGT. In addition, other readings will be used, such as Maesschalck (2004), Paine (1994) and Hoekstra, Belling and van der Heide (2008). These readings are helpful particularly in classifying ethics measures as compliance-based or integrity-based. How ethics management is implemented in the DGT will be analysed based on the three pillars of the integrity management framework implemented. Further, how ethics is institutionalised in the DGT will be studied from the second and third pillars.
In Figure 4.3, the compliance integrity continuum and the integrity management framework are combined, creating the conceptual framework of this thesis. The continuum is the upper part of the conceptual framework, represented by a black horizontal line. The integrity management framework is the lower part; its three pillars are represented by three dark columns. The arrow coming from the first column denotes the first two sub research questions: ‘What are the instruments adopted in ethics management in the DGT?’ and ‘How are the instruments adopted in ethics management in the DGT?’ As explained above, the first pillar of the Integrity Management Framework is instruments, which consists of both rules-based and values-based instruments. The selection and adoption of these instruments in the DGT will show the tendency of its ethics management.

**Figure 4.3: The conceptual framework**

The compliance approach

The compliance-integrity continuum

The integrity approach

- **The compliance approach**
  - The compliance-integrity continuum
  - Instruments
  - Process
  - Structure

- **The integrity approach**
  - Integrity actors
  - Continuous
  - One-off projects
  - Managers
  - Integrity management framework

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The arrow coming from the second and third pillars representing the last two sub research questions: ‘How is ethics institutionalised in the DGT?’ and ‘How does ethics institutionalisation in the DGT influence the approaches of its ethics management?’ As stated by Hoekstra and Kaptein (2012), ethics institutionalisation refers to the design and formalisation of integrity structures and processes. In OECD (2009), the second and third pillar (process and structure), unlike the first pillar (instruments), do not incline towards either the compliance or the integrity approaches. This is to be investigated further in the case study.

4.3 Research perspective and paradigm

Prior to designing the research, the research perspective and the research paradigm must be determined. It is important to recognise our own research perspective and to understand others. Each perspective has its “basic values, assumptions, and beliefs about the nature of reality and what constitutes valid knowledge” (Evered & Louis 1981, p. 385). An understanding of research perspectives is essential for researchers to choose the right mode of inquiry. Objectivity is defined differently by different perspectives. Each requires different standards to evaluate the research products. (Evered & Louis 1981).

Also, as Guba and Lincoln (1994) assert, inquiry paradigms help the researchers identify their research legitimate limits. The researcher’s basic beliefs and assumptions will determine the inquiry paradigms and these paradigms are derived from the answers to three metaphysical questions: ontological, epistemological, and methodological questions (Guba 1990).
Based on the background and the question of the research, the research perspective and paradigm have then been established. This research applies the qualitative research perspective. As to the paradigm, constructivism will be the underpinning ontology of the research, the epistemology of the research is transactional and subjectivist, and the case study has been selected as an approach. The reasons for this will be described below.

**Research perspective**

There are two major perspectives in social science: positivism and idealism (Taylor & Bogdan 1998). The positivist searches for the facts or causes of social phenomena with little consideration for the individuals’ subjectivity while the idealist is concerned with understanding human behaviour from the actor's point of view (Taylor & Bogdan 1998). The logical positivist view of the world is associated with the quantitative paradigm, while the idealist view of the world with the qualitative paradigm (Deshpande 1983). Major characteristics of quantitative research include deduction, confirmation, explanation, prediction, as well as testing of theory or hypothesis, standardised data collection, and statistical analysis (Johnson & Onwuegbuzie 2004). Meanwhile, the major characteristics of qualitative research are induction, discovery, exploration, theory hypothesis generation, the view of the researcher as the primary ‘instrument’ of data collection, and the use of qualitative analysis (Johnson & Onwuegbuzie 2004).

Smith (1983) poses the following questions for a researcher to ask in determining the researcher’s research perspective:
1. What is the relationship of the investigator to what is being investigated?

There are two possible answers to this question: a subject-object relationship and a subject-subject relationship. A subject-object relationship happens if reality can be seen as existing separately from the researcher’s mind, which is typical in the qualitative perspective. In the idealists’ view, this dualism of mind-reality is not acceptable. According to them, there is always a level of mind involvement with the subject – an idea not acceptable to the positivists.

2. What is the relationship between facts and values in the process of investigation?

This question focuses on the idea of objectivity. For a researcher with a quantitative perspective, research is deemed to be objective if the process and results are not influenced by the researcher’s dispositions, values, and particular situations. For a researcher with a qualitative perspective, how he or she concludes reality is likely determined by values and interests.

3. What is the goal of the investigation?

The goal of research from a quantitative perspective is to explain, to predict, and ultimately to develop laws. From a qualitative perspective, the goal of research is the interpretation and understanding of what people give in the situations.

Below, Smith and Dainty (1991) summarise the differences between qualitative and quantitative research as follows:

<table>
<thead>
<tr>
<th>No.</th>
<th>Qualitative</th>
<th>Quantitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Subject-subject</td>
<td>Subject-object</td>
</tr>
<tr>
<td>2.</td>
<td>Intertwined values and facts</td>
<td>Separate values and facts</td>
</tr>
<tr>
<td>3.</td>
<td>Search for understanding</td>
<td>Search for laws</td>
</tr>
</tbody>
</table>

(Adapted from Smith & Dainty 1991)
The above questions posed by Smith (1983) have been applied to this research and the following answers emerged. As stated above, the research is to study and explore an occurrence happening at the DGT, the reform, with a focus on the implementation of ethics management. Thus, the aim is to understand the process, not to search for laws. To gain the understanding and create knowledge later on, close work with people highly involved in ethics management in the DGT will take place. Although they are the objects of the research, they will be perceived as subjects to work together to construct the knowledge. Hence, a subject-subject relationship will be created. In working together with them, facts will be the main sources for the research with a high awareness that values are taken into consideration. Therefore, facts and values are intertwined. Moreover, the research will focus on deduction, discovery, and exploration. As a result of this self-questioning, it is confirmed that the research will apply a qualitative approach.

**Research paradigms**

There are three metaphysical questions in deciding on the research paradigm: ontological, epistemological, and methodological questions (Guba 1990). The ontological question deals with “the form and nature of reality”, while the epistemological question is concerned with “the nature of the relationship between the knower or would-be knower and what can be known” (Guba and Lincoln 1994, p. 108). The methodological question is about how the researcher should go about finding the knowledge (Guba 1990).

The view here is that knowledge is part of the knower and relative to individuals’ experiences with the environment. This research does not see knowledge is absolute and separate from the knower. We create ‘meaning’ from our experiences,
individually and collectively. Knowledge then is to be constructed from ‘realities’ that exist in the minds of people interacting in the research: the minds of the researcher and the sources of the research. In addition to written documents, such as decrees, circular letters, and minutes of meetings, it will be crucial to obtain information as to why certain policies are taken, or the background of decisions made. Included in this are the sources’ personal opinions and views on the policies taken or decisions made. As stated in the previous paragraph, it is crucial to have a subject-subject relationship (monist) with the research sources to be better able to understand their information and construct the knowledge.

Hence, the ontological and epistemological paradigms of this research will be in line with the above position. Constructivism will be the underpinning ontology of the research for several reasons. In constructivism, reality is believed to exist in people’s minds, taking the form of multiple mental constructions and shaped by experiences of the world (Guba 1990). A subject-subject relationship is created (monist) between a researcher and what is being studied. Knowledge is actually a creation of the process of interaction between them. As to the epistemological paradigm, Guba and Lincoln (1994) suggest that the answer is dependent on the answer to the ontological question. Under the constructivism ontology, the epistemology of research is transactional and subjectivist, producing findings that are created, meaning that the researcher is linked to the subject of the research by the researcher’s values.

Further, prior to selecting the methods, a methodology should be chosen. A methodology is “a theory and analysis of how research should proceed” (Carter & Little 2007, p. 1317), or “the study – the description, the explanation, and the
justification – of methods, and not the methods themselves” (Carter & Little 2007, p. 1317). Briefly, methodology justifies the methods of a research project.

This research applies the case study qualitative approach to provide a boundary for the phenomena under investigation. According to Creswell (1998, p. 62), the case study is a good approach for a researcher who “has a clearly identifiable case with boundaries and seeks to provide an in-depth understanding of the case or cases”. Creswell (1998) also defines case study as an exploration of a ‘bounded system’ or a case (or multiple cases) overtime through detailed, in-depth data collection. The system that is studied is ‘bounded by time and place’ and the case that is being studied could be in the form of a program, an event, an activity, or individuals (Creswell 1998). In this research, the bounded system is the DGT, a unit under the Indonesian Ministry of Finance, which is responsible for collecting national income from taxes.

4.4 Research design

Case study approach

Yin (2003) notes three categories of case study, namely: exploratory, descriptive and explanatory. Exploratory case studies aim to explore any phenomenon that serves as a point of interest to the researcher. This type of case study is used to explore the situations in which the intervention being evaluated has no clear, single set of outcomes (Yin 2003). Descriptive case studies are to describe the natural phenomena which occur within the data in question. Descriptive cases require a descriptive theory to be developed before starting the project. Explanatory case studies examine the data closely both at a superficial and deep level in order to explain the phenomena in the data. Explanatory case studies may be used for doing causal investigations. The case study could be a single case study or multiple case studies.
Stake (2000) identifies case studies as intrinsic, instrumental, or collective. An intrinsic case study is conducted when a researcher has a genuine interest in seeking a better understanding of a case. An instrumental case study is performed when the case is used to understand more than what is obvious to the observer. A collective case study is an instrumental case study extended to multiple cases.

This research is a single case study, which is exploratory and intrinsic in nature. The phenomenon investigated in the research is the DGT’s ethics management as part of the Indonesian tax administration reform. The DGT will be seen as a single unit being studied although the data are collected from several units in the DGT. It is an exploratory case study as the purpose is to explore that phenomenon, the DGT’s ethics management. It is also an intrinsic case study as it is performed to seek for better understanding of the phenomenon.

To select the most appropriate case for investigation, a purposive sampling technique was adopted. Purposive sampling is a non-probability sampling method where a researcher uses personal judgment to select the sample that is considered more informative (Polit & Beck 2008). As the topic of the research suggests, the Indonesian tax administration, or the DGT, is selected. Considering the various types of offices that the DGT has, as well as the vast area it covers, the samples are taken to represent offices of different types (head office and operational, as well as LTO, MTO or STO\(^5\)) from different cities and towns whose size vary. The selection of the samples is discussed in more detail in the section about semi-structured interviews.

\(^5\)Types of DGT’s offices can be seen in Chapter 2
Data collection methods

In case study research, to gain a deeper understanding of the studied phenomenon, multiple sources of evidence are collected and data created (Yin 2003), over a sustained period of time (Creswell 1998). This research utilises multiple qualitative methods; semi-structured interviews, focus groups and document analysis.

Semi-structured interviews

The main method is semi-structured interviews, which were conducted with key persons handling ethics management in the head office of the DGT and with people implementing policies in ethics management in operational offices. The interviews conducted in the head office were aimed to provide a clearer understanding and in-depth clarification of why policies in the DGT’s ethics management were taken. They were also aimed to provide experience of the implementation of ethics management at the early stages, such as the obstacles found at the beginning and the solutions implemented at that time.

Meanwhile, selection of key persons in the operational offices to be interviewed was conducted based on the characteristics of the DGT’s operational offices. First, it is known that the operational offices based on the size of taxpayers administered can be divided into three categories: Large Taxpayers Office (LTO), Medium Taxpayers Office (MTO) and Small Taxpayers Office (STO). Since the LTO and the MTO have basically the same features, by which the employees and the taxpayers administered are selected, it was decided to select key persons (heads of the office) of one LTO/MTO and three STOs. Second, the DGT’s operational offices are located all over Indonesia in big cities as well as small cities. Hence, the three STOs selected are...
from three different cities, which vary in size. After that, two heads of regional offices supervising the operational offices were selected to enrich the results of interviews.

After giving careful consideration, the offices selected are as follows:

1. Head of a Regional Office supervising LTOs or MTOs.
2. Head of a Regional Office supervising STOs.
3. Head of an LTO or MTO.
4. Head of an STO in Jakarta.
5. Head of an STO in a medium-scale city, and
6. Head of an STO in a small town.

During the interviews, other participants were identified through a snowball sample technique. Although snowball sampling is a method typically used with unknown or rare populations, it is also a useful approach for locating information-rich key informants (Patton 1990). It involves selecting participants based on the recommendation of other participants in the study (Gobo 2004).

Additional participants interviewed were all external to the DGT. They were selected for different reasons. First, one participant was interviewed to see whether or not the policies taken in the DGT concerning ethics management were in line with the policies of national bureaucracy reform. Another interview was held to understand the conformity of the policies taken in the DGT concerning ethics management with policies of the Ministry of Finance as the DGT’s supervising agency. Another reason for an additional interview was to obtain comparative perspectives on how organisational ethics and integrity were promoted in a different unit of the same level with the DGT under the Ministry of Finance. Lastly, another additional participant
was interviewed to provide deeper insights into the backgrounds of the DGT reform and how ethics management was incorporated as part of that reform.

Each of the interviews took at average of 60 minutes. Prior to the interviews, all participants were handed a project information and consent package, which included information pertaining to the project and ethical requirements. They all voluntarily participated in the study and were informed of the importance of informed consent, confidentiality and anonymity prior to participating in the study.

*Focus group discussions*

Issues and concepts that emerged from these interviews then were then explored and confirmed through focus group discussion (FGDs). FGDs are used to explore in depth the impact of the implementation of ethics management in the DGT. Focus groups are a useful method to utilise with this research, as they are exploratory in nature (Ivanoff & Hultberg 2006). In FGDs, new information can be created through interaction (Stewart, Shamdasani & Rook 2007) as FGDs assist individuals to explore their own perspectives by explaining and defending these views to others (Johnson 1996).

Participants in the FGDs were chosen from the operational offices selected above; hence, there were four FGDs conducted. The recruitment strategy was to have around six participants in an FGD. There are various opinions amongst researchers regarding the ideal size of a focus group, ranging from four to 20 people (McLafferty 2004). The size of six participants was selected to give each participant enough time and chances to speak his or her mind about an issue raised. The participants selected were at a similar level to avoid an awkward situation and they were working in various sections to provide diverse insights and views.
Each FGD lasted for at least 90 minutes. This is consistent with Patton (1990) observation that an FGD should have a duration of 90 minutes to two hours. All participants of FGDs were also given a project information and consent package prior to the FGDs to inform them about the project and ethical considerations.

Description of participants

Overall, as many as 38 participants were involved in this research, including four who were external to the DGT. Of the 34 participants from the DGT, four were from the head office and 30 were in the regional offices and operational offices. The participants were from various levels and positions; 24 were staff employees, six were Echelon III\(^6\) level officials, six were Echelon II officials, and two participants were Echelon I officials. A breakdown of the overall participant sample can be seen in Table 4.1 below. In the result chapters, quotes from Senior Managers will be marked SM followed by a dash and a number. Meanwhile, a middle manager will be marked MM. For employees, since they are from four different offices, and each office has six participants, the quotes will be marked E, and then a number 1 to 4 to show an office, and then a dash and a number.

Table 4.1: Overall participant sample

<table>
<thead>
<tr>
<th>Office</th>
<th>Level</th>
<th>Senior manager (SM)</th>
<th>Middle Manager (MM)</th>
<th>Employees (E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head office (previously &amp; current)</td>
<td>2</td>
<td>2</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Operational offices</td>
<td>2</td>
<td>4</td>
<td>24</td>
<td>--</td>
</tr>
<tr>
<td>External of DGT</td>
<td>4</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

\(^6\) All structural positions in Indonesian bureaucracy are grouped into echelons. Echelon I is the most senior, such as a director general. In this thesis the term echelon is also used to refer to the level of the units. A unit headed by an Echelon II level is then called Echelon II unit.
Document analysis

The document analysis was conducted mostly prior to the interviews, to gain data and information regarding the background of the reform, how ethics initiatives were decided and ethics management were implemented. It was performed on related laws and regulations, decrees from the minister and the director general, and procedures. The documents, as guided in Yin (2003), were to be confirmed and supplemented with other sources. The documents were to be carefully used since they are not always true and may be biased (Yin 2003).

Data analysis

In order to make sense of the data, the collected data were sorted and classified through a systematic and taxonomic process in the data analysis stage (Green et al. 2007). The process of qualitative data analysis is not a single stage of the research process or a one-time event; it is rather a progression and an ongoing process (Ezzy 2002). In this research, qualitative data analysis took place over a period of approximately 24 months, starting from the data collection/fieldwork to the final writing-up of the thesis.

All semi-structured interviews and focus group discussions were audio recorded. They were then transcribed, translated, and analysed using NVivo. NVivo was used for managing the research data through storing and retrieving interview transcripts and sorting, classifying and coding the data.

4.5 Insider researcher

An issue of insider research is raised when the researcher has a direct involvement or connection with the research setting (Robson 2002). As the researcher is an active
employee of the DGT, such an issue naturally arises. There have been debates on the insider versus outsider concept. Various definitions have been provided for insider research and researcher, as well as for outsider research and researcher (Mercer 2006). However, some authors argue that “insiderness and outsiderness are better understood in terms of a continuum rather than a dichotomy” (Mercer 2006, p. 3). Gilbert (1994), for example, argues that it is not helpful to think of the insider and outsider as a dichotomy, because once research is conducted it will place an insider in an outsider position.

It must be understood first, that in regards to the validity issue, the criteria for validity are different for ontological and epistemological frameworks (Mercer 2006). Traditionally, validity referred to the extent to which the study accurately mirrored the issue or topic that the research attempts to measure (Feldman 2003), and it was believed that science could generate such objective knowledge (Hammersley 2000). Nowadays, it is no longer deemed possible to produce objective knowledge through research – rather, criteria for validity have changed to also include factors such as credibility, believability and reliability (Guba & Lincoln 2000). Critical reflection is crucial for the insider researcher, as “the validity of insider research requires reflexive consideration of the researcher’s position” (Drake 2010, p. 85). By reconciling the position as a researcher and as a responsible professional practitioner, an inside researcher will put himself in a situation that forces methodological as well as ethical consideration from viewpoints of an outside researcher (Drake 2010).

In regards to the issue of insider research, bias can be avoided by imposing due professional care and critical reflection to keep bearing in mind the researcher’s position as an outsider during the research. It is also important to acknowledge all the
participants at the very beginning so that the practitioner in this context will act and behave as a researcher, an outsider. On the other hand, the advantages of being familiar with the institution studied will enhance the researcher’s ability to ask the right questions during interviews in order to achieve important findings.

Meanwhile, another related issue called the power relationship has to be considered. The influence of power relationships between the researcher and the researched in relation to the research outcome must never be underestimated. At the same time, it has to be recognised that the power relationships are multi-dimensional and negotiated, not given (Merriam et al. 2010). The power is not only shaped by one factor, but many – like job position, age, seniority, work experience, educational background and gender. Not all interviewees feel threatened just by looking at one’s educational background or one’s job position (Merriam et al 2010).

Before the interviews and FGDs took place, precautionary steps were taken. One of these steps was to remove from the list the units where the researcher worked prior to the commencement of this research when selecting DGT units for the interviews and FGDs. The purpose was to prevent encounters with colleagues, superiors or subordinates. However, since the researcher had been working in DGT for more than twenty years, it was unavoidable to meet former colleagues, superiors or subordinates who were now assigned to the units selected. Also, both the researcher and the participants recognise the possibilities of working together in the future as colleagues, subordinates or superiors. In this regard, it was crucial for the researcher, as stated in earlier paragraphs, to understand that once the research was conducted it would place an insider in an outsider position. It was also very important to impose due professional care and critical reflection.
In addition, several techniques were employed during the interviews and discussions. Interviewing those with less power involved an approach that created a space that allowed them to talk freely with all the ambiguities and complexities, which would be clarified through conversation (Brown 2004). The researcher was responsible for organising the interview and discussions; however, the direction of each conversation would be mostly determined by the participants. Hopefully, this would avoid them just giving the answers that they think the researcher wanted to hear.

As to those that are more powerful, the researcher needs to be sure not to be intimidated by the interviewee, and to make sure that the agenda is followed (Walford 2011). Those with power are the experts in the field and are used to being listened. Ostrander (as in Walford 2011) argues that it is not just because of self-centredness, “but an accurate reflection of their position of power”. However, to avoid bland answers, Mickelson (as cited in Walford 2011, p. 3) proposes a more confrontational style, “where evasive answers are challenged and blunt questions asked”.

4.6 Research limitations

The first limitation of this research is due to the standpoint taken by it that is empirical rather than normative. This thesis looks at “what is”, not “what should be”. Hence, this research does not evaluate and make value judgements regarding the implementation of ethics management in the DGT. It is beyond the purpose of this research to say whether or not the employees and officials of the DGT are ethical, or to analyse the ethical health of the DGT overall, or to determine the effectiveness of its ethics policies. This research is limited to the mapping exercise on the implementation of ethics management in the DGT and to observing the approaches
taken. Therefore, this research shows how ethics management works in practice, and in doing so the focus is on the process, not the outcome.

Also, this research is constrained in terms of context and time. Fieldwork was conducted over two periods, from 16 December 2011 to 31 January 2012 Jakarta, Lombok and Makassar, and from 22 to 31 January 2013 in Jakarta. The research reflects only the situation during the period of fieldwork. However, this limitation is not one that is unique to this study; all qualitative research reflects circumstances during the duration of the study.
CHAPTER 5 INSTRUMENTS OF ETHICS MANAGEMENT ADOPTED IN THE DGT

This chapter looks closely at the instruments of ethics management adopted in the DGT. Instruments are the first pillar of the integrity management framework (OECD 2009). Instruments and the related policies are the “what” dimension of ethics management. The other two pillars are process and structure, which can be referred to as the “how” dimension. However, the analysis in this chapter is not strictly confined to which instruments were adopted. This chapter will also cover how they were adopted, but the discussion is limited to the technicalities and policies. This is necessary because some instruments, such as ethics training and counselling, can be categorised either as compliance-based or integrity-based depending on the manner in which the instrument is conducted. Also, knowing the technicalities could help to see if there is a change in the related instrument, which might affect the combination of the two approaches of ethics management.

This chapter attempts to answer the first two sub research questions. First, ‘What are the instruments adopted in ethics management in the DGT?’ Second, ‘How are the instruments adopted in ethics management in the DGT?’ Referring to the conceptual framework of this research (see Chapter 4), this chapter relates to the first pillar of the integrity management framework (Figure 5.1).

The chapter consists of five parts. The first provides an overview of all the DGT’s instruments of ethics management. In the second part, instruments that are categorised as rules-based, which belong to the compliance approach, are explored. The third part examines instruments of the integrity approach or values-based instruments. In the fourth part, views of the DGT’s employees concerning the approaches are discussed.
Analysis of the instruments and the approaches of the DGT’s ethics management are in part five.

**Figure 5.1: The conceptual framework for Chapter 5**

(Reproduced from Figure 4.1)

5.1 Overview of the DGT’s ethics instruments

There are 15 ethics instruments currently adopted in the DGT. The adoption of these instruments did not take place at the same time, but rather happened in stages. Quite a few of them were adopted at the beginning of the reform while others were adopted later on. Although the instruments are all important, it is reasonable to note that some are more significant than others. Two instruments have been identified as more significant: the code of ethics and organisational values. The adoption of these two instruments led to the adoption of other instruments. There are nine rules-based...
instruments stemming from the DGT’s code of ethics. In addition, four values-based instruments derive from the code as well as from the values.

The DGT’s code of ethics and organisational values respectively are comparable to the code of conduct and code of ethics as explained in the OECD (2009). The DGT’s code of ethics contains guidelines for behaviours expected from employees that are similar to the code of conduct in the OECD (2009). However the DGT’s code of ethics is not particularly detailed; its wordings are more general. It is also quite concise; the enforcement of the DGT’s code of ethics, the monitoring of its implementation, and the sanctions for violations are stipulated in other rules. Nevertheless, since in principle it tells employees what to do, and what not to do as well, and since its adoption triggers other instruments, the DGT’s code of ethics is identified as the primary compliance approach instrument.

The DGT’s organisational values, on the other hand, resemble the code of ethics explained in OECD (2009). In the DGT’s context, the organisational values were also referred to as the corporate values, or the Ministry’s values. They too become a guiding principle for the DGT’s employees’ behaviours, providing standards that employees should adhere to and giving more trust to employees’ capacities for making ethical decisions. The DGT’s organisational values also initiate other values-based instruments and they are therefore the primary instrument of the integrity approach of the DGT’s ethics management.

For the compliance approach of ethics management in the DGT, the creation of the DGT’s code of ethics led to other management activities, hence other instruments of ethics management. The other instruments were the signing of an integrity declaration, ethics training (which is labelled as socialisation of the code) to inform
employees about the code of ethics, procedure for violations of the code and formal sanctions for the violations. The socialisation of the code, due to its nature, will be explored in the discussion about the integrity approach instruments.

Later on, more instruments were adopted in line with the DGT’s organisation restructure as part of the tax administration reform. The restructure included the establishment of KITSDA, a unit in the DGT that is responsible for internal compliance function. The new rules-based instruments in this regards were inspection (which is dubbed in the DGT as compliance monitoring) and a complaint process, which included channels to express complaints and systematic registration of the complaints. Quite recently, two other instruments of the compliance approach were applied, the timing of which coincided with the expansion of the DGT’s internal compliance function. These instruments were risk management and a whistle-blowing system.

In addition, as pointed out in the OECD (2009), ethics management, particularly at the organisational level, is not created in a vacuum. It has both inner and outer contexts. In regards to the outer context, the DGT’s employees are bound to rules and regulations for government employees in general. Two provisions of this type are included in the discussion: gift policy and the obligation for government officials to report wealth.

In the case of the integrity approach instruments, the adoption of DGT’s organisational values was also followed by other values-based instruments. These instruments are socialisation and internalisation, role-modelling, and coaching. Unlike the rules-based instruments, which were related only to the code of ethics, the values-based instruments are related to both the code of ethics and the organisational values.
The socialisation and internalisation, for example, have the purpose of disseminating both the code of ethics and the organisational values. Each of these instruments will be discussed in detail in the following parts.

5.2 Compliance approach instruments

Based on the previous part, the DGT’s code of ethics can be categorised as the primary rules-based instrument. The other rules-based instruments applied following the adoption of the code of ethics will be categorised as secondary rules-based instruments. The secondary rules-based instruments are further divided into two groups: first, instruments earlier employed, whose adoption took place concurrently with the code of ethics; and second, instruments employed later, whose adoption occurred after the establishment of KITSDA. The discussion in this part is based on this categorisation.

Code of ethics, the primary rules-based instrument

In May 2002 (Kemenkeu 2002), the DGT’s code of ethics was enacted, only several months prior to the launching of the LTO, the Large Taxpayers Office. The creation of the LTO in July of the same year marked the commencement of the Indonesian tax administration reform (see Chapter 2). The code was part of the introductory package of the reform. It listed 20 duties and 12 prohibitions applicable to the DGT’s employees, as a guideline for expected behaviours from employees (see Appendix 2). The DGT’s code of ethics was applicable to the DGT’s employees, including employees in probation. To oversee the application of the code, a Code of Ethics Committee was established. In principle, all the DGT’s employees were bound by the code. However, as stated in the related Minister of Finance’s Decree (Kemenkeu 2002), in the first phase of the reform the code was only applied to employees
working at the LTO. Further application of the code to other DGT’s offices was to be stipulated in other decrees. In other words, the DGT’s offices gradually applied the code, rather than in unison. This process will be discussed further in Chapter 6.

Revision of the DGT’s code of ethics

Some shortcomings in the existing code of ethics were revealed in an evaluation report by the DGT Modernisation Team in 2006 (DJP 2007). One of them related to the wording of the code. “It was actually created after we did benchmarking with other countries,” explained a senior official (SM-2). However, the language used was too broad, which could lead to misinterpretation and makes it difficult to implement, (DJP 2007). Another shortcoming revealed by the report was related to the manner in which the code was publicised and internalised. Employees got muddled with another law concerning disciplinary measures for all government employees. The confusion was due to their inadequate understanding of the code and their tendency to see the code as just the same as the law on disciplinary measures.

A team was established to tackle the issues (DJP 2007). The team was not only responsible for formulating the new code but also for devising ways to communicate it to all employees. Its jobs included evaluating the related rules and regulations, formulating the Ministerial Decree and Director General’s Decree, standardising the code’s application, and training the trainers of the code. Later in 2008, the code was modified. The new code of ethics consisted of nine duties and eight prohibitions (DJP 2011c) (see Appendix 2).

As indicated from the shortcomings detected, particularly the second one, there seemed to be an inadequate grasp among some of the employees concerning the concept. When the code was introduced, some employees mixed up the code and the
disciplinary rules. The code of ethics actually signifies the values and ethics principles of the organisation, while disciplinary rules refer to the law. Although there is an overlapped area between ethics and the law, they are different to each other (see Chapter 3).

During the data collection, such misunderstandings were occasionally encountered. One middle manager, for example, said that “[i]t is quite ironic; why do we need another code of ethics?” (MM-3), while indicating that there are already disciplinary rules. Another common view from the participants was that the code was introduced to clarify as well as simplify the punishment implementation process. Others stated that the code was created to deal with difficulties in implementing the disciplinary measures, which were due to several causes: the few standards on interpreting the details, the hesitancy culture of upper level officials, and the high degree of collusion inside organisation to avoid strict punishment system implementation. The level of understanding varied among the respondents, with some eloquently explained the connection between value, code of ethics and behaviours. After nearly a decade since the reform was launched\(^7\), there should be a better comprehension of the concept of the code of ethics and its difference from legal rules.

**Secondary instruments adopted concurrently with the introduction of the code**

Rules-based instruments stem from the primary instrument and were adopted in the earlier stage of the reform, concurrently with the adoption of the code of ethics. This section also covers the modification of the instruments that occurred later on. Included in this group of instruments are signing the integrity declaration, formal

\(^7\) Almost all of the interviews were conducted in December 2011 - January 2012.
sanctions, procedures for code violations, gift policy, and declaration of possessions and wealth by government officials.

Signing the integrity declaration

The creation of the code of conduct led to other activities in ethics management. The first activity was signing the integrity declaration. The employees whose offices began implementing the code of conduct were obliged to sign a stamped declaration of commitment to apply the code (MOF 2010). As stated in Artjan (2011), it was like a ritual to sign the declaration before moving to a new office and getting the new allowances. By signing it, they explicitly stated that they would commit themselves to respect and to implement the code of ethics of the DGT. This instrument was, and still is, taken seriously as an important process of employment. Hence, although the legal consequences might be limited, it is expected to have a significant impact and present a symbolic meaning to each employee (OECD 2009).

After all the DGT offices are completely modernised, the declaration signing instrument is still adopted. The obligation to sign the integrity declaration is applied to new employees, at the time they are accepted in the DGT and when they are assigned to their first post (DJP 2007). Since the implementation of this instrument is compulsory, as a requirement for commencing a position in the DGT with sanctions for not following it, signing the integrity declaration becomes a rules-based instrument.

Formal sanctions & procedure for code of ethics violation

Formal sanctions have played an important role in the DGT, both before and after the reform. What made them different was that after the reform, in addition to the formal
disciplinary sanctions that existed, there were now also formal moral sanctions. A personnel violation committed by an employee could be a violation of the code of ethics, a violation of disciplinary measures, or both. If it is a violation of disciplinary measures, it will be investigated by KITSDA or by the Inspectorate General. The result is in a form of recommendation that is implemented further by the immediate superior of the relevant employee, in line with Government Regulation (Peraturan Pemerintah) Number 53 Year 2010 concerning Disciplinary Measures for Civil Servants. However, in the case that the offence is a violation of the code, a code of ethics assembly would be set up to examine the case closely (MOF 2010). An employee proved to be guilty of a code of ethics violation would be given a moral sanction, either to make an apology or to write a statement of repentance, which could be stated in public or in private. On the other hand, if the employee were proved not guilty, the code of ethics assembly should inform to the employees’ immediate superior about the decision in ten days (MOF 2010).

Disciplinary sanctions in the DGT were based on the same government law that is applied in other Indonesian government institutions. The sanctions comprise rather complicated types and treatments, but in general they can be divided into four types: reprimand, light punishment, medium punishment, and heavy punishment. ‘Reprimand’ in OECD (2009) is classified as an informal sanction. In the DGT and in Indonesian public administration in general, all sanctions, including a reprimand, have to be formally given and recorded. Hence, informal sanctions are not recognised.

*Gift policy*

One of the prohibitions for the DGT’s employees stated in the code of ethics was related to gifts and gratuities. the DGT’s employees were not to accept any
appropriation from taxpayers, friends, or any parties related to their jobs or positions
(see DJP (2013) and Appendix 3). In a broader context, provisions about gifts and
gratuities for Indonesian government employees in general are based on Law Number
20 of 2001 (KPK 2010). It basically rules that all gratifications presented to
employees or state officials are deemed to be bribery if related to or conflicting with
the employees’ or officials’ duties, unless reported to the Corruption Eradication
Commission. This provision also became a rules-based instrument in the DGT’s
ethics management.

**Report of wealth (LHKPN)**

Indonesian government officials are bound to report and declare their possessions and
wealth, or *Laporan Harta dan Kekayaan Penyelenggara Negara* (LHKPN) (KPK 2012). Under Law No. 28 of 1999, only government officials of Echelon I, equivalent
to DG (Director General) are required to perform this obligation. However, in the
Ministry of Finance, the law was modified in 2006 (KPK 2012) in such a way that it
included all officials of Echelon I, Echelon II, Head of a tax service office, tax
auditors, procurement team leaders, and office treasurers. Further, in 2011, another
decree issued by the Minister of Finance included all officials of Echelon I down to
Echelon IV levels to perform the obligation.

In the DGT, the enforcement this law of was broadened. Officials and employees who
are obliged to report and declare their possessions and wealth are all officials of
Echelon I down to Echelon IV levels, property appraisers, procurement team
members, seizors, account representatives, and tax objection reviewers. The reports,
in addition to being passed on to the Corruption Eradication Commission, are also
monitored and further utilised as comparison data in KITSDA. The compliance level
of the DGT’s officials and employees with this obligation for 2009 and 2010 were 95% and 96.35%, respectively (DJP 2013).

Secondary instruments adopted after the establishment of KITSDA

This section discusses secondary instruments that were not adopted concurrently with the code, and after the establishment of KITSDA. As the DGT’s integrity bureau, KITSDA is in charge of all ethics management instruments and activities in the DGT. While the older instruments were maintained, newer instruments were introduced in this period. The newer instruments were compliance monitoring, complaints handling, risk management, and a whistle blowing system. Each of these is discussed below.

Compliance monitoring

Compliance monitoring is performed in order to maintain a high level of discipline, to create desirable work environment, and to improve service quality to the taxpayer (DJP 2013). There are two mechanisms for compliance monitoring: unannounced inspection and blind surveillance. Unannounced inspection is visiting and monitoring without prior notification to the unit monitored. In inspection, officers appointed actively look for violations (OECD 2009). In blind surveillance mechanism, officers visit a unit to see and capture the actual condition it is in (DJP 2013).

A middle manager asserted that compliance monitoring activities should be conducted more balanced and wisely (MM-2). The officers conducting the inspections must be more accommodating and less arrogant, the manager said, “don’t just come here and then tell us that we are wrong; sometimes arguing too” (MM-2). The ultimate purpose of compliance monitoring is improvement, “not just come and blame” (MM-2).
Following the expansion of the internal compliance function, compliance monitoring activity has increased. In the expansion, an internal compliance unit was ‘inserted’ in each of the DGT offices, in both vertical and technical units (DJP 2013). In the vertical units, the expansion was up to the level of TSOs and will be further discussed in Chapter 6. This has resulted in 367 internal compliance units all over Indonesia. Each unit, as stipulated in the relevant Minister of Finance Regulations (DJP 2013), is obliged to perform compliance monitoring. Although the effectiveness is yet to be evaluated, the frequency and coverage of compliance monitoring has considerably increased.

Complaint handling

In 2008 a more coordinated system of complaint handling was established in the DGT. The DGT’s Tax Complaint Centre became the basis of the DGT Contact Centre that deals with both complaint and information services. The DGT Contact Centre can be accessed in five ways: through internet website, email, telephone, fax and mails (DJP 2009a). Of the five communication channels, the telephone is probably the most popular one. The DGT opened its own Call Centre also in 2008 and was given a brand name: Kring Pajak 500200 (or Ring Tax 500200). Complaints regarding ethical behaviour in general have included reports on tax officers who committed (allegedly committed) corruption, collusion, and nepotism, extorted taxpayers, violated office working hours, misused of office facilities, violated personnel regulations, and others (DJP 2009a).

Up to the end of 2012, there were two contact centres in the DGT (DJP 2013). One contact centre was known as Kring Pajak 500200, with a function of performing as an inbound contact centre. The other was under the Centre of Tax Data and Document
Processing, which functions as an outbound contact centre. Complaints, including those regarding to unethical behaviours, were handled in Kring Pajak 500200, professionally registered and handled.

At the end of 2012, the inbound contact centre and the outbound contact centre were merged, as the Office for Information and Complaint Service, or Kantor Layanan Informasi dan Pengaduan, or KLIP (DJP 2013). The establishment of KLIP made the DGT the only government institution in Indonesia that has a permanent contact centre in its organisational structure, thereby maintaining its position as a pioneer in public service reform.

Also in 2012, improvements in complaints handling were made (DJP 2013). First, various channels for complaints were completed, for both external and internal parties. Taxpayers and the public in general can make their complaints through different channels. Direct channels include a Help Desk at the KITSDA, telephone, or email. Otherwise, complaints can be channelled indirectly by written letters sent to the Director General or other senior officials in the DGT. Employees can also direct their complaints to the DGT, through the intranet. Second, database for internal complaints handling was completed, adding to that of external complaints previously created.

Analysis shows that complaints have been properly handled and registered. The complaints have also been followed up in KITSDA, and where appropriate, they resulted in recommendations for disciplinary measures. However, data collected did not indicate any process taken that resulted in the setting up of the code of ethics assembly, as discussed earlier in the procedure of ethics violation. There seemed to be a tendency that when a violation was both of ethics and disciplinary measures, KITSDA was likely to follow it up by applying the provisions on disciplinary
measures. In the meantime, there have been no records on violations that are ethics violations. This finding leads to a recommendation that more commitment is necessary if ethics is to be implemented distinctively from legal approach.

Risk management

Risk management began to be implemented nationally in the DGT in 2012 (DJP 2013). However, it has been gradually adopted since 2008, following an educational phase in 2007. The implementation began with the head office, and then continued to in regional offices, and finally to all DGT’s offices in 2012. In the DGT, risk management can be seen as a systematic device to reduce the impact and the possibility of risk (DJP 2008b). It facilitates the DGT’s managers in finding the balance among operational activities, assigning the appropriate priorities to each of them, to achieve the organisation’s objectives. The efforts in risk management comprise determining main risks, determining main performance indicators for risk management, optimising the mitigation of main risks in the DGT, and human resources development in regards to risk management (DJP 2013).

One of the main elements included in the DGT’s risk management is risk analysis (Kemenkumham 2010). It is conducted by observing the sources of the risk and the level of control available, and then continued by assessing the consequence and the probability of the risk. The ‘risk’ includes risk to integrity, covering sensitive processes and functions, identifying significant vulnerability to integrity violations and recommendations to increase the organisation’s resilience. In general, the results were recommendations on the level of control necessary for certain sensitive divisions or areas and policy for staff rotations.
Employees’ unethical behaviours impact badly the whole organisation. Cases of misconducts involving the DGT’s employees which have occurred in the last several years have struck severe blows to bureaucratic reform in Indonesia, in particular to the DGT’s reform (KPK 2012). Fuelled by massive coverage in the media, the cases significantly reduced public trust in the DGT, and there was even a movement to refuse to pay taxes (KPK 2012). To prevent these cases from happening in the future, since 2011 the DGT has implemented a whistle-blowing system (DJP 2012b). There were three objectives of the implementation: first, to increase the active participation of employees and public in reporting fraud, misconducts, or any violations; second, to regain the public trust in the DGT that was severely damaged by the cases; third, to change the employees’ permissive culture to a corrective culture. The ultimate goal for the DGT is to achieve the optimum tax revenue target.

Three principles are adopted in implementing the whistle-blowing system in the DGT (DJP 2013). The first principle is prevention, which comprises mainly regulations and a campaign of the DGT’s whistle blowing system. The regulations include heavy punishment for an employee committing a misdeed. The second principle is early detection, by obliging employees to report violations or indications of violations. The whistle-blowers’ identity will be kept secret, they will be given protection and they will also be given rewards if the report is valid. The last principle, proper investigation, ascertains that each report is handled properly and consistently, and that each case will be approached from a tax criminal offence perspective. This perspective by no means removes the DGT’s authority to impose disciplinary measures. Each report must also be handled in a manner that prevents a defamation of a person or party.
The implementation of a whistle-blowing system was quite controversial. Employees’ perceptions regarding the implementation were divided. Some groups fully supported it. A senior official gave an example, “In a team [of audit], if one auditor commits a violation, the other team members are obliged to report him or her. Otherwise, they will be sanctioned, too” (SM-1). That will prevent misconduct, the senior official continued. Some others accept the decision made by the leaders, showing agreement with softly spoken objections. “Lastly we had the whistle-blowing system. It was controversial, but it might work to keep us on the right corridor,” (E4-1) said an employee. Another employee said, “There is the whistle-blowing, that from Eastern culture’s perspective might not be applicable, but maybe it is an innovation, so it might work” (E4-2).

A middle manager expressed concern about the whistle-blowing system as follows:

Whistle blower is a good concept. But there is another aspect. If it is to be implemented, it can create a feeling of distrust and suspecting among employees. I, as a manager in this institution, surely want that all employees work optimally. But whistle blower might create a disharmony and I am afraid it might hamper our efforts to perform our duties (MM-6).

The DGT’s whistle-blowing policy, in addition to being based on a Decree by the Director General, was based on a regulation by the Minister of Finance in 2010 (DJP 2013). Therefore, provisions on whistle-blowing system were applied to all employees of the Ministry. Also, the enactment of the policy was simultaneous with more active values internalisation. This was to avoid sending wrong signals to employees and weakening the values-based instruments, as advised by the OECD (2009).
5.3 The integrity approach instruments

As explained in the earlier section, the instruments are categorised as primary, for the DGT’s organisational values, and secondary, for other instruments. The discussion in this part is based on this categorisation.

The DGT’s organisational values, the primary instrument of the integrity approach

In 2008, the DGT introduced its organisation values to its employees (DJP 2008a). The values were Integrity, Professionalism, Innovation and Teamwork, and “for convenient purpose and a more catchy expression” (E4-2) said an employee, “they were usually shortened as PasTI (Profesional, Integritas, Teamwork, Inovasi). The values are a reference for the behaviours for all DGT employees in performing their work (DJP 2008a). “To some extent I feel that the values gave us benefits. We had the same spirit, ‘esprit the corps’,,” said a manager (MM-6).

In general, all participants fairly understood the values and were able to fluently state the DGT’s organisational values and their meanings. However, the interpretation of the concept of values might be different from one employee to another. Most of the respondents see values as guidance – one said “guidance from the top”, or “guidelines”, or “fences that keep us in the corridor”. Some interpreted values as spirit, inspiration and energy. Again, an understanding of values that is closer to the mainstream was also found, mostly from those in head office or more senior. According to these participants values are what are believed or upheld, and values will drive behaviours.

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*Pasti is an Indonesian word that means definitely, or certainly*
A middle manager criticised the process of setting the organisational values. The values should be shared values, the middle manager emphasised (MM-3). “When we talk about organisation values, it is highly related to the current existing organisation culture. Was there any study about it? I think not,” said the middle manager (MM-3).

The middle manager also highlighted his impression that not all members of the board of directors actually knew the concept of values, and the possibility that they got mixed up with skills. “Professionalism, integrity, those are values. But innovation? Teamwork? Are these values?” (MM-3) the manager pointed out. There are two aspects to the criticism. First, there is a lack of familiarity with the concept of values among the employees. Second, rather than something shared or common, values were seen as coming from the top as given.

*The new values*

As mentioned above, new values were introduced. In 2011 five values were declared as the Ministry’s values, shared among its units, including the DGT. The values include *Integrity, Professionalism, Synergy, Service,* and *Excellence* (DJP 2012b). These values replaced the values previously formulated and owned by each Echelon I unit within the Ministry. In 2011, the DGT hosted the kick-off of the Ministry of Finance Values, which also served as the first internalisation activity of the Ministry of Finance values at the DGT (DJP 2012b). It was followed and implemented by the operational units within the DGT.

A senior manager said that the new values, the common values for the whole ministry, were not too much different from the previous organisational values of the DGT. “We can be a bit proud that they copied from us, and usually copying gives a better result” (SM-2) said a senior official. “For the DGT, there is nothing new,” (SM-2) the senior
official explained. Another senior official said that, “there was improvement, although the values are almost the same” (SM-1). He then continued,

Now the priorities are changed; integrity first, and then professionalism. Synergy is more than team work. In synergy, there is teamwork, and then understanding, good presumption. Service has never been mentioned. We have to be able to serve our stakeholders. The last one, excellence, was greatly challenged before [when suggested]. This value means that we, in all our efforts in working every day, always strive to the point of excellence. This is totally brand new (SM-1).

Socialisation of the code and values

This instrument involved the dissemination and explanation of the DGT’s code of ethics and organisational values. In the OECD (2009), this is known as ethics training. The socialisation of the code was aimed at employees understanding the code and values and developing the willingness to implement it in daily work activities (MOF 2010). In the earlier days of the LTO, there was no formal socialisation conducted for the newly applied code of ethics. It was conducted as part of meetings that were held to inform employees of the features of the new office. In addition, there were also informal gatherings held weekly. Issues on ethical behaviour took significant portions of the meetings and gatherings. Both meetings and gatherings were organised in a very open manner. “They were more like sharing. Employees were just free to speak up,” said a senior official (SM-2). The sessions were more for discussions rather than training, providing interactive communications between the trainers and trainees; these are the characteristics of values-based ethics training (see Maesschalck 2004; OECD 2009).

Particularly in these years, as pointed out by the senior official, the role of leaders is of great importance. This is in line with the OECD (2009), which stresses the

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9 In another interview, an employee asserted that the order was always Integrity first, then Professionalism. It is in line with DGT Strategic Planning 2008-2012 (DJP 2008). The employee explained that the acronym PasTI, which put Professionalism before Integrity, was simply for the purpose of making it easier to pronounce.
importance of the role of managers in ethics management. A senior official said that “In the DGT, there is a culture of role model (loosely translated from *budaya panutan*)” (SM-2). The term refers to the culture in which employees would follow what the leaders do or say. The senior official also emphasised that “the most important thing is for us as leaders to be examples, to be role models” (SM-2). In addition, the senior official added, managers in the LTO spent quite considerable time not sitting in their offices, but meeting with the lower employees, talking and sharing with them (SM-2). It was realised that the commitment for integrity was not always constant. “It went up and down,” (SM-2) said the senior official, “that we managers have to keep their spirit.” It was important not to leave the employees flagging and unguarded. The early period of the reform is critical, as shared by the senior official:

> Few employees came to me and asked, ‘has the reform failed?’ I said, ‘What? Why has it failed?’ They just felt that this [what they have been doing] did not give effect to the organisation, especially after the reform entered the third and fourth year. … They felt tired. That’s why we need to keep forcing the spirit to them (SM-2).

In late 2003, the DGT modern office features began to be rolled out. As explained in Chapter 2, activities to disseminate the code of ethics were taken over by the DGT’s Modernisation Team with assistance from the TAMF (Technical Assistance Management Facility, support from the AusAID). In this period, the socialisation of the code of ethics was designed as part of the training in a Modern Administration System, which was given to employees who passed the fit and proper test to work in the DGT offices that began implementing the modern system (MOF 2010). To assure consistency of the materials given, regular coordination was maintained between these offices and the Modernisation Team. “We in the team did some supervision. The modernisation team was to monitor the implementation of good governance in
the DGT” (SM-3). Good governance in this case includes the implementation of the code, in particular the dissemination of it.

More importantly, the way the training was conducted, including the socialisation of the code, was similar to that in the earlier days of the LTO. The training was more in the form of discussions than lectures, as two way communication. Using the Adult Learning Principles (ALP), the trainees were the focus and the trainer functioned only as the facilitator without dominating the class (MOF 2010). Therefore, the socialisation of the code of ethics was classified as integrity-based ethics management instruments.

**Internalisation of the code and organisational values**

Later on, in addition to socialisation, another instrument called internalisation of values was introduced. The term internalisation for this activity was used to indicate that this is “a process deeper than mere socialisation”, and accordingly “it is expected that the spirit of the code of ethics will be deeply implanted in employees’ hearts” (MOF 2010, p. 163).

Perhaps, after the modernisation was rolled out nationally, the DGT’s organisational values were the most obvious feature of ethics management in the DGT, and clearly seen in the DGT’s offices. Colourful banners greeting visitors could be found in the lobby of each DGT office. Displaying banners was one of the indirect ways of values internalisation in the DGT. Other ways included leaflets, calendars, and attaching the values to the DGT’s e-learning application and internal website. Direct ways of values internalisation would involve face to face meetings on various occasions. It could be a special program for values internalisation. It could also be a workshop, training, or an outbound activity, into which values internalisation was inserted. The method applied
in direct internalisation was the Adult Learning Process (ALP), where employees were encouraged to be actively involved in exploring the organisation’s values. In this period, particularly in 2008, the direct internalisation was given mainly to employees outside of Java and Bali, since offices in these regions were recently modernised (MOF 2010).

Since 2010, values internalisation in the DGT has been improved. The internalisation was conducted “from the time of employees’ recruitment up to their retirement” (MOF 2010, p. 243). In the DGT, there are four stages of the internalisation process. The first stage is raising awareness, where employees are informed of and made concerned about the DGT’s organisational values. The second stage is developing employees’ understanding, the process of which is directed to transferring the knowledge about the organisational values. In the third stage, employees are assumed to have accepted the code and values and have given their verbal supports. In the fourth stage, it is expected that employees actualise the code and values into their daily performances.

**Role modelling and coaching**

In a broader context on a national level, the role of leaders as exemplary models has also been emphasised. Exemplary behaviour is deemed to be one of the important aspects of supporting the success of built-in control (pengawasan melekat, also translated as inherent supervisory) in government administration (Kemenpan 2004). In the Ministry of Finance, including the DGT, built-in control is one of the elements in the internal control system employed (Kemenkumham 2008). Exemplary behaviour is also one of the five components that must exist to uphold ethics and integrity,
which creates a conducive environment for internal control in government institutions (Kemenkumham 2008).

More specifically in the DGT’s context, role modelling and coaching activities were explicitly stated in 2011 and 2012 (DJP 2011a; DJP 2012a). In the annual guidance for values internalisation in those years, the activities included the obligation for officials of Echelon II, III and IV, as well as Tax Audit Supervisors to become members of internalisation teams in each of the DGT’s offices. They were required to become role models and to give coaching to their subordinates. These managers were also to share their knowledge and experience in implementing the DGT’s values. As one participants shared “I gave presentations on my experience to improve efficiency in using office stationery. One of my colleagues gave training on dealing with unhappy customers” (MM-4).

There has been formalisation of role modelling and coaching in the DGT. Managers were required to share their experiences and to give examples in presentations. Although these activities are useful, they are not exactly the same as the role modelling suggested in the literature. Role modelling is more like exemplary behaviours (OECD 2009) in terms of ethical behaviours in their professional relationship in the office, as well with external parties. The DGT could have workshops or trainings for managers on that specific matter.

In regards to coaching, formalisation (or institutionalisation) is suggested in the OECD (2009); however, the suggestion does not involve direct managers. The institutionalisation of coaching might involve individuals or semi-independent bodies with the tasks of providing content-wise supports to those with ethical concerns.
The appointment of direct superiors as ethics coaches might limit the advice to matters not having a conflict of interest with the bosses.

5.4 Views on the ethics management approaches

In this section, DGT’s employees’ views on the compliance and integrity approaches of ethics management are discussed based on the interviews conducted in the beginning of 2013. The discussion is divided into two groups. In the first group are the views of those participants in the head office as the policy makers, either currently or previously. This group of views serves to clarify and provide better understanding on ethics management measures and instruments taken in the DGT, in particular concerning the approaches. The second group includes the views of participants working in operational offices. The discussion’s aims are twofold: to verify the responses and explanations of those in the DGT head office and to expose their own views of the ethics management approaches. In the last part, other factors important to ethics management are described.

Views of the policy makers on the approaches of ethics management

The views of the policy makers regarding the approaches of ethics management indicate high consistency. In general, they are of the opinion that both approaches, compliance and integrity, are equally important. Another common view of the policy makers is that the application of the approaches should be balanced, contingent to the situations faced by the DGT. They also shared the common idea that efforts that stimulate ethical behaviours, rather than enforce them, would give more effective results in improving employees’ ethics and integrity. However, this did not mean that the compliance-based measures were less important.
Both approaches are equally important in promoting ethical behaviour. Employees need to be motivated and encouraged to behave ethically and at the same time monitored and controlled for misconduct not to occur. A senior official said,

For the DGT, it should be 50:50. To be frank, we did not start from zero, unless, we were a newly established institution. Or, perhaps, we could just replace all employees with new ones. But we couldn’t. [The existing employees] were already contaminated by the environment, from experience. That’s why we need those strong fences. (SM-2)

However, as indicated by another senior official, even if the DGT is a new organisation, the compliance approach is necessary. “It is only natural. If the code and values are only preached and drilled, there would have no effect. They have to be enforced and monitored for employees to practise them,” (SMM-1) the senior official explained. Another senior official added, “There are ups and downs, our behaviours. That’s what needs to be guarded by rules and sanctions” (SM-2).

Which of the two approaches should be emphasised is situational. As a middle manager explained,

It depends on the situation. In a newly reformed organisation, like the DGT, values internalisation should be done first. The employees should understand. … However, when there was an issue in public that the reform has failed, like when there was the Gayus case; that is an example where enforcement became important. On the national level the President himself issued President’s instructions related to corruption eradication in the DGT, tax mafia, and all that. It shows that in certain points, with considerations not to let violations drag the reform too far from the track, enforcement is more important (MM-2).

A senior official warned that both approaches should be conducted intensely. “Don’t think that by having them balanced, they will be in lower level [of intensity],” (SM-1) said the senior official. Another senior official explained,

When there was Gayus case, [there were] more controls, and there was whistle blowing system. But it was a reactive measure. On the other hand, we also published ‘Berkah’ book [see Chapter 6]. The stories are very inspiring. Those who read are expected to be motivated and [the book is also] to inform others outside the DGT, that the reform is progressing, that we are striving (SM-3).
Without reducing the importance of the compliance approach, most of the policy makers put the integrity approach as the initial step to shape employees’ ethical behaviour. “The purpose is for the employees’ awareness to come automatically [behave properly]. It takes time. That’s why now we have asked that the material of the code of ethics and values are also taught in the Ministry’s training centre and National College of Accounting\(^\text{10}\),” (MM-1) said a middle manager. A senior official explained,

> What is more important is internalisation in order to arouse good intention from within the employees. Organisationally speaking, there should be control, but how effective is it with so many employees? It’s like playing police and thief, if you’re unlucky, you get caught. Awareness, a good intention from within, is more effective. To some point, employees behave ethically not because they have to, but because they enjoy doing it. If that happens, our job will be much easier. (SM-8).

Still, both approaches are important. As pointed out by another senior official, sanctions and punishment are the last resort. “In crime law, there is the term *ultimum remedium*\(^\text{11}\). In the beginning, people are asked to voluntarily comply with the law. However, someone committing a crime repeatedly cannot get away unpunished” (SM-1).

Nevertheless, in spite of compelling assertions by the policy makers of employing a balanced strategy in ethics management, further analysis indicates a strong inclination towards the compliance approach. This does not necessarily mean inconsistency in the responses; it rather shows what these policy makers actually mean by a “balanced” approach. The balanced approach has been understood by the participants as the relatively equal number and intensity of ethics instruments of both approaches.

\(^\text{10}\) National College of Accounting (Sekolah Tinggi Akuntansi Negara, or STAN) is an academic institution run by the Ministry of Finance

\(^\text{11}\) Ultimum remedium is one of the principles in Indonesian criminal law that says that the criminal law is the last resort in law enforcement (http://lbh.unpar.ac.id/radio-chevy-103.5fm/ultimum-remedium-dalam-pemidanaan/).
Looking further at the responses, a tendency towards the compliance approach could be recognised. Such an inclination can be seen from the statements that were taken from officials currently in the head office; hence the statements were assumed to reflect the current policies of ethics management in the DGT. One of these statements said, “There are sanctions and there are also rewards. That’s how we educate employees” (SM-1). The statement clearly emphasises the importance of external controls, in this case, the sanctions and rewards for guiding employees’ behaviours, which is the essence of the compliance approach (Maesschalck 2004).

In another statement, external controls were once again stressed to direct employees to behave as expected by the organisation, which left employees with limited choices.

Look at DG Decree no. 22 [concerning the whistle blowing-system in the DGT]. If you steal 10 billion rupiah, you have to return 14 billion. That’s not all. After that, you are expelled, and sent to the police. If one reads it logically, and implements it properly, such crime would be prevented. The better one is voluntary, but it’s just not possible. [T]hose who are half hearted [with the reform] will think again. There are only two choices, either you are with us, or against us (emphasis added) (SM-1).

Such a position leads to a situation, in which “the individual ethical choice is limited to choosing to follow the rules (the ethical thing to do) or to violate them by commission or omission (unethical acts)” (Fox 2001, p. 110).

The tendency towards the compliance approach was also shown from the following statement,

We will create the feeling (of employees) that they must not do it (unethical behaviour) because it’s only a matter of time for us to find out. Just like in Louvre Museum, where there are 1,000 cameras and only 300 of them actually work. We don’t know which ones. We plan to create a psychological condition so that employees feel that they are monitored all the time (SM-1).

Rather than emphasising internal control, the self-control exercised by individuals, the statement showed an expectation that employees would behave ethically out of fear, or because of controls external to them.
Views of employees in the operational offices

In this section, the discussion is divided into two parts. The first one discusses the views of employees in operational offices of ethics management in the DGT and KITSDA. The second analyses their view of the approaches in general.

The views on ethics management in the DGT and KITSDA

Participants at the operational offices reported said that ethics management activities, both rules-based and values-based, were implemented in their offices. Values internalisations, in particular, were well implemented in these offices. An employee said, “In TSO there were also internalisations. Since 2010, we were trusted to perform it by ourselves. We also did it once together with the region office” (E2-1). As discussed in an earlier section in this chapter, an employee said “In this office, we had lunch together, pengajian (religious study) together, senam (sport exercise) together, as part of the internalisation program” (E2-1). This was in line with the letter from KITSDA to insert values internalisation in such activities. Meanwhile, a head of an office said,

Like training? Head office did that, several times, and also region office. There were trainings that we and region office did together, there were ones that they gave trainings to us. We also did the trainings for our employees (this office). The trainings were about values. In my office, I modified a little by involving public figures and religious leaders here. […] We cultivated (the idea) that if we implemented the code and values, we’re the ones who benefit from them, not only the organisation. Second, we will feel peaceful, in the world and the hereafter (MM-3).

Activities that are rules-based were also implemented in these offices. An employee shared, “In the TSO there were unannounced inspections. TRO must do it at least once a year” (E2-2). However, most activities of this type were still performed by the Head Office12.

The intensity of KITSDA in imposing the rules carrying out the compliance monitoring activities was sufficiently high that it left certain impressions for some of

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12 When interviews were conducted, Internal Compliance Units that are more permanent were not yet established. There were Internal Compliance Teams that were temporary.
the employees. They think that KITSDA was too strict and too detailed. An employee observed,

If it is about integrity, [we agree that] it should be there. If it is about prohibition to accept money or gifts, we have to know that. In the DGT, it has to be like that. If we don’t like it, we may get out. But maybe our concern is about the rules that are not about integrity, the rules that are about neatness, about business attire, for example. We feel that control on this is too strong. I didn’t say it is not important, but we have to place the right priority. Don’t make us feel antipathy to all rules issued by the institution. Don’t make a big deal on violation of this type (E4-1).

Another employee said, “To be honest, we think that KITSDA’s function is only to control and monitor, and give punishment. To be frank, KITSDA is something scary for me” (E3-1). A middle manager said, “The other day there was someone promoted from KITSDA [to this office]. That person told us not to worry, because he was not from ‘that part’ of KISTDA (referring to the internal function of KITSDA). That showed that ‘that part’ of KISTDA, or KITSDA as a whole, is not popular” (MM-4).

The middle manager also suggested a different approach that KITSDA could apply. He said,

When an employee shows an inclination or there were signs of a decrease in integrity, KITSDA can try to find out first what the problem is, and give consultation. People will be happier that way. Perhaps KITSDA now is more like, well, a machine. Because someone did something bad, just process and punish. There has never been a special team assigned for consultation, report, without blaming. People like to be appreciated, praised. There should be ways that when KITSDA come, it is more about developing, training (MM-4).

*The views of approaches to ethics management*

The views of ethics management identified three positions: views that support a more rules-based approach or compliance approach, those that advocate a more values-based approach or integrity approach, and views that promote for a balanced approach for ethics management in the DGT.
Supporting the compliance approach. Some participants supporting the compliance approach referred to the DGT’s condition, in particular the problems with misconduct in the past. An employee said, “Internalisation is important, but how effective it is? To change something that has been deep-rooted for years is not easy. [Based on] my experience, not only in the DGT; internalisation is good, but not effective” (E3-5). Another employee seconded that opinion since there had been culture and conditions that had already been shaped in the DGT. “Such a condition exists, and has been there for a while, and we want to change it. Like it or not, the transformation has to be performed; firm and forceful” (E3-6). “The reform is just 10 years old, since 2002,” (E4-1) another employee said, “and undeniably there is more than 70% of all employees in the Ministry have been working since before the reform, some are already contaminated” (E4-1). Not to mention, he continued, the reform was just completely rolled out nationally in 2008. “Four years is just a short time, we still need sanctions, enforcement, control, etc.” (E1-4). Another employee confirmed, “control is necessary, by KITSDA, by region office, by other offices external to the DGT” (E4-3).

Other participants relate the need for more of a compliance approach to accord with the character of Indonesians. “In my opinion, Indonesians still need enforcement, through rules,” (E2-6) an employee argued. “Internalisation is related more to ourselves and our relationship with God. When we act wrongly, most of us ethically know, and God knows, too. But for Indonesians, their fears of their bosses are bigger than their guilt feelings and their fears of God” (E2-6). A middle manager related the character of Indonesians to the reform context and said, “In my experience, in work and life, sometimes it is necessary to show, and to give a signal to employees that we
will punish those who make violations. We are not people that uphold discipline. We need to be forced by external factors” (MM-3).

The context and status of DGT in the reform was also a reason for adopting the compliance approach. A view from a middle manager reflects this:

In our context, promoting the external factors has to be strengthened. Why? First, DGT in particular, and the Ministry of Finance in general, have been chosen as the pilot project for the national bureaucracy reform. There is a very big stake if it fails.

In this very young journey of reform, we were shocked by the Gayus case; it happened in the institution chosen as a pilot project for bureaucracy reform. This is the right time to give signal for any stakeholders of our institution, that an offence like in Gayus’ case cannot be tolerated. What signal? We give the heaviest punishment, heaviest social, moral, even financial sanctions, to him, so that the bureaucracy reform goes back to the right track. So, for us that are still new in the reform, moreover as a pilot project, plus having that case, the external controls must be stressed. We must tell others that we don’t tolerate it. (MM-4)

Those who support the compliance approach, however, stressed the importance of fairness and consistency in applying it. A middle manager said, “[Control and punishment] are necessary, but be careful applying them. When we talk about punishment, we are talking about law, and the law must be equally applied” (MM-3). “We have to be careful in giving punishment; there has to be equal treatment, it has to be fair,” (MM-4) said another middle manager. “Otherwise, the organisational values will be meaningless. Unfair treatment can easily be seen. People can easily compare,” the middle manager added. About the rules and regulations, an employee said, “what is important is consistent implementation. If we are consistent, and those up there are also consistent, that should be enough” (MM-4).

Advocating the integrity approach. Some employees believe that the integrity approach is better because of the impact created. A middle manager said, “It’s like energy that does not need recharging. It goes by itself” (MM-3). Another employee said, “I’d prefer the integrity approach, because the impact is more permanent. If
individuals’ internal factors are good, it will create a good culture, and it will be obvious, from the way they smile, the way they treat taxpayers” (E1-5).

Other employees relate the promotion of ethical behaviours with religious activities or spiritual formation. “We should conduct more religious or spiritual activities. If we become closer with God, unethical behaviours will definitely reduce, misconduct will disappear. If we are far from God, misconduct will increase. The activities will make our behaviour better” (E2-3) said an employee. Another employee said, “We can invite priests. We can also select employees during recruitment based on their moral character. Then, if necessary we establish a special unit dealing with employees’ morale” (E2-4).

Some other employees perceive that rules have limits and high dependency. An employee said, “In my opinion, more rules mean more violations [of them]. Rules should be simple, not complicated” (E4-3). Another employee said, “For Indonesians, rules are made to be broken. It’s known publicly. When there is a new rule, we’ll find a way to evade it. Therefore, in my opinion, individuals’ internal factors are more important” (E4-2). A different employee indicated that implementation of the rules depended on individuals, “therefore, no matter how good the rules are, if the individuals are morally corrupt, there will still be leakage and violations. Individuals’ internal factors should come first” (E2-5).

However, supporters of the integrity approach agree that sanctions and punishment are still necessary. A middle manager said, “The emphasis is on internalisation. If after internalisation, they are still bad, punishment comes in to play” (MM-2). Another middle manager said,
Values-based policies should be applied in a certain period of time. If after that period, a (troubled) employee shows no progress or improvement, then disciplinary measures will take place. Even, in these measures, there should be incentives in the form of coaching, mentoring, or counselling. It is the responsibility of his direct boss and his direct boss’ boss. If this doesn’t work, don’t immediately judge that it is the relevant employee’s own failure. It is also his boss’ failure for not successfully managing and leading him. A disciplinary measure should also reflect the boss’ failure. It is the last resort (SM-1).

**More balanced approach.** With views quite similar to those of the policy makers, some participants in this group recognise that, although both approaches are considered equally important, the integrity approach is to be emphasised first. “Both are important,” said an employee, “but what we need to stress is encouragement” (E1-1). Another employee said, “I tend to say that both (approaches) are important; however, to create awareness, it should start from individual’s internal factors,” (E2-6). One employee employed an analogy and said,

> [The reform] is like planting trees in a dry, barren land. We water it and nurture it. The dry, barren land will turn fertile, but not all of it. Hard, stubborn rocks will not change; they stay hard and stubborn. We can’t plant trees on them. We have to get rid of them. In the DGT reform, first we motivate and encourage employees to be better. Those that are difficult to change, there are sanctions and punishment. Those that can’t be changed, sorry, need to be expelled. We just can’t plant trees on hard, stubborn rocks (E4-6).

However, as stressed by some participants, although the integrity approach is emphasised first, it does not necessarily reduce the importance of compliance approach. A head of an office said, “I think both [approaches] are effective if implemented in the right time and situation. Failure to give punishment will give incentives to non-compliant to commit the same thing [misconduct]” (MM-2). Another head of an office said,

> If we put internalisation ahead, that does not mean that we negate rules and punishment. That should be underlined. … Both [approaches] must be applied. But I think it [punishment] is the second way. … If one employee is problematic [committed misconduct] and we let him get away with it [without punishment], other employees will think all those rules are useless. That is not acceptable. That is the function of a
head of an office. He should be wise, should know when to [to stimulate or to enforce] (MM-3).

It is not a dichotomy. One approach denies the other. Even KPK is very intense on prevention. If we are reactive, we will lose our energy. Prevention is a long term investment. It gives a substantial effect. However, both must be applied, depending on the case (MM-3).

Moreover, they look at the two approaches as inseparable. “In my opinion, these two can’t be separated. That’s what happens in the DGT,” (E3-5) said an employee. Another employee said,

Both [approaches] are equally important. They are inseparable, go together in harmony. If we look round, some just need to be forced, but many just need to be pushed a little. I think it is 50:50. Internalisation of values activities are the primary ones. But in many cases, we tend to be more compliant if we are monitored and controlled. […] Controls can be from direct superior, friends, and surrounding. (E1-5).

5.5 Further analysis of the instruments

The current ethics management in the DGT has adopted various instruments from both approaches. The compliance approach has the code of ethics as the primary instrument and the DGT’s organisational values have become the primary instrument of the integrity approach. Following the adoption of these two instruments, secondary instruments were adopted. These can be seen in Figure 5.2. Meanwhile, Appendix 1 shows the adoption of these instruments in chronological order.
As discussed above, in the decade since the tax administration reform was launched (from 2002 to 2012) the ethics management instruments have proliferated in the DGT. There were two moments crucial for the proliferation which can be used as time markers. The first was when the DGT modernisation was rolled out nationally in 2006, which was also marked by the establishment of KITSDA. The second was in 2010 when the DGT’s internal compliance function was expanded. In this same year, the Gayus case erupted. As a result, the DGT’s ethics management approaches have evolved reflecting these changes. The following analysis is divided into three periods: 2002-2006, 2007-2010 and 2010-2012. In each period, the instruments adopted are discussed and the tendency toward a specific approach, if any, is described.
A more compliance-based ethics management from 2002-2006

As discussed in Chapter 5, instruments adopted in this period are a code of ethics, signing of an integrity declaration, formal sanctions, a procedure for code violation, gift policy, report of wealth, and socialisation of the code. The first five instruments are as a part of the compliance approach, or rules-based instruments. The last instrument is under the integrity approach (see Table 5.1 below).

Table 5.1: Ethics management instruments in the DGT 2002-2006

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<tr>
<th>Compliance approach</th>
<th>Integrity approach</th>
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<td>code of ethics</td>
<td>socialisation of the code</td>
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<td>signing of integrity declaration</td>
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<tr>
<td>formal sanctions</td>
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<td>procedure for code violations</td>
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<tr>
<td>gift policy</td>
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<td>report of wealth</td>
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The DGT’s code of ethics was first introduced in this period. In this analysis it is grouped into compliance approach instruments. In the OECD (2009), a code of ethics is usually classified as a values-based activity, which belongs to the integrity approach, since it focuses more on general values and describes broad ethical aspirations. On the other hand, a code of conduct is more specific; it describes acceptable behaviours for specific situations (OECD 2009); hence, it is typically rules-based, or following the compliance approach. The DGT’s first code of ethics could be found in the Minister of Finance Regulation number 222 of 2002. The original text of the Regulation uses an Indonesian term ‘Kode Etik’, which literally means Code of Ethics in English. However, since it describes expected behaviours from employees, it is more in the nature of a code of conduct; hence, in this analysis it belongs to the compliance approach.
Ethics management in the DGT in this period demonstrates an emphasis on the compliance approach. The other instruments were adopted to support the code to assure the implementation of the code. The purpose of these instruments was mostly to make employees aware that there were sanctions for code violations. In addition, the code was implemented stage by stage, simultaneously with an increase in remuneration (further discussed in Chapter 6). The employees were made aware that there were rewards for implementing the code. Although there was also the socialisation that eventually aimed to arouse their self-commitment to behave in accordance with the code, the approach was still rather compliance-based due to the many rules-based instruments that focus on the external controls.

A more balanced policy from 2007-2010

This period was marked by the establishment of KITSDA and the adoption of more ethics management instruments. In addition to the instruments applied in the previous period, the other instruments were compliance monitoring, complaint handlings, stating DGT’s organisational values, and internalisation of the code and values (See Table 5.4). Although the table shows a longer list of rules-based instruments than that of values-based instruments, to assess the approach of the DGT’s ethics management the instruments need to be further analysed.

In this period, compliance monitoring, a term used in the DGT for inspection, was introduced. It consists of two methods: unannounced inspections and blind surveys. Unannounced inspections, as described in this chapter, were effective in giving employees a sense of being monitored. Procedures relating to code violations were now handled in KITSDA, while procedures for complaint handlings were mostly outside KITSDA. The DGT Contact Centre, known as KLIP (Kantor Layanan
Informasi dan Pengaduan, Office of Information and Complaint Service) handles both inbound and outbound calls. In its inbound calls division, it provides information as well receives complaints. Complaints related to the code and employees’ behaviour are forwarded to KITSDA. All complaints processes are well recorded and monitored. Looking only the number of instruments, one can easily views ethics management in the DGT in this period as leaning to the compliance approach.

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<th>Compliance approach</th>
<th>Integrity approach</th>
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<tr>
<td>• code of ethics</td>
<td>• socialisation of the code and values</td>
</tr>
<tr>
<td>• signing of integrity declaration</td>
<td>• statement of organisational values</td>
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<td>• formal sanctions</td>
<td>• internalisation of the code and values</td>
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<td>• procedure for code violations</td>
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<td>• gift policy</td>
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<td>• report of wealth</td>
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<td>• compliance monitoring</td>
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<td>• complaint handlings</td>
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</table>

Table 5.2: Ethics management instruments in the DGT 2007-2010

In the right column, there are only two additional instruments from the previous period: statement of values and values internalisation. The DGT’s organisational values state the common and shared values of the DGT. Its internalisation was the most obvious of all instruments. Values are on the desk in the form of a calendar, on the wall, on the banners, on the computer screens; basically everywhere. More importantly, the activities for values internalisation were done regularly and frequently. The method was improved so that it was not merely socialisation, it was to make employees understand and be committed to the code and values. Also, in 2009 a book titled ‘Berkah’ (see Chapter 6) was published, which represented another form of values internalisation, focused on motivating the DGT’s employees and inspiring other institutions as well. The statement of organisational values and the internalisation have balanced for the small number of values-based instruments.
introduced in this period, and moderated the policies taken. Unlike the previous period, ethics management in this period tends to be more balanced between the two approaches of compliance and integrity.

Moving back to a more compliance-based ethics management between 2010-2012

In this period, the DGT’s internal compliance function was expanded and more instruments were introduced. The internal compliance function, which was previously handled by KITSDA at the DGT Head Office, was distributed to offices at an operational level. New instruments adopted in this period were risk management, a whistle-blowing system, and integrating ethics and values in regular discourse. All instruments applied in this period can be seen in Table 5.3.

<table>
<thead>
<tr>
<th>Compliance approach</th>
<th>Integrity approach</th>
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<td>• code of ethics</td>
<td>• socialisation of the code and values</td>
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<td>• signing of integrity declaration</td>
<td>• statement of organisational values</td>
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<td>• formal sanctions</td>
<td>• internalisation of the code and values</td>
</tr>
<tr>
<td>• procedure for code violations</td>
<td>• role modelling</td>
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<tr>
<td>• gift policy</td>
<td>• coaching</td>
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<tr>
<td>• report of wealth</td>
<td>• integrating ethics and integrity in regular discourse</td>
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<tr>
<td>• compliance monitoring</td>
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<td>• complaint handlings</td>
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<tr>
<td>• risk management</td>
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<tr>
<td>• whistle-blowing system</td>
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</table>

The internal compliance function of the DGT was also performed in offices at the operational level. Now, each of the ROs, the TSOs, and technical units had an internal compliance function inserted in them. In addition, the number of KITSDA employees was also increased by 30 people; all of them investigators for violations of the code. This development shows that the DGT opted to have the maximum level of integrity
actors, in that it has a large integrity bureau supported by integrity administrators at local offices. This development by no means reduces the power and authority of KITSDA. In fact, it now has helping hands at the operational levels. As KITSDA also functions as a control institution, in line with (Maesschalck 2004), the policy indicates the DGT’s tendency towards the compliance approach.

The expansion of the DGT’s internal compliance function, added with a risk management and whistle blowing system, was often connected with a mega case that exploded in 2010. The Gayus case greatly impacted on the DGT and the reform process. Massive coverage of the case by the media lowered public trust in the DGT and dampened the motivation and spirit of the DGT’s employees. However, prompted with the potential of the relationship, the DGT’s officials in interviews for this study responded that there was a lesson learned from the case, but “with or without the case, what happened was a necessity for the DGT to do.” The official suggested that the reform had started before the case, and the development of KITSDA and the internal compliance function were part of the process.

The right column of Table 5.3 above, compared to that in Table 5.2, shows a considerable increment of values-based ethics management instruments as the number is doubled. Efforts to stimulate ethical behaviour were increased. Values internalisation was considerably improved. It now comprises a life time internalisation, dubbed as ‘a never-ending one’, which started from employees’ recruitment up to their retirements. Integrating ethics and integrity in regular discourse has also increased the frequency of the exposure of employees to the values. In addition, another book by the title of ‘Berkah 2’ was published (see in Chapter 6),
as a medium for values internalisation. The book aimed to boost employees’ spirit and inform parties outside the DGT not to see all the DGT’s employees as like Gayus.

However, despite the massive values internalisation conducted in this period, these efforts were outshone by the expansion of the internal compliance function and the adoption of a whistle-blowing policy. The last two developments meant more inspections and a greater sense of being monitored. The tendency to move towards the compliance approach was even more supported by responses from the current policy makers of ethics management in KITSDA. Although explicitly it was stated that a balanced strategy is the preferred way of ethics management in the DGT, the responses of the current policy makers indicated a strong inclination towards the compliance approach.

**Views concerning the approaches**

The DGT’s employees’ views of ethics management approaches show different patterns between those in the head office and those in the operational offices. In the head office, the views were relatively consistent, with slight differences in details. The views of employees in operational offices, on the other hand, are quite diverse.

In the head office, the views agree on three aspects. First, a balanced approach should be employed. Second, in general values-based instruments and activities should be initially applied and instruments and activities that are rules-based become the last resort. Third, based on the situation, an emphasis could be placed on one approach. However, after further analysis, statements from current policy makers indicate a strong tendency towards the compliance approach.
Views at the operational level support the statements of those in the head office, in particular regarding the balanced strategy. Activities from both approaches were seen in the offices of the operational level. Values-based activities were also conducted by these offices, with some modifications and variations. However, rules-based activities, such as compliance monitoring, were mostly done by the head office.

**Instruments not adopted**

Several instrument suggested by the OECD (2009) were not adopted in the DGT: surveys, consultation of staff, non-written standard setting and informal sanctions. There has not been any survey conducted by the DGT, or KITSDA, concerning the promotion of ethics and integrity in the organisation. Surveys are actually a powerful way to collect data and information that are useful for further improvement of activities and management. Specifically useful information includes ethical dilemmas faced by employees in their daily work. Particularly in the DGT’s context, KITSDA should assess how certain instruments are implemented, for example: role-modelling and coaching. While sharing experience, as suggested as a form of role-modelling in the DGT, is constructive for other employees, the actual role modelling in daily work gives more impact. Such information can be obtained through surveys. The same goes for coaching activity.

Consultation of staff, as another instrument, was conducted in the DGT in determining behaviour indicators of each DGT unit (DJP 2012; DJP 2013). This activity is related to the internalisation of the DGT’s organisational values. For employees to get a better picture of these values, they need certain level of translation and clarification of these values, known as indicators of whether or not the values are implemented. The values were first cascaded as main behaviours applied to the whole
Ministry of Finance. Then the main behaviours were further cascaded to behaviour indicators applicable for level units.

The other two instruments, non-written standards and informal sanctions are unlikely to be applied in the DGT because Indonesian bureaucracy is highly formalised. In principle, everything has to be written. As discussed in the relevant previous section, reprimand, which is suggested and categorised in (OECD 2009) as an informal sanction, it would need to be well recorded and monitored in the DGT.

5.6 Conclusion

The combination of ethics instruments adopted in the DGT has evolved over time. There are three distinct periods identified: 2002-2006, 2007-2010, and 2010-2012. In a decade, the combination has changed from a more compliance-based ethics management in the first period, a more balanced policy in the second period, and in the third period moving back to a more compliance approach. Views of the participants concerning the approaches in ethics management differ between those in the operational offices and those in the head office. In the operational offices the views varied, but in the head office the perceptions are more consistent. In the head office, the participants agreed that the approach should adopt a more balanced mix of instruments. Some instruments suggested in the literature, such as survey, were not adopted in the DGT. If the survey instrument were used to evaluate the implementation of ethics management, a more measured judgement would be possible about ethical attitudes and behaviour.
Chapter 6 examines the process and the structure of the DGT’s integrity management framework. These two aspects deal with the institutionalisation of ethics in the DGT. The institutionalisation of ethics in this regard is seen as a narrower approach to ethics management, focusing on “the how” dimension of it. This is in line with (Hoekstra & Kaptein 2012), who define ethics institutionalisation as designing and formalising the processes and the structures of ethics, which includes the selection of officers or the establishment of units to handle ethics management activities in organisations. Further, this chapter also sees how the institutionalisation affected the combination of the compliance and integrity approaches.

Referring to the conceptual framework of this research (see Chapter 4), this chapter mainly relates to the second and the third pillars of the integrity management framework (Figure 6.1). It attempts to respond to sub research questions number three: ‘How ethics is institutionalised in the DGT?’ and number four: ‘How does ethics institutionalisation in the DGT influence the approaches of its ethics management?’

The discussion in this chapter begins with the analysis of the ‘process’ aspect of the DGT’s integrity management framework, which portrays the development of the ethics instruments. It then continues with the analysis of the ‘structure’ aspect and depicts the evolution of the structure. Discussion about the shifts of ethics institutionalisation in the DGT over time follows. In the next section the DGT’s ethics management approach as reflected in its integrity management framework is discussed.
6.1 Process: instrument implementation and improvement

The previous chapter described and analysed ethics management instruments adopted in the DGT. These instruments would only be useful if well planned, properly implemented and regularly evaluated. Process in this regards refers to development processes, to assure that instruments are actually implemented, evaluated and improved. Two types of development processes are suggested: one-off projects, for example the introduction of or change to a new instrument or approach to ethics management in an organisation, and continuous development processes, which include activities of planning, implementing, evaluating and adapting. Both types can apply to a single instrument or a system as a whole (OECD 2009). The discussion in this section is divided into two parts based on these types.
One-off projects type in the DGT’s ethics management

A relevant issue in this type of process is the order of events, both at the overall level of the framework and at the level of an individual instrument (OECD 2009). At the overall level of the framework, it is necessary to consider whether to stress the compliance approach instruments or the integrity approach. In a case of widespread corruption, the compliance approach is more fitting (UNDESSA 1999), but if the framework is more a preventive measure and not a response to a scandal, the integrity appropriate is more appropriate (OECD 2009). At the level of an individual instrument, ethics training can be taken as an example; consideration should be given as to whether to determine an ethics code prior to the training or for the ethics code to be drafted only after employees are consulted (OECD 2009).

The DGT has experienced both situations. At the overall level of the framework, the DGT decided what approach and instruments to be introduced and how ethics management was to be implemented. On the other hand, at the level of individual instruments, such as the code of ethics and statement of values, the DGT was to decide whether socialisation and internalisation were to be given before or after the code and the values were determined.

At the overall level

In the case of the DGT, the right example of a one-off project at the overall level would be the introduction of ethics management. As stated in the earlier chapters, ethics management in the DGT was implemented in 2002 as part of the tax administration reform. Introduced at the early stage of the reform was the DGT’s code of ethics as a primary instrument, followed by several secondary instruments, such as integrity declaration signing and socialisation of the code (see Chapter 5). From the
analysis in Chapter 5, it can be seen that the emphasis was given to the compliance approach first, and then the integrity approach.

The DGT’s code of ethics was applied gradually in line with the stages of the DGT’s modern office implementation (see Figure 2.8). When the LTO was established as the pilot project for the DGT’s modern office, for example, the code was applied only in the LTO. Then, in the next stage of the reform the features of the DGT’s modern office were rolled out to the DGT’s Special Region Office and the Tax Service Office for State-owned Enterprises, the code was also applied to these two offices. This process continued until all the DGT’s offices were modernised. As explained in Chapter 2, the decision to have a pilot project office for the DGT reform, and to implement it gradually, was that because of the large scale of the organisation that it required an enormous amount of money (MOF 2010b). “There was simply not enough money to train employees, to prepare the new facilities, and to have the IT system ready, all at the same time,” (SM-3) explained a senior official. Moreover, at that time the DGT lacked experience with conducting such a complex and huge reform (Brondolo et al. 2008). The application of the code of ethics might not involve such a high complexity; however, it did involve major budgeting issues because in the offices where the code was applied, the employees received remuneration that was increased quite considerably.

**Increased remuneration with code of ethics application.** Increase in remuneration was implemented simultaneously with the introduction and application of the code of ethics. As described in Brondolo et al. (2008), the LTO initiative comprised several major reforms, which included, in particular, “a careful vetting of staff, substantially higher wages, [and] a widely publicized code of conduct” (Brondolo et al. 2008, p.
Such “quality work environment was crucial in promoting productivity and non-corrupt behaviour” (Brondolo et al. 2008, p. 27). By having this policy, a senior official stated, the DGT employees were given trust and responsibility to work with high performance and integrity. As the modernisation spread to other offices, the employees in these offices also received increased remuneration.

A dilemma arose at the beginning of the reform: should remuneration be increased first for better performance and higher integrity, or should performance and integrity be improved first for the remuneration to be increased? “It was like a vicious circle,” (SM-1) said a senior official. “Does an employee engage in misconduct because of the small salary, or is the small salary not increased due to the misconducts he engages in? But we have to be realistic” (SM-2) the senior official then continued. He was pointing out that the pay received by DGT employees at that time, like pay received by other government employees, was not sufficient. This is in line with (Quah 2006), who describes the Indonesian civil servants’ monthly salaries as lasting usually for only 10-12 days. “It was not humane,” (SM-2) the senior official stated, to expect employees to fulfil their needs, and their family’s needs, from the salary.

The reform was not only an attempt to improve the organisational structure and public services, but also an initiative to improve the remuneration system, as reported in Artjan (2011). In this early stage, a more vigorous reward and punishment approach was employed to ensure an improvement in integrity. The new allowance and the new code of ethics became important elements in creating a totally new generation of tax officers within the modern tax office. The new remuneration in terms of new allowance was called an extra activity allowance (tunjangan kegiatan tambahan, or TKT). The structure of the new allowance still adopted a mixture of ranks and
positions as its basis. Employees in the lowest rank (IIa) received 2.6 million Rupiah per month or about US $ 289 (US$1 =Rp9.000) and the highest position (head of regional tax office/Echelon II) received 16.6 million Rupiah or the equivalent to US $ 1,844. In sum, the increase range of these allowances varies from 300% to 500%.13

There are studies that contest the low salary issues as a main reason for civil servants’ poor performance and corrupt practices. Results from BPS surveys in 1998 and 1999 challenged the conclusions that the Indonesian ‘low pay’ civil service is the cause of the widespread corruption in government (Filmer & Lindauer 2001). In fact, “(m)ost government employees appeared to earn amounts comparable to their opportunity cost, that is, to the alternative earnings they might have received in the private wage sector” (Filmer & Lindauer 2001, p. 14). Inadequate salary is only one of the five major causes of corruption in Indonesia and other Asian countries (Quah 2006).

Nevertheless, the government still considered that the remuneration system was one of the main elements of the public sector reform agenda (Artjan 2011). A senior official said that some employees were tempted to engage in bad practices “just to meet their [basic] needs” (SM-1). It was hoped that these ‘non-players’ would stop such practices once the remuneration increased. However, “those who feather their nests,” (SM-1) the senior official continued, referring to the employees who were still corrupt after an increase in remuneration, “have to be cut, stopped, and dismissed” (SM-1). The additional allowance on top of the regular pay was an incentive for employees to apply the code in the DGT modern offices (MOF 2006). A more

13Later on in 2007, the Ministry began to shift its remuneration system concept: from corrupt practice prevention to a performance-based approach. It included the integration of the new pay to the remuneration system (no longer called an extra activity allowance), introduction of job grades (based on the new constructed job descriptions), and connecting it with official’s attendance and discipline. In general, the new structure had introduced a closer approach to performance based remuneration, although it remains quite simple (Artjan 2011).
pragmatic, less idealistic approach, indeed; but it worked in a sense that the code was eventually applied in all DGT offices and it gave good results. This was evident from surveys conducted by independent agencies, which revealed high satisfaction from taxpayers administered from reformed offices (see Chapter 2).

Perhaps, it is worth noting a perspective of Darmin Nasution, former Director General of Taxes, in his forewords to the book titled ‘Berkah’ in 2009 (DJP 2009b). The book contains notes and experience obtained during the reform and shared by the DGT employees. Darmin remarked that,

> It is interesting to observe that for tax officers, increase in remuneration is an important factor. Increase of remuneration has in fact become criticism, or even cynicism, of experts and politicians. Obviously the criticism is meant for the modernisation not to stop at just an increase of remuneration.

Increase in remuneration was like an oasis in the desert for tax officers (KPK 2012). They positively and happily welcomed the reform. These officers particularly comprise those who were clean and honest and then had been excluded in the office, as well as those who had been “silenced” and who unwillingly followed bad customs in the past. A senior official said,

> This is a bit of generalisation, but the big picture is like a normal curve: 20% wanted to change, 20% didn’t, and we have ‘swingers’ in the middle, as the majority. The challenge is to keep ‘the swing voters’ on the right side. It will be more effective if the reform is self-driven (rather than forced) (SM-2).

Such an approach to offer an incentive for employees to behave in accordance with the code, as well as imposing sanctions for not following it, is typical of the compliance approach. Employees behave ethically due to factors external to them, which were rules, sanctions, and incentives, rather than drives from within, the internal self-control exercised by them. In this case in point, the process has affected the DGT’s approach of ethics management towards a more compliance-based approach.
Gradual implementation of the code of ethics. The policy to apply the DGT’s code of ethics gradually raised a dichotomy issue between a modern office and a non-modern office. Naturally, there were different views among the employees working in the two different environments concerning ethical conduct, although these cannot be generalised. The ethical conducts in this regard are mainly that relating to the conflict of interest arising because of gifts, which include asking, offering, and accepting them. When the LTO was the only office applying the code of ethics, employees working at the LTO became a minority. “We felt like an outsider since majority of DGT employees were of different opinions,” shared a senior official. Also, employees working in the DGT modern offices, although gaining substantially higher pay, accepted more strict supervision. Control over employees outside modern offices, therefore, was somehow different. There was a double-standard treatment for the DGT’s employees, which raised an ethical concern. Furthermore, there was no clear career path as to the question of whether or not an employee was able to move from a modern unit to a non-modern one, and vice versa.

It also has to be considered, a senior official remarked, that there were fit and proper tests for those interested in joining the modernised offices. The senior official reminded, “Here, we looked at not only their competency, but also their voluntary commitment. It means that they know that in the new offices there will be the code of ethics they have to follow; don’t expect to ‘fool around’ there [in the new offices].” By doing it voluntarily, the employees showed their readiness to change. The result would be different if the change took place to everybody at the same time, the senior official added. “It would be a forced reform; it would be more difficult” (SM-2). As pointed out by Artjan (2011), this selection became one of the success factors of the DGT’s code of ethics implementation; the selected employees and officials were of
high integrity and had high commitment. Besides, they shared common feeling of not wanting to be the first bad example of a violation of the DGT’s code of ethics. On top of that, there was close monitoring by the IMF. However, when the program of modernisation was finally rolled out nationally and implemented in all tax offices, the effectiveness of the code of ethics became doubtful because there were no further tight selections in the official recruitment process and the DGT found it difficult to guide the enactment of the code in all tax offices (Artjan 2011).

The reform was seen as a major change (MOF 2010). It covered many aspects of work in the DGT, including aspects that are related to ethical behaviour, such as gratification. What had been viewed as acceptable now had to be understood as unacceptable. There was a notion of resistance since “not everybody was happy with this change,” (SM-3) said a senior official. A middle manager uttered that such resistance was understandable, because “for tens of years DGT employees had been in such practices [as that happened in other government institutions]” (MM-2). Back to the senior official, he made an analogy with a person who used to drink coffee and suddenly had to drink water only. The senior official again highlighted the fact that it was a change of habits, which in some cases was like a change of paradigm, a fundamental change. This, the official continued, should be done step by step (SM-3).

*At the level of an individual instrument*

In setting the code of ethics and deciding organisational values, consideration was given to the order of events. The code of ethics in this case is looked at as an individual instrument, rather than a primary instrument triggering other instruments. The order of events in question, as stated earlier, was whether the code or the values
should be decided before the socialisation and internalisation, or after employees are consulted.

In the case of the DGT’s code of ethics, the content of the code was determined without prior consultation with employees. “It was done after benchmarking with other countries,” (SM-3) said a senior official. The similar situation occurred when the code was revised in 2006; again, the content was decided without consulting employees. As pointed out in the OECD (2009, p. 60), the involvement of an organisation’s members “will stimulate them to co-operate” and considerably improve the possibility that an instrument will fit nicely in the organisation. Only this time, more thorough steps were taken. A special team was set up for the code revision. The team evaluated the rules and regulations related to the content and implementation of the DGT’s code of ethics, proposed a new code, prepared a handbook, set technical standards for the implementation, and prepared the trainers for socialisation in the new code.

The DGT’s organisational values, on the other hand, have gone through a somewhat different process. Although there was no prior consultation with all employees, high level officials gathered to decide the organisational values. For the first version of the DGT’s organisational values, all Echelon II officials with the Director General had a meeting and came up with the organisational values in 2008. In 2011, it was decided that all units under the Ministry of Finance must have the same organisational values. These values were decided in the meeting that involved all Echelon I officials, relevant Echelon II officials and the Minister.
Continuous development process in the DGT’s ethics management

As explained above, continuous development processes include activities of planning, implementing, evaluating and adapting a single instrument or a system. The purpose is to avoid an implementation deficit, to endure, to be adaptive, and to be more coordinated (OECD 2009). In the case of the DGT, the process was made more possible after a special unit to handle ethics management, namely KITSDA, was established. Previously, the code of ethics was only one of the jobs in one of the sub-teams under the DGT Modernisation Team. To show how the process improved, socialisation of the code of ethics activity is taken as an example. At the very beginning of the reform, when the LTO was the only office applying the code, its managers performed the activity without previous experience and training. Then, when the model of the modern tax office was applied in several other offices, these offices’ managers performed the socialisation of the code. Only this time, the Modernisation Team supervised for consistency of the socialisation in term of the materials given (MOF 2010). After KITSDA was established, the trainers for the socialisation were trained first, the materials were standardised, and the implementation improved (DJP 2007).

Another example of improvement resulting from a continuous development of process is guidance for internalisation of corporate values (ICV) and related in house training (IHT) that has been issued every year since 2010 (DJP 2010; DJP 2011a; DJP 2011a). ICV & IHT include a wider range of activities, comprising both the compliance approach and the integrity approach instruments. In brief, the guidance informs the DGT offices of the related activities to do for the relevant year to support ethics management in the DGT. This guidance contains directives on how-to perform the activities in more detail. It provides information such as the materials that are needed,
the time frame, the themes, and the emphasis that should be given. One of the activities in 2010 was selecting the employee of the year. In 2011 and 2012, managers at all levels and supervisors were appointed as members of internalisation teams; the duties included being a role model and giving coaching to their subordinates.

At the level of an individual instrument, values internalisation is the most developed instrument in the DGT’s integrity management framework. How it is carried out varies widely, as explained in Chapter 5, ranging from colourful banners, flyers, calendars, and attaching the values in DGT’s e-learning application and internal website, up to direct ways or face to face meetings on various occasions (DJP 2013). For the latter, the method was also improved by applying the most up to date training methods, such as Adult Learning Process (ALP). Recently, the internalisation has been improved to a method called “continuous internalisation” to employees, which is internalisation “from the time of employees’ recruitment up to their retirement” (MOF 2010, p. 119).

In addition, values internalisation was also given in the form of an implicit way of internalisation by publishing books, and in a more explicit way in an openly stated declaration of integrity. The first book was published in 2009, titled ‘Berbagi kisah dan harapan: perjalanan modernisasi Direktorat Jenderal Pajak’ (Sharing stories and hope: a journey of DGT modernisation) (DJP 2011c). It contains notes and experiences gained during the reform and now shared by DGT employees. The book became a medium for the DGT to disseminate and internalise its values to its employees. At the same time, the stories and commitment of employees in the book, as claimed in DJP (2011c), also inspired external parties, in particular government
institutions that were in the process of conducting, or planning to have, bureaucracy reform.

The second book was published by the DGT in 2011 (DJP 2011b). The title was ‘Berbagi Kisah dan Harapan: Berjuang di Tengah Badai’ (Sharing stories and hope: struggling in the middle of the storm), or simply known as Berkah 2. As the subtitle of the book, ‘a struggle in the middle of a storm’, suggests, the book concerned the difficult time experienced by DGT employees. It is not too hard to relate it to the high profile case discussed in the earlier part of this section. In fact, as written in the forewords, the book would not have been published if there was no such case. As further described in the foreword, this book is a means for sharing, to tell other DGT employees that they are not alone, to tell others outside DGT that not all DGT employees are Gayus, and to tell families and friends that their supports are strengthening and appreciated (DJP 2011b).

In addition, the DGT conducted a massive internalisation program titled ‘DJP Maju PasTI’, which literally means DGT onward definitely. PAsTI was actually a short form of DGT core values: Profesional, Integritas, Teamwork and Inovasi (Professionalism, Integrity, Teamwork, and Innovation). The program served to motivate and strengthen employees’ integrity by using DGT values as behavioural guidance (DJP 2011). As the main part of the program, all DGT employees together made a declaration to continuously implement DGT’s values in performing their duties. It is an open statement to the public that DGT employees are those who have dignity and will always uphold it by working in accordance with the regulatory provisions (DJP 2011c).
6.2 Structure aspect in DGT’s integrity management framework

At the core of the system structure, there are two types of important actors (OECD 2009). The most important actors are the managers since they can shape and highly influence their subordinates’ ethical behaviour as well as their unethical behaviour. After that are the second type of actors, the integrity actors, whose main duties are to stimulate ethics and integrity in organisations. The discussion in this section is divided into two parts. The first part discusses the role of managers in ethics management. The second part deals with the integrity actors.

Role of managers

The role of managers in DGT’s ethics management has been outlined in several ways. As described in the previous section, managers must be actively involved in internalisation teams and programs. In the internalisation programs, they should be role models and give coaching to their subordinates (DJP 2011a; DJP 2012a). In addition to that, in line with the program at the level of the Ministry of Finance, all officials of Echelon II and 3 levels have been appointed as change agents (DJP 2013). They have been briefed and equipped to apply the values in their own units.

Moreover, managers also have duties related to their roles in internal control that support ethics management. They have to perform the first level of initial internal control, termed as ‘pengawasan melekat’ (loosely translated as inherent supervisory) (DJP 2013). Also, under Government Regulation (Peraturan Pemerintah) No. 53 of 2010, they are direct superiors who would pass a formal sanction to his or her

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14OECD (2009) also mentioned other actors that are complementary to the core actors that have supporting roles in ethics management, such as personnel managers, financial staffs and procurement officers. However, this thesis mainly focuses on the core actors.
subordinates upon an offense committed, based on a recommendation from an internal control unit. The policies encourage the involvement of managers in internal control.

The above paragraphs demonstrate how the roles of managers in the DGT’s ethics management were determined in an explicit and formalised manner. However, more implicit forms of ethics institutionalisation are not to be overlooked, as they give more effect to organisations (Jose & Thibodeaux 1999). In the following paragraphs, the participants of the research revealed their perceptions of how leaders should act.

The participants in this research perceived the importance of managers’ roles in ethics management. Some of their suggestions are for the managers to have implicit ways to promote ethics and integrity in the DGT. Mostly they are of the opinion that managers should act as role models, not necessarily in a formalised way, such as that in ICT and IHT activities, but more with daily office routines. One participant said, “A leader is like an actor on stage; the audience [or employees] see and observe what he or she does, what he or she says, and how he or she does and says it” (E1-1). What the leader does and says has great impact on employees’ behaviour, the participant continued. Some participants referred to the Indonesian paternalistic culture, stressing the importance of the leader’s role to be an example. Organisational values will be more internalised and strongly applied, a participant reminded, “if leaders also behave in line with the values” (E1-4). On the other hand, leaders’ behaviour that is not in line with organisational values will have a discouraging impact on employees. “How can a head of a tax office expect his employees to come on time if he does not?” (MM-5) a middle manager said to stress the importance of giving good examples. “It is useless to talk about this and that [values and code of ethics], if those up there do not deliver what they say. It will destroy all, and we will be de-motivated” (MM-3) another
middle manager warned in another interview. A different middle manager stated that a leader “should feel uncomfortable if he or she behaves in a way that is contradictory to what is told to employees” (MM-2).

There was also a strong sense that employees need to be appreciated for their good work and conduct. An employee said, “It’s not always about money. A simple thanks sometimes is enough to make us feel appreciated and meaningful” (E2-4) and to behave ethically. A leader is expected to be able to understand the needs of their employees and to reward them when they perform well or behave ethically based on their needs. “They feel happy if the head office asks them how they are doing and what they need for the work” (E2-4) rather than applying random inspections and detailed scrutinies. On the other hand, in giving rewards and punishment, leaders have to be fair and consistent. “They just should know when [they need to be], ... appreciating or disciplining employees,” (MM-1) said a middle manager. Employees should be well-appreciated and rewarded, the manager continued; however, if an employee behaves unethically “and gets away with it with no punishment, they [other employees] will think that it will just be the same [as before the reform]” (MM-3).

Moreover, participants agreed that it is essential for leaders to communicate expected behaviour to employees. Holding information sessions and internalisation programs on organisational values and the code of ethics for all employees are examples. One manager said that “I modified it a bit by also inviting religious preachers and public figures” (MM-1) to give ideas and motivation to employees on ethical behaviour. An employee said that during a visit to a taxpayer, a manager introduced his staff and also informed the taxpayer about the DGT’s organisational values and code of ethics and “at that time, I could feel that, although he was talking to someone else, he was
actually talking to us about the importance of the values and code of ethics and of implementing them” (E1-1).

The perceptions above are in line with the concept of the moral manager, the second pillar of ethical leadership (Trevino, Hartman & Brown 2000). The moral manager dimension comprises what leaders should do in promoting ethics in organisations. Three items were listed: be a role model, communicate ethics, and apply a rewards system.

**Integrity actors**

There were two important developments in regards to the DGT’s framework structure: the establishment of KITSDA as the DGT’s internal compliance unit and the expansion of the DGT’s internal compliance function. Hence, three periods were identified and will be discussed in different parts. In the first part, integrity actors in the early stage of the reform are discussed. The second part is about the DGT’s integrity actors after the establishment of KITSDA. The third part discusses the integrity actors after the expansion of the internal compliance function.

*Integrity actors in the early stage of the reform*

In this period, the Medium Term Tax Administration Modernisation Team, or Modernisation Team for short, was in charge of the reform process, including the introduction of ethics management. The team was ad hoc in nature, with its members still holding DGT structural positions (DJP 2007). It was renewed every year up to 2006, adjusting its membership to employees assigned to the head office or related regional offices being modernised. There were four sub teams and a secretariat in the team. One of the sub teams was responsible for institutional development. The code
of ethics and relevant activities were part of this sub team’s duties. Nevertheless, in the first years of the reform immediately after the launching of the LTO, the team’s supervision on ethics management was at minimum. Most of the work was done in the LTO.

“It was all done in here [in the LTO],” (SM-2) explained a senior official when asked about the ethics management activities in early LTO. At that time, its managers also acted as ‘integrity actors’. Low level managers were the front-liners in ethics management. They conveyed information and explained the code to the employees and answered questions regarding its implementation. Unanswered inquiries would be passed on to middle managers, or up to the highest official in the LTO, the head of the region office (head of the LTRO).

Later on from 2004 to 2006, the model of the modern office began to be tested in other offices, but was still in the stage of prototyping. The integrity actors in this period were slightly different. Up to 2006, 20 regional offices and 46 tax service offices were modernised, including the LTO (DJP 2007). Managers of these offices were also acting as integrity actors; they were also responsible for ethics management activities. Only this time the Modernisation Team supervised ethics training conducted to maintain consistency among the offices. Ethics training in this period, labelled as socialisation of the DGT’s code of ethics, was given as part of the Modern Administration System training (MOF 2010).

Following an evaluation at the end of this period, DGT realised that in the following years there would be more challenges in the modernisation. In the following two years, all DGT offices would need to be modernised. That included 31 regional offices and 331 tax service offices, not to mention a data processing centre and its
local offices. To tackle these challenges, the team had to be made more permanent and had to have a structural position (DJP 2007). This was made happen at the end of 2006, reflected in the DGT’s head office organisation restructure, as described in Chapter 2 (see Figure 2.6). After the reform, the DGT has three specialised units to deal with the changes and to cope with future challenges found in the future. These three units were in dashes in Figure 2.6.

The establishment of KITSDA

KITSDA was established at the end of 2006 (MOF 2006). KITSDA functions as the “integrity actor” in the DGT, located at the core of the third pillar of the integrity management framework. KITSDA has a central role in the DGT’s ethics management. The discussion on ethics management DGT is largely about KITSDA and how it operates. KITSDA is in charge of the core ethics management instruments in DGT. Based on KITSDA’s level in the organisation and also its size, DGT has chosen the large integrity bureau type for its integrity actor. As the DGT’s integrity bureau, KITSDA gathers all the core tasks of ethics management and at the same time brings together the expertise needed.

Nevertheless, as clearly stated in the DGT’s 2012 Annual Report, KITSDA is actually a unit in the DGT that is responsible for the internal control function, or internal compliance as it is labelled in the DGT (DJP 2013). The emphasis on and improvement of the DGT’s internal control is to respond to public demand for an incorrupt and dignified tax institution (DJP 2013). According to the OECD (2000) it is quite common to have internal control to support ethics management. Only in the DGT’s case, the internal control unit is also the one responsible for its ethics management activities.
Ethics management is of great interest to KITSDA, since promoting integrity and ethical values directly supports the internal control environment condition (DJP 2013). This is in line with the Government Internal Control System that set a control environment as one of the internal control’s five elements. Promoting integrity and ethical values is an important way through which heads of government institutions create and maintain a control environment\textsuperscript{15} that is positive and conducive to the internal control of the institutions. Such position mirrors those COSO’s\textsuperscript{16} framework of internal control (KPK 2012).

The DGT is the first unit under the Ministry of Finance that has its own internal control function. “Basically it was because internal control was focused on units that perform public services and that are vulnerable,” (SM-5) explained a senior official. This also cannot be separated from the fact that the DGT pioneered the reform in the Ministry. Prior to the reform, the internal control function in the Ministry was conducted by the Inspectorate General, an Echelon I unit under the Ministry. At the time of data collection, there was an instruction by the Minister that each Echelon I unit in the Ministry must have its own internal control unit. “Only maybe the internal control is different from one Echelon I unit to another; it depends on the needs,” (SM-5) the senior official added, “It might not be on Echelon II for a smaller unit.” Lessons learned and experience gained by the DGT had been and will be useful for the implementation.

In 2011, the Minister of Finance issued a decree concerning the improvement of its internal control (Kemenkeu 2011a). The main idea is to have the concept of three lines of defences applied in the Ministry for better control; they are management, an

\textsuperscript{15}See page 72, Chapter 3.
\textsuperscript{16}See page 72, Chapter 3.
internal control unit, and an internal auditor (MOF 2013). Internal control in the Ministry, as also in the DGT, is labelled as internal compliance. The Minister’s decree stipulates how internal compliance functions are placed in the Ministry’s units of Echelon I. This applies to a directorate general, the secretariat general, or the inspectorate general, as well its boards and centres.

The format of the internal compliance function is based on each unit’s size and characteristics (Kemenkeu 2011a). In general, the internal compliance function was inserted into the existing units with some variations. In the Directorate General of State Assets and Directorate General of Debt Management, the internal compliance function was placed in the new units of Echelon III. Meanwhile, in the DGT, the DG Customs and Excise, and Stock Exchange and the Financial Institution Supervisory Board the internal compliance function was placed in the new units of Echelon II.

**KITSDA’s organisational structure.** In this section, the organisational structure of KITSDA is elaborated on and analysed. The organisational structure of KITSDA needs to be elaborated on to analyse how ethics is organisationally managed. Structure, the third pillar of the integrity management framework, refers to the organisational aspect of ethics management, such as who is responsible for what ethics instrument and how it is coordinated (OECD 2009). In the case of the DGT, the elaboration is important to demonstrate how ethics instruments responsibilities are distributed in a unit responsible for internal control.

KITSDA is an Echelon II unit, headed by a director who reports to the Director General. Therefore, it has a high position in the DGT organisation structure. Such a high position gives KITSDA significant power to perform its duties and that indicates the importance of ethics management in the DGT. However, KITSDA’s internal
compliance function has had to share with another function in the DGT, namely the transformation of human resources.

Under the Directorate of KITSDA, there are five Echelon III units, two of which are related to the internal compliance function (Kemenkeu 2011b). These two units are the Sub-directorate of Internal Compliance and the Sub-directorate of Internal Investigation (see Figure 2.7). This thesis discusses the two units and KITSDA’s functions related to internal compliance. In this thesis, KITSDA refers to these two units only, unless otherwise stated.

The Sub-directorate of Internal Compliance (IC) has functions that have more of a preventive role in DGT’s internal compliance. “It focuses on ethical misconduct before it happens,” (MM-1) said a middle manager. One of the sections in this Sub-directorate is the Section of Compliance Internalisation. The duties of this section include communicating organisational values, the DGT’s code of ethics, directives in ethics management and other information to employees. This function is known in DGT as the compliance internalisation. It then covers the instruments of socialisation of the DGT’s code of ethics and organisational values internalisation. As the directives in ethics management also included the instrument for integrating integrity in regular discourse, this instrument is also covered here. Related to the code is integrity declaration signing, which is also monitored and administered in this section. In addition, “(this section) also covers supervision and monitoring (of compliance),” (MM-1) said a middle manager. This is known as the compliance monitoring instrument, which has been discussed in the previous chapter.

The other sections in Sub-directorate IC are the Compliance Test Section and the Quality Assurance Section. The Compliance Test function is to ensure that the DGT is
compliant with the prevailing laws, the strategic plan, and all related procedures (DJP 2013). This section is more about the internal control function and does not have responsibility for any of the ethics instruments. The Section of Quality Assurance aims for the improvement of standard operating procedures applied in the DGT. The instrument of risk management is coordinated in this section.

The Sub-directorate of Internal Investigation (II), on the other hand, is more reactive and concerned with the repressive aspects of internal control. This unit “is more about healing or curing, rather than preventing,” (MM-2) explained a middle manager. “The job in this unit basically is triggered by a report or information that there is a DGT employee who commits misconduct, or behaves contrary the code of ethics” (MM-2). The Sub Directorate II will then conduct an audit to verify such misbehaviour. Two of the units in this Sub-directorate are the Section of Internal Investigation I and the Section of Internal Investigation II. They basically have similar duties, to investigate code violations. The difference is only the areas of coverage in Indonesia; while Section Internal Investigation I covers code violations in Java, the other’s jurisdiction is the areas other than Java(Kemenkeu 2006). The Section of External Audit Findings Evaluation has duties related to, as the name suggests, evaluation of findings from external auditors, such as the Inspectorate General. The ethics instruments managed and coordinated in this Sub-directorate include procedures for the code violations, a whistle-blowing system, and formal sanctions. Giving formal sanctions, as explained in Chapter 5, is the authority of the employees’ direct superiors; however, KITSDA is responsible for monitoring them.

The other instruments that are managed in this Sub-directorate are LHKPN and the gift policy. LHKPN is an obligation for government officials to declare and report
their wealth (DJP 2013). The Sub-directorate IC, said a middle manager, is to monitor the fulfilment of this obligation by the DGT’s employees who are required by the law to meet such an obligation. Sub-directorate II, on the other hand, “shall use the data and compare it with other data, such as tax returns,” (MM-2) explained the middle manager. The comparison might reveal a violation of the code. Gift policy refers to Law No 20 of 2001 on gratification, which is applicable to all Indonesian government employees (see Chapter 5).

The dual function of KITSDA. As explained in the earlier section of this chapter, KITSDA actually has two different functions: the internal compliance function and the transformation of human resources function. While there is no official and written explanation concerning the background of the combination, this research relies on responses from participants.

The participants provide two interpretations of the background to why they were combined. One interpretation was that it was merely a practical consideration. A Presidential Regulation limits the number of Echelon II units in a head office to a maximum of 13 units [SM-3]. Hence, the two functions were combined. The Presidential Regulation was to assure that the span of control was not too wide. In late 2006, when KITSDA was established, the Director General of Taxes had 44 officials reporting to him, consisting of nine Directors in the head office and 31 Heads of Regional Offices, plus four experts helping him. Although the arrangement was made that he would get assistance from the experts and directors in the head office to help supervise the Heads of Regions, still the span is too wide. In this regard, in order to perform the duties, it should be considered that the DGT should have more autonomy.
and more flexibility not to be bound by the Presidential Regulation, as in the case of other units under a ministry.

Another interpretation was that the combination of the two functions was a result of a compromise. Before the reform, said a senior official, there was a policy that internal control in a ministry, including the Ministry of Finance, was centralised to an inspectorate general in a ministry. “Thus, we could not have our own,” (SM-5) the senior official continued. There were two concerns about this. First, there was a concern about the Inspectorate General’s effectiveness in performing its duties. “They were controlling about 64,000 employees, half of which was DGT’s employees,” (SM-3) the senior official explained, “they would be overloaded.” Second, “the Inspectorate General hasn’t been modernised [reformed], while we have, and this might cause a problem” (SM-3) the senior official added. Such a notion was in line with Artjan (2011, p. 394) who said that,

[The]history of the IG [Inspectorate General] as a control mechanism has not been remarkable, especially during the new order period where the IG within ministries was mostly underperforming and overlooked while conducting its main duties.

However, Artjan added that in 2004 a new division within IG named the Investigation Unit (IU) or Inspektorat Bidang Investigasi (IBI) was established to create a new, respectable, and clean internal control unit in the Ministry. The selected members of IBI were “also given a new allowance to ensure they maintain integrity in performing their tasks” (Artjan 2011, p. 394).

Placing the DGT’s internal control on Echelon II by itself was not allowed as it would violate the above policy and it would invite questions from the Inspectorate General. “There was a compromise; the function [which later on is named internal compliance] will be placed together, blended with another function, transformation of human
resources,” (SM-5) explained the senior official. The two functions were assumed to be related and having the common purpose of improving the DGT’s human resources.\(^{17}\)

KITSDA’s two functions are in fact quite different in principle. “They are like heaven and earth,” (SM-1) one senior official tried to illustrate. “Human resource transformation is like a visionary task. Internal compliance is more about now,” (SM-1) the senior official continued. It creates a certain level of ambiguity. It is a fact that from its creation in 2007 until 2012, or in five years, there have been six different people sitting as the Director of this unit. As the DGT modernisation continues, “The internal compliance function has become so central,” (SM-3) said another senior official. There had been a sizable number of crucial issues in the DGT that were handled by this function. “The unit has become an important pillar in the DGT,” (SM-3) the senior official pointed out. “It should be noted that the decision to have them [the functions] combined should be evaluated after two or three years,” (SM-3) the senior official added.

*The expansion of DGT’s internal compliance functions*

Since 2007, the DGT’s internal compliance function has been performed solely by KITSDA. KITSDA performed their activities and provided the ethics instruments for all areas in the country. Having only one internal compliance unit in the head office raised an issue of coverage in the DGT, not to mention the limited numbers of employees in KITSDA, (SM-1) said a senior official. In KITSDA, at the beginning, there were 40 employees and officials in the DGT’s internal compliance function.\(^{17}\)

\(^{17}\) A similar case is found in the DG of Customs and Excise (DGCE), in which the internal compliance function is assumed by PUSKI (Pusat Kepatuhan Internal, or Internal Compliance Centre), a newly established Echelon II level unit placed structurally under the Secretariat General of MOF, because there was no more ‘space’ in DGCE for a new Echelon II level unit.
Then in 2010, as many as 30 investigators were added to the Sub-directorate of Internal Investigation.

The expansion of the internal compliance function. During the reform process, the DGT’s internal compliance function has evolved. In 2010, the DGT’s internal compliance function began to expand. An internal compliance team was formed in each DGT regional office (DJP 2010). Each team consisted of the head of the regional office, the head of the general affairs division and three other officials. The duties were mainly related to preventing and dealing with breaches of the DGT’s code of conduct, as well as breaching of Indonesian government employee discipline (DJP 2010). The teams were very handy “to deal with cases that can be handled on the regional level,” (MM-2) explained a middle manager. “That way the head office can focus more on a more significant case or cases that need to be escalated to the national level”, (MM-2) the manager continued. A DGT regulation was issued as a guidance to determine which cases should be handled by head office, which by regional offices, which should be furthered to other related agencies, and which should go to the ministry.

As helpful as these teams were, they were only temporary. The duties were “like being attached to them – not their main jobs,” (MM-1) another manager pointed out. “We just can’t expect too much from these teams,” (MM-1) the manager argued. “Ideally, there should be special units at regional or operational levels handling internal compliance,” (SM-1) a senior manager asserted. “The units should actually exist in the structure and be operated by employees fully dedicated to the internal compliance function” (SM-1) the manager continued. Hence, the preventive and repressive actions of internal compliance can be more intense, said the senior official.
“Just like in Louvre Museum where there are 1,000 cameras on,” (SM-1) the senior official continued, “in the DGT a psychological situation must be created in which all employees know that they are monitored” (SM-1) Besides, certain cases were better handled at the regional or operational level, since “they know their environment better,” (SM-8) another senior manager pointed out\(^\text{18}\).

Later in 2012, the internal control function began to be implemented in each unit in the DGT. As described in the DGT’s 2012 Annual Report, this was based on the thought that as the DGT had a wide scope of work and a great number of work units, it must have a solid and holistic internal control (DJP 2013). As a result, besides at the head office, the internal control function in DGT has also been carried out:

- at the Region Offices (RO), by the Division of Tax Audit, Investigation, and Collection
- at the Tax Service Offices (TSO), by the Section of Audit and Internal Compliance, and
- at the technical units, on the Echelon II by the Division of General Affairs and Internal Control, and on the Echelon III by the Subdivision of Administration and Internal Compliance.

This arrangement replaced the previous policy concerning the Internal Compliance Teams. The temporary arrangement was then turned into a more permanent one, inserting the internal compliance function in the organisational structure.

Looking at the proximity in time between these events on one side and the high profile case which exploded earlier on the other, one might think of the connection between the two. In this regard, a middle manager explained that whether or not there

\(^{18}\) These interviews were conducted in January 2012, on the first data collection.
had been such a case, the development of the internal compliance function in the DGT was a necessity (MM-2). Bearing in mind, the middle manager continued, that the reform had started long before the case; “however, it is undeniable that there is lesson learned from the case. Corruption is a national concern that a Presidential Instruction for acceleration of corruption eradication was issued,” (MM-2) the middle manager added.

### 6.3 Analysis of ethics institutionalisation in the DGT

As can be seen from the above, ethics institutionalisation in the DGT has been shifting between 2002 and 2012. The evolution can be divided into three periods. The first period is the early stage of the reform, from 2002-2006. The second period was after the establishment of KITSDA in 2007 but before the creation of the internal compliance teams in 2007. The third period covers the years from 2010-2012 after the internal compliance function was expanded.

In the first period, in terms of the structure, the DGT adopted an informal way of institutionalisation (Table 6.1). There was no specific unit in the DGT’s organisational structure handling ethics. The Modernisation Team supervised the socialisation of the DGT’s code of ethics, but it began that activity only when the prototype was tested in several offices other than the LTO. Moreover, ethics was not the only concern of the team. The team was responsible for all the complex activities concerning the tax administration reform. In addition to the team, managers of the ‘modern’ tax offices were responsible for ethics management activities. The responsibility for ethics in this type, as in Hoekstra and Kaptein (2012, p. 18), was mainly “a matter for line management and only marginally supported by an integrity functionary”.
At a glimpse, there was a notion that the DGT’s ethics management in this period, following the typology in Hoekstra and Kaptein (2012), specifically an office project type of a formal form of ethics institutionalisation. This was due to the existence of the Modernisation Team which included supervision of ethics training as its duties. However, the team’s contribution was fairly minimum, not to mention that ethics management was only a small aspect of the team’s work. Therefore, in this period the DGT’s ethics management applied an informal institutionalisation. The line-staff management handled ethics activities.

In terms of the process, the policy in this period substantially influenced the approach of the DGT’s ethics management. As ethics management was just introduced, a careful choice had to be made for a proper way to impose ethics in the organisation. The compliance approach was selected due to pervasive misconduct in the DGT prior to the reform. Moreover, the manner of implementing the DGT’s code of ethics, which was conducted gradually and simultaneously with the increased remuneration, pushed the approach towards more compliance-based.

The process and the structure of the DGT’s ethics management can be perceived from the integrity management framework in this period. The process can be categorised as a one-off project, rather than a continuous development process. One-off projects “are limited in time and are typically to introduce or change the integrity management framework or particular instruments” (OECD 2009, p. 60). This definition fits the DGT’s ethics management process at this period. In term of structure, none of the options suggested in OECD (2009) was taken. The ethics structure was hardly visible; no specific officers were appointed to have the responsibilities for ethics activities. Ethics activities were only part of the Modernisation Team’s duties.
In the second period, a formal institutionalisation of ethics was applied in the DGT. This was apparent from the establishment of KITSDA as a unit in charge of ethics management policies and activities. There was an issue of KITSDA’s dual function that to some extent created a level of ambiguity for its manager. However, the fact that it was handled by a unit that responded directly to the Head of the DGT showed that ethics management was considered important in the DGT. Following the typology in Hoekstra and Kaptein (2012), ethics management in the DGT in this period took a formal form, in which the type was office organisation and the subtype was central.

The process and structure of the DGT also changed from the previous period. In terms of structure, in this period the DGT had a large integrity bureau in the form of KITSDA, which accumulated ethics management expertise in one place. The processes followed involved continuous development as well as one-off projects. Having a clear and permanent structure in the organisation, ethics instruments were now regularly planned, implemented, developed and evaluated. However, the development process of the instruments did not specifically endorse a certain approach to ethics management; rather, both the compliance and the integrity approaches had relatively equal intensity.

In regard to the process in the third period, continuous development and one-off projects continued to take place, which increased the intensity of the ethics instruments. However, as in the second period, the process did not influence the approach of the ethics management. On the other hand, considerable change in the structure of the ethics management framework in the DGT occurred. This was indicated by the expansion of the DGT’s internal compliance function and the
creation of internal compliance units in vertical and technical units of the DGT, which resulted in wider coverage of the DGT’s internal compliance function. Such a development can be referred to one option in the OECD (2009), in which the integrity bureau is assisted by integrity administrators in local offices. Two advantages are sought: first, to make good use of the integrity administrators’ local knowledge, and second, to avoid the integrity bureau from isolation. Such development of an integrity actor is referred to in OECD (2009) as the maximum type.

Such a structure can be categorised as a decentralised subtype of ethics institutionalisation in Hoekstra and Kaptein (2012). In addition to the head office, ethics offices were created at lower levels of the organisation. Slightly differently, in DGT the ethics offices were ‘inserted’ in the existing units in local offices. In line with Hoekstra and Kaptein (2012, p. 14), this subtype was selected in “in large hierarchical organisations with a strong commitment to institutionalising integrity, but where the distance between the central office and the decentralised units is too great”.

6.4 The DGT’s ethics management approach as reflected in its integrity management framework

In this section, the periods of ethics institutionalisation and the periods of instrument adoption in Chapter 5 are aligned, resulting in Table 6.1. Analysis of the instruments adopted was in Chapter 5. Hence, in this section the analysis is mostly about the process and structure, or how ethics is institutionalised.
Table 6.1: DGT’s integrity management framework and ethics management approach

<table>
<thead>
<tr>
<th>Periods</th>
<th>Instruments</th>
<th>Process</th>
<th>Structure</th>
<th>Ethics management approach</th>
</tr>
</thead>
</table>
| 1. 2002-2006 | - More compliance-based                  | - One-off project process when the whole system was introduced  
- A more compliance-based approach selected | - Informal form, line-staff management type  
- Hardly visible structure | - More compliance approach instruments than integrity approach |
| 2. 2007-2010 | - Relative balance in instruments        | - Continuous development process as well as one-off projects  
- Intensity improved, but no tendency to certain approach | - Formal form, office organisation type, centralised subtype  
- Large integrity bureau structure  
- Increase in compliance monitoring | - Both types of instrument increased, however the integrity approach increased greatly in intensity (activities), resulting in a relatively balanced approach |
| 3. 2010-2012 | - Moving back to more compliance-based   | - Continuous development process as well as one-off projects  
- Intensity improved, but no tendency to one approach | - Formal form, office organisation type, decentralised subtype  
- Large integrity bureau structure, with integrity administrators in local offices  
- Increase in compliance monitoring | - Both types increased, wider coverage of the internal compliance function pushed ethics management to more compliance-based |
Table 6.1 shows that ethics institutionalisation in the DGT has been consistently formalised. It began with no visible structure and concluded with a large integrity bureau assisted by integrity administrators in local officers for the ethics management framework. The ethics approach, on the other hand, developed rather inconsistently. In the first period, the approach was understandably more compliance-based. This is in line with the OECD (1996, p. 60), which states that, “If an administration had significant problems of misconduct in the past, the approach would be different from one taken where there is no such history.” Typically, “compliance-based approaches seem more appropriate to situations in which unethical behaviour is rampant and it will be difficult to change widespread corruption,” (UNDESSA 1999, p. 126).

In the second period, the approach tended to be more balanced. In the OECD (2000), the tendency for more countries to shift towards the integrity approach was identified. As Pope (2007) stated, at the end of the day employees should be able to decide for themselves what is right and what is wrong. However, in the third period, the approach has rebounded to be more compliance-based. Although not officially stated, the decision was considerably influenced by misconduct involving the DGT’s employees in 2010. This reflects the international experience that mostly ethics management decisions are scandal driven.

Accordingly the conclusion is that ethics institutionalisation does not always align with an ethics management approach, in a sense that more formalised institutionalisation does not necessarily mean a more compliance-based approach, and vice versa.
Applying the compliance-integrity continuum

How to place the DGT’s ethics management in the compliance-integrity continuum is somewhat tricky. If the continuum is seen as a means to show the intensity of each approach by looking at mostly the quantity and quality of instruments employed, DGT’s ethics management in the three periods will easily be located in dots 1, 2, and 3 respectively as in Figure 6.2. The dots’ locations follow the combination of the instruments (as indicated in Table 6.1). In other words, there was a movement to a more balanced approach and then there was a push back towards a more compliance-based approach shown in Figure 6.2.

Looking more deeply at the debate underlying the continuum, which was the choice between the compliance approach and the integrity approach of ethics management, one can see that it is more than simply counting the number of ethics instruments or assessing how frequently an activity is done. This is not to say that the instruments are not necessarily indicators of an ethics management approach. However, the essence is about more than the quantity, as well as the intensity, of the ethics instruments. The dispute on the approach always involves the employee’s capacity for ethical decision making. The choices are between giving more or less scope for employees, awarding more or less trust to public servants, to judge for themselves what is right or wrong. To provide strong and
ample rules-based instruments, as in the case of DGT’s ethics management in this period, indicated less room and trust given to employees in making ethical judgement. Such a strong compliance approach tendency is not lessened by plentiful and intense values-based instruments and activities.

In the light of the foregoing, the analysis shows that there has been a constant increase in the intervention imposed by the DGT in its employees’ ethical decision making. Consequently, less trust is given to employees. The decisions made by different employees might result from a different process, such as from exercising internal self-control out of ethical awareness. It could also result from avoiding sanctions, or attempting to get rewards. It is hard to tell what actually motivates each employee. What is more certain is to what extent an organisation trust its employees. This does not change the numbers of instruments or the intensity of activities of the integrity approach. The ethics management approach, hence, should be indicated by the extent to which employees are bound and restricted by rules and regulations. Therefore, the evolution of the DGT’s ethics management should be illustrated in Figure 6.3, showing a constant increase in the compliance-based approach.

Figure 6.3: Ethics management in the DGT on the compliance-integrity continuum (2010-2012), alternative 2
Nevertheless, placing the DGT’s ethics management either way, Figure 6.2 or Figure 6.3, has its limitations. Choosing Figure 6.2 would refute the conclusion that there is actually less discretion given to employees in ethical-decision making. On the other hand, choosing Figure 6.3 means a failure to recognise the great efforts made to encourage and promote ethical behaviour. This problem derives in part from the limitations of the compliance-integrity continuum itself. One limitation would be the ambiguity of what the continuum is trying to show. Is it the use of the instruments of the two approaches, both in quantity and quality? Or is it the amount of discretion given to employees? Another limitation is that the continuum might be too simplistic in depicting the policies, measures and efforts deployed in an ethics management. As Maesschalck (2004) argued, the continuum leads us to a deterministic view, although this thesis is looking at it from a different angle. He claimed that the continuum overlooked the two blind spots, or two other approaches, in ethics management (see Maesschalck (2004). This thesis proposes a Cartesian plane, or a matrix, rather than a line, of the two approaches in order to illustrate how ethics management is implemented in practice (Figure 6.4).

The compliance-integrity matrix has two axes: vertical and horizontal lines. The vertical line shows to what extent the instruments in the integrity approach are used. The lower it is, the weaker the employment of the integrity approach becomes, and vice versa. The horizontal line demonstrates how far the instruments in the compliance approach are operated. A strong implementation of this approach is indicated by putting the dot in the right hand quadrants. The horizontal line also shows the approach of an ethics management; that is to what extent employees are given trust for making ethical decisions. The combination of ethics management instruments produces a number of
possibilities. DGT’s ethics management shifts in strategy by period as shown as DGT 1, 2 and 3 (Figure 6.5). DGT 1 is placed in quadrant I to reflect the DGT’s ethics management in the first period based on the fact that in that period its code of ethics was not implemented in all its offices. As many as 126 DGT’s offices applied the code, about one third of the total of the DGT’s offices. DGT 2 is placed in quadrant II, a bit closer to the centre. It shows an increase in the quantity of instruments applied, as well as the intensity. It also indicates a more balanced approach taken. DGT 3 is also located in quadrant III, but further to the top right hand corner. On one side, it means that the approach is relatively balanced in term of ethics instruments. However, on the other side it also shows strong intervention imposed by the organisation.

**Figure 6.4: The compliance-integrity matrix**
The matrix shows four different quadrants showing different combinations of the approaches. This matrix offers another advantage over the compliance-integrity continuum. To give an example, an illustration in the OECD (1996, p. 61) is used. The chart can be seen in Figure 3.2. In the OECD figure, the United States, Mexico and Portugal, are indicated as having a similar approach to ethics management that emphasises a rules-based regime. In reality, they are not quite alike. While Portugal and Mexico focused on rules mainly because “they are in the process of defining an ethics infrastructure” (OECD 1996, p. 60), the United States, although it demonstrated “a very complex and comprehensive rules-based system” (OECD 1996, p. 60) has also implemented various activities of workshops and training to improve public servants’ skills in ethical decision making (Menzel 2005). Consequently, the three countries will not be placed near each other in the compliance-integrity matrix. Rather, Mexico and Portugal will be located in quadrant II, which shows a combination of a strong compliance approach and a weak integrity approach, while the United States is in quadrant III, or strong-strong approaches.

To show another example of the matrix’s advantage over the continuum, a study by Stevulak and Brown (2011) is utilised. In their study, they emphasise the importance for eight Former Soviet Union (FSU) countries applying a more integrity-based approach to ethics management. Those countries had implemented strict rules and regulations to tackle misconduct in public organisations. The strategy was proved not effective, as indicated in surveys by the Transparency International (Stevulak & Brown 2011). The rules and regulations applied were necessary, but not sufficient; a more integrity-based approach was suggested (Stevulak & Brown 2011).
Using the continuum, the current ethics management of the countries studied may be placed on the left hand side, showing the application of strict rules and application. The ethics management recommended by Stevulak and Brown (2011) might be somewhere in the middle, indicating more integrity-based instruments and policies adopted. This could be misleading as it may give an impression of reducing the compliance-based approach, which might not be the case.

In the matrix, the countries’ current ethics management can be placed in quadrant II of the compliance-integrity matrix. The countries were recommended to shift to quadrant III, improving public servants’ individual capacity to make ethical judgments. This indicates an increase in the integrity approach without decreasing the compliance approach. Perhaps, quadrant III could be a transition spot before, as suggested in the OECD (1996), moving to more integrity-based and less compliance-based environment.

The compliance-integrity continuum is a very good starting point to understand how ethics management is implemented; but the compliance-integrity matrix is more effective at depicting to what extent the instruments of both approaches are employed.

### 6.5 Conclusion

Several concluding points emerge from the above discussion. First, ethics institutionalisation in the DGT has evolved over time. It has been consistently formalised from the beginning of the reform up to the present time. The institutionalisation, however, does not always converge with the approach of ethics management. Second, to some extent the roles of managers in the DGT’s ethics management have been formalised, which led to more explicit ethics institutionalisation. Participants suggested
what managers can do to support ethics management, most of which is more implicit. Third, KITSDA has an issue with its dual function, which creates ambiguity for its officials. It also leaves an opportunity for improvement in its performance by establishing the internal compliance function as a specialised unit. In addition, there have been changes and movements in the DGT’s ethics management approaches, which can be divided into three periods. In the first period, the approach was more to the compliance approach. In the second period, the approach was more balanced. In the third period, the approach was pushed back towards the compliance approach.
CHAPTER 7 CONCLUSION

The purpose of this research was to investigate ethics management in the Indonesian Directorate General of Taxes (DGT). Two dimensions of ethics management in the DGT were examined: ‘the what’ dimension, which refers to the specific instruments and policies, and ‘the how’ dimension, which comprises the design and formalisation of structures and processes. It sought to show how ethics management has been implemented and how the mix between the compliance and integrity approaches has changed over time. In general, the findings of this research indicate conformity between what has happened in the DGT with that described in the literature. Yet, they demonstrate also that institutionalisation, or formalisation, of ethics does not always conform with a tendency to the compliance-based approach. Also, they show the limitations of the compliance-integrity continuum as an analytical tool for ethics management. In addition, the findings provide recommendations for DGT’s ethics management and proposals for research in the future. This chapter presents the findings and recommendations.

7.1 The evolution of ethics management in the DGT

It was unexpected that the DGT was the first Indonesian government institution that declared a plan for administrative reform(KPK 2012). Such an impression resulted from the DGT’s bad reputation in the past. Prior to the reform, the public tended to see the DGT as something negative. Surveys from the biggest newspaper in Indonesia and by a research consultant supported that position (MOF 2010). The reform, as in the KPK (2012), was made possible due to considerable intervention and influence by the IMF. In fact, the emphasis on ethics in developing countries was driven by integrity conditionality
imposed by donor institutions. In the case of the DGT, the emphasis on ethics led to the introduction of ethics management as an important part of the reform. Nevertheless, the eagerness to change and improve also came from inside the DGT.

Gradually DGT implemented ethics management following the reform. Central to this implementation was the adoption of ethics instruments. As discussed earlier, OECD (2009) suggests the implementation of the integrity management framework for ethics management at the organisational level. The framework includes integrity management instruments (see Table 3.1), also termed in this thesis ethics instruments. By analysing the gradual implantation of these ethics instruments, in particular the core ethics instruments, the evolution of DGT’s ethics management is revealed.

In the earlier years, knowing DGT’s background in the past, it was somewhat unsurprising to see that the DGT applied a compliance-based ethics management at the beginning of the reform. The compliance approach has been regarded as more fitted to countries where corruption is flourishing. This period of DGT reform covers the time when the model of the modern tax office was still a prototype. The policy to apply the compliance approach was indicated by the many rules-based instruments adopted in the reform’s early stage, compared to only one values-based instrument. Furthermore, in addition to the instruments adopted, the process selected also showed the same inclination. The code of ethics was applied gradually in DGT’s offices and simultaneously with an increase in remuneration. Employees were expected to behave ethically because of the incentive received and sanctions imposed, or in other words, because of controls external to them, which is typical of the compliance approach.
However, the approach of ethics management in the DGT was not static. As the reform was rolled out nationally, and there were more modernised offices, the approach shifted towards the integrity approach. This period was marked by the establishment of KITSDA, a unit in the DGT responsible for ethics management activities. The shift towards the integrity approach was shown by the adoption of more values-based instruments, such as a statement of organisational values and various forms of values internalisation. These instruments were aimed at stimulating ethics and integrity and promoting more ethical behaviour through adherence to higher standards. The emphasis was on self-control exercised by individuals, known as individuals’ internal controls. These are the characteristics of the integrity approach. Nevertheless, every situation needs some rules that can be enforced, that provide a remedy when there is misconduct (UNDESSA 1999). The rules-based instruments previously introduced were maintained. In addition, more instruments of the compliance approach were adopted, namely compliance monitoring and complaint handling. In this period, the DGT opted to have a more balanced approach to ethics management.

This move towards the integrity approach was in line with international studies. A study of eight Former Soviet Union (FSU) countries showed that the compliance approach was necessary but not sufficient (Stevulak & Brown 2011). Despite the application of such an approach, in 2010, the eight FSU countries being studied still suffered from the effects of corruption and apparently the compliance-based approaches were not quite successful in creating an ethical public service or good governance (Stevulak & Brown 2011). A study of nine OECD countries in 1996 also indicated the tendency of the countries studied to move towards the integrity approach (OECD 2000). Rules and regulations are important;
however, at the end of the day, as noted in (Pope 2007, p. 80), “Individuals need to be able to judge competently for themselves what is right [...] and likewise what is wrong, [...] – and to have the courage to act accordingly.”

There was subsequently a shift back towards the compliance approach, marked by the expansion of the DGT’s internal compliance function. The expansion was done by creating the internal compliance teams in 2010, which later were replaced by the internal compliance units. The latter were structurally more permanent than the former. The expansion of the DGT’s internal compliance function also coincided with the eruption of a mega case of misconduct involving a DGT employee. The resultant change in the approach was indicated by more rigorous rules-based instruments being adopted. The whistle-blowing system was applied obliging employees who are aware of violations of the DGT’s code of ethics, or any other rules and regulations, to report the violations. There were sanctions for not doing this and rewards for acting. Again, the organisation spurred the employees’ ethical behaviour by using controls external to them.

Another development was the increase of compliance oversight due to the expansion of the DGT’s internal compliance function. The expansion resulted in more frequent compliance monitoring and bigger coverage of the internal compliance function. The increase in intensity of the compliance-based activities was actually concurrent with the adoption of more values-based instruments, such as integrating integrity on daily discourse and an open declaration to express commitment to the reform. The purpose of these values-based instruments was twofold: to internalise the DGT’s values and to motivate the employees’ morale that was down because of the corruption case mentioned
above. However, the adoption of more compliance-based instruments in this period greatly reduced employees’ discretion to behave or not behave ethically, so that the approach was drawn back to being more compliance-based.

Such a development also demonstrated conformity with the literature. In a study involving the European Union’s 26 member countries and the European Commission, it was revealed that “[e]thics policies are mostly scandal-driven. They emerge, flourish, are reformed and expanded as a result of scandals and media attention,” (Demmke & Moilanen 2012, p. 1). Since ethics policies are often driven by scandals, they often cause policies that are symbolic that, at most, lead to adoption of new regulations (Demmke & Moilanen 2012). An increase in the number of rules and standards has been the trend in managing ethics and once enacted, ethics rule seem to be politically impossible to be deregulated (Demmke & Moilanen 2012). The compliance model has been proved to be more convenient and has been preferred by organisations because, while showing the public that something has been done, it “provides organisations a certain level of immunity from illegal acts committed by their employees and officials” (Roberts 2009, p. 261). The situation has resulted in an integrity paradox, in which public organisations “spend a great deal of time, energy and resources on meeting compliance obligations rather than embedding integrity values in the hearts and minds of public servants” (Evans 2012, p. 97). Similarly, as discussed earlier, Bouckaert (2006a) highlighted the ethics management paradox, contrasting intrinsic motivations to instrumental ones, which are caused by rules, regulations, incentives and sanctions. “[G]enuine ethical behaviour gives intrinsic motivation priority over instrumental motivation” (Bouckaert 2006b, p. 209).
Sadly, such an idealistic style of promoting ethical behaviour was often overshadowed by pragmatic approaches adopted by organisations.

7.2 The limitation of the compliance-integrity continuum

The discussion in the previous section indicates that the DGT’s ethics management has evolved over time. In the first period, the approach was more compliance-based. In the second period, the approach was relatively balanced. In the third period, the approach shifted back to being more compliance-based. However, showing these changes in the compliance-integrity continuum is problematic. The problem arises from the ambiguity that the continuum has: whether it is to show the instruments of both compliance-based and integrity-based approaches or to indicate the extent of intervention imposed by the DGT in the employees’ ethical decision making (see Figures 6.2 and 6.3 and the discussion in Chapter 5).

Also, the compliance-integrity continuum might be misleading if not carefully interpreted. This can be illustrated using Figure 3.2, which is taken from the OECD (1996). In the chart, the continuum is represented as the vertical line. Portugal, Mexico, and the United States were placed close to the end of the continuum towards the compliance-based regime of ethics management. In terms of the intervention imposed on public servants in ethical decision making, the three countries apply a similar approach. However, in terms of ethics instruments adopted, they are quite different. While Portugal and Mexico were at the early stage of ethics management and applied more rules and regulations, the United States also adopted various integrity-based instruments, such as
ethics training and workshops (Menzel 2005). The compliance-integrity continuum failed to indicate this feature as a result of its ambiguity, discussed in the previous paragraph.

Therefore, to analyse ethics management in the DGT, this thesis employs the compliance-integrity matrix (Figure 6.4). The matrix has two axes and four quadrants, which demonstrate the combination of the ethics management approaches. Quadrant I, for example, means a weak compliance approach and a weak integrity approach. Quadrant III, on the other hand, indicates strong implementation of both compliance and integrity approaches. The quadrants indicate the instruments adopted. The intervention imposed by organisations on employees’ ethical decision making, which is contradictory to the trust given to employees, is shown by the horizontal line. The stronger the intervention, the further the ethics management is located to the right, and vice versa.

The compliance-integrity continuum is a very good start to understanding how ethics management is implemented; nevertheless, the compliance-integrity matrix adds a new dimension to depicting to what extent the instruments of both approaches are employed.

7.3 Ethics institutionalisation and the approach of ethics management

Ethics institutionalisation involves the design and formalisation of the processes and structure of ethics. As discussed in Chapter 3, Hoekstra and Kaptein (2012) developed a typology of different approaches to the institutionalisation of ethics (see Table 3.2). In general the approaches are divided into formal, which is more explicit and has visible structures for specialised ethics officials, and informal, which is more indirect and with an emphasis on the general responsibility of all employees and managers. Although ethics institutionalisation does not clearly show an inclination towards either of the
compliance or integrity approaches, Hoekstra and Kaptein (2012) indicate the possibility of a strong convergence between the formal and compliance approaches, as well as between the informal and integrity approaches.

In this thesis, DGT’s ethics institutionalisation is analysed by looking at the second (processes) and the third pillar (structures) of its integrity management framework. Similar to the ethics instruments (the first pillar), the examination of the process and the structure of the DGT’s integrity management framework is divided into three periods. The evolution of the structure was fairly consistent, with a tendency to become more formalised in every period. The process, on the other hand, did not show a constant pattern of change.

In the first period, the DGT adopted an informal ethics structure. As such, there was no specific unit in DGT’s organisational structure handling ethics. A DGT’s Modernisation Team supervised the socialisation of DGT’s code of ethics, but it began that activity only when the prototype was tested in several offices other than the LTO. Moreover, ethics was not the only concern of the team. The team was responsible for the whole complex of activities concerning the tax administration reform. In addition to the team, managers of the ‘modern’ tax offices were responsible for ethics management activities. Hence, in this period the DGT’s ethics management applied an informal institutionalisation. The line-staff management handled ethics activities.

In the second period, a formal institutionalisation of ethics was applied in the DGT. This was apparent from the establishment of KITSDA as a unit in charge of ethics management policies and activities. There was an issue with KITSDA’s dual function
that to some extent creates a level of ambiguity for its managers. However, the fact that it was handled by a unit that responded directly to the head of the DGT shows that ethics management is considered important in the DGT. Following the typology in Hoekstra and Kaptein (2012) (Table 3.2), ethics management in the DGT in this period took a formal form and the type is office organisation, while the subtype is central.

In the third period, a change in the structure of the ethics management framework in the DGT occurred. It was indicated by expanding the DGT’s internal compliance function and creating internal compliance units in vertical and technical units of the DGT. This resulted in wider coverage of the DGT’s internal compliance function. Such a development can be referred to one option for integrity actors distinguished by OECD (2009), in which the integrity bureau is assisted by integrity administrators in local offices. Two advantages are sought: first, to make a good use of the integrity administrators’ local knowledge, and second, to avoid the isolation of the integrity bureau. Such a development of an integrity actor has been identified as the maximum type of the options possible (OECD 2009).

Such a structure can be categorised in a decentralised subtype of ethics institutionalisation in Hoekstra and Kaptein (2012). In addition to the head office, ethics officers were appointed at lower levels of the organisation. In the DGT’s case, the ethics offices were ‘inserted’ in other existing units in local offices. This subtype was suited to the DGT, since it is a large organisation and it shows a strong commitment to institutionalising ethics.
By aligning the periods of the evolution of the DGT’s ethics instruments and the change of the DGT’s ethics institution, the study attempts to determine the approach of the DGT’s ethics management. Further it attempts to see the relationship between the DGT’s ethics institutionalisation and its ethics management approach. The conclusion is that ethics institutionalisation does not always align with ethics management approach, in a sense that more formalised institutionalisation does not necessarily mean a more compliance-based approach, and vice versa.

7.4 Some issues in the DGT’s ethics management

The dual function of KITSDA

As explained in the earlier section of this chapter, KITSDA actually has two different functions: the internal compliance function and the transformation of human resources function. The two functions that it has are in fact quite different in principle and can create confusion and ambiguity to its officials. Seven years after its establishment, it is appropriate to evaluate the combining of the two functions.

Surveys of employees

The study shows that the DGT has never adopted employee surveys as one of its ethics instruments. A survey can be a powerful way to evaluate the measures of ethics management that have been taken. For example, it can be used to establish the effectiveness of the role of leaders. As explained in Chapter 6, as part of the ICV and IHT activities, managers and supervisors are given responsibilities to be role models in the internalisation program and to give coaching and counselling to their subordinates. Also,
officials of Echelon II and 3 levels have been appointed to be change agents to implement organisational values.

However, as reminded in Berman, West and Cava (1994), ethical leadership, though important, may be inconsistent among managers. Managers and supervisors may have different perceptions, skills, and, probably, levels of commitment so that their responsibilities to be role models, to give coaching, and to be change agents are implemented differently. As a result, the programs may not be successful. By surveying the role of the leaders, systematic information on the implementation of the programs can be obtained.

More implicit institutionalisation

In addition to explicit institutionalisation of ethics, such as through the code of ethics, rules and regulations, and ethics training, participants also suggest more implicit, low profile and indirect ways. The two most suggested ways are ethical leadership and reward and punishment. For ethical leadership, participants suggest what leaders can do. Mostly they are of the opinion that managers should act as a role model, not necessarily in a formalised way, such as in ICV and IHT activities, but more through daily office routines. In addition, participants suggest that leaders must be appreciative, fair, and consistent. Finally, leaders should communicate clearly what they expect from subordinates in terms of ethical behaviour.
7.5 Implications, contributions and recommendations

This research has implications related to three subjects. They are the conformity of ethics management experience in the DGT with those in other countries, the limitation of the compliance-integrity continuum, and the relationship between ethics institutionalisation and the approach of ethics management.

There has been strong conformity between the DGT’s ethics management experience and that in other countries. The experience is shown in the evolution of DGT’s ethics management approach over time. The decision to apply more compliance-based instruments at the early stage of the reform, the efforts to implement ethics instruments that stimulate rather than enforce ethics and integrity, and the unfortunate situation that drove ethics management policy towards a more compliance-based regime as experienced in the DGT are also found in developing countries. To this point, it could be said that ethics management in developing countries has no particular specific characteristics and is simply similar to those in developed countries; however, to enhance the generalisibility of the implication, further research is necessary, perhaps in other units in the Indonesian Ministry of Finance or other ministries as well.

Yet, a question arises on whether or not the approaches taken by the DGT have led to achieving its goals in minimising unethical behaviours. Have the strategies selected, which show conformity with the international practice, effectively delivered expected results? To what extent does the DGT’s ethics management influence employees’ perception on ethical or unethical behaviours? Does it reduce the number of unethical
practices? Does it in anyway improve the opinions of the taxpayers, and people in general, towards the DGT? This could be an area for future research.

With regard to the compliance-integrity continuum, this research found that it has limitations. The continuum may be utilised either to indicate the comparison between values-based and rules-based ethics instruments or to show the amount of discretion given to individuals for ethical decision making; but not both. This research proposes the compliance-integrity matrix to analyse ethics management implemented in an organisation. Using a Cartesian plane rather than a single line, the compliance-integrity matrix adds another dimension in analysing ethics management. Yet, it needs to be tested further in other research to verify its reliability.

This research also concludes that, in the case of the DGT, the ethics management approach is not influenced by the manner in which ethics is institutionalised. The DGT’s ethics institutionalisation does not always align with the ethics management approach, in the sense that more formalised institutionalisation does not necessarily mean a more compliance-based approach, and a more integrity-based approach does not necessarily result from more informal ethics institutionalisation.

There are two main contributions made by this research. First is the use of the compliance-integrity matrix, as an alternative to the compliance-integrity continuum, to analyse ethics management. The matrix, as previously discussed, overcomes the limitations of the continuum resulting from the continuum’s ambiguity as to what it is trying to indicate. Second is the assessment of the relationship between an ethics management approach and the manner in which ethics is institutionalised. This research
concludes that the formal ethics institutionalisation and the compliance approach do not always converge; neither do the informal ethics institutionalisation and the integrity approach.

In term of the implementation of ethics management in the DGT, this research has three recommendations. The first is related to the organisational structure of the DGT. More specifically, it deals with the DGT’s internal compliance function, in which the DGT’s ethics management is coordinated. The second recommendation is concerned with the ethics instruments adopted in the DGT. Some instruments that are currently not adopted by the DGT, such as surveys, are strongly suggested. Lastly, the third recommendation is about how ethics is institutionalised in DGT. It emphasises the need to have a more informal and implicit approach, in addition to the formal and explicit one, in institutionalising ethics in DGT.

At the moment, the DGT’s internal compliance function, as stated in the previous chapter, is located in a quite high position in the DGT’s organisational structure. The official responsible for that function reports directly to the Director General (DG), possessing an Echelon 2 level. However, the official is also responsible for another important function. The title of that official is the Director of KITSDA, an abbreviation of Kepatuhan Internal dan Transformasi Sumber Daya Aparatur, or Internal Compliance and Transformation of Human Resources. As the title suggests, the internal compliance function is combined with another important function, namely transformation of human resources, in one unit (see Figure 2.7).
Such combination needs revision; the internal compliance function should be on its own.

There are at least two reasons for that. One is the implication resulted in combining the two functions. As a high official suggested (see Chapter 6), the nature of the functions is indeed very different. The internal compliance function is about what to do now, while the other is concerned with what to do in the future. They involve different ways of seeing things. One who is responsible for the two functions needs to switch from one way of thinking to another.

The other reason, perhaps, is more fundamental. It is related to more recent development that the DGT’s internal compliance function, along with ethics management element of it, has been considered more central to the organisation. KITSDA has gained recognition both internally and externally as an important unit in handling and preventing misconduct in the DGT. Separating the internal compliance function from KITSDA and placing it in a unit of Echelon 2 level, which means reporting directly to the DG, would be
advantageous. It indicates conformity with recent development that the internal compliance function is getting more vital to the organisation. Also it allows the function to be more visible in the DGT’s organisational structure.

A further question would be whether or not the DGT’s ethics management should remain in its internal compliance function. In OECD (2009), a maximum option for a unit handling ethics management in an organisation is to have a large integrity bureau responsible for all ethics management activities. In the DGT, the integrity bureau is sort of ‘blended’ in its internal compliance function, which comprises internalisation, compliance, quality assurance, risk management, and internal investigation functions (see Chapter 6). In this regard, we could look at a Canadian experience based on a study of governance structures and practices in managing values and ethics in the Canadian federal public service (Treasury Board of Canada Secretariat 2011). The study reports that previously some or all ethics management functions of a federal organisation were a part of its Human Resources division. Since 1996, however, this changed. Greater prominence and resources have been invested in values and ethics. “The establishment since 1996 of stand-alone values and ethics offices usually resulted in the offices being located outside of HR within Risk/Audit/Assurance organisation” (Treasury Board of Canada Secretariat 2011, p. 1). It involves many considerations, including “the ascendancy of Modern Comptroller concerns, which included a significant focus on managing risk, including ethical risk” (Treasury Board of Canada Secretariat 2011, p. 1). That was a similar development to what happened in the Indonesian Ministry of Finance, including the DGT, where a stronger internal control has been adopted. This was marked by the adoption of the three lines of defence mechanism in the internal control system to
assure compliance and risk management (Kemenkumham 2008). Hence, placing the DGT’s ethics management in its internal compliance function is quite appropriate.

The second recommendation is concerned with ethics instruments not adopted in the DGT. OECD (2009) suggests a number of instruments in ethics management (see Table 3.1). It is emphasised that the adoption of the instruments depend on the condition and policies of an organisation. The DGT until now has adopted most of the instruments suggested and this research recommends the adoption of several more in the near future. Two core instruments and one complementary instrument are suggested to be conducted in the DGT: surveys, post-employment arrangements, and assessing the fairness of reward and promotion systems.

There are two types of surveys as ethics instruments suggested in OECD (2009). They are survey measurement of integrity violations and survey measurement of integrity dilemmas. As the names suggest, these survey focus on more specific areas of ethics, namely integrity violations and integrity dilemmas. OECD (2009) also suggests other types of surveys that can be seen in other literature, such as Kaptein & Van Dalen, 2000; Maesschalck, 2004; Trevino & Weaver, 2003. In addition, it is also suggested for DGT to have a more general ethics area, such as a survey to assess the employees’ perception on what leads employees into behaving unethically and what is their attitude to such behaviour. The main and basic idea of suggesting such an instrument is for the DGT to have a more measured, systematic and updated results expected from surveys. Better understanding of the organisation’s ethics profile would hopefully lead to better handling of ethical risk and compliance.
Another instrument suggested to be adopted in the DGT is the post-employment arrangement. Problems arising from government employees moving to other organisations are somewhat overlooked in the DGT. These problems include seeking future employment, preferential treatment to certain parties, the use of insider information, and post-employment lobbying (see OECD 2009). Such problems might take place in any country’s public organisations. As stated in OECD (2009), “[m]anaging post-employment offences is particularly difficult as most post-employment offences are committed by public officials who, by moving out of government, move somewhat beyond the control of public sector organisations.” The OECD in its publication, “Post-Public Employment: Good Practices for Preventing Conflict of Interest” (2009), suggests principles to handle the problems of post-public employment. The principles basically are divided into four aspects: a) problems arising primarily while officials are still working in government; b) problems arising primarily after public officials have left government; c) duties of current officials in dealing with former officials; and d) responsibilities of organisations that employ former public officials. These principles can be seen in Appendix 8.

The third instrument suggested for the DGT is assessing the fairness of reward and promotion systems. Reward and promotion are two of the many aspects that belong to the “inner context” in an integrity management framework. The inner context refers to “factors and actors within the organisation that do not directly relate to integrity management, but might have an impact on it” (OECD 2009, p. 23). Employees’ perception on organisational fairness has great impact on employees’ ethical behaviours. If employees think that their environment is unfair, they are more likely to commit
unethical behaviours (Trevino & Weaver, 2003). In the DGT with around 32,000 employees, covering more than 500 offices all over the country, reward and promotion processes might be cumbersome. It needs huge efforts to maintain the fairness. Since fairness is important, an ethics instrument to assess it is strongly recommended.

Finally, the last recommendation for the DGT is to also have an informal and implicit institutionalisation of ethics. Analysis shows that, particularly since 2011, ethics institutionalisation has been highly formalised. Upon an annual letter from the DGT Head Office, all units were guided in internalising the organisational values using suggested internalisation teams, mottos, media, and activities. This is not to say that having formal and explicit programs are not appropriate. It is just to emphasise that it takes both approaches to embed ethics in an organisation (see Chapter 3). There are several ways that are more implicit and informal in institutionalising ethics in an organisation. Two of them are fair treatment in HRM and the leadership or role model. Fair treatment in HRM has partially been discussed in the previous paragraph. Regarding leadership, the DGT has actually appointed all officials of Echelon 2 and 3 levels to be change agents. They have been trained and instructed to implement the values in their units. This means that not only do they tell their subordinates to implement the values, these officials should also be role models. Responses from interviews and FGDs indicate that leaders’ capacities to become change agents and role models are not consistent from one unit to another. Some responses warn the danger of leaders’ failure to behave in accordance with they say (see Chapter 6). This research recommends that the DGT persists on working on the change agent program for high officials, and monitors its implementation. Leadership,
fair treatment in HRM, and other informal and implicit ways of ethics institutionalisation will help the values embed in employees’ daily behaviours.
### Appendix 1

**Chronology of the reform based on the instruments adopted**

<table>
<thead>
<tr>
<th>Time</th>
<th>Events</th>
<th>Instruments adopted</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2002</td>
<td>LTOs as the pilot project of DGT reform were launched. It was marked as the beginning of the DGT reform.</td>
<td>- code of ethics&lt;br&gt;  - signing of integrity declaration&lt;br&gt;  - socialisation of the code&lt;br&gt;  - procedure for code violations&lt;br&gt;  - formal sanctions&lt;br&gt;  - gift policy*&lt;br&gt;  - wealth declaration*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A guideline of expected behaviours from employees, listing 20 duties and 12 prohibitions&lt;br&gt;  Explicit statements of commitment by employees to implementing the code&lt;br&gt;  Dissemination of the code to the employees&lt;br&gt;  Steps to be taken in the event that the code is violated&lt;br&gt;  Consisting of formal disciplinary sanctions (for violations of the law on employees’ disciplinary measures*) and formal moral sanctions (for violations of the code)&lt;br&gt;  Prohibition for employees to receive gifts that may influence their impartiality and might lead to unethical behaviours&lt;br&gt;  Requirements to government officials to report and declare their wealth **</td>
</tr>
</tbody>
</table>

* The laws concerning these instruments had already been in force prior to the DGT reform and applicable to all civil servants.

** In general, only Echelon I officials are required to perform this obligation. However, in the Ministry of Finance, including DGT, the law was modified to include all officials of Echelon I, Echelon II, Head of a tax service office, tax auditors, procurement team leaders, and office treasurers.
<table>
<thead>
<tr>
<th>2003-2006</th>
<th>LTOs structure were implemented in selected offices, with several adjustments. Still, DGT’s modern office was at the prototyping stage.</th>
<th>No new instruments were introduced in this period. The above instruments were applied in the selected offices.</th>
</tr>
</thead>
</table>
| 2007-2008 | The modernisation was rolled-over nationally. The DGT’s Head Office was also modernised. Included in this step was the establishment of KITSDA. One of its duties was to supervise and monitor the implementation of the ethics instruments across DGT. | • compliance monitoring Activities to maintain a high level of discipline, to create conducive work environment, and to improve service quality to the taxpayer; conducted in the form of unannounced inspection and blind surveillance  
• complaint handlings Standardised procedure to handle complaints  
• organisational values Common, shared values in the DGT (Integrity, Professionalism, Innovation and Teamwork) that become a reference for the behaviours for all DGT employees  
• socialisation of the code and values Dissemination and explanation of the DGT’s code of ethics and organisational values, known also as ethics training  
• internalisation of the code and values Activities further than socialisation, expected that the spirit of the code of ethics and the organisational values will be deeply implanted in employees’ hearts  
• risk management Activities that also include the risk to integrity, which covers sensitive processes and functions, identifies significant vulnerability to integrity violations, and provides recommendations to increase the organisation’s resilience. |

In addition, the DGT’s code of ethics was revised in 2007. The new code now lists nine duties and eighth prohibitions.
Also in 2007, the Tax Complaint Centre was established, and later in 2008 it became the basis for the establishment of DGT Contact Centre that deals with both complaint and information services.

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>The DGT’s internal compliance function was expanded.</td>
</tr>
</tbody>
</table>

- **whistle-blowing system**: Disclosure by an employee of illegal, immoral, or illegitimate practices in the DGT to the designated parties in the organisation.
- **role modelling and coaching**: Obligation imposed to managers to become role models and to give coaching to their subordinates.
- **integrating ethics and integrity in regular discourse**: Conveying the message of ethics and integrity in other activities, such as sport activities, breakfast together, religious activities, etc.

In this year five values were declared as the Ministry of Finance’s values, shared among its units, including the DGT. The values are Integrity, Professionalism, Synergy, Service, and Excellence. The previous organisational values were then replaced by these values.

In addition, beginning this year the wealth declaration policy required all officials of Echelon I down to Echelon IV levels plus tax auditors, procurement team leaders, and office treasurers.
Appendix 2

The DGT’s 2002 Code of Ethics

Obligations of employees:
1. Respect others’ religions, beliefs, cultures and customs in performing duties;
2. Act honestly and straightforwardly, work efficiently and professionally, and be trustworthy in performing duties;
3. Provide the utmost service to the taxpayers in accordance with each employee’s job area;
4. Provide clear, complete, and correct information to taxpayers concerning their rights and obligations;
5. To appear and dress in accordance with job demands at the DGT
6. Act politely and openly in liaising with taxpayers, and respect their rights
7. Be politically neutral and not discriminative in providing service to taxpayers.
8. Maintain the safety of him/herself and colleagues
9. Follow the provisions on working hours and office orderliness
10. Follow official order from his/her authorised superiors
11. Own a taxpayer identification number
12. Fill in and submit tax returns correctly, completely, clearly, and signed in accordance with the prevailing provisions
13. Pay the tax due and possess no tax arrear
14. Report in writing to his/her superior if there is a case of conflict of interest in performing duties
15. Report in writing to his/her superior if he/she is aware of a violation/evasion in tax that would harm state revenue
16. Be responsible for his/her work implementation
17. Be responsible for securing all documents and equipment borrowed from taxpayers
18. Secure data and information that belong to the DGT by ways of
   a. Securing the files
   b. Securing the computer passwords and not informing them to other employees and parties that are unauthorised
   c. Destroying unused documents in accordance with the prevailing provisions
   d. Not allowing unauthorised persons in the working area
19. Maintain the working area in a clean, safe, and comfortable condition
20. Maintain, protect, and secure properties of the DGT

Prohibitions to employees:
1. Be discriminative in performing duties
2. Misuse power or office facilities for own interests or for third party’s
3. Receive conferment or awarding in any kind, including moneys, corporate stock or other securities, commission, gift, souvenirs, entertainment, treat, travel, sponsorship, and other services, directly or indirectly, from taxpayers, colleagues, or other parties, that leads to, or is reasonably assumed that it would lead to, a commitment related to his/her position or work
4. Receive official visits from taxpayers outside the office
5. Use tax data and information for personal gain
6. Abuse the power and influence of his/her position for personal gain
7. Copy the computer application system and program that belong to the DGT other than for office purposes
8. Provide tax information to a third party, unless authorised
9. Assist, protect, cooperate, order, or allow other parties to commit tax criminal offences
10. Intentionally make a deal with taxpayers in performing duties leading to state loss
11. Consume alcohol that may damage employees’ image and dignity
12. Consume, deal, or produce narcotics and or drugs
Appendix 3

The DGT’s 2007 Code of Ethics

Every employee has an obligation to:

1. respect others’ religions, beliefs, cultures, and customs;
2. work professionally, transparently, and accountably;
3. secure data and information possessed by the DGT;
4. provide the utmost service to taxpayers, colleagues, or other parties in performing duties;
5. follow official orders;
6. responsible for the use of the DGT’s property;
7. follow provisions on working hours and office order;
8. act, appear, converse in a proper manner

Every employee is prohibited from:

1. being discriminative in performing duties;
2. becoming a member or actively affiliated to a political party;
3. abusing his/her power directly or indirectly;
4. misusing office facilities;
5. receiving any conferment in any kind, directly or indirectly, from taxpayers, colleagues, or other parties, that leads to, or could reasonably be assumed to lead to, a commitment related to his/her position or work;
6. misusing tax data or information;
7. behaving in a way that is reasonably assumed as causing distortion, damage and alteration to the DGT’s information system;
8. committing a misconduct that against moral norms and may impair the DGT’s image and dignity
Appendix 4

List of questions for interview and FGD

1. For the record, please tell me your name and current position.

2. How long have you been in this position? How long have you been working for the Directorate General of Taxes (DGT)?

3. In general, what are your duties and responsibilities in this position?

4. I understand that, from the banners I’ve seen in the lobby, the DGT has new corporate values now. Please tell me about these corporate values. Why do you think the DGT needed to have new values?

5. In your opinion, what are corporate values? What are they for?

6. From your answers, I can conclude that corporate values are related to efforts to promote good, ethical behaviours and preventing misconduct or unethical behaviours. My question: is being ethical, or is ethics in general, a personal or organisational issue?

7. Other than having corporate values, what are other ways to promote ethical behaviours in an organisation?

8. From your answers, I can classify those ways into two groups: those that enforce ethical behaviours and those that stimulate them. Which is more important? Why?

9. What about in the DGT, how are efforts to promote ethical behaviours conducted? Who is responsible for the efforts: the Head Office, Regional Offices, or Tax Service Offices?
How are the efforts coordinated?

10. Which type of effort is more suitable in the DGT: those that enforce ethical behaviours or those that stimulate them? Why?

11. What are the challenges of promoting ethical behaviours in the DGT? How can the efforts be improved in the future?

12. How does the efforts to promote ethical behaviours in the DGT relate to the current tax administration reform? How important are they to the reform? What is the role of these efforts?


[...] more rigorous attention is needed for specific groups working in sensitive areas or where there is a high risk of conflict of interest. These include especially core functions of the state, and areas where citizens are fully dependent on public services. [...] Member countries focus especially, on justice, tax and custom administrations as well as on police and national defence (emphasis added).

What do you think about that statement?
Do you think the DGT needs more rigorous attention as well?
Appendix 5

Participant Information Form

Project Title
The Implementation of Ethics Management in Public Sector: The Indonesian Tax Administration Reform

Researcher
Name: Yari Yuhariprasetia
Course: Professional Doctorate in Public Administration
Faculty: Business and Government, University of Canberra

Project Aim
The aims of this research are:
- To study and explore in order to gain a deeper insight on the process, the practice, and the courses of actions on how ethics management is implemented in the reform of the Indonesian Directorate General of Taxes (DGT).
- To analyse the operations of ethics management in the DGT to gain knowledge on the experience in implementing ethics management in public sector, particularly in a developing country.
- To provide feedback and input on the implementation, for the context of the reform in the DGT, as well as the Indonesian bureaucracy reform and in other countries

Benefits of the Project
The research will contribute to a number of studies in ethics management in public sector conducted in developing countries, particularly in the application of The compliance-integrity continuum in ethics management. In Indonesian context, in which bureaucracy reform is currently taking place, the research will provide insights on the implementation of ethics management as part of the reform.

General Outline of the Project
The research adopts the qualitative methodology based on a case study. Three methods will be employed for data collection: document analysis, semi structured interview and focus groups. The document analysis will be done to gain data and information regarding how ethics management is implemented in the DGT. It will be performed on related laws and regulations, decrees from the minister and the director general, and procedures, as well as minutes of meeting, memos and correspondence. The interviews and focus group discussions are expected to involve 24 participants. There will be a list of questions to be covered and the participants have flexibility to respond. Other questions may be asked on things said by the participants.
The Interviews and focus group discussions tape-recorded and all data will be analysed using following procedure:
1. The information will be transcribed and then NVivo analysis software will be used to undergo a pre-analysis with coding system.
2. Content analysis will be performed to analyse the data. This approach uses underlying themes for discerned materials which are being analysed (thematic analysis).

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

**Participant Involvement**
The participants of this research will be involved in the interviews and focus group discussions. They will provide information about efforts done in the DGT’s ethics management, about its relationship with the DGT reform and people’s perception on the DGT. The participants will be asked to answer and discuss a number of questions. The interview will be recorded and transcribed for analysis. The participants are voluntary and may withdraw at any time without providing an explanation, or refuse to answer questions without any consequences. An informed consent form for participants’ approval will be provided by researcher. There is no risk or hazard that may arise from this research.

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

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

**Data Storage**
The information will be stored in the form of recording. The recording will be transcribed into computer file and printed in the paper form. The electronic information will be stored in the researcher’s personal computer. The computer is password-protected and only the researcher can access to it. The recording and any printed materials will be stored under locked and secure cabinets both during fieldwork in Indonesia and at University of Canberra. All data will be stored at University of Canberra for five years after the thesis is completed and the information will be deleted from computer and paper record will be destroyed.

**Ethic Committee Clearance**
This research has been approved by the University of Canberra Ethics Committee in Human Research of the University of Canberra (Project number 11-133).
**Queries and Concerns**

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

Yari Yuheriprasetia  
Faculty of Business and Government  
University of Canberra, ACT-2601, Australia  
Tel. +61 2 6201 5776  
Email. Yari.Yuhariprasetia@canberra.edu.au

Supervisor,  
*Professor John Halligan*  
Faculty of Business and Government  
University of Canberra, ACT-2601, Australia  
Room 6D4 , Phone: 6201 2725  
Email: John.Halligan@canberra.edu.au
Dear Participants,

Re: invitation to participate in the research

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

My name is Yari Yuhiaprasetia. At the moment, I am taking the Professional Doctorate in Public Administration program at the University of Canberra, Australia. My research title is “Ethics Management in Public Sector: A case of the Indonesian Tax Administration Reform”. The research has a purpose of exploring how ethics management, that is the efforts to promote and improve integrity and ethics and organisation, is implemented in the DGT.

I would like to invite you to be a participant in this research. You will be involved in an interview/focus group discussion to provide information about the implementation of ethics management in the Directorate General of Taxes, You will be asked to answer and discuss a number of questions. The interview/focus group discussion will last for approximately one hour.

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

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

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

For your information, this research has been approved by the Committees for Ethics in Human Research of the University of Canberra. If you have any questions about the research, please contact the researcher with the contact details below.
Thank you for your attention and cooperation.

Regards,

Yari Yuhariprasetia
Faculty of Business and Government
University of Canberra, ACT-2601, Australia
Tel. +61 2 6201 5776
Email. Yari.Yuhariprasetia@canberra.edu.au

Supervisor,
Professor John Halligan
Faculty of Business and Government
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Room 6D4, Phone: 6201 2725
Email: John.Halligan@canberra.edu.au
Appendix 7

Informed Consent Form

Project Title
The Implementation of Ethics Management in Public Sector: The Indonesian Tax Administration Reform

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

Name :
Signature :
Date :

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

Name :
Address :
Appendix 8

Principles for post-public employment

The OECD Principles for Post-Public Employment address identified problem areas in the following four aspects, namely:

i. Problems arising primarily while officials are still working in government
- Public officials should not enhance their future private sector employment prospects by giving preferential treatment to potential employers.
- Public officials should notify the appropriate government authority if they receive offers of employment that could constitute a conflict of interest.
- Public officials should give notice to the appropriate government authority of their intention to accept an offer of private sector employment that could constitute a conflict of interest.
- Public officials who have decided to take up private sector employment should, where feasible, be excused from any current duties that could constitute a conflict of interest with their likely responsibilities to their future employer.
- Before leaving government, public officials who are in a position to become involved in a conflict of interest should have an exit interview with the appropriate government authority to discuss possible conflicts of interest and, if necessary, determine appropriate remedies.

ii. Problems arising primarily after public officials have left government
- Public officials should not use confidential or other “insider” information after they leave government.
- Public officials who leave government should be restricted in their efforts to lobby their former governmental colleagues and subordinates. An appropriate time limit or “cooling off” period (e.g. one or two years) may be imposed.
- Public officials who leave government should be restricted in their acceptance of appointments to such entities as boards of directors of business firms or non-profit organisations with which the officials had significant official dealings before they left government. This is another instance in which a cooling-off period may be required.
- Public officials should be prohibited from switching sides after they leave government.

iii. Duties of current officials in dealing with former officials
- Current public officials should be prohibited from granting preferential treatment, special access or privileged information to former officials.
- Current public officials who engage former public officials on a contractual basis to do essentially the same job as the former officials performed when in government should ensure that the hiring process has been appropriately competitive and transparent.
- Former public officials who are re-employed after receiving a redundancy payment should usually be required to return the payment.
iv. Responsibilities of organisations that employ former public officials
Private firms and non-profit organisations should be restricted in using officials who have left government to lobby former colleagues, acquire confidential information, or switch sides.
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