

International Conference on Accounting Studies (ICAS) 2015
17-20 August 2015, Johor Bahru, Johor, Malaysia

Factors that influence tax auditors' conciliatory style in resolving disputes: Pre-test and pilot study

Zarifah Syahirah Nordin*, Izlawanie Muhammad

Universiti Sains Islam Malaysia, Malaysia

Abstract

The purpose of this study is to examine the validity and reliability of the questionnaire which serve as a research instrument. The validity of the instrument can be viewed by using the content validity that is conducted during pre-test which involves evaluation by experts in the subject area of study. While, the reliability of the instrument can be seen through pilot study. Pilot study involved with a small scale of respondents where it is used to determine whether the instrument are reliable, whether the respondent has a clear understanding on questions in the questionnaire and it is conducted prior to real study. A total of 50 sets of questionnaire had been distributed to investigators from Inland Revenue Board of Malaysia (IRBM) in Jalan Duta branch. Out of these, only 21 completed questionnaires were returned. The data then was keyed in and analysed using SPSS software version 21. The results from reliability analysis revealed that Cronbach's alpha value for all variables (attitudes towards achieving goals, experience, ethical ideologies, managerial control and tax auditors' conciliatory style) are more than cut-off point that is 0.70. This can be concluded that the instrument is reliable and none of the items have to be deleted.

Keywords: Pre-test, pilot study, attitudes towards achieving goals, experience, ethical ideologies, managerial control, tax auditors' conciliatory style

1. INTRODUCTION

Inland Revenue Board of Malaysia (IRBM) is a revenue agency under the Ministry of Finance which established by the Malaysian government in accordance with the Inland Revenue Board of Malaysia Act 1995 (Inland Revenue Board Of Malaysia, 2014). The revenue agency is responsible to collect, manages and governs direct taxes as well as conducts a tax audit. Gupta and Nagadevara (2007) defined tax audit as the examination of the individual's tax liabilities whether it is declared correctly or not. In tax audit, tax auditor examines, evaluates and verifies tax return that has been submitted by taxpayers. When there is a difference between what have been declared in taxpayers' tax return with what have been recomputed by tax auditor, tax auditor will propose a tax adjustment and discuss the adjustment with taxpayers. Then, taxpayers need to give their respond whether to agree or disagree with the proposed tax adjustment. At this stage, taxpayers probably disagree with these proposed tax adjustments. In this situation, the disagreement can be referred to as tax disputes (Smith & Stalans, 1994). Hence, tax auditor who act as a person who in-charge to deal with taxpayers are required to determine the strategy to be implemented in order to resolve disputes, settle the case and simultaneously, gain taxpayers' compliance. Conciliatory style is one of the strategies adopted by regulators to resolve disputes. Regulatees prefer to be persuaded to comply and resist firm approaches (Mahmood, 2012). However, there are

*Corresponding author. Tel.: +60177408626
E-mail: zarifahs_8@yahoo.com

factors that may influence in the usage of this strategy including attitude towards achieving goals, experience, ethical ideologies and managerial control.

Following this, the adaptation of items from previous studies has been used by researchers to suit with the context of this study. Therefore, it becomes necessary for researchers in this study to check whether the items used measure what supposed to measure, error free and have consistent result each time it is used (Sekaran, 2003; Hair, Black, Babin & Anderson, 2010; Sekaran & Bougie, 2010). In simple terms, this can be refers to the instrument's validity and reliability. To ensure the validity and reliability of the instrument, pre-test and pilot study have been used in this study. Pre-test is the process to evaluate the questionnaire which involves experts who have knowledge and experience in the subject area of study (Hair et al., 2010). Gay, Mills and Airasian (2006) defined pilot study as a small-scale trial of the study which performed before the actual study is done. Numerous studies have attempted to explain on why pre-test and pilot study should be executed prior to the full-scale study particularly on the validity and reliability of the instrument used (van Teijlingen & Hundley, 2001; Taylor, Kermode & Roberts, 2006). Accordingly, both pre-test and pilot study can act as a guide (Zikmund & Babin, 2006) which can assist researchers to gain a real insight on a full-scale study. This is where it can help to identify and cope with the flaws or deficiencies in the research instrument. Realizing this, both pre-test and pilot study are the essential stages in doing research.

This study has conducted pre-test and pilot study in order to test validity and reliability of research instrument as well as the individual's comprehension on questions in the instrument. Hence, at the end of this paper, it presents the result of the pilot study for all variables which include independent variables (attitudes towards achieving goals, experience, ethical ideologies and managerial control) and dependent variable (tax auditors' conciliatory style).

2. OVERVIEW OF THE STUDY

The following discussion highlights the independent variables which are attitudes towards achieving goals, experience, ethical ideologies and managerial control as well as dependent variable that is tax auditors' conciliatory style which employed in these studies:

2.1 Independent variables

2.1.1 Attitudes towards achieving goals

According to Fishbein and Ajzen (1975), attitude can be defined as the evaluative effect of positive and negative of individuals in performing a particular behaviour. Baldwin, Bommer and Rubin (2013) added that attitude also plays a vital role in employee behaviour. So, this can be related to job attitudes where employees have their own feelings about his or her job and their desires towards individual's job attachment. These job attitudes include organisational commitment and job satisfaction. Nevertheless, organisational commitment is chosen to well-suit with this study as Gbadamosi (2003) mentioned about organisational commitment that the more favourable an individual's attitudes towards the organisation, the more the individual's acceptance towards goals of the organisation and they are willing to strive on behalf of the organisation. So, the individual are more likely to accomplish set goals when his or her interested to attain those goals. Here, goals refer to audit revenue collection and completed cases.

2.1.2 Experience

To have a win-win situation in resolving disputes and closing cases, experience is one of factors that are needed by the tax auditor. Enofe, Mgbame, Efayena and Edegware (2014) defined experience as competency, skill and knowledge acquired by someone over a period of time. Moreover, experience also is the act of practice and feedback which can lead to the acquisition of knowledge (Carpenter, Durtschi & Gaynor, 2002). This is where each of auditors gained different types of knowledge through different particular training and experiences (Bonner & Lewis, 1990). Therefore, several studies have been conducted on the difference between an experienced and inexperienced tax auditor. Auditors who have slight knowledge or experience heed for inappropriate fact when making audit judgements whilst the experienced auditors are willing to disregard irrelevant information (Shelton, 1999). In addition, more experienced auditors are able to use more concepts and because of that they take into account more appropriate information than less experienced auditors (Bierstaker & Thibodeau, 2006).

2.1.3 Ethical ideologies

A set of beliefs, values and attitudes, which may influence one's judgement and decision-making when confronted with difficult situations and ethical dilemmas can be refer to ethical ideologies (Monga, 2001; Ameh & Odusami, 2010). There are two dimensions in ethical ideologies - idealism and relativism. Forsyth (1980) indicated that when making ethical judgement, individuals who adhere to universal moral principles can be termed as idealism whereas individuals who reject the universal moral principles can be called as relativism.

Table 1 shows four different approaches that an individual may adopt when making ethical judgement such as Situationists, Absolutists, Subjectivists, and Exceptionists (Forsyth, 1980). Situationists are those who refuse moral rules and they believe that each situation has to be examined individually. Absolutists are those who maintain strict adherence to universal moral principles and believe that moral decision produce positive consequences for all persons involved (Forsyth, 1992). Subjectivists are those who make decisions based on personal feelings. Lastly, Exceptionists are those who respect universal moral principles, nevertheless it allows exceptions to the principles (Forsyth, 1980; Chudzicka-Czupala, 2013).

Table 1: Taxonomy of Ethical Ideologies

Idealism	Relativism	
	High	Low
High	Situationists Rejects moral rules; advocates individualistic analysis of each act in each situations; relativistics	Absolutists Assumes that the best possible outcome can always be achieved by following universal moral rules
Low	Subjectivists Appraises based on personal values and perspective rather than universal moral principles; relativistics	Exceptionists Moral absolutes guide judgements but pragmatically open to exceptions to these standards; utilitarian

Source: Forsyth, 1980

2.1.4 Managerial control

By definition, management control can be defined as the process by which managers influence other organisational's members to execute the organisation's strategies (Anthony, 1988). Similarly, several studies on street-level bureaucrats' behaviour have recommended that front-line behaviours are influenced by managers to execute policies (Lipsky, 1980; May & Winter 2007). Muhammad (2013) found that different of IRBM branches has different manager's managerial behaviour. This is where some managers have high managerial control on tax auditors. Manager controls for all of the tax audit process from the selection of cases until make decision on indirect income methods and audit outcomes. On the other hand, when manager who has moderate managerial control always interact with tax auditors to ensure they can achieve the target. Moreover, the manager gives freedom to tax auditors to choose cases as long as they can accomplish targets, choose indirect income methods and audit outcomes. Tax auditors also can make decisions and judgements without manager's interference.

2.2 Dependent variable

2.2.1 Tax auditors' conciliatory style

Conciliatory style is one of the major styles that have been discussed by previous studies such as Bardach and Kagan (1982), Hawkins (1984) and others. This conciliatory style can be known as 'accommodative', 'compromise', 'compliance', 'co-operative' and 'persuasive' (Versluis, 2003; Malcolm, Tilden, Coope & Xie, 2009; May & Winter, 2011). Previous studies have reported that conciliatory style involves strategies such as education, advice, persuasion, negotiation, bargaining and advice (Hawkins, 1984; Hutter, 1989; Winter & May, 2001; Malcolm et. al., 2009; Muhammad, 2013). Enforcers who use the conciliatory approach generally are more friendly, lenient, responsive and flexible (Kagan & Scholz, 1984; Murphy, 2008). Enforcers also educate taxpayers in the effort to comply with the law and to have a better understanding on tax rules (Winter & May, 2001). Through this approach, it can help to builds a good relationship between tax auditors and taxpayers, bridge the gap between the two parties, foster long term co-operative compliance (Malcolm et. al., 2009) and eventually can expedite in settling cases.

3. METHODOLOGY

3.1 Data collection method

In this study, the researcher used questionnaire as a research instrument. The questionnaire is a closed-ended questions and apply five-point Likert scale. It was divided into 4 sections which are Section A, B, C and D. Section A contained 7 items which covers on demographic information. Section B was divided 4 parts which are Part A, B, C and D. Part A consists of 6 items measuring attitudes towards achieving goals; Part B consists of 10 items focus on measuring experience; Part C is related to ethical ideologies which contained 20 items and Part D consists of 9 items of managerial control. In Section C covers on tax auditors' conciliatory style which consists of 5 items. The last section that is Section D is the section that asks respondents to give comments and suggestions as a purpose for the improvement of the questionnaire. Overall, the items were adapted from previous studies.

3.2 Pre-test

A pre-test is conducted in order to assess content validity of the research instrument. Content validity is considered as an essential activity for the pre-test of the instruments which it involves examining and judgements from a group of experts on the aptness of items chosen to measure the construct (Hair et al., 2010 & Sekaran & Bougie, 2010).

The application of content validity involves evaluation by experts in the subject area of study. Hence, the questionnaire is not only given to the researcher's supervisor but also to the assistant director of the Division of Statistics and Data Integrity, Department of Tax Operation of Inland Revenue Board of Malaysia in Cyberjaya, Both experts were asked to revise and give their comments, views and suggestions for the improvement of the instruments.

From the comments provided by experts, some modifications have been made such as the question wording, spelling and translations of the items from English to Bahasa Malaysia. The experts also provide some suggestions regarding on font size and formatting of the questionnaire as this will help to improve readability among respondents. Therefore, a modify version of the instrument has been done by the researcher that will be used to be distributed in the pilot study.

3.3 Pilot study

This pilot study is conducted in preparation for the actual study which it involves a small scale of respondents in order to test whether the questionnaire is reliable and appropriate to be utilised and also whether the questions in the questionnaire is comprehensible by the respondent. A total of 50 copies of questionnaires were distributed to investigators from Inland Revenue Board of Malaysia (IRBM) in Jalan Duta branch. In order to evade the problem of low response rate, the researchers have taken an initiative to increase the response rate by suggesting an incentive which is by using the research grant, RM5 will be channelled to "Tabung Wakaf Pembinaan Masjid USIM" for each completed questionnaire. Even so, only 21 copies of the questionnaire were returned which are usable. With the number of return questionnaires, it still a sufficient sample size to be used in the pilot study. As suggested by Nieswiadomy (2002), the sample size which is about 10 participants is adequate to conduct a pilot study. In this pilot study, respondents were asked to give comments and suggestions on the questionnaire. Based on their feedback, there is no modification should be made. Thus, a finalized version of the instrument has been done by the researcher that will be used to be administered in the actual study.

4. DATA ANALYSIS

4.1 Data screening process

Data obtaining from the respondents is coded, keyed in and analysed by using SPSS software version 21, Prior to do any statistical analysis for pilot study such as reliability analysis, data have to undergo data screening process in order to check for outliers and missing data. Hence, it is found that there was no outlier and missing data that should be handled by the researcher.

4.2 Reliability Analysis

Reliability analysis is conducted to indicate the extent to which an instrument is free from error and thus, produces stability and consistent result each time it is used (Sekaran, 2003). Hence, the reliability can be assessed through Cronbach's alpha coefficient.

Different of authors have different of views on Cronbach's alpha value. Hair, Celsi, Money, Samouel and Page (2011) recommended that Cronbach's alpha value of 0.7 is a minimum level. While Sekaran (2003) and Cohen, Manion and Morrison (2007) recommended that a value of less than 0.6 is considered poor, those in the 0.7 ranges are considered as acceptable, and those over 0.8 is considered good. Therefore, Cronbach's alpha value of 0.7 can be considered as a cut-off point.

After analysing responses from the pilot study, it was found that Cronbach's alpha value for independent variables: are 0.817 for attitude towards achieving goals, 0.870 for experience, 0.766 for ethical ideologies and 0.872 for managerial control. Moreover, Cronbach's alpha value for the dependent variable is 0.774 for tax auditors' conciliatory style. This shows that Cronbach's alpha value for both independent and dependent variables above cut-off point, thus, this instrument are reliable and none of items should be deleted.

Table 2: Result of Reliability Analysis

Variables	Number of items	Cronbach's Alpha
Attitude towards achieving goals	6	0.817
Experience	10	0.870
Ethical ideologies	20	0.766
Managerial control	9	0.872
Tax auditors' conciliatory style	5	0.774

5. CONCLUSION

The focus of this study involves pre-test and pilot study which has been conducted prior actual study. Pre-test and pilot study is important to determine whether the research instrument is valid and reliable or not. In pre-test, it can be assessed through content validity. From the evaluation of experts, there are modifications that are needed to be done. While the pilot study uses reliability analysis in order to determine the instrument's reliability. It is also intended to assess the respondent's understanding on the questions in the instrument. Based on the findings from reliability analysis, all items in the instrument are reliable due to Cronbach's alpha value for all independent and dependent variables are more than 0.70. Therefore, there are no items are dropped from the instrument.

Moreover, the effectiveness of pre-test and pilot study that had been conducted also can be showed as it can spot the flaws or deficiencies in the research instrument and help to cope with it such as question wording, spelling and translations of the items used, font size and formatting of the questionnaire, prior it is utilised in the actual study by making an appropriate amendments. After amendments made, it shows that items that were adapted from previous studies are valid, reliable and apt to be used in this context of this study and in later stages which is in the real study. It is also can ease the readability and understanding of the respondents towards questions in the questionnaire.

ACKNOWLEDGEMENTS

The research is conducted under the Ministry of Education Malaysia, research grant no: RAGS/FEM/36/50313. The authors thank the Inland Revenue Board of Malaysia for granting permission to conduct this research and assisting the authors in distributing the questionnaire.

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