

Cooperation, Tax Complexity and Managerial Control: A Study on Tax Auditors' Conciliatory Style

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ABSTRACT

Manuscript type: Research paper.

Research aim: This paper aims to investigate the external factors that influence tax auditors' conciliatory style when dealing with tax disputes.

Design/ Methodology/ Approach: A self-administered questionnaire which serves as the research instrument was used in this study. Respondents were tax auditors attached to the Inland Revenue Board of Malaysia (IRBM) in Peninsular Malaysia.

Research findings: Findings show that the external factors of tax complexity and managerial control significantly influence tax auditors' conciliatory style. However, taxpayers' cooperation carries no impact.

Theoretical contribution/ Originality: This study provides empirical evidence which demonstrates the influence of external factors (such

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as taxpayers' cooperation, tax complexity and managerial control) on tax auditors' conciliatory style.

Practitioner/ Policy implications: The findings are relevant to the IRBM who can use the outcome to improve its dispute resolution process as well as to gain a better understanding of tax auditors' behaviour.

Research limitation/ Implication: The findings of this study can only be generalised to the population in Peninsular Malaysia. Thus, future studies may be conducted in East Malaysia and other Asian countries so as to examine if tax auditors' behaviour differs across cultures.

Keywords: Conciliatory Style, Disputes Resolution, Tax Audit, Tax Auditor, Tax Auditors' Behaviour

JEL Classification: M42

1. Introduction

The self-assessment system implemented by the Inland Revenue Board of Malaysia (IRBM) has made tax audit a primary activity of the IRBM whose aim is to enhance voluntary compliance (Choong & Lai, 2009; IRBM, 2013). Tax audit is the examination of taxpayers' business records and financial affairs as a means to ensure that the correct amount of income and expenses have been declared by the taxpayers according to tax laws and regulations (IRBM, 2013). Tax auditors perform tax audits as a means of determining, evaluating and verifying the accuracy of taxpayers' returns.

When tax auditors detect non-compliance issues, they will propose a tax adjustment to the taxpayers who may then agree or disagree with the proposed adjustment. In this case, any disagreement over the adjustment can lead to disputes (Smith & Stalans, 1994). As a revenue agency representative, the tax auditor must choose an appropriate strategy to resolve such disputes. The enforcement regulatory theory suggests that enforcers may adopt the legalistic or the conciliatory style when dealing with the public (Bardach & Kagan, 1982; Hawkins, 1984; Reiss, 1984). The legalistic enforcement style is based on the strict enforcement approach (Versluis, 2003) while the conciliatory style is based on accommodation and cooperation (McAllister, 2010). In this study, the conciliatory style is chosen as a strategy to resolve disputes because it can be regarded as an approach that helps to promote long-term compliance (Malcolm, Tilden, Coope, & Xie, 2009). Further, Mahmood (2012) found that generally, taxpayers reject the strict approach.

The conciliatory style consists of a number of communication approaches which include persuasion, negotiation, bargaining, education and giving of advice (Hawkins, 1984; Hutter, 1989; Winter & May, 2001; Malcolm et al., 2009; Muhammad, 2013). These approaches are adopted by enforcers as a means to educate the public and to build mutual trust between both parties (Winter & May, 2001). Enforcers who use this strategy can be perceived as being friendlier, have leniency, give better response and are more flexible (Kagan & Scholz, 1984; Murphy, 2008). In the tax audit process, the conciliatory style adopted by tax auditors can help to minimise the gap existing between taxpayers and the tax authority; it can also develop a sustaining and long-term cooperative compliance between the two parties thereby, enabling the disputes to be resolved effectively.

There are several published studies which focus on tax audit and tax auditors' behaviour (Muhammad, 2013; Waller, 2007; Job & Honaker, 2003; Hasseldine & Hansford, 2003; Smith & Stalans, 1994) and among these is one that focuses on the Malaysian context (Muhammad, 2013). In Muhammad (2013), the study identified factors that influenced tax auditors' enforcement regulatory styles and it is the first study that developed a theoretical framework for Malaysian tax auditors' dispute resolution behaviour in audit settlement. Muhammad conducted an in-depth interview with 49 IRBM tax auditors in the Klang Valley. Data were collected and then analysed using the grounded theory methodology. Findings suggested that tax auditors applied different enforcement regulatory styles such as strict enforcement, bargaining and educating. The study found that the tax auditors' regulatory styles are influenced by several factors including the tax auditors' characteristics, their managerial control, the taxpayers' characteristics, the tax agents' characteristics, the complexity of the issues in the disputes and the amount of tax adjustments.

However, the grounded theory applied by Muhammad (2013) had not been empirically tested and could not be generalised to the IRBM tax auditors. Bearing that in mind, this study aims to examine three external factors (see Muhammad, 2013) that could influence tax auditors' conciliatory style when dealing with tax disputes. These factors include taxpayers' cooperation, tax complexity and managerial control. These external factors are beyond the tax auditors' control and out of the ambit of the tax auditors' characteristics, thus this empirical study is essential for providing the necessary evidence that can help others to understand tax auditors' behaviour in tax disputes.

Consequently, it will also contribute to the limited literature on tax auditor's behaviour and the tax audit.

The remainder of this paper is organised as follows. Section 2 reviews the literature related to the enforcement regulatory theory and factors that influence tax auditors' conciliatory style. It also presents the hypotheses to be tested. Section 3 describes the research methodology while Section 4 presents the findings drawn from the analysis. Finally, Section 5 presents the discussion and conclusion of the study.

2. Literature Review and Hypotheses

2.1 Enforcement Regulatory Theory

As enforcers of the law and individuals who interact with the public such as taxpayers, tax auditors have to ensure that they engage in an appropriate enforcement style while performing their tasks. The enforcement regulatory style is defined as how enforcers deal with the regulated parties when performing their duties (Bardach & Kagan, 1982; Hawkins, 1984; Reiss, 1984). Under the enforcement regulatory theory, two major styles exist – legalistic and conciliatory (Versluis, 2003; Muhammad, 2013).

The legalistic style is also called the 'deterrence', 'strict enforcement' and 'command and control' (Versluis, 2003; Murphy, 2004; Mascini & Van Wijk, 2009; May & Winter, 2011; Muhammad, 2013). It is a law-based style and it applies punishment to secure compliance (Malcolm et al., 2009). By using this style, enforcers immediately punish the regulated parties for breach of the rules. This has ensured the style promotes short-term compliance because there is uncertainty whether the regulated parties truly understand the meaning of compliance with tax law other than the lesson that their wrongdoings will be punished (Braithwaite & Braithwaite, 2000; Leviner, 2008).

The other style is called the conciliatory style and it can be termed as 'accommodative', 'persuasive' and 'co-operative' (Versluis, 2003; Murphy, 2004; Malcolm et al., 2009; May & Winter, 2011). This style not only emphasises on using persuasion, negotiation and bargaining (Versluis, 2003; Malcolm et al., 2009), it also aims to give advice and educate taxpayers about the tax rules (Winter & May, 2001; Malcolm et al., 2009; May & Winter, 2011). This style helps to build mutual trust between the regulators and the public, thereby leading to cooperation with both parties working together towards the compliance (Kagan &

Scholz, 1984; Reiss, 1984; Winter & May, 2001; Muhammad, 2013). The conciliatory style is vital for building a good relationship as well as promote long term compliance (Malcolm et al., 2009).

2.2 Factors Influencing Tax Auditors' Conciliatory Style

2.2.1 Taxpayers' Cooperation

According to Muhammad (2013), some of the instances of taxpayers' cooperation are when taxpayers give prompt feedback to tax auditors' queries; they inform the tax auditors about their difficulties in responding to the auditors' queries; and they make an effort to close the case within a stipulated time. Non-cooperation is associated with taxpayers intent of withholding feedback, telling lies and giving excuses so as to lengthen the time for settlement. Cooperation helps to establish the trust between the regulators and the public (Pautz, 2009). When there are communicative interactions between the two parties on the disputants' matters, problems can be defined and understanding can be built and in that process, suitable resolutions can be achieved (Black, 1997; 1998).

Taxpayers' cooperation can influence the tax auditors' dispute settlement strategies. Undoubtedly, tax auditors tend to act more leniently towards taxpayers who cooperate in resolving tax disputes (Muhammad, 2013). Cooperation between tax auditors and the taxpayers can be cultivated by building a good rapport between the two parties. Through this rapport, taxpayers' confidence in the tax auditors is elevated and they give more respect to the tax auditors involved. When this is achieved, taxpayers may give better cooperation and they may work together with the tax auditors to settle the audit cases. Consequently, disputes can be reduced (Muhammad, 2013).

In contrast, tax auditors can be intolerant to taxpayers who fail to cooperate, tell lies, delay in submitting the required documents and fail to respond to enquiries (Muhammad, 2013). In such cases, tax auditors may adopt a strict strategy; however, such strategy can be counterproductive, stimulating hostility and hampering cooperation (May & Winter, 1999). Given all of these points, the proposed hypothesis is formulated as:

- H₁: There is a significant relationship between taxpayers' cooperation and tax auditors' conciliatory style in resolving disputes.

2.2.2 Tax Complexity

Mustafa (1996) and Isa (2014) defined tax complexity as taxpayers' difficulties in having a reliable record-keeping system, computing tax and understanding tax laws and regulations. These complexities contribute to the taxpayers' compliance behaviour. However, from the perspective of the tax auditors, tax complexity includes the difficulties of tax issues discovered and taxpayers' record-keeping approach (Muhammad, 2013). Many sole proprietors and small and medium sized companies do not keep proper records and documents and they do not use a systematic accounting tool to help them record their transactions. This could be due to the lack in record-keeping skills or accounting knowledge (Ismail, 2002; Choong, Lai, & Ng, 2009). To compound the problem, some of these taxpayers are unwilling to learn the necessary skills and acquire the knowledge because they perceive the activities of record-keeping as unimportant and negligible (Evans, Carlon, & Massey, 2005).

As result of incomplete records in audit cases, the tax auditors face a lot of difficulties. They need to determine the correct amount of income by using indirect income methods such as bank statements, cash analysis, mark-up, mean tests, gross profit margins and sampling (Muhammad, 2013). In calculating the taxpayers' liability, tax auditors have to exercise their best judgement and make decisions based on the available records, documents and information. Therefore, when tasked to make decisions in solving certain complex problems, experienced tax auditors tend to use their prior experience and knowledge as a means of providing better recommendations to the taxpayers in solving the problems (Muhammad, 2013; Badara & Saidin, 2014). The tax auditors are more lenient; they build a good rapport with the taxpayers when facing certain complex issues and they aim to help taxpayers to resolve disputes harmoniously (Muhammad, 2013). With these reasons noted, the proposed hypothesis is formulated as:

H₂: There is a significant relationship between tax complexity and tax auditors' conciliatory style in resolving disputes.

2.2.3 Managerial Control

Managerial control refers to the method used by the management to encourage employees to behave in ways that meet the organisation's objectives (Emmanuel, Otley, & Merchant, 1990). Lipsky (1991) asserted that managers are responsible for carrying out any directed policy with

effectiveness. Yet, this authority can also make the work interesting or repelling to the individuals hence, managers are the key regulators of the discretion, working in the interest of the organisation with the necessary discretion. Managers can seek to reduce or constrain their staff's discretion and pragmatise discretion if it works for the organisation (Lipsky, 1971; 1976; 1980; 1991).

According to Muhammad (2013), there are different levels of managerial control being applied by managers in the IRBM branches. Managers who have high managerial control monitor the tax auditors' work at every stage of the tax audit process. These managers will decide on the audit focus, delegate the audit cases to the tax auditors and then make decisions on the method that should be used to determine the correct amount of tax. Although this managerial approach can expedite the approval process, it can also restrict tax auditors' creativity and risk future compliance (Muhammad, 2013). In contrast, managers who have moderate managerial control allow the tax auditors to select their own cases and to make their own decisions within the tax law and regulation as long as they can achieve the organisational's target. Applying a moderate level of managerial control will facilitate the tax auditors task of resolving disputes and closing cases because decisions and judgements are made without the manager's interference (Muhammad, 2013).

Managerial control can influence tax auditors' behaviour when they deal with taxpayers. According to Muhammad (2013), tax auditors tend to bargain with the taxpayers when they are being pressured by their managers. Based on this, the proposed hypothesis is formulated as:

H₃: There is a significant relationship between managerial control and tax auditors' conciliatory style in resolving disputes.

3. Research Methodology

3.1 Research Instrument and Measurement

A self-administered questionnaire which serves as a research instrument was used in this study. The questionnaire has a cover page that explains the research objective and a copy of the approval letter issued by the IRBM's headquarter in Cyberjaya was attached. A self-addressed stamped envelope was also included to facilitate the respondents in returning the completed questionnaires.

Table 1 presents the items in the questionnaire that were adapted from previous studies (Long & Swingen, 1987; Niemirowski & Wearing,

Table 1: Items in the Questionnaire

Items	Number of items	Sources
Taxpayers' Cooperation		
Taxpayers make available all tax information which tax auditor needs	2	Niemirowski and Wearing (2003)
Taxpayers make available all documents which tax auditor needs		
Taxpayers' cooperation is vital	3	Constructed based on Muhammad (2013)
Taxpayers give feedback within a stipulated time		
Taxpayers call auditors to inform their difficulties in responding to auditors' queries		
Tax Complexity		
There are ambiguities in the law	5	Long and Swingen (1987)
Many computations must be made		
There are frequent changes in the law		
There are excessive details in the law, such as numerous rules and exceptions to rules		
There are detailed special records which must be kept		
Tax auditor has to understand income tax legislation	1	Isa (2014)
Changes in the tax law make it difficult for tax auditor to understand which deductions taxpayers can claim	1	Niemirowski and Wearing (2003)
Managerial Control		
My supervisor allows me to make my own decisions about how to schedule my work	9	Morgeson and Humphrey (2006)
My supervisor allows me to decide on the order in which things are done on the job		
My supervisor allows me to plan how I do my work		
My supervisor gives me a chance to use my personal initiative or judgement in carrying out the work		
My supervisor allows me to make a lot of decisions on my own		
My supervisor provides me with significant autonomy in making decisions		

Table 1: (continued)

Items	Number of items	Sources
My supervisor allows me to make decisions about what methods I use to complete my work		
My supervisor gives me considerable opportunity for independence and freedom in how I do the work		
My supervisor allows me to decide on my own how to go about doing my work		
Tax Auditors' Conciliatory Style		
I emphasise negotiation	5	Lo, Fryxell and Van Rooij (2009)
I use persuasion		
I give advice to taxpayers		
I emphasise flexibility		
I emphasise educating the taxpayers		

2003; Morgeson & Humphrey, 2006; Lo, Fryxell, & Van Rooij, 2009; Isa, 2014) and several new items developed from Muhammad's (2013) study. There are three sections in the questionnaire and all the questions are closed-ended. Section A consists of seven questions requesting the respondents' background. Section B is divided into three parts: Part 1 consists of five items projecting taxpayers' cooperation, Part 2 consists of seven items related to tax complexity and Part 3 contains nine items that measure managerial control. The last section, Section C contains five items that measure tax auditors' conciliatory style. All the items have a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

The questionnaire was given to two experts in the subject area to check the validity of the instrument. This is to ensure that the items listed in the questionnaire are valid, suitable to be asked and cover the topic that is being studied (Kothari, 2004). The experts include a senior lecturer who specialises in tax administration and have several years of working experience in the IRBM, as well as an IRBM assistant director from the Division of Statistics and Data Integrity, Department of Tax Operation in Cyberjaya. Based on the suggestions and comments of the two experts, several modifications such as word structure, translation,

spelling, font size and format of the questionnaire were made to improve its readability.

3.2 *Sample and Response Rate*

The research samples were selected by using a purposive sampling technique based on a specific criteria set for the purpose of this study – the respondent must be a tax auditor working for the IRBM in Peninsular Malaysia and has audited individual taxpayers who have business income (i.e., sole-proprietors and partnership) and small and medium sized companies. Through the purposive sampling technique, 1,000 questionnaires were distributed to the IRBM tax auditors in Peninsular Malaysia. After four months, 692 questionnaires (69.2 per cent) were returned. 56 questionnaires were incomplete and discarded, thus a total of 636 (63.6 per cent) usable questionnaires were retrieved for analysis.

3.3 *Statistical Analysis*

The questionnaires were screened to detect and overcome problems such as missing data and outliers. Missing data are inevitable in research (Sekaran & Bougie, 2010) and it can occur when respondents do not answer certain questions. As mentioned earlier, a total of 56 questionnaires with missing values were detected and excluded from the analysis.

The outliers are unusually high or low values, lying outside the other values. By converting the value for each variable into standard scores (Hair, Black, Babin, Anderson, & Tatham, 2006), the outliers existing in the dataset could be checked. By applying the threshold value of 4 (Hair et al., 2006), no outlier was found in the dataset. Data were then coded and keyed into the Statistical Package for Social Sciences (SPSS) software version 21. Additional statistical analyses such as frequency analysis, descriptive analysis, exploratory factor analysis, reliability analysis and regression analysis were also conducted.

4. Results

4.1 *Frequency Analysis*

Frequency analysis was conducted to analyse the respondents' demographic profile as shown in Table 2. Results indicate that 376 (59.1 per cent) of the respondents were females and less than half or 260 (40.9 per

Table 2: Respondents' Demographic Profile (N=636)

Demographic profile	Frequency (%)
Gender	
Male	260 (40.9)
Female	376 (59.1)
Age	
20 – 30 years	138 (21.7)
31 – 40 years	428 (67.3)
41 – 50 years	41 (6.4)
51 years and above	29 (4.6)
Education level	
Diploma	7 (1.1)
Degree	576 (90.6)
Master	34 (5.3)
Professional Recognition (e.g: ACCA, MIA)	19 (3.0)
Position*	
Auditor (desk and field audit)	597 (93.9)
Audit group leader	38 (6.0)
Audit manager	1 (0.2)
Grade*	
Grade 41	537 (84.4)
Grade 44	95 (14.9)
Grade 48	4 (0.6)
Working experience	
0 – 3 years	127 (20.0)
4 – 6 years	107 (16.8)
7 – 9 years	229 (36.0)
10 years and above	173 (27.2)
Branch that you are working with is located in the state of	
Johor	140 (22.0)
Melaka	26 (4.1)
Negeri Sembilan	33 (5.2)
Selangor	97 (15.3)
Federal Territory of Kuala Lumpur	61 (9.6)
Federal Territory of Putrajaya	18 (2.8)
Pahang	18 (2.8)
Perak	85 (13.4)
Kelantan	13 (2.0)
Terengganu	24 (3.8)
Pulau Pinang	66 (10.4)
Kedah	49 (7.7)
Perlis	6 (0.9)

Note: * Total percentages for Position and Grade are rounded to the nearest value.

cent) were males. Majority (67.3 per cent) of the respondents were aged between 31 to 40 years old, followed by respondents aged between 20 to 30 years old (21.7 per cent) and the smallest percentage (4.6 per cent) were those aged above 51 years old.

Table 2 also shows that a majority or 90.6 per cent of the respondents have a bachelor's degree, 5.3 per cent have a master's degree, 3 per cent hold a professional accounting qualification and the balance of 1.1 per cent have diploma qualifications.

In looking at their position level, results also indicate that 93.9 per cent of the auditors were responsible for desk and field audit; followed by 6 per cent who were audit group leaders and only one respondent was an audit manager. Majority of the respondents were at grade 41 (84.4 per cent) followed by grade 44 (14.9 per cent) and 48 (0.6 per cent).

In looking at their working experience, results show that many respondents (36 per cent) had seven to nine years of working experience, followed by those who had more than 10 years of working experience (27.2 per cent). It also appears that tax auditors from the state of Johor made up the highest percentage of the respondents (22 per cent) with the lowest percentage (0.9 per cent) of respondents coming from Perlis.

4.2 Descriptive Analysis

This section explains the descriptive analysis for all the items noted in the questionnaire and which are presented in Table 3. The mean scores for items listed in taxpayers' cooperation range from 2.98 to 4.65. The highest mean score of 4.65 (standard deviation = 0.537) is observed for the statement "Taxpayers' cooperation is vital" while the lowest mean score of 2.98 (standard deviation = 1.004) is noted for the statement "Taxpayers give feedback within a stipulated time".

The items listed under tax complexity are also presented in Table 3 and the mean scores tabulated ranged from 2.86 to 4.55. It is observed that the highest mean score of 4.55 (standard deviation = 0.572) is for the statement "Tax auditor has to understand income tax legislation" while the lowest mean score of 2.86 (standard deviation = 1.035) is for the statement "Changes in the tax law make it difficult for tax auditors to understand which deductions taxpayers can claim".

The mean scores tabulated for items listed under managerial control range from 3.21 to 4.14. It is observed that the highest mean score of 4.14 (standard deviation = 0.584) is for the statement "My supervisor allows me to plan how I do my work" while the lowest mean score of

Table 3: Descriptive Analysis

	N	Response Scale (%)					Mean	Standard Deviation
		1	2	3	4	5		
Taxpayers' Cooperation								
Taxpayers make available all tax information which tax auditor needs	636	1.1	20.1	23.3	38.1	17.5	3.51	1.034
Taxpayers make available all documents which tax auditor needs	636	0.8	20.1	23.6	37.3	18.2	3.52	1.032
Taxpayers' cooperation is vital	636	-	0.2	2.5	29.6	67.8	4.65	0.537
Taxpayers give feedback within a stipulated time	636	3.1	34.1	32.4	22.5	7.9	2.98	1.004
Taxpayers call auditors to inform their difficulties in responding to auditors' queries	636	1.6	15.9	39.9	37.6	5.0	3.29	0.847
Tax Complexity								
There are ambiguities in the law	636	3.0	17.6	41.4	33.0	5.0	3.19	0.889
Many computations must be made	636	0.6	4.6	20.3	58.3	16.2	3.85	0.763
There are frequent changes in the law	636	0.9	6.3	31.8	48.7	12.3	3.65	0.810
There are excessive details in the law, such as numerous rules and exceptions to rules	636	0.2	2.5	25.3	58.3	13.7	3.83	0.690
There are detailed special records which must be kept	636	0.3	0.6	13.8	61.6	23.6	4.08	0.650
Tax auditor has to understand income tax legislation	636	0.2	-	3.0	38.8	58.0	4.55	0.572
Changes in the tax law make it difficult for tax auditor to understand which deductions taxpayers can claim	636	8.0	31.8	32.1	22.5	5.7	2.86	1.035

Table 3: (continued)

	N	Response Scale (%)					Mean	Standard Deviation
		1	2	3	4	5		
Managerial Control								
My supervisor allows me to make my own decisions about how to schedule my work	636	0.6	4.6	15.4	58.2	21.2	3.95	0.777
My supervisor allows me to decide on the order in which things are done on the job	636	0.6	3.5	14.8	61.6	19.5	3.96	0.733
My supervisor allows me to plan how I do my work	636	0.2	0.6	8.0	67.0	24.2	4.14	0.584
My supervisor gives me a chance to use my personal initiative or judgement in carrying out the work	636	0.3	1.6	9.7	66.0	22.3	4.08	0.637
My supervisor allows me to make a lot of decisions on my own	636	2.0	13.8	30.0	44.0	10.1	3.46	0.922
My supervisor provides me with significant autonomy in making decisions	636	4.1	20.3	35.4	31.1	9.1	3.21	1.000
My supervisor allows me to make decisions about what methods I use to complete my work	636	1.1	5.3	19.3	60.4	13.8	3.81	0.779
My supervisor gives me considerable opportunity for independence and freedom in how I do the work	636	0.9	3.5	19.3	58.8	17.5	3.88	0.761
My supervisor allows me to decide on my own how to go about doing my work	636	0.9	6.8	20.3	55.3	16.7	3.80	0.828
Tax Auditors' Conciliatory Style								
I emphasise negotiation	636	0.3	1.3	10.5	62.6	25.3	4.11	0.652
I use persuasion	636	1.7	11.2	35.2	41.4	10.5	3.48	0.888
I give advice to taxpayers	636	-	-	3.8	59.0	37.3	4.33	0.547
I emphasise flexibility	636	0.3	2.4	28.0	54.6	14.8	3.81	0.718
I emphasise educating the taxpayers	636	-	-	5.5	54.1	40.4	4.35	0.581

3.21 (standard deviation = 1.000) is for the statement, "My supervisor provides me with significant autonomy in making decisions".

Table 3 indicates that most of the respondents agree to emphasise on educating the taxpayers, give advice to taxpayers, emphasise negotiation, exercise flexibility and use persuasion. The mean scores tabulated for the items listed under tax auditors' conciliatory style range from 3.48 to 4.35. The highest mean score of 4.35 (standard deviation = 0.581) is for the statement, "I emphasise educating the taxpayers" while the lowest mean score of 3.48 (standard deviation = 0.888) is for the statement, "I use persuasion".

4.3 Exploratory Factor Analysis

The factor structure in the dataset was determined by conducting the exploratory factor analysis (Hair, Black, Babin, & Anderson, 2010) where analysis was assessed based on the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett's test of sphericity. Tabachnick and Fidell (2007) recommended that the measure of sampling adequacy consisting of 0.6 as the minimum value is a good factor analysis. In addition, Hinton, McMurray, and Brownlow (2014) suggested that Bartlett's test of sphericity should carry the significance p-value < 0.05. The results obtained from the current study are displayed in Table 4. Here, the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy value is 0.752 which exceeds the recommended minimum value. In

Table 4: Results of the Exploratory Factor Analysis

Factors	Taxpayers' cooperation	Tax complexity	Managerial control	Tax auditors' conciliatory style
Number of items retained	4	5	4	3
Factor loading	0.48 - 0.93	0.58 - 0.79	0.74 - 0.90	0.61 - 0.88
Cumulative percentage of variance (%)	63.08			
Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy	0.752			
Bartlett's test of Sphericity	0.000			

addition, the value for Bartlett’s test of sphericity is 0.000 thereby implying that sufficient correlations exist among the variables since the p-value is significant.

In the exploratory factor analysis, four factors were extracted from the 26 items and they were then labelled as: taxpayers’ cooperation, tax complexity, managerial control and tax auditors’ conciliatory style. The cumulative factor was 63.08 per cent of the total variance. Following this, a direct oblimin rotation approach was conducted and several of the items were then removed – one item from taxpayers’ cooperation, two items from tax complexity, five items from managerial control and two items from tax auditors’ conciliatory style.

4.4 Reliability Analysis

In this study, reliability analysis was used to exercise the extent to which an instrument produces a stable and consistent result (Sekaran, 2003). The reliability analysis can also be assessed through Cronbach’s alpha coefficient result. After running the analysis, it is found that the Cronbach’s alpha coefficient of the items range from 0.744 to 0.852 (see Table 5). Specifically, the Cronbach’s alpha value for each variable is as follows: taxpayers’ cooperation (0.782), tax complexity (0.744), managerial control (0.852) and tax auditors’ conciliatory style (0.761). These values indicate that the coefficient for all the items is above 0.7. This outcome is related to what Sekaran (2003) and Cohen, Manion, and Morrison (2007) have identified, that any value of less than 0.6 is considered poor; a value of 0.7 is acceptable and a value of above 0.8 is considered good. This is supported by Hair, Celsi, Money, Samouel, and Page (2011) who added that the value of 0.7 is the minimum value for Cronbach’s alpha. Thus, in this study, all the items are deemed as acceptable.

Table 5: Reliability Analysis

Variables	Number of items	Cronbach’s alpha
Taxpayers’ cooperation	4	0.782
Tax complexity	5	0.744
Managerial control	4	0.852
Tax auditors’ conciliatory style	3	0.761

4.5 Regression Analysis

The relationship between the dependent variable (i.e., tax auditor's conciliatory style) and the independent variables (i.e., taxpayers' cooperation, tax complexity and managerial control) was examined by conducting the regression analysis. The results of this analysis are demonstrated in Table 6 which show that the value of R square is 0.199, thereby indicating that 19.9 per cent of the variance in the tax auditors' conciliatory style can be explained by taxpayers' cooperation, tax complexity and managerial control. The table also shows that tax complexity and managerial control are significant predictors of the tax auditors' conciliatory style ($p < 0.001$) except for taxpayers' cooperation that has a significance value of 0.172 which is more than the significance level of $p < 0.05$. According to Pallant (2007), a p-value > 0.05 is not significant. This means that the taxpayers' cooperation has no significant impact on the tax auditors' conciliatory style. Therefore, all the hypotheses in the study are supported except for H_1 .

Table 6: Summary of Regression Analysis for Variables Predicting Tax Auditors' Conciliatory Style

Variables	B	SE B	β	t	Sig.
Taxpayers' cooperation	0.032	0.023	0.049	1.367	0.172
Tax complexity	0.193	0.034	0.212	5.729	0.000*
Managerial control	0.283	0.032	0.331	8.963	0.000*
R ²			0.199		

Note: * $p < 0.001$.

5. Discussion and Conclusion

This study has attempted to show how tax auditors' conciliatory style may or may not be predicted based on three external factors. From the results drawn, it can be said that this study shows that tax complexity is significantly related to tax auditors' conciliatory style. When tax auditors are faced with complex auditing issues, for example, incomplete records, they must use their best judgement and make accurate decisions to solve the issue. Hence, the tax auditors are willing to negotiate and emphasise on flexibility. Another factor, managerial control, is also found to have a significant relationship on tax auditors' conciliatory style. It appears

that tax auditors tend to use conciliatory style which include bargaining when dealing with taxpayers when the tax auditors are themselves being pressured by their managers (Muhammad, 2013).

Even though taxpayers' cooperation plays an important role in influencing the tax auditors' enforcement regulatory strategies (Muhammad, 2013), results from the regression analysis proved otherwise. It appears that taxpayers' cooperation is not significantly related to tax auditors' conciliatory style. This suggests that, in general or under normal circumstances, tax auditors are willing to negotiate with taxpayers and to educate them even though the taxpayers may not want to cooperate. However, if the taxpayers continue not to cooperate, the tax auditors may no longer adopt the conciliatory style, instead, they may change their strategy to the strict enforcement style (Smith & Stalans, 1994; Muhammad, 2013; ATO, 2015).

The percentage of responses scaled from the descriptive analysis for the tax auditors' conciliatory style has provided a significant outcome for this study. The results show that majority of the tax auditors agree to use the conciliatory style when resolving disputes as they approve of using all the five strategies of educating, giving advice, negotiating, using flexibility and using persuasions. The results drawn from the descriptive analysis for the factor of tax complexity and tax auditors' conciliatory style also reveal that both statements of "Tax auditor has to understand income tax legislation" and "I emphasise educating the taxpayers" have the highest mean score. This shows that the tax auditors need to understand the income tax legislation as a means of educating the taxpayers so that the latter can have a better understanding of tax rules and hence comply with the law (Winter & May, 2001). The findings in this study are important for the IRBM because by understanding the income tax law, the tax auditors can apply their knowledge of the tax law to make decisions in their tax audit process. This knowledge can also serve as a guide for them when performing their tasks. When the tax auditors understand the tax law, they can better guide the taxpayers regarding their tax responsibilities with legitimate explanations that can enlighten the taxpayers on why they need to comply with the tax law and the consequences if the taxpayers breached the law.

As is likely to happen in all research, this study also has its limitations. In making a survey of the IRBM tax auditors in Peninsular Malaysia, the findings of this study can only be generalised to those samples from Peninsular Malaysia. Thus, it is recommended that future studies include the IRBM tax auditors from East Malaysia so as to widen

the scope of the findings. In addition, future studies may examine other factors that could leave an impact on tax auditors' conciliatory style in resolving disputes. Some factors which may be relevant in influencing the tax auditors' style of carrying out their duties are the amount of tax adjustment and taxpayers' tax literacy (Muhammad, 2013). Moreover, future studies may also consider looking at other Asian countries as culture may have an impact on the tax auditors' strategy in resolving disputes with taxpayers.

Despite the limitations, this study contributes to the literature of tax audit and tax auditors' behaviour. This study provides empirical evidence of external factors that may influence the IRBM tax auditors' conciliatory style. The IRBM may use the findings to understand tax auditors' behaviour when dealing with taxpayers thereby, further improve and facilitate the dispute resolution process.

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