Chapter 1

Tax Policy Problems in the
1970s and Early 1980s

History is full of those oddities. Some things happen for no good reason. And then other things happen and suddenly you have a chain of craziness on your hands, and sometimes it can’t be controlled.

Thompson, 1985: 29

This thesis examines the formulation of administrative policies in a revenue office from 1984–1993. These policy developments were influenced by serious tax evasion problems (‘bottom of the harbour’) of the 1970s and 1980s. This introductory chapter is in two parts. The first is a description of the Australian tax environment at that time and examines the consequences that the tax avoidance industry had on policy formulation. The second part introduces the case study that is the focus of this thesis. For confidentially reasons the institution involved has been named the Revenue Office (RO) as a pseudonym.

The social and political context of administrative tax policy

Death and taxes, according to the cliché, are the only certainties of life. Both are emotional issues over which the individual has very little control. The only difference is that death comes once and taxes are paid over and over again. Barrett described taxes as:

A compulsory transfer of resources from the private to the public sector, calculated according to predetermined criteria, without reference to benefits actually received and so as to be non-penal in character.

Barrett, 1981: 1

In democracies, taxes are justified on the basis of the necessity to raise money for the purpose of government (Wallace, 1968), and according to Holmes (1927), they are the price we pay for civilised society. However the need is justified, taxes represent a transfer of private wealth to the public sector and are a very emotive and sensitive issue for the community. So, for taxation to be accepted by the community, it must be perceived as being fair (Hill and Knowlton, 1987: 12), and the cost of collection kept to an acceptable level. To some extent, then, the management of tax policy is the management of public perception and must take account of what Kingdon calls the ‘national climate or mood’ (Kingdon, 1984: 153).
The policies and structure of the tax system are critical for the Government. Tax policy and its administration can influence and change economic development by encouraging or discouraging areas of social behaviour and by redistributing the wealth of the community (Smith, 1993: 71). Governments use such measures to help achieve the economic objectives of their policies. But, because of the emotive nature of the transfer of private money to the public sector, it is vital for a government's survival that it maintains public support and acceptance of its tax system. However, this is not an easy task because of the competing demands of increasing the level of tax collected to maintain effective government programs for the general community set against the demands of the taxed community for lower rates of tax. Not achieving what the public perceives as the appropriate balance between these competing demands could mean the loss of government by a political party.

**Political context of administrative tax policy**

The Government and public social context in which tax policy is formulated and implemented is complex. Under a Westminster system of government, ministers of state are responsible for the development of policy (Weller and Grattan, 1981: 13). However, as Weller and Grattan say, the competing demands and the complexity of issues have meant that the minister does not have the time or, in many cases, the expertise to carry out the processes of policy formulation. Instead, the minister relies on the bureaucracy to provide policy advice and assistance (Weller and Grattan, 1981: 55, 79). Heads of department have placed importance on developing their role as a means of obtaining power. As this thesis describes, through this role senior public servants have developed close working relationships with their minister and through this involvement have become immensely powerful (Weller and Grattan, 1981: 8 – 9). They have the knowledge and expertise for the development and implementation of policy and hence the capability to control the framework within which policy decisions are made (Armstrong, 1976).

The power and influence exerted by the bureaucracy can also depend on the type of policy responsibility. Administrative decisions generally concern the ways in which strategic policy resolutions should be implemented and managed. While the 'political' aspect of the strategic policy may be directed by the elected government, the administrative policy decisions about staffing, budgets and organisation, which have important and broad implications for the success of government policies, are often left to the bureaucracy (Gartner et al, 1987: 244). This thesis examines the formulation of policies for the administration of a Revenue Office and, as will be shown, this is a critical process for a government.
A Revenue Office charged with the responsibility of administering the collection of taxes is a core governmental agency (Mathews, 1992: 1). The office has immense power over the policy decisions on tax administration and plays a vitally important role in the efficiency of the economy (Joint Committee of Public Accounts, 1993: vii). The head of the Revenue Office has a custodial role in relation to the tax system, with a duty to administer the tax law (ATO, 1989a: 4).

**Scrutiny of government and the bureaucracy**

The operations of the Government and its bureaucracy have become increasingly open to public scrutiny through parliamentary committees, reviews and enquires (Davis et al, 1993: 205–206). As described in this case study, the Government committee review process played a dominant role in the initiation of changes (Chapters 5 and 6). The media have also increased in power from the 1970s to the 1990s (See Cunningham and Turner, 1997: 33–35, 193–194). Thus, the media’s influence over the political process played an important role in highlighting the problems in the tax systems in the late 1970s and early 1980s5.

The bureaucracy is also open to scrutiny from within its own structure. The Auditor-General's role is to review the operation of the bureaucracy to ensure that it complies with the law and operates efficiently (Davis et al, 1993: 206–207). This responsibility focuses on ensuring the propriety and accountability of the overall government bureaucracy (Audit Act, 1901).

**Crisis in the taxation system — a billion-dollar problem**

The type of problems that began to occur in tax systems globally is depicted by the experiences in Australia. The 1970s Australian taxation regime was laid down in the 1940s, built principally on taxing income (Smith, 1993: 97-99). Successive governments let the effects of inflation gradually increase the amount of tax paid through 'bracket-creep'. No longer willing to use tax to control inflation and economic growth, Australian governments resorted to concessions to stimulate the national economy. According to Smith, in 1962 the Government introduced an investment allowance to stimulate growth, but this provided a semi-permanent public subsidy to private shareholders (Smith, 1993: 99). Over the following few years various other concessions were introduced into the tax system, gradually opening the system to tax-avoidance. As bracket-creep moved more people to higher tax rates, there
was increasing community interest in find ways of reducing the tax burden, which vastly inflated the number of elaborate avoidance schemes developed to reduce the amount of tax paid (Smith, 1993: 99–100).

In the late 1970s to early 1980s, the Australian tax system began to suffer a crisis of legitimacy⁴. In the 1960s, tax evasion had already begun to emerge as a threat to the tax system: previously the rate of tax had been low and there was no real advantage in spending considerable sums of money to avoid paying tax (Smith, 1993: 99). However, the period 1955–1985 saw little real change in the tax system. Problems that emerged in the 1960s, such as the ability of high-income earners and professionals to avoid tax, were left by successive governments and the bureaucracy to grow into large complex issues that, in the late 1970s to early 1980s, began to threaten the economic well-being of the country (Smith, 1993: 98–99).

In the 1960s and 1970s, various governments set up investigations to identify the problems and provide solutions⁵. While these investigations offered solutions, successive governments were slow to act (Smith, 1993: 98–99; Gottliebsen and Kelly, 1978a). The heavy reliance on income tax as the basis for collecting revenue, and the lack of tax on fringe benefits, capital gains or foreign-sourced income meant that tax could be shifted from period to period or shifted into one of the concessional areas, enabling industry to eliminate tax (Smith, 1993: 98-100). Attempts to address these problems were also made difficult by the courts. In the 1970s, the Australian High Court under Chief Justice Sir Garfield Barwick took a narrow view of taxing authority’s powers (House of Representatives Standing Committee on Expenditure, 1986: 5.13–5.14). The Court’s approach led to the rapid expansion of artificial tax avoidance, with the Government and the Australian Taxation Office (ATO) feeling powerless to stop the schemes (Kitney, 1982c; Aarons, 1988; Smith, 1993: 109).

In the period 1960s and 1970s, described by Payer as the ‘golden age of tax evasion’ (Payer, 1980: 8), it seemed that few people were paying their full tax. Avoidance was supported by a community attitude that ‘if people could get away with not paying tax, then good luck to them’ (Kitney, 1982a; Smith, 1993: 100-102), an attitude that was later blamed for the explosion in the marketing of schemes to reduce payable tax⁶. Many large businesses began to benefit from weaknesses in the tax system that allowed or encouraged the use of schemes to avoid paying the majority of their tax (Gottliebsen and Kelly, 1978b)⁷.

The Australian tax system was not alone in this dilemma. Similar problems existed in many western democracies, particularly the USA and the UK (Boucher, October 1984). As people
became more affluent, paying the correct amount of tax became an old-fashioned principle (Wallschutzky, 1988). Advocates of schemes to reduce the tax burden were given high profile by society, and tax avoidance schemes multiplied, becoming ever more elaborate (Gottliebsen and Kelly, 1978b; McGregor, 1978). However, it was the development and very profitable marketing of schemes that were sold "off the shelf" that greatly increased the level of avoidance and evasion. Aided by the decisions of the High Court of Australia—for example, the Slutzkins case in 1977 and Westraders in 1980—tax avoidance reached its peak in the late 1970s and early 1980s (Marr, 1983; Sturgess, 1982).

At this time the ATO seemed to lack the ability to effectively administer the Taxation Act. The High Court decisions in the Slutzkins and Westraders cases seemed to prevent any hope of successful prosecution against users of these schemes. The administration of the tax system began to deteriorate under the pressure of the rising number of tax-avoidance cases. The ATO developed the view that it was incapable of handling these problems. From a once-dominant place in administration, supported by the use of new technology, the ATO now failed to keep pace with the needs of tax administration in a complex environment (House of Representatives Standing Committee on Expenditure, 1986). The ATO began to develop a 'siege mentality' (Hill and Knowlton, 1987: 1–2).

The gravity of the problems was reflected by the taxation statistics of the ATO. In 1984, the level of outstanding, uncollected taxes stood at 26 per cent of the estimated collectable revenue (ATO, 1991a). The backlog of disputes stood at well over 100 000 and was continually rising. The Government Expenditure Committee noted that the lost tax on interest income alone was between $300–$500 million (House of Representatives Standing Committee on Expenditure, 1986: 5.8).

**Government and bureaucracy's lack of action**

From 1960 to 1980, both the Government and its bureaucracy were aware of the problem but were incapable or unwilling to provide a solution (Costigan, 1982: Chapter 3). The Menzies’ Government had been mildly concerned at the extent of the avoidance industry, and had appointed the Ligertwood Committee on Taxation in 1960 to devise solutions (Ligertwood Committee on Taxation, 1961). Downing also reported on the need for major reform of the tax system (Downing et al, 1964).

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These Committees were followed by the Asprey Taxation Review Committee set up by the Liberal McMahon government in 1972 to address some of the problems (Asprey, 1975). However, the Labor Whitlam Government replaced the McMahon Government later in 1972 before any changes were implemented. The Labor Government set about investigating government spending, and initiated the Coombs Committee, which also reported on the problems in the tax system (Coombs, 1973). The Government moved to simplify the tax scales for income tax, and to introduce a capital gains tax, and eliminated many of the concessions to industry. In 1974, the tax system was again under review by the Mathews Committee, which was to investigate the effects of inflation on tax (Mathews Committee of Inquiry into Inflation and Taxation, 1975). This report raised many of the issues that had been identified by the Downing Report some 10 years before (Downing et al, 1964). Many of the decisions that followed made the situation worse (Smith, 1993: 104).

The major tax-avoidance schemes were detected as early as 1973 (Costigan, 1982; Kitney, 1982e). Action to prosecute was begun on 4 September 1974, but in the period to March 1979 little progress was made (Costigan, 1982; Kitney, 1982d). The Crown Solicitor’s Office assigned to handle the investigations was tardy in its response and provided conflicting and misleading information on the legal course of action that could be taken (Costigan, 1982; Kitney, 1982d). Responsibility for addressing the problem fell between different government offices; with the result that it was ‘at best ineffective, at worst non-existent’ (House of Representatives Standing Committee on Expenditure, 1986: 5.16, 5.18).

Over the period of four and a half years from September 1974 to March 1979, no positive steps were taken to address the problem. There was little follow-up on the lack of progress or why no searching questions had been asked (Kitney, 1982d). But with what seemed, after the event, little information on, or investigation of, the facts the Commissioner of the ATO advised the Government that legislation was needed to solve the problem of ‘straw companies’ (Kitney, 1982d). He was probably unaware that, at the time, the Solicitor-General’s Office had received advice that a case could be mounted under existing legislation. However, by now, the ATO was convinced that the solution was new legislation (Costigan, 1982: Chapter 3; House of Representatives Standing Committee on Expenditure, 1986; Summers, 1982). 10

The Government acted on the Commissioner’s advice in August 1978 and formed a committee to investigate the needed legislation (Kitney, 1982d). The Committee did not investigate whether the existing laws were adequate but proceeded to examine what changes
should be introduced. As a result, in 1980 the Government passed the Crimes (Taxation Offences) Act, 1980.

Controlling the agenda

During the period 1974 to 1982, the Government and its bureaucracy were able to control the direction of tax administrative policy by not investigating the avoidance schemes and by ensuring that the public knew little. There was little questioning of the bureaucracy by the Government or by any other group on the extent of the schemes (Costigan, 1982: Chapter 3). The Auditor-General was prevented from reviewing the ATO because access to confidential tax returns was not available (Juddery, 1986: 32).17

The Commissioner of the ATO adopted what was then the conventional public servant attitude of rare public interviews and committed service to his political masters. He believed it was not his role to comment publicly on government policy (Day, 1984; Kitney, 1982b; Kitney, 1982d) thus upholding the traditional concept of anonymity of public servants. He claimed that his role was to make issues known to the Government, and it was for the Government to take action or not on his advice. He claimed to have made the extent of the tax-avoidance schemes known through his annual report (Day, 1984; Kitney, 1982a: Westfield, 1982). However, these reports did not present matters in such a way that the general public would have known the extent of the avoidance.18 No attempts were made to use the public media to highlight the extent of the problem and its impact on society. He believed that the use of the media was 'the sort of thing a tax administration is constrained from doing, and rightly so' (Westfield, 1982: 57). More importantly this lack of action allowed the Government to control the tax policy agenda. As Kitney stated, 'without Costigan the most that the Australian public would have known [about the extent of the schemes] was what the Government was prepared to tell' (Kitney, 1982c).

Problems in the administration of the tax system

This generally non-transparent arrangement came to an end in 1982 when a number of significant events occurred that compelled major policy changes. In that year reports were published that gave details of the high level of tax fraud and suggested that attempts to prevent tax avoidance had been less than effective (McCabe and Lafranchi, 1982). The response from the Government was quick but defensive. It responded with a written denial of the McCabe and Lafranchi findings, suggesting that they were inaccurate and misleading (Kitney, 1982b).
The tax industry did not seem prepared for the next assault. On 27 July 1982 the Interim Fourth Report of the Costigan Report (Costigan, 1982: Chapter 3) was released and supported the findings of McCabe and Lafranchi (McCabe and Lafranchi, 1982) and undermined the claims and the credibility of the Government (Costigan, 1982: Vol 1, 5). It was no longer possible to deny the level of fraud that had been occurring over the last eight years, thus placing tax avoidance on the public agenda.

The actions of the Crown-Solicitor’s Office in Perth were so appalling that they were the initial focus of attention. The Report detailed how the office had made little progress in bringing the cases to the courts and the Attorney-General’s Office itself had not questioned the lack of progress (Costigan, 1982). However, the reprieve for the ATO was short-lived. Opinions turned from a Tax Office ‘beating its head against the Crown-Solicitor’s brick wall’ (Kitney, 1982e: 4) and a bureaucracy that did not have adequate resources while ‘its workload increased dramatically’ (Kitney, 1982a: 3), to a Tax Office not diligent enough in pressing the Law Office to take action on tax avoidance schemes (Kitney, 1982d; Hyde, 1982).

The obvious inequalities of the taxation system had divided the community. Salary and wage earners who had no way of avoiding paying their assessed tax believed they were being over-taxed to pay for those who were avoiding it (Aarons 1988; Hyde 1982). The publication of the final section of the Costigan report had also highlighted a number of areas of gross negligence in the bureaucracy and fuelled public demand for action (Kitney, 1982f; Kitney, 1982d; Hywood, 1982).

In the two years from 1982 to 1984 a real effort was made to address the schemes that had been detailed by the Costigan (1882) and McCabe and Lafranchi Reports (1982). These changes, which included new legislation and a concerted attempt by the bureaucracy to prosecute the offenders, did not bring about instant elimination of the evasion era or improvement in the administration of taxes (Stannard, 1984). The more blatant ‘bottom of the harbour’ schemes were almost at an end by 1984, but other ways of minimising tax were now developing. The Report of the House of Representatives Standing Committee on Finance and Public Administration on international profit shifting highlighted the large potential for organisations to avoid tax by other means (House of Representatives Standing Committee on Finance and Public Administration, 1988).
The case study: a Revenue Office

The case study in this thesis is based on actual events; however, because of the difficulties in reporting on the events in a large organisation in a free and unbiased manner, it was decided to change the names of the organisation, the people and policies. This study looks at policy formulation in a “Revenue Office” over the nine-year period, from 1984 to 1993. Changes to this Revenue Office were as a result of similar events to those discussed above.

At the beginning of 1984 the Government was concerned with two main issues: firstly, the blow out in the size of the deficit, and secondly, the predicament faced by the administrators of the tax system because of the widespread disquiet in the community over its perceived lack of integrity. Both problems could only be addressed by major changes to the tax system (Dowling, 1992a).

The Government needed an effective and fair taxation system to support its policy changes. It had initiated a ‘wages freeze’ through an accord with the unions and wanted a tax system that would support lower wage claims. Mathews described the resulting changes as the most far-reaching and politically courageous shifts in the direction of taxation policy ever attempted in Australia (Mathews, 1985). To support these changes the Government required an effective revenue office to administer the Tax Act.

The Treasurer, who had a reputation for his appropriate selection of key people, was believed to have chosen Colin Charisma (a pseudonym) for the task because of his ability to motivate people. Charisma was appointed Commissioner on June 1984 (Revenue Office, 1985a) and immediately initiated plans for major policy changes designed to address the serious administrative problems (Revenue Office, 1986).

The review process

The administration of the Taxation Act became the target for a number of reviews and investigations beginning in 1993. The interest taken by the Government and its past problems must have made an audit of the administration of the tax act by the Audit Office almost inevitable. Reviews conducted by the Audit Office over the period January 1982 to December 1984 were highly critical of the administration of tax policies and identified many problems with the administration of the Tax Act (Government Expenditure Committee, 1986: para 1.2).
The reviews were carried out in an atmosphere of intense mistrust between the Auditor-General and the Commissioner of Taxation, Colin Charisma, and resulted in many heated media exchanges between the two offices (Juddery, 1986). This animosity continued for the major part of the time examined by this thesis. In 1987 a review of the Revenue Office by the Auditor-General drew the following response by Charisma:

I think it needs to be recognised that a more balanced report is likely to elicit more co-operation from the auditee in rectifying deficiencies. The continued production of reports in the vein of this one could well be counter productive . . .

Government Committee on Finance and Public Administration, May 1988: para 2.5.14.23

Questions raised by the Auditor-General's efficiency audits were examined and supported by the Government Expenditure Committee (1986). The examinations castigated many parts the bureaucracy for its lack of effectiveness over a long period of time. These conclusions by the Committee and the Audit Office suggested that the Revenue Office had not implemented changes to the organisation needed to address the tax evasion schemes. In a much-quoted comment, the Committee saw the Revenue Office as being in a 'time warp' and heavily reliant on labour-intensive work practices (Government Expenditure Committee, 1986, para 5.4; Revenue Office, 1992a: 11). The Office would need to end its 'siege mentality' (Hill and Knowlton, 1987: 1–2) and improve the effectiveness of its administration24.

Solutions to the problem

Under the leadership of the newly appointed Commissioner, Colin Charisma, changes were initiated to the administration of the taxation system that had a major impact on the annual collection of over seventy billion dollars in taxes. The changes, based on the development of a number of key policies, altered both Revenue Office employees' and the community's perception of their roles under the tax system. These changes also increased the perceived power of the Revenue Office and allowed it to argue effectively for greatly increased resource allocations from the Government at a time when other government organisations' budgets were being cut back. In the late 1980s these policies were used to legitimise a one billion-dollar Modernisation Project.

The changes included the adoption of a new compliance policy that moved the responsibility for ensuring that the correct amount of tax was paid from the Revenue Office to the taxpayer.
From the time of its adoption in 1985 this new policy was a catalyst for ongoing change in the relationship between administrator and taxpayer and the perceived power structure within the Revenue Office. The changed responsibility allowed the movement of Revenue Office staff and resources away from the repetitive and labour-intensive assessment of tax returns to a compliance program based on audits of the taxpayers. This program gained a high public profile when the Revenue Office claimed there was low compliance with the Tax Act by large companies and decided to audit the country’s top 100 companies. This audit process created a climate of mistrust with claims by many company executives that the Revenue Office was creating a ‘them-and-us war game’ and a climate of fear (Fletcher, 1985: 62; Juddery, 1989). The claims and counter-claims were made very public by wide media coverage and increased the public awareness of the actions of the Revenue Office (Macken, 1989; Korporaal, 1988: 132).

A policy decision to combine the planned redevelopment of computer systems with a restructuring process to redesign work procedures resulted in radical changes to the way technology was viewed by Revenue Office employees and management, and how it could be used to support services to the taxpayer. These changes eventually undermined the size and power of the Information Technology Services Group in the Revenue Office.

The decentralisation policy, commenced in the mid-1970s under the former Commissioner, was recommenced in the early 1980s by Charisma. The policy was to support the move of a large number of Revenue Office staff from a limited number of offices located in central business districts to a larger number of smaller, more geographically separate, buildings. The policy was developed over a number of years, legitimised by the ‘service ethic’ developed under the self-assessment policy, the claimed need to provide better working conditions for employees and facilitated by increased funding. The process of decentralisation also created a perception by Revenue Office employees that key Government electorates were favoured because these areas seemed to be the preferred sites for new buildings35.

These policies were brought together under the very large Modernisation Project of the late 1980s (Mathews, 1992: 1–2). This project was legitimised by new private enterprise management philosophy and changed power relationships between senior staff of the Revenue Office. In the process many of the old institutionalised public service ideologies that produced centralised hierarchical control were de-emphasised and replaced by entrepreneurial and managerialist views.
The Taxation Commissioner, Colin Charisma, resigned from his position on 23 January 1993. He departed in the midst of an inquiry into the Revenue Office by a parliamentary committee (Committee of Public Accounts, 1993). Described as a crusader, a visionary, as being audacious and aggressive, and as welding the Revenue Office into an efficient fighting force (Jones, 1992), he had fundamentally changed tax administration and the role of the Commissioner for Revenue. Rather than the anonymous public servant image presented by his predecessor, Charisma had adopted a high profile to gain acceptance for his policy and administrative changes (Dodd, 1989). But many questions were raised about his eight-year term in office. Claims were made that he had left the office technically bankrupt and had conspired with the Government to paper over the many problems (Committee of Public Accounts, 1993: 395–462). Claims of bias in his dealings with the new Government and its members, accusations that the cost of collecting taxes had risen, and that the amount of tax revenue stated in his budget for the final years had been seriously overstated, were levelled at his administration in its last years (Dowling, 1992b).

The development of solutions to address the problems, rather than following either a 'rational logical' or 'incremental' approach, proceeded by coupling solutions and problems, supported by legitimising management and economic ideologies. The Commissioner, rather than being the initiator of change, took ideas and solutions and matched them to problems that were often identified by external reviews. This coupling appears to owe much to his particular energies and direction. During this process he was able to create a very positive image of a creator of change.

Purpose of this thesis

This thesis is based on an examination of a number of policy initiatives that were 'quilted' together. Its focus is not on the contents of the policies or primarily on their economic success, but on the bureaucratic and stakeholder processes involved in their formulation.

The purpose of this thesis is to provide a way of understanding events in organisations that are portrayed or categorised by research as policy formulation. Policy formulation is a core process in organisations, but it is still poorly understood or explained by current models. These models have their roots in economic theory and rationality, which promote the idea that policy is a fundamental and almost inevitable part of organisation goal attainment. These ideas permeate and structure the theory and practices of organisations and, hence, the way we understand the nature of the social actions and interactions supporting policy formulation.
The view that organisations move in a consistently calculated and logical direction based on goal setting and developing policies to meet objectives is not supported by this thesis. Instead, policy formulation must be understood within the phenomenon of an organisation where people enact a particular form of social reality.

This thesis proposes that organisations are created, maintained and dissolved by social processes that are continually executed. In this context, individuals and groups use processes of negotiation, power and legitimisation to manipulate and re-define the meanings attributed to problems and solutions to maintain a perception of consistent and co-ordinated change and goal attainment in policy formulation. This social practice is an attempt to define reality and maintain legitimacy. Thus, the emphasis is on social processes rather than outcomes, thereby focusing on the development and maintenance of perceptions of problems and solutions.

This thesis aims to analyse policy formulation as a distinctive kind of social practice, to present a case study using policy developments in a revenue office, and analyse the consequences as a means of understanding the basic nature of ongoing corporate life. The case study explores the way that core Revenue Office policies, proposed as 'logical' change, were formulated by individuals and groups who constantly used 'legitimising' management models and principles, agenda management, and bargaining and power processes to negotiate, influence, modify and manipulate the perceptions of change. The aim is to explain how policy options were generated in the Charisma period, to examine their origins and how they were acted upon, and to develop a set of summary concepts that might be used to understand policy development behaviours.
'Bottom of the Harbour' was a term used to describe a variety of tax avoidance schemes that involved the stripping and sale of company assets and, finally, the selling or disposing of the company to avoid tax. The type of schemes where the companies were finally 'dumped' became known in the industry as 'bottom of the harbour schemes' because that was where it was assumed that the company records ended up (Surgess, 1982: 28–29). These schemes commenced in the 1970s and were investigated by the Costigan Royal Commission into the activities of the Federated Ship Painters and Dockers’ Union (Costigan, 1982).

All internal documents from the Revenue Office referenced in this thesis can be made available by the author to examiners and others on a "need to know" basis only.

Weller and Grattan (1981) provide a detailed description of the power relationships between ministers and the heads of departments over the period of this research, see particularly Chapter 3. They suggest that it is easy to say what ministers can or cannot do from broad principles but in reality the situation depends on the strength of the personalities of the minister and the departmental head (Weller and Grattan, 1981: 43).

See for example the references in this chapter to media reports on the problems in the tax system (especially articles by Kitney, Day and Dowling).

'Bracket-creep' is the process where the amount of income tax paid increases as incomes increase because of inflation. This occurs because Australia has a progressive tax system where higher rates of taxes are paid by higher income earners. So, as the income of the nation increases through inflation, higher tax rates apply to more people, that is, more are assessed under a higher bracket — ‘bracket-creep’ (Smith, 1993: 98)

In the period 1981 to 1983 many newspaper articles questioned the adequacy of a taxation system because it seemed to be so unfair and open to manipulation. The media also questioned the capabilities of the bureaucracy to administer the taxation law (See for example, Kitney, 1982b; Kitney, 1982d; Flynn, 1982; Heinrichs, 1982; Rath, 1982).

For example, the Ligertwood Committee reported on the extent of tax avoidance (Ligertwood Committee on Taxation, 1961). The Downing inquiry into the equity of the tax system noted that the rich paid substantially lower tax (Downing et al., 1964). The Asprey report looked at the various options for the tax system (Asprey, 1975). The Coombs report into the financial system also noted the inequity of the system for the lower income earners (Coombs Task Force, 1973).

In an interview with Geoff Kitney, the Tax Commissioner Bill O'Reilly suggested that the community attitude was one of the factors that led to the explosion in tax avoidance (Kitney, 1982b).

The Fraser Government (1973 to 1983) was considered to be a government that benefited the rich because of its lack of action on avoidance (Kitney, 1982c; Aarons, 1988; Smith, 1993: 109).

Australia was not the only country that suffered from the increase in tax avoidance. England had similar problems. See Nigel Tutt for a discussion of the situation in England (Tutt, 1982).

The creation of elaborate schemes was seen by the Australian Taxation Office (ATO) to be supported by decisions of the High Court in Slutzkin's case (Australian Law Reports, 1977), which effectively nullified, in its view, Section 260 of the Income Tax Assessment Act 1936. The decision in Westraders (Australian Law Reports, 1980), in the opinion of the ATO, reduced its power to prevent the spread of the schemes (Report from the House of Representatives Standing Committee on Expenditure, 1986: Para 5.14; Joint Committee of Public Accounts, 1993: para. 2.36).

The Report of the House of Representatives Standing Committee on Expenditure believed that the ATO was not prepared to handle large case prosecutions. It also concluded that the ATO and the Attorney-General’s Department had not acted because they believed that attempts to prevent the tax evasion would have been unsuccessful. However, the Committee concluded that this assumption was
invalid as subsequently many successful prosecutions were pursued, not under new legislation but under the legislation that existed at the time these schemes were initiated (The Report of the House of Representatives Standing Committee on Expenditure, 1986: Para 5.13–5.21).

Commissioner O'Reilly in commenting on the McCabe and Lafranchi Report in 1982, suggested that the need for new legislation, the increasing complexity of the law and the increasing workload had reduced his Office's ability to deal with the problem (Kitney, 1982b).

A 'siege mentality' was often used to describe the way the ATO 'raised the barriers' and did not attempt to aggressively solve the problems that were occurring (ATO, 1992a: 13; Hill and Knowlton, 1987: 1–2).

The level of disputes presented in dollars is reported in a number of Annual Reports of the Australian Taxation Office. For example see ATO, 1986: 66; ATO, 1988: 191; ATO, 1989: 121. But it also formed part of the submission of the Assessing Review Group particularly Chapter 6. (ATO, 1985). The number of disputes had risen to 4.66% of income tax returns and in 1984 reached a total of 286,684. By 1985 the rate had reached 4.88% (ATO, 1985: Annex G).

The ATO always assumed that decisions in the courts had nullified any hope that the Office had of containing the tax schemes (House of Representatives Standing Committee on Expenditure, 1986: 47; Costigan, 1982: Vol 1 Attachment 1). This assumption was questioned by the Costigan report (Costigan, 1982). Mr Ian Temby, QC, Director of Public Prosecution, in his submission to the House of Representatives Standing Committee on Expenditure, (1986: 48 Para 5.17) suggested that new legislation was not needed.

In 1984 the Auditor-General was able to argue effectively that he had access to confidential tax returns under the section of the Audit Act that defined his power to conduct efficiency audits (House of Representatives Standing Committee on Expenditure, 1986: para. 2.2).

See the Commissioner of Taxation – Annual Reports for the years 1976 to 1981 (ATO, 1976 to ATO, 1981). Little was stated on the extent of the schemes. The only mention was the decisions of the courts.

The Costigan Royal Commission had been set up to investigate the Painters and Dockers Union (Costigan, 1982: Vol 1, 2 - 5). It seems unbelievable that neither the Government nor the ATO was aware of the direction of the investigations. Costigan had asked for access to tax records and after some considerations his request was granted (Costigan, 1982: Vol 1, 5). This request should have given some indication of the direction of his investigations. With hindsight the Government and the ATO condemnation of the McCabe and Lafranchi report (McCabe and Lafranchi, 1982) seems to have been a gross error of judgement. It can only be assumed that they had no idea of the extent of the Costigan investigations (Costigan, 1982).

‘Profit shifting’ is the practice of moving items to be sold, or attributing the sale, to an organisation located in a country that has lower tax rates. Some countries offer tax-free zones to encourage organisations to locate there. So organisations may manufacture goods in one country and sell the goods at no profit to a subsidiary located in the tax-free zone. The goods are then sold for profit from the tax free zone and no tax is paid. (See House of Representatives Standing Committee on Finance and Public Administration, 1988b: 11–13).

(Note: tax-free zones have now been limited in number by international tax treaties.)

In the 1970s the wage explosion was partly caused by the increased claims for salaries to keep the level of wages constant in real terms and to compensate for the bracket creep (as described above). So wage claims had a tax component built in to compensate for the additional tax payable. This led to excessive claims and increased the costs of goods and services (Smith, 1993: 105).

The source of this comment was a journalist from one of the major newspapers. The opinion was obtained in a phone conversation (Appendix 3, Refer. 2.3).
In his annual report of 1991/1992 the Tax Commissioner took the highly unusual step of criticising the Auditor-General over a number of findings and conclusions (Revenue Office, 1992b: 3–4). See also the report, A Review of the Revenue Office, which also describes the intensity of the exchanges between the Commissioner and the Auditor-General in May 1988 and attempts to examine the basis of the conflict (Government Committee on Finance and Public Administration, May 1988: paras 2.3.1–2.3.7 and 2.5.2–2.5.3).

The Revenue Office was described in the 1970s and 1980s as ‘under siege’ (Hill and Knowlton, 1987: 1–2; Revenue Office, 1992a: 13).

This was suggested on a number of occasions by Revenue Office staff and some members of the Senior Executive (See Appendix 3, Ref. 3.2 for comments by a senior staff member). It is also suggested in the submission to the Public Accounts Committee review that the office at Newcastle was opened because the Government required employment in the Newcastle area (Revenue Office, 1992a: 54).

The management of the Public Service is based on rules and guidelines that were derived from various governing Acts including the Public Service Act, the Audit Act 1901 and general guidelines such as personnel policy manuals. The change to the management style led to the adoption of ‘private sector’ methods such as risk management, Industrial Relations agreements with unions, networked teams and flatter structures.

Mathews’ assessment of the change processes in the Revenue Office also presents this image of Charisma even though change was driven almost exclusively by external reviews (Mathews, 1992). In this thesis Charisma’s role, especially in the 1980s, is presented as responding to the problems identified.
Chapter 2
Policy Formulation Paradigms

What is policy formulation?

To analyse policy formulation as a distinctive kind of social practice by the examination of policy developments in the Revenue Office, a model is required that will provide an explanation and understanding of the policy events that took place. However, the first issue that needs to be explained before the development of a model is how the processes should be categorised.

The policy processes that are to be examined are those involved in the formulation of administrative policy in a tax community. As described in the Revenue Office’s annual report, the two principle players in this policy community are the Government, which sets the policy of what types of taxes should be used, and the Revenue Office, which has a major role in setting administrative policy that deals with how the process of collecting the tax will be carried out and managed. So revenue office policy formulation is about the administration and management of the Tax Act (Revenue Office, 1989a: 4–5). Therefore, this thesis is an examination of the formulation of administration and management polices.

A policy is defined as ‘the course of action a government takes (or proposes to take) with regard to specific issues’ (Anderson, 1975: 3). Similarly, a well-known basic text in American public policy states that it is ‘a purposive course of action followed by an actor or set of actors dealing with a problem or concern’. This author calls policy ‘guidance for action’ (Shackle, 1973: 116). These descriptions suggest a forward-looking dimension. For Nagel, policy means governmental decision designed to deal with social problems on which governmental action is considered desirable (Nagel, 1982: xii). Later he defines policy to be decisions on choices, levels and mixes with regard to controversial alternatives (Nagel 1982: 3). Stephenson sees policies as ‘...the bench marks from which business plans are constructed, they lay down guide-lines for present and future action.’ (Stephenson, 1985: 219). These descriptions imply present activities, including decision making, which are orientated towards a future objective. Under this view, policy formulation has decision making as its basis, which includes a planning or forward focus. If the element of planning is emphasised, policies take on a futuristic perspective.
Finally, policy formulation may include elements from agenda setting and legitimation, through to policy implementation and evaluation (Sabatier and Wanding forde, 1979). Clearly more is involved than a single or simple decision process. This suggests that policy formulation should not be seen as a distinct decision process but as a range of processes that go from problem identification to maintenance of the policy solution. As I will argue, the ongoing nature of policy formulation is an important aspect in developing an understanding of the process. This argument will be developed during the discussion on a constructionist view of policy formulation below.

**A positivistic view of policy formulation**

Research into policy formulation can be categorised by the application of two broad paradigms. One paradigm emphasises the role of economics and management sciences as the main factors in determining policy, a ‘rationalistic’ view (Davis et al, 1993: 160; Pugh and Hickson, 1997: 118). The other emphasises the roles of social factors in policy formulation. That is, power, negotiation, beliefs and meanings are important in shaping policy decisions and direction (Kingdon, 1984; Cohen et al, 1972; Fox and Miller, 1995: 9). A discussion of these two broad paradigms will be used to develop the model applied in the thesis.

**Rational decision models**

Under a ‘rationalistic’ paradigm, policy formulation is seen as responding to an identified and clearly defined problem by a systematic identification and examination of alternative courses of actions (Frith et al, 1992). Under this paradigm the formulation of policy is a process of systematically analysing alternatives (Nagel, 1982: 4). The decision process is based on the assumption that rational analysis and scientific research can be applied to find the ‘best’ solution out of the complete range of possibilities (Harte and Koele, 1997: 21). Decisions are a data driven process of ascribing utilities to decision alternatives (Lewicka, 1997: 103). The most suitable or optimum solution is judged on criteria such as cost benefits, profits, rates of return, and so on (Nagel 1982: 4). It is assumed that human are entirely rational beings (Browne, 1993: 20), the objectives of the ‘organisation’ are clearly defined and based on economic or other measurable variables and that there is agreement on the description of the problem and methods (Frith et al, 1992). It is also assumed that in any policy decision there is a demonstrable right or correct option. The ‘correct’ option would depend on the assumptions made in the model but would be ‘provable’ by economics or
other rationalist ‘hard science’ methods (Nagel 1982: 4–15). There are variations on this theme. The behavioural approach, for example, would assume that the aim was to maximise some social goal or value.

The rational choice model falls within this paradigm. This model presents an idealist view of decision-making. In its purest form, rational choice holds that the decision maker possesses full information about the decision or problem, knows all possible solutions from which they have to choose, as well as the consequences of each solution. Rational choice seeks to maximise utility and assume that decision-makers have the ability to rank alternatives in the order of likelihood of maximising outcomes (Zey, 1992: 10). Its proponents suggest that this is how decisions should be made, not necessarily how they are made (Herrnstien, 1990: 356). But there are fundamental weaknesses. The decision-maker, faced with the need to identify all possible solutions, will in any but the most simple situation, run out of time and resources and find that the model offers little help in the practical application of decision-making (Zey, 1992: 12–26; Etzioni, 1967: 82–83: Kingdom, 1982). These theories leave the preferences of the actors unexplained; they only presuppose that preferences do exist, and that the goals of the ‘organisation’ exist and are separate from that of the individual (Fox and Miller, 1995: 8), and attempt on this basis to arrive at scientifically tenable results. The personal attributes such as power are ignored in the operation of this model. The correct decision is “found” through the application of the model (Pfeffer, 1992: 8-14).

It is unlikely that the use of this model would provide a useful insight into policy formulation in the Revenue Office. The approach taken to address the problems described in this thesis certainly did not proceed strictly in the way advocated by this paradigm. There was little or no identification of all possible solutions. The actions required to solve the problem were not an independent and isolated event that could be easily isolated, identified and analysed. So, in practice, this model did not explain the process undertaken in the formulation of administrative and management policies in the Revenue Office.

**Incrementalism models**

An alternative rational model that attempts to overcome some of the criticism of the rational choice approach is Lindblom’s disjointed incrementalism (Lindblom, 1959). He suggests that the problems for the rational model lie in two areas. Firstly, it will not always be possible to identify all the applicable solutions because in all but the simplest situation the information required will preclude an analysis of all possibilities. Secondly, it will not be
possible to get everybody to agree on a definition of the problems and objectives (Lindblom, 1959: 80-81). Lindblom argues that many conflicting values are involved in the process of identifying the options available so there is considerable room for disagreement between participants. It is unlikely that an optimal solution can be identified that suits everybody so any decision involves a degree of negotiation on objectives, problems and solutions (Lindblom, 1959: 83-84). As a result, policies are the outcome of the give-and-take of numerous groups.

Lindblom’s model assumes that decisions are made by increments. Each increment is analysed, accepted and implemented and then corrected or another decision is made to progress the policy towards the desired solution (Lindblom, 1959). The decisions move the organisation one way, then another, feeling the way ahead in small steps (Hickson, 1987). Therefore, the process is ongoing and incremental. Decisions are not made once and for all; they are made and remade endlessly (Lindblom, 1959). The decision maker can avoid major errors by not making large difficult decisions and by gaining knowledge on the policy as it is developed and by being prepared to make changes and other decisions to progress policy formulation or correct errors (Lindblom, 1959).

The model also assumes that there is no way to judge how good a decision is other than on whether people agree with the decision (Lindblom, 1959). Lindblom argues that it is a model of how decisions are made; it is by no means perfect but it is an accurate description of the decision process that takes place (Lindblom, 1959).

Critique of this model suggests that decisions do not always proceed incrementally but may be disjointed moving one way, then another (Hickson, 1987: 168). A further problem for incrementalism is that this model does not address examples of large changes being made (Etzioni, 1967; Hickson, 1987: 168).

The examination of the Revenue Office suggested that policy formulation was an ongoing process but did not show that individual decisions were part of an overall planned process. In many situations policy decisions initiated other changes that created an ongoing-adjustments process that resembled an incremental process only because after the event it is easy to bring the processes together into a ‘logical system’ of planned change.
Optimal and mixed scanning models

Considerable effort has been made to use these criticisms to provide alternative models. Somewhere between the rational decision and the incremental models are the optimal methods and mixed scanning models. Again these models take their lead from the rational paradigm and attempt to overcome its impracticality. Dror suggests that judgement, brainstorming or creativity should be possibilities for seeking out solutions and since these processes are used in practice they should be included in any decision model (Dror, 1967). The method relies not on the comprehensive examination of alternatives but on a selective review of options and some explication of goals (Ham and Hill, 1984: 85).

Like Dror, Etzioni sees limitations for the rational comprehensive exemplar and advocates a mixed scanning approach, using part of each model depending on the situation (Etzioni, 1967). Etzioni sees decision-making as an ongoing process where resources can be committed to the search for improved solutions based on experience gained from an incremental decision processes. These fundamental decisions set the overall directions for policies and an incremental like process applied for follow on processes (Etzioni, 1967). The problem of the large issue being ignored or overlooked—as in the incremental decision process—is overcome by scanning the context to investigate the area of interest. Therefore, resources are not committed to the search of all possibilities but through a high level scan of the overall context of the area being investigated (Etzioni, 1967).

These models, however, have a number of limitations. Ham and Hill suggest that Dror fails to specify the criteria the decision maker can use to clarify values and objectives and to estimate the payoff, all of which are required by his model. They suggest that for this reason his model is difficult to operationalise (Ham and Hill, 1984: 87). The criticism of the mixed scanning model is based on Etzioni claim that fundamental decisions are used to set direction. Ham and Hill suggest that fundamental decisions some time set direction but in other cases the decision processes proceed in a much less structured way. They suggest that the model may be limited to supporting long term decision making, as in the planning processes (Ham and Hill, 1984 87 - 88).

Positivistic models and policy formulation in this case study

As will be explained in the case study, many of the decision-makers in the Revenue Office, especially Charisma, worked to identify their own objectives, and developed strategies and processes to ensure that these outcomes were achieved. As claimed by Hickson and also by
Menahem, in this social context the way each matter is handled is shaped by the interests it implicates as well as by the problem it raises (Hickson, 1987: 172; Menahem, 1991: 38-39) and within each organisation or society there are a multiple of interests and ideas (Menahem, 1991: 39).

The case study shows that rather than being clearly defined, problems exist in a specific situation and within a particular context. This contention is supported by Fox and Miller (1995: 9). The problem in applying rational decision making to policy formulation to these situations is that they concentrate on the ends and the knowledge required to get there without an understanding of the process (Herrnstein, 1990: 356; Greenberger et al, 1976: xv). As Lowi also suggests, the element of self-interest in the decision-making framework eliminates the rational model’s assumptions that the best solution will always be found (Lowi, 1970). Critics also claim that rational models do not explain or address the process by which objectives are turned into policy (Menahem, 1991: 37). The solutions to these issues are the focus of models that consider the main influences in policy formulation to be social factors.

**Social factors as the determinants of policy decisions**

The emphasis of policy formulation models should be on analysing what people actually do rather than on comparisons with idealised optimal or rational models (Harte and Koele, 1997: 21). The decision models in this section are also described as political decision models (Browne, 1993: 33-42). Policy formulation is a process where people attempt to have their own interests adopted by the interpreting and framing of situations as problems (Menahem, 1991: 40-42). As Fox and Miller suggest, and as will be shown in the case study, problems exist in a social context that bring with them their own sets of constraints (Fox and Miller, 1995: 9). Therefore not everybody sees a problem in the same way and, according to Gass and Murphy, when a decision is made to act on that problem, people manoeuvre to ensure their interests are accommodated (Gass and Murphy, 1991). A solution that supports the interest of its promoter may have been developed before the problem is identified (Cohen, et al, 1972). For Hickson, the search is not only for problem-solving information, but for interest-accommodating alternatives (Hickson, 1987: 173). These issues are the starting point for models developed by Cohen, March and Olsen and later by Kingdon (Cohen et al, 1972; Kingdon, 1984).
The garbage can model

The Cohen, Olsen and March model of decision making in organisations, developed in the early 1970s, was based on critiques of the ‘rational’ models discussed above (Cohen et al. 1972). Their ‘garbage can model’ or organised anarchy model as it was also called (Browne, 1993: 36), suggests that when a situation occurs where people believe that there is a need for a decision, a ‘choice opportunity’, there follows a generation of ideas on problems and solutions. These are developed by social processes that are likened to dumping them into and mixing them up in a garbage can (Cohen et al, 1972). The solution is reached, not through applying ‘rational’ logic as suggested by the rational decision models, but by people negotiating and manipulating (mixing) the contents of the can so that their problem or solution is drawn out as the favoured approach. The contents of the can are jumbled and there is little ‘relationship’ between ideas on problems and their solutions. After the decision process occurs the ideas in the garbage can be lost or emptied into another solution garbage can (Cohen et al, 1972).

Their model attempts to explain how decisions are made rather than how they should be made. The focus is on the social processes and the ideas they generate, maintain and manipulate. Decisions are made on ‘political’ grounds rather than ‘rational’ economic criteria. That is, the participants manipulate problems and solutions to gain advantage. The traditional view that there is some natural ‘rational’ logical relationship between problems and solutions is rejected in this model (Cohen et al, 1972).

The Kingdon model

Cohen, March and Olsen’s organised anarchy model was the starting point for Kingdon who expanded it to investigate and explain how policy formulation took place in the health and transport areas of the American Federal Government (Cohen et al, 1972; Kingdon, 1984). Kingdon was not only interested in the decision making process but in ‘how problems are recognised and defined, how policy proposals are developed, how political events enter in, and how these things become joined at critical junctures’ (Kingdon, 1984: vii).

He took Cohen, March and Olsen’s concept of ideas dumped and mixed in a ‘garbage can’ and extended it to suggest that solutions were developed and manipulated in an ‘ideas primeval soup’ (Kingdon, 1984: 123). Kingdon postulated that opportunistic entrepreneurs draw solutions from the ‘solution soup’ when problems arise or are identified which change
the contents of the political or decision agendas. The development of solutions and changes to the agendas could take place quickly or over long periods (Kingdon, 1984).

Kingdon’s focus is on agenda setting, problem identification, policies and politics (Kingdon, 1984). His model suggests that these meanings are maintained by groups of people and processes that are conceptualised as streams that run through the policy process. The policy primeval soup (solutions) is developed primarily by the ‘policy stream’ (Kingdon, 1984: 123). These are technical groups which discuss ideas on directions and solutions that could be adopted and exist in the bureaucracy, pressure groups and special interests groups (Kingdon, 1984: 123).

Kingdon introduces an important concept in that solutions are developed quite separately from problems (Kingdon, 1984: 90–94). Policy ideas (solutions) exist as if in a ‘primeval soup’ where they are mixed with other ideas and go through many social processes to be refined and built into policy ideas. In this process they ‘bump into one another, they combine with one another; some survive, some die out, and some survive in a form quite different from their origins’ (Kingdon, 1984: 138). This process may take years before the solution is used, dropped or combined with other solutions. The ideas are softened by being discussed and reworked. Thus the soup represents the ideas of the policy community (Kingdon, 1984: 123).

Thus Kingdon sees policy formulation differently from the positivist’ models (Kingdon, 1984). At any time, any number of groups are developing numerous solutions. How solutions come to be used is part of a different process that includes the role of entrepreneurs and the operation of agendas (Kingdon, 1984). This concept is important for this thesis. As will be described in subsequent chapters, existing solutions are manipulated and proposed as new ideas to fit the problem.

The key operational stream in the Kingdon model is the political (Kingdon, 1984: 152–172). It is composed of such social processes as campaigns, elections and changes in administration (Kingdon, 1984: 152). It includes all people involved in political activities and includes the political leaders and their elites, the administration, and the general public. The main groups in this area are tied together by the ‘national mood’. This, Kingdon suggests, could go by other names such as ‘climate’, ‘public opinion’ or ‘social movement’ (Kingdon, 1984: 153). This stream is tightly coupled to ideas or problems and their priority on the agenda (Kingdon, 1984: 171).
The concept of agendas has a special place in political and policy literature and their operation and control is the basis of many research and journal articles (Cobb and Elder, 1972; Cobb et al., 1976; Nelson, 1984). The agenda represents the social consensus about which ideas or items are important at any time. It is part of the set of ideas on problems maintained by society (Menahem, 1991: 38). The agenda is ‘...the list of subjects or problems to which government officials, and the people outside government closely associated with those officials, are paying some serious attention at any given time’ (Kingdon, 1984: 3).

Agendas are a key concept for the Kingdon model. Agendas are part of the system of ideas that influence the development of policy. The manipulation of the agenda may not be based on power but could be conceived of as a consensus of what is important. It is part of society, the mood, the climate (Kingdon, 1984: 152–172).

**Coupling, policy windows and the formulation of policy**

In the Kingdon model problem and solution are brought together in a decision process when an event occurs that raises an issue onto the decision agenda (Kingdon, 1984: 187). These events may or may not be predictable. An event such as an aircraft accident or the publication of a report alters people’s perceptions about what is important and what should be changed (Kingdon, 1984: 182–187). The publication of the taxing problem report, described in Chapter 6, moved Information Technology (IT) higher on the agenda. This presented a ‘window of opportunity’ for people to search for a solution that could be coupled to the issue to promote their values or to gain some advantage (Kingdon, 1984: 129–130). As will be explained in subsequent chapters, this search in policy formulation in the Revenue Office focused mainly on finding and modifying existing solutions.

This coupling of a solution and a problem is a critical process that is the basis of decision-making and acceptance (Kingdon, 1984: 181–188). The coupling process is based on the development of a socially acceptable ‘logic’ that ties the selected problem and the solution together. In this process the role ascribed to entrepreneur in the Kingdon model is important.

**Policy entrepreneurs**

Pettigrew suggests that it is difficult to define the role of an entrepreneur because of its different definition by the general public and social scientists, and suggests that it may not
have any discriminatory powers at all (Pettigrew, 1979: 572). However, Kingdon has a particular role for the entrepreneur in the formulation of policy. Just as business entrepreneurs try to sell products and concepts, policy entrepreneurs try to manipulate and sell solutions (Kingdon, 1984: 129–131). That is, they attempt to sell their solutions by manipulating concerns about a problem and solutions (Kingdon, 1984: 129, 188–193). By these processes they attempt to develop a particular meaning around a problem, solution or policy.

The role of the entrepreneur involves having innovation accepted through the generation, translation, and implementation of new ideas (Roberts and King 1991: 128). The events that cause a ‘window of opportunity’ to open may be created by an entrepreneur to further his or her objectives (for example, see Chapter 9). A problem may be defined to suit a particular solution or an existing process may be presented as a solution (Kingdon, 1984: 192). Entrepreneurs can use solutions proposed by others as their own to further their objectives (Kingdon, 1984: 129–130).

Kingdon suggests that ideas play a greater part in the ‘political process’ of policy formulation than most people realise (Kingdon, 1984: 132). In his model, it is ideas rather than power that are the main driving force for the acceptance of a decision. Rather than lobbying muscle or mobilisation of numbers of people, arguments and evidence present a more accurate picture of the process (Kingdon, 1984: 132). However, the political scene studied by Kingdon requires the consensus of a number of people (Kingdon, 1984: 167–170). Politicians have the power to legislate for change but the perceived illegal or forceful use of power may result in their loss at the next election. In organisations there are no such difficulties. There are positions where the exercise of power is expected.

The role of the entrepreneur is critical in the policy formulation that took place in the Revenue Office. As the entrepreneur Charisma played an important role in bringing the solution and problem together and manipulating opinion to gain acceptance. He was the person who facilitated the process and developed the ‘logic’ that gained acceptance.

**A critique of these models**

While the Kingdon model introduced a number of key concepts (Kingdon, 1984) it has limitations when applied to organisations. In organisations like the Revenue Office decisions have a greater and more direct impact on staff. Staff were closely involved in the policy
process and were able to reject, resist or undermine policy changes they did not support. Therefore gaining an acceptance for policy decisions is a critical process.

Under the rational models, little consideration is given to how decisions are accepted because they are provable as correct by a ‘rational logic’ such as economic arguments. In dismissing the paradigm of the rational model where it is suggested that policy formulation is a process of matching solutions to problems based on systematically assessing their cost benefits (Kingdon, 1984: 82-83), it raises the question of how the logic that is used to gain acceptance for matching problems and solutions actually works. That ‘every once in a while in this town, somebody stands up and says something because it’s right’ (Kingdon, 1984: 132) hardly supports the concept of a entrepreneur manipulating people’s perception and gaining acceptance for change. The social process that builds perceptions through negotiation and power is pushed to the background by Kingdon (Kingdon, 1984).

The second problem is not totally divorced from the first. Policy formulation models generally see policy formulation as a single decision process, although Kingdon, Cohen, March and Olsen, and Lindblom all suggest that the process occurs over a long period of time (Kingdon, 1984; Cohen et al: 1972; Lindblom, 1959). However, this case study examines a number of policies that are developed and changed over a number of years. Fox and Miller suggest that over time policies created and re-created and that in this process people approach problems within a specific social context (Fox and Miller, 1995: 10). Pettigrew also proposes that actions must be mobilised and made effective within a particular context (Pettigrew, 1979). The type of processes involved in the development, maintenance and acceptance of policy depends on the social context. However, according to Garfinkel (1967a), each decision or action changes the social scene (Heritage, 1984: 106–109). So the ongoing policy development examined in this case study takes place in a changing policy social context. Therefore, to understand policy formulation in the Revenue Office of the 1980s through to the early 1990s, an understanding of the process that re-creates policy and how it is maintained in a changing social context is necessary.

Therefore, it is important to examine two questions:

1. How do changes, introduced by the implementation of a policy, change the social context and how do these changes affect subsequent policy formulation processes? and;
2. How are policies made acceptable to the policy community and how is that acceptability maintained in an ongoing and changing social context?

Providing answers to these questions is important in providing an explanation of policy formulation in the Revenue Office. To provide a model that will enable these processes to be examined and explained in this case study, the models of Kingdon, and Cohen, March and Olsen are used as a basis, and expanded by placing the models in a social constructionist paradigm.

**Social context and policy formulation**

The basic assumption of the social constructionist paradigm is that social processes create reality (Berger and Luckmann, 1966). This suggests that the social processes of individuals in and around the policy formulation process create meaning. These theories are based on the belief that a person cannot exist in a social world without continually interacting and communicating with others (Berger and Luckmann, 1966: 37). It is these individuals’ interactions that occur in and around the organisation and in policy formulation that creates and changes the social context of the policy process.

But this is not to suggest that there is some shared meaning that exists separate from the individual such as Kingdon’s policy soup and Cohen, March and Olsen’s garbage can (Cohen et al, 1972). The social construction paradigm suggests that it is individuals who think, feel and are free to choose their actions in the processes of policy formulation (Berger and Luckmann, 1966). Fundamental to this paradigm are social actors capable of defining their own beliefs and knowledge and, therefore, of defining their own reality (Schutz, 1962b: 55).

As a person interacts with other individuals in the formulation of policy an understanding is developed and the person begins to develop a set of everyday knowledge which allows them to negotiate their way through the events that take place (Jehenson, 1973: 222). Through this process the person involved in social processes acquires a range of constructed meanings of typical actions that take place in typical situations (Berger and Luckmann, 1966: 45). These meanings are equalisations relevant to the particular purpose at hand, for the sake of which the typical meaning has been formed (Jehenson, 1973: 223). They form the individual's commonsense knowledge of the world as a system of constructs of its typically (Schutz, 1962b: 37). It is tied to everyday events through a continuous interpretation of the social process in which the person has been and is involved (Berger and Luckmann, 1966: 39–40).
In the policy formulation context these general meanings, referred to as typifications\(^8\) provide an individual’s beliefs about how management, power, controls, and in general policy formulation operates (Jehenson, 1973: 226). For example, they provide beliefs about what requirements must be met for a solution to be considered as an acceptable proposal, how the proposal should be tested and who should be involved. Similarly, the perceptions of ideology, power and social structure, which are considered in policy formulation under the narrow concept of the manipulation of agendas (Gamson and Lasch, 1983; Rein, 1986), are based on typifications that are constructed by social processes. Concepts such as metaphors, myths, fairy tales and legends are often suggested as being mapped to existential contexts to create meanings in organisations (Smith and Simmons, 1983: 378), and are often the basis of typifications. Typifications provide the basis for a schema of interpretation relevant to the particular purpose at hand that enables individuals to understand and make judgements about events (Jehenson, 1973: 226). This framing by typifications refers to ways of organising and making sense out of complex realities (Goffman, 1974) and, in the process, turns social processes into typical functions of typical social roles, originating in typical motives aimed at bringing about typical ends (Schutz, 1964: 237; Jehenson, 1973: 227).

**Policy formulation as a social process**

The formulation of policy in the Revenue Office was not undertaken by an individual acting in social isolation. Different groups and individuals within the Revenue Office, the Government and the Public Service were involved in negotiations that influenced policy direction. As suggested by the models of Cohen, March and Olsen and also Kingdon, negotiation plays a large part in defining policy (Cohen et al, 1972; Kingdon, 1984). However, people in any social process need to develop a common understanding of the process to successfully participate in this process (Keesing, 1974). A model of policy formulation must be able to provide an insight to this process.

This policy formulation model suggests that each person has an individual scheme of typifications and that these are maintained by the individual as described above. However, each person assumes that they share a common ‘cultural knowledge’ with their fellow actors (Jehenson, 1973: 221). It is this ‘cultural knowledge’ that provides the basis of what people participating in policy formulation know and believe. It is this understanding of the policy process being followed, the game being played, that enables them to participate and understand the policy formulation processes in which they are involved (Jehenson, 1973: 226). They refer to this knowledge to interpret the unfamiliar or the ambiguous. (Keesing,
1974: 89; Berger and Luckmann, 1966). This knowledge or understanding informs how negotiation takes place within the organisation, how policy proposals should be formulated, who should be included in negotiations and the process for including them (Kingdon, 1984) 

Learning to participate in policy formulation

According to Goodenough individuals learn what they have to do to maintain behaviour within what is expected for the social area or the project in which they are working (Goodenough, 1971: 20). Decision-making processes as part of the policy formulation process are a learning process where individuals do not need to know or understand every aspect but are able to learn as the process is carried out as long as the behaviour is within an understandable framework.

The learning process based on the interpretation of social action creates a perception for the individual that knowledge is external and exists separate from their existence (Berger and Luckmann, 1966: 35, 38; Keesing, 1974). The individual sees that the actions being carried out are part of the 'game being played' (Keesing, 1974: 89). But according to Garfinkel (1967a), each person assumes that his or her knowledge and understanding are in most ways consistent with that of fellow individuals and assume a common understanding based on the typified meaning of events. These 'shared' typifications provide a framework for how to act in society (Jehenson, 1973: 222–223).

Using this paradigm the policy participant does not need to share exactly or understand all the processes and policy objectives to participate in trying to influence the policy formulation process. Nor do individuals need to share all meaning with their fellow workers. They can reject what is being proposed and continue to assume their own logic is correct (Jehenson, 1973: 222). Thus individuals can choose their responses to actions (Goodenough, 1971: 20) and participate, negotiate, accept or reject decisions or actions, and do not have to fully understand or believe all the processes in the policy formulation. Their behaviour will be understood as long as it is within an understood social framework that is based on inter-subjective typifications.

This approach suggests a different view of problems. The meaning attributed to problems and solutions is created by social processes and are supported by inter-subjective typifications (Kingdon, 1984: 103; Menahem, 1991; Jehenson, 1973: 222). But as described above, not all participants will share that meaning. In defining a situation as a problem a specific
interpretation of reality is selected from multiple possibilities (Snow et al, 1986; (Vennix, 1996: 9). Problems and solutions, as described by Kingdon (1984: 90), are social objects with meaning that are products of a process of social definition (Blumer, 1971). They are part of a reality maintained by social processes that are invested with people’s attempts to influence decisions through the exercise of power and negotiation (Smircich and Morgan, 1982). The meaning of problems and solutions must simply be understood within the contexts in which they occur (Berger and Luckmann, 1966: 20), with inter-subject typifications providing much of that context. As Gurwitsch suggests:

> Whether we happen to act alone or, cooperating with others, engage in common pursuits, the things and objects with which we are confronted as well as our plans and designs, finally the world as a whole, appear to us in the light of beliefs, opinions, conceptions, certainties, etc that prevail in the community to which we belong.

Gurwitsch (1966), as quoted by Jehenson, 1973: 220

These concepts of policy formulation give a different view of the process than those of the rationalistic paradigm. The emphasis is on social construction and maintenance of meaning. Viewing policy formulation through this paradigm suggests that the meaning of its processes—and this includes the meanings of problems and solutions—can be changed and manipulated and is not shared by all participants. Garfinkel argues that inter-subjective typifications ‘...“fit” to the circumstance they describe is “loose” and subject to adjustment by ad hoc devices...’ (Garfinkel, 1967a: 3). This looseness of ‘fit’ allows others to attempt to ‘understand’ a person’s perspective and to try to develop strategies to influence and change that person’s behaviour or their understanding of problems and solutions. So people, or a person, can frame an argument to appeal to what they believe other people believe. The issue is how this negotiation takes place. What processes are involved that change people’s opinions and gain acceptance for change?

**Legitimisation and policy formulation**

Positivistic models of policy formulation suggest that decisions are accepted because of the application of power in a policy process where the solution can be found and proven correct by the application of economic analysis or other rational criteria (Kingdon, 1984: 82; Frith et al, 1982). Under a social constructionist paradigm the acceptance of policy decisions concerns people’s perceptions. This paradigm proposes that power, logic and leadership are part of a phenomenological reality (Bridgeland and Duane, 1978). The question then is how ideas become accepted in a changing social context where power, logic and leadership are
constructed and individuals are free to choose their response in any situation. This model uses the concept of ‘legitimation’ to explain the important process of acceptance in policy formulation.

**Legitimation — a definition**

Researchers consider the concept of legitimation from many different perspectives. For some it is a relationship between institutions and society (Izzo, 1987: 55) or between ideology and society (Bourricaud, 1987). Under these models legitimation is on a meta-social level. Conflict arises when the relationship breaks down or fails. The stable state is reached when actions coincide with what is considered to be right (Bourricaud, 1987).

Under a social constructionist paradigm, legitimation is a process of making sense (Berger and Luckmann, 1966), but a specific kind of sense. It is a process of attributing validity to a given situation where people use their knowledge of a process to try to justify their understanding and to accept or reject the events or actions of others (Cipriani, 1987). ‘Legitimation is not a pure and simple logical or dialectical process of dispute or consent’ (Bourricaud, 1987: 64). In sociological terms the question has wider significance (Izzo. 1987: 44). Its justification is based on individual and inter-subjective typifications. As Douglas states:

> An answer is only seen to be the right one if it sustains the institutional thinking that is already in the minds of the individuals as they try to decide.

*Douglas, 1986: 4*

People make these judgements not only on whether the process, problem or solution is understandable but whether the meaning has a ‘logic’ that is acceptable (Heyman, 1984). Thus actions or decisions are legitimised on the basis of whether they fit within an accepted framework (Schulman, 1988) - that is, whether they fit with broad inter-subjective typifications or schema held in the community, such as the legal system (Felts and Fields, 1988) or popular ideas of ideologies and theories (Shepelak, 1989) of race (Skutnabb, 1990), or ideas of power and social structure (Wiseman, 1979). Also, rationalist ideas are likely to be inter-subjective typifications that are strongly held in the community and can be used as part of the legitimisation process. Legitimation is a process of making sense that is based on the ideas and logic that people have of the social world, their understanding of ‘the game being played’ (Keesing, 1974). The proposed model suggests that people in the policy
formulation process—especially policy entrepreneurs—can use these inter-subjective typifications to argue that their proposal is logical and acceptable.

Legitimation is a process of developing an integration of the meaning already attached to 'disparate institutional processes' (Berger and Luckmann, 1966: 110). The meaning is constructed and on this depends a whole scaffolding of complex ideas that guides behaviour (Cipriani, 1987). Legitimation 'explains' the institutional order by ascribing cognitive validity to its objectivated meaning (Luckmann, 1987: 111). Thus, legitimation is a process of making sense that is based on the ideas and logic that people have of the social world.

**Legitimation as a process**

The roots of policy legitimation are found in the two-way process of policy formulation where people are persuaded to change or confirm their own beliefs, but, according to Bourricaud, what is essential is that the persuasion is produced by quite ordinary means (Bourricaud, 1987). It is a policy process where people try to ensure that their interests are secure (Smircich and Morgan, 1982). It is in this interaction where the everyday action of influence, persuasion, coercion, threats and negotiation form the basis of the legitimation process (Cipriani, 1987: 9). It is where, according to Smircich, people surrender their right to define their own reality and social processes are designed to produce certain behaviour outcomes (Smircich, 1983). People use perceptions of events and their understanding of the game being played to devise strategies to legitimise their arguments to themselves and others (Luckmann, 1987: 110)\(^\text{13}\). The model proposed in this thesis suggests that these processes are used by an entrepreneur and others participating in the policy formulation process to persuade people that their views are 'correct' or in some way 'rational'.

In Kingdon's model the 'softening process' is designed to get people to 'change their mind' and provide support for a proposal that is being argued or negotiated (Kingdon, 1984: 123). These strategies may consist of such devices as holding meetings or publishing papers, all of which are designed to get ideas accepted by the community and therefore to form part of the ideas soup. The acceptance of new ideas will depend on whether they can be made to appear to 'fit' with ideas that are held in society (Douglas, 1986: 4). This fit, for example, could depend on whether the person is perceived as having the right (the power) to define or to make the decisions (Smircich, 1983)\(^\text{14}\). Therefore, in the policy being analysed in this thesis policy entrepreneurs may use these processes to progress their policy proposal.
Entrepreneurs and legitimation in policy formulation

Policy makers or entrepreneurs who are concerned to have their policy decisions accepted guide attention to situations or events in ways that are consciously or unconsciously designed to shape the meaning of a problem and/or solution (Roberts and King, 1991). The entrepreneur has innovation accepted through the generation, translation, and implementation of ideas (Roberts and King, 1991: 128). This process may be aimed at transforming a complex situation into something more discrete with a specific pattern of meaning (Smircich and Morgan, 1982: 261) and putting together a socially acceptable ‘dream’ that evolves and develops as changes are implemented (Lessey, 1991).

This process is an attempt to align the meaning of a process or problem with the inter-subjective typifications held in the group or community. Typically these inter-subjective typifications are ideas such as rationalist approaches to decision making or power, models of management, ideologies, or organisation, and functions that have a legitimate role in the community—for example, suggesting that an idea being promoted is supported by the Auditor-General’s Office. As Smith states, in this process the entrepreneur must discover what rules, beliefs and ideas in the form of inter-subjective typifications are most useful (Smith, 1982: 4). The aim of entrepreneurs is to manipulate meaning and negotiate the legitimacy of a proposed course of action as a means of pursuing their own interests. In this process they manipulate and negotiate different meanings to ‘sell’ possible problems or solutions. As will become evident in this case study, a portion of the skills of an entrepreneur is in the development and maintenance of that ‘logic’.

Legitimisation as an ongoing process

Formulation of policy takes place in a constantly changing social context. While the concept of typifications seems to suggest that knowledge is constant, this is far from the actual position. Typifications are approximations, flexible and revisal interpretations of the events. They are open ended and revisable and may undergo changes as perceptions of events take place (Heritage, 1984:106–109). Each policy decision must change the features of the scene simply because the action will be interpreted and acted upon by the other people in the social setting (Heritage, 1984:106–109). Social decision-makers who engage in coordinated actions with others will make judgements on how their actions will reconstitute the scene (Heritage, 1984:106–109). Others will interpret the new changes to their typifications based on this new information (Heritage, 1984:76–78).
The actions of the policy formulation group are conceived of as constituting the social context being interpreted by other actors. Each social process builds on existing ideas and continually constructs a new reality (Berger and Luckmann, 1966). Policy change develops a new context into which other changes are introduced and these must be managed and legitimised within this context.

Drawing a solution from Kingdon’s ‘policy soup’ (Kingdon, 1984: 122–151) brings with it other ingredients, perhaps unsavoury, which will also change the social context, often in quite unexpected ways. These may not be determined when the solution is identified and often create other problems that must also be addressed. Therefore, change in organisation is ongoing and so the legitimation of policies must be a continuous process that must be managed to ensure the policy succeeds.

The limits of policy change

In the beginning, when an entrepreneur is new to the policy formulation process or some large change has occurred that separates the past from the future, the policy entrepreneur can argue for any ‘logic’ to support and legitimise a decision. This was the situation when Charisma became Commissioner in 1984. He was able to identify a new policy direction, as will be discussed in Chapter 4. However, once the tax community has accepted ideas, subsequent ideas will need to ‘fit’ with those already proposed. People have accepted past proposals and they have become part of the context that has been legitimised. Policy decisions are adjusted continuously to meet unforeseen problems that occur. This became the situation in the late 1980s where the audit process was the accepted means of enforcing compliance with the tax laws. When a change was needed it had to be introduced and legitimised in the social context that existed. This will be discussed in Chapter 7.

As this process continues the ‘room to manoeuvre’ may become less and additional changes outside the social context or the legitimised framework become more difficult (Pfeffer, 1992: 192). As will be discussed in Chapter 9, the ‘unsavoury ingredients’ of previous decisions will appear to limit the opportunities. The alternative is to recast what has happened into a different perspective to suggest that decisions that have been accepted were based on some other reason or justification than that actually used at the time.

To use Kingdon’s concept ‘the opening of a window of opportunity’ where a particular event changes the meaning or importance of issues on the agenda may allow a entrepreneur or
other policy participant to use the meaning created by this event to change the meaning of past events (Kingdon, 1984). The entrepreneur now has an opportunity to attach new meanings to solutions or problems and, through the use of inter-subjective typifications, to legitimise the proposal.

Charisma’s decision to introduce self-assessment (discussed in Chapter 4) created a ‘direction’ or a logical meaning for tax collection. When changes were required to the direction to address unexpected problems (discussed in Chapter 8) the decisions required a different explanation. The skill of an entrepreneur lies in the ability to maintain that change process. Thus, legitimisation is an ongoing process of maintenance of logic and meanings.

**Conclusion**

This chapter has argued that a new policy model is needed to explain the policy process. The new model took the lead from Kingdon’s model, which suggests that policy formulation processes do not begin with the identification of a problem followed by a systematic search for a solution. There is no ‘logic’ in policy formulation other than that created by individuals involved in the process. Typifications provide the basis for a schema of interpretation relevant to the particular purpose at hand that enables individuals to understand and make judgements about events (Jehenson, 1973). The social understanding of the policy process of inter-subjective typification is important not only because it allows an understanding of how meanings will be negotiated in the formulation process but because it supports the development of a ‘logic’ that will be used to legitimise the change process. This enables the acceptance or rejection of policies to be adequately explained as a legitimisation process.

Under this model, solutions and problems are social objects with meaning that are products of a process of social definition (Blumer, 1971). Manipulation and negotiation occurs as people try to advance their particular problem or solution. The entrepreneur uses legitimising processes and inter-subjective typifications to propose a ‘logic’ in an attempt convince other participants that his or her view is correct and acceptable.
Socialists’ rational choice model is also referred to as neoclassicism by economists, expected utility theory by psychologists and public choice by political scientists (Zey, 1992: 10).

Lindblom has been discussed under a rational decision model headings but could just as easily be seen as a political model (Browne, 1993: 34). See below for a description of the political policy model.

See Mathews explanation of the change process in the Tax Administration which attempts to present the changes as a logical process. (Mathews, 1992).

Political decision models see decisions as a process where the behaviour of the individual is a major consideration in the decision. The model focuses on the compromise and bargaining strategies in decision making and the processes in finding alternatives which are acceptable to interested parties (Browne, 1992: 33).

The use of ‘political’ here means that it involves the social process of power and negotiation. Rationalists often refer to decisions that they believe may not be for the benefit of the ‘organisation’ and could be for the benefit of individuals as being ‘politically’ based decisions.

Streams are processes that drive the policy process. Separate streams of people are involved in the process of problem recognition, the formulation of policies (solutions) and politics (Kingdon, 1984: 92–93).

What is being suggested is that the social processes that take place in policy formulation are no different from any other social processes that may occur. They are just a particular type of process. Therefore the assumptions of social constructionists such as Berger and Luckmann can be applied to the social processes in policy formulation (Berger and Luckmann, 1966).

See Berger and Luckmann (1966: 45–48) for a definition of typifications used in this thesis.

Schulman (1988: 263–269) proposed that idea sets are used as axioms and definitions to support complex policy processes that impact on policy considerations and negotiations.


This idea is based on the work of Garfinkel (1967a), and discussed in Heritage (Heritage, 1984: 117).


This is an important point in the contexts of the model being proposed. The entrepreneur is a key player in the process of using inter-subjective typifications to persuade others that his or her view is correct. This point is the basis for supporting the concept of legitimisation process in policy formulation.

In any social context the meaning of the ‘right power’ is socially constructed. Examples of possible social processes are provided by Pfeffer in his discussion of the attributes of power (Pfeffer, 1992: 71–83).
Chapter 3
Methodology

Introduction

This chapter outlines the research strategy used in the examination of policy formulation in the Revenue Office. It describes how the research was conducted and how the results were analysed. It is recognised that in any research the paradigm adopted defines the way the problem is viewed. Assumptions about ontology, epistemology and human nature will influence the way the problem is seen and how data gathered will be defined and interpreted (Burrell and Morgan, 1979; Allaire and Firsirotu, 1984: 195).

The aim of my research was to examine policy formulation as an ongoing social process that comprises a significant part of the overall management of organisations. The research focused on the policy formulation within the Revenue Office in the nine years that Colin Charisma was Commissioner. The study examines a number of major policy decisions and their results over those nine years. These decisions significantly changed the ‘direction’ of the organisation and gave rise to other unexpected issues that were subsequently presented as a planned progress.

Methodology

In tune with qualitative research, this examination did not start with a particular hypothesis to prove correct. Instead, the aim was to examine the processes involved in policy formulation. Wolcott reminds us that every research project:

...needs some structure or conceptual framework through which to view, record and interpret social action. That structure may be derived from a question related to the research setting or problem from well-honed tradition for recasting problems in terms of established disciplines or practices or from an informed blend of new problems and old traditions.

Wolcott, 1990: 52

An initial investigation of the rationalistic models, as discussed in Chapter 2, soon proved that these models would not explain the strategies and processes that took place. These models depict the world as consisting of clearly defined, naturally occurring rules (Natanson, 1963: viii). I then chose the model proposed by Kingdon as the one that would most likely
provide an explanation of policy formulation in the Revenue Office (Kingdon, 1984). The initial aim was to examine how well Kingdon’s model explained the policy developments that took place. This model proposed a way of looking at the social world from a constructionist paradigm, where there was no set logic to the policy formulation process, and meanings that supported the policy process were open to manipulation (Kingdon, 1984). However, the application of a model developed to explain policy development in the broad political environment of the US Federal Government to that of a single organisation was fraught with problems. As was discussed in the previous chapter, Kingdon’s model focused on the processes leading up to the policy decision and provided little support for the examination of the implementation and maintenance process (Kingdon, 1984). The new model developed in Chapter 2 provides a different way of explaining the policy formulation. It focuses on explaining the ongoing policy formulation process that takes place within the social context of the Revenue Office. It facilitates the examination of the texture of the social world created by the policy formulation process. The aim of the thesis was to test a set of circumstances against the theory that policy formulation is much better modelled as a series of ongoing processes than as a single decision process. It aimed also to demonstrate that this model, based on a paradigm of social construction, was a better explanation of policy formulation than other models, especially in the given context.

As proposed in the last chapter this thesis examines two questions:

1. **How do changes, introduced by the implementation of a policy, change the social context and how do these changes affect subsequent policy formulation processes?**
   
   and;

2. **How are policies made acceptable to the policy community and how is that acceptability maintained in an ongoing and changing social context?**

**Contributions to the knowledge of policy formulation**

A social constructionists paradigm was used to develop an examination of the above two questions. This paradigm embodies a variety of assumptions regarding the nature of knowledge and the methods through which that knowledge can be obtained, as well as a set of root assumptions about the nature of the phenomena to be investigated (Morgan and Smircich, 1980). Studying policy formulation from the perspective of social construction was not undertaken to obtain knowledge of rules and relationships, but sought to understand the process. It was a search for an understanding of the methods through which individuals make
sense of the social processes that occur in these contexts. The task under these epistemological assumptions is to demonstrate the methods by which everyday processes create policy decisions.

It follows from this ontological position that knowledge is assumed to be grounded in the everyday, commonsense world and in the constructs and explanations members of that world use to describe their reality and actions. This is because the structure of the social world emerges from the typical patterns of interaction that derive from the typifications in use in that social context. This calls for an epistemological position that is interpretive rather than normative, being concerned with elucidating meaning rather than determining causality (Berger and Luckmann, 1966).

Berger and Luckmann’s view of reality as socially constructed challenged the idea that there can be any form of objective knowledge (Berger and Luckmann, 1966). It assumed that knowledge is based on social processes that are interpreted within the social context in which they occurred. From this interpretive perspective, knowledge and understanding are context driven. This thesis seeks to answer the policy formulation questions from within the social phenomena of the Revenue Office. From this interpretive perspective concepts and theories become instruments of exploration that have no epistemological priority over the phenomena being studied.

**Models and methods**

Smircich and Morgan provided the lead for an epistemological device to help frame and guide the study of organisations from this point of view (Smircich and Morgan, 1982: 162). The model developed in Chapter 2 emphasises the importance of social context in attempting to understand the patterns of action that are meaningful in the formulation of policy. Since the meanings that support policy formulation rest in a commonly held fabric of meanings, they should be sought by analysing the knowledge that individuals have about their situation and the wider context in which they operate. By gaining this understanding, the researcher can elucidate the explanations, rationales and motivations that are part of the actions taken in the formulation of policy.

The requirements for an effective research method in these circumstances moves the technique from the role of the external observer and rationalistic seekers of rules, to a qualitative method that attempts to see the phenomena from within the context of the social
processes concerned. The range of possible qualitative techniques is quite broad. Qualitative research defines an approach rather than a particular set of techniques enabling one to do this (Jacobs, 1993). To use a qualitative method is to attempt to reduce the distance between data and theory, context and action (Van Maanen, 1979). The methods attempt to highlight the link between the data of the research and the overall research objective or question. This gives the illusion that the methods generate the particular form of knowledge, rather than the observer (Morgan and Smircich, 1980). The approach of this research is qualitative in that it is an attempt to understand the phenomena. This understanding and the knowledge gained requires an interpretation of the events and does not lead to precise measurement.

Using the model developed in Chapter 2 to understand policy formulation through a focus on the two questions documented above also required an understanding and an explanation of the processes of legitimation. The model proposed that typifications and the social context are important in this understanding. To this extent an ethnographical orientation is used in this thesis. It is not claimed that a participant observer approach is totally used or that ‘thick descriptions’ have been applied (Geertz, 1973) in an attempt to attribute culture to the behaviour (Wolcott, 1990: 50-51) in the Revenue Office. Culture is not the critical issue of this research. It is more that the philosophical orientation of this study is ethnographic. An attempt is made to interpret behaviour through the use of the model developed in Chapter 2 and to use this understanding to examine the questions documented above. In this process an attempt is made to interpret data from the perspective of people involved in the phenomena examined. That is, the data is used to try to obtain an understanding of the process from the participants’ perspective.

A case study approach was used to document the processes that occurred. I believed that this approach allowed the use of different sources of information and that they could be “link” to the model being proposed (Yin, 1989; Chapters 1 and 2). A case study approach enabled a view of policy making as an ongoing process. It was an approach that supported the development of an understanding of the ongoing creation and maintenance of meaning as it occurred over a number of years in the Revenue Office.

Within the case study, a number of policy formulation processes and the impact these had on the people in the organisation and on subsequent decisions are documented. The case study did not document all the processes that took place in the organisation in the period studied, but instead concentrated on issues surrounding key policy formulation processes. These were large developments that were combined with other ideas to develop complex policy
direction. Each policy began as a single separate solution, but each has a different ‘life’ path. The formulation processes are all examined as examples of the process of policy formulation.

While the case study focuses on the administrative policy formulation within the Revenue Office, a number of other groups influenced the direction of change. These included political groups, particularly the Government. Inter-government agencies also had a large influence over the change process, particularly the Auditor-General. His office initiated major changes to the Revenue Office through its program of efficiency audits. The Revenue Office operated in a social context that expected it to be conscious of the economical and social consequences of its actions (Revenue Office, 1992a: 134).

Data collection process

At the time of this research I was an employee in the Revenue Office. I commenced in the office in 1988 after some of the major events had occurred. I did not participate directly in any of the events examined. Decisions were made at senior management level and in parts of the organisation to which I had no access. However, I did have the advantage of having access to documents and people to verify issues. Being part of the organisation provided an insight into the decision processes, the feelings that existed in the organisation and the context of the decision processes. It provided information that would not have been otherwise available. It allowed informal discussions with staff and this provided further sources of information.

Sources of evidence

It was decided not to approach managers of the Revenue Office to obtain “official” access to information for the case study. In the very “political environment” in which the policies were developed it was believed that this permission may lead to a requirement to provide positive support for the decisions and approaches taken by managers. Also, people in the Revenue Office who have a vested interest in particular views may have provided a different interpretation on events after they had occurred and the results of decisions were evident.

Multiple sources of evidence were used for this case study. The primary sources of information were archival sources, government committee reports, consultants reviews and reports, and other internal reports, as well as books, journal and newspaper articles. Informal interviews with some key people were used to provided validation of the schema and data.
However, because the study was carried out with limited support from the Revenue Office it was difficult to gain access to senior managers to verify my understanding of documents and timings. At times, months elapsed before an interview could be used to check information. This meant that conclusions had to be adjusted and work often repeated. It also prolonged the study.

Much of the information in the introductory chapter were collected from newspaper articles, journals and reports. This provided a background for the study and contributed to an appreciation of the social context of the Revenue Office in the early 1980s. Information on the external social environment to the Revenue Office was also derived principally from public sources including newspaper and journal articles. These were, in part, checked against interviews with people some of which were external to the Revenue Office. The external people included consultants, and a journalist. However, the interviews were too few to provide anything other than confirmation that my interpretations of the information obtained from the newspapers and journals was supported by other people.

The information on problems and changes that were the main focus of the policy formulation was principally obtained from reports, some of which were public and some internal to the Revenue Office. This was particularly true for the initial policy formulation processes (described in Chapters 4-6). Much of this information was obtained from government committee reports. Information on the audits by the Auditor-General that initiated many of the change processes was obtained from audit reports and interviews with the auditors who conducted the reviews. As the problems became more internal (as described in Chapters 7-9), the information sources became more internal to the Revenue Office.

Another key objective for the case study was to develop an understanding of the importance of the social context. As proposed in question one above, it was important to understand how the social context influenced decision processes. In question two, the context of the decision-making was also critical to the examination because it formed part of the legitimation process that was continuously used to justify the decisions. Information on the general social context of the Revenue Office was obtained from newspapers and government committee reports, in addition to internal reports and interviews. The changes that took place in the attitudes and beliefs of the people in the Revenue Office over the period of the review was obtained from internal reviews conducted by the Revenue Office and some interviews and personal observations. It is accepted that these sources do not reflect the beliefs of every person in the Revenue Office. However, they do demonstrate public perceptions portrayed and accepted as
the views of those people. They also demonstrate the ‘direction’ that staff were willing to indicate publicly as accepting—or at least not willing to publicly refute. This may be far from total support but it did indicate the ‘public face’ being communicated.

Another key objective of the study was to explain the use of legitimisation processes in policy formulation. While the legitimisation processes could be part of any number of complex issues, a number of key techniques and publicly perceived typifications were used to legitimise the decisions made. It is also important to describe the methods used to build legitimization for policies. The framework for some of these methods was obtained from knowledge gained from working in the Revenue Office towards the end of the 10-year period. A key source of information was the transcripts of Charisma’s speeches. These provided an insight into his methods of legitimizing policies to the public and to staff. Other data was obtained from interviews with key staff. Understandings and feelings about decisions and issues were difficult to obtain after such a long time, however some broad issues were able to be obtained from such interviews.

Data analysis

One of the difficulties was to identify the decisions that were made as part of the policy formulation process that were being investigated. In some situations the problem was not in obtaining information but in developing an understanding of how the information in various reports “came together”. To support the analysis of this information, a chronological list of events was developed for the period covered by the study. This helped develop an understanding of the events and policy changes that constituted the main focus of the case study. During the study the chronological list was continually updated and was critical in checking events against claims of planned logical development. It was a working document for the whole time of the case study and was an invaluable source of information and cross-reference to sources of data. It also showed that the policies did not proceed by a “logical” series of clearly defined processes (the Chronological List is included in Appendix 2).

The second document used to analyse data was a matrix (Appendix 4). This document plotted the decisions within the context of problems, solutions and social situations. Together with a relational plot of the themes it helped to break the complex policy changes into separate change processes that can, as far as possible in such a context, be considered individually. The chapters of the thesis are based on the separation derived from this matrix. This document was also a working document and was continually redrafted as more information.
was found and analysed. It also attempts to analyse the logic between policy development and the changes to the social context and the legitimisation of the policies (the final simplified matrix is shown in Appendix 4).

The examination of the two questions documented above and in Chapter 2 are summarised in this matrix. The impact of changes in the social context on the policy decision processes that are the focus of question one are summarised in the first and last columns (Starting Social Context, and Resulting/Ending Social Context). The second question focused on the impact that these changes had on the ongoing legitimisation processes. The processes of making the policies acceptable to the public, government and staff are also identified in this matrix in columns four and five (Typifications Used to Legitimise Change, and Methods Used to Legitimise Change). The ongoing nature of the policy processes were identified and analyses using the chronological list and the matrix.

The ongoing processes of policy formulation in the Revenue Office case study are discussed in chronological order. To do otherwise would lose the sense of the policy formulation but more importantly it would be difficult to explain the overall changing context and to show how it influenced the direction of policy formulation. However, in presenting the policies in this way it is important to recognise that many of them were developed and re-developed over the whole period studied in this thesis and cutting the study into periods may make this not as obvious as discussing each policy from start to end.
None of the information used in this thesis was commercially sensitive or of a secret or restricted nature. Because this study focused on the maintenance of meaning for staff and, in some cases the public, the information was generally available to Revenue Office staff. In most cases staff were encouraged to access the information.

An indication that this assertion is correct is supported by the Case Study presented by Mathews (1992). Mathews received access to senior staff and Revenue Office reports but his case study gave a very favourable view of the events and was used to support the Revenue Office arguments (Revenue Office, 1992a) to the Committee of Public Accounts (Committee of Public Accounts, 1993).

A summary of the key events and interviews/discussions is included in Appendix 3.

As was stated in Chapter 1, all internal documents from the Revenue Office referenced in this thesis can be made available by the author to examiners and others on a "need to know" basis only.
Chapter 4
Using an Old Solution to
Create a New Tax Policy

Introduction

This chapter begins the examination of the way policies were formulated in the Revenue Office in the period 1984 to 1993. In this chapter, the examination of compliance policy formulation explores the way Charisma and others in the Revenue Office used rational decision models to negotiation, manipulate and re-define the meanings that were attributed to problems, and policy to develop and maintain a perception of legitimacy and coordinated change. These processes were attempts to define a reality to support a legitimacy that would establish the policy direction for the remainder of Charisma’s term as Commissioner.

The direction was established by the formulation of reasonably simple solutions to what seemed like a single problem. Once the solution was implemented, a number of unexpected problems occurred. The policy implementation and the unexpected changes had to be addressed in the ongoing changes that this process caused in the social context. This process is discussed in subsequent chapters.

Establishing an initial policy formulation is like beginning the creation of a patchwork quilt. To be acceptable the quilt must have some overall agreeable, logical pattern. Similarly, policies must have an acceptable ‘logic’ to be supported by staff and society. Once created, this ‘logic’, like the pattern in a patchwork quilt, is difficult to change and manipulate because the overall pattern has been established and all subsequent changes must fit with that entrenched ‘logic’. Charisma would find that future decisions needed to be legitimate within the overall context. This chapter describes the first step in establishing the overall policy pattern.

The development of the compliance policy formulation process took place in a context that influenced what social processes occurred and how they were used to create the policy. This social context also influenced the way problems and solutions were seen and how rational decision model processes were used to legitimise the solution. The policy formulation processes must be understood within the organisational life in which they took place (Fox
and Miller, 1995: 9). Thus a discussion of social processes and the context of the compliance policy follows.

The social context of the revenue office

In the political climate of 1984 considerable pressure was placed on the Revenue Office to implement changes to address the schemes that promoted tax avoidance (see Chapter 1). As the Committee of Public Accounts stated:

Clearly the social and political environment confronting the Revenue Office at the turn of the decade was unprecedented. Never before had the administration been so vitally challenged.


The structure of the organisation was simply inadequate to carry on the task of collecting taxes in 1984 (Government Expenditure Committee, 1986: 21).

Public service framework

The structure and roles of the public service in the 1980s were fundamentally different to those of a private sector business enterprise. This difference was mainly due to the relationships between the Government and the Public Service not being the same or even similar to what existed between shareholders and a company2. Government organisations were open to scrutiny from a number of groups. The Government committee systems and the Auditor-General all had considerable powers to scrutinise the operations of public service organisations (Departments of the Senate and the House of Representatives, 1987: 19; Task Force on Management Reform, 1992: 499). This meant that all decisions by public servants were open to scrutiny, so that management spent large amounts of time ensuring that their processes were above reproach. This created a social context of conservative and rigid management styles and very cautious decision processes. It discouraged managers from being fully responsive to society’s changing needs and encouraged a conservative response to government requirements (Management Advisory Board: 1997). There was little incentive for managers to improve performance or to change past practices (Codd, 1991: 4). The work was budget driven and with the allocation of funds on a twelve-monthly basis, there was little incentive to develop long-term plans. This led to a very conservative Revenue Office.

Under a Westminster system the relationship between the Government and the public service departments is an important one. Career public servants have to maintain the Government’s
confidence in their ability to ‘produce the goods’ (Weller and Grattan, 1981: 70–71) or their department could find its resources cut and other support reduced. As was discussed in Chapter 1, the effectiveness of the Revenue Office was critical for the Government’s success and the maintenance of this confidence was a critical process in the legitimation of policy by the Revenue Office (Government Expenditure Committee, 1986: para 3.31).

Structure

In the early 1980s the Revenue Office was structured on very traditional lines and had changed very little in the past 80 years (Committee of Public Accounts, 1993: 27). The 1984-85 Revenue Office Annual Report shows that the Office was led by the Commissioner of Taxation and assisted by two Second Commissioners (Revenue Office, 1985a). The Revenue Office had 15 900 staff, and was split into four Directorates which were further divided into nine Divisions and had nine Branch Offices. First Assistant Commissioners led the Directorates. The focus of these Directorates was on ensuring public compliance with the tax law, interpretation of the law, provision of policy advice and management (Revenue Office, 1986: 8–9)

The largest Division was the operationally-orientated Revenue Collection (Revenue Office, 1992a: Attachment 5.24a). The staff in this area were responsible for many of the operations that occurred in Branch Offices and focused on what Charisma referred to as the ‘bread and butter work’ of collecting tax (Charisma, October 1984: 7). The staff had low classifications and were lower paid than most other areas but felt that they were the backbone of the organisation, although they were constantly under-resourced and not appreciated by other staff in the Revenue Office (Story, 1990: 5). Because of its size and the importance of its role in collecting tax, Revenue Collection Division was seen as the most powerful division (Committee of Public Accounts, 1993: 193). This was the area that was most affected by the decision to adopt a self-assessment policy. Importantly, these meanings supported the intersubjective typifications Charisma would use to legitimise the changes brought about by the new policy.

The Revenue Office had ten Branch Offices (Revenue Office, 1986: 8–9), which ranged in size from less than 1000 in regional Branch Offices to over 4000 staff in Offices in the CBD (Revenue Office, 1985a: 5). Each Branch Office was led by a Deputy Commissioner who was responsible for assessing tax returns and collection of tax (Revenue Office, 1985a: 24–25). By way of contrast, the focus of National Office was on developing administration and
taxation policy. Branch Offices had individual approaches to their work which was a tradition held over from when each was a state office doing federal work on contract (Revenue Office, 1992a: 17).

Power was believed to reside in the Branch Offices because of the contribution they made to the collection of tax revenue. This structure gave them the same status as First Assistant Commissioners, because they were key people in the successful implementation of tax collection programs and could dominate national priorities (Committee of Public Accounts, 1993: 53). This status was evident in the structure of the Revenue Office Board that was set up by Charisma in the mid 1980s. It was dominated by Deputy Commissioners even though the heads of each program in National Office were in more senior positions (Committee of Public Accounts, 1993: 31).

Management style was hierarchically-based and in some cases, autocratic (Stein, 1992: 1). It was a hierarchy that placed emphasis on the ability to address tax issues (Revenue Office, 1992a: 10). Processing was based on Tayloristic work processes (Revenue Office, 1992a: para 1.46). Managerial and supervisory behaviour revolved largely around checking the work of subordinates, with managers not exhibiting trust in their staff (Revenue Office, 1992a: 10). There were few women in management positions (Revenue Office, 1992a: 14).

Style

Until the 1980s the Revenue Office had enjoyed an unchallenged operational structure (Revenue Office, 1992a: 13–17). With little external threat of abolishment the staff had developed a secure approach to their work and a strong belief in their tax knowledge and ability (Revenue Office, 1992a: 14). From the 1950s through to the early 1970s it was felt by staff at the Revenue Office that tax almost collected itself (Mathews, 1993: 20; Government Expenditure Committee, 1986: para 3.27).

Being a stable organisation people tended to stay for long periods, so the majority of managers had come up through the ranks and had a tax technical background (Revenue Office, 1992a: 14). Story (1990) found there were life-long careers, up-from-the-ranks management succession and loyalty and unity. The Government Review of Performance concluded that little emphasis was given to management skills and little forward planning (Government Expenditure Committee, 1986: para 3.25). There was a belief that the best staff were in the technical areas and to progress in the organisation a person had to spend some
time in this area (Story, 1990). This emphasises the ‘closed shop nature’ and the insular approach to work (Revenue Office, 1992a: para 1.38–1.39).

Story (1990) concluded that there was a strong belief by Revenue Office staff in stories of events and characters, and a feeling that the Revenue Office was a different organisation with its own special skills. He also found that staff believed the Revenue Office was a ‘mother’ organisation. People joined at a young age and grew up in the organisation (Story, 1990: 3). A review by the Committee of Public Accounts reported that a strong sense of importance in their role existed amongst staff and this had developed ‘a culture and language of its own’ (Committee of Public Accounts, 1993: 16). Many of these attitudes were found to exist into the late 1980s (Jans, Fraser-Jans and McMahon, 1989: 65).

The common ‘bond’ for staff was the perception that the general public did not like Revenue Office staff (Revenue Office, 1992a: para 1.8–1.9). A survey of over 1200 staff found that an unrealistic ‘siege’ mentality was pervasive within the organisation (Hill and Knowlton, 1987: 1–2: Revenue Office, 1992a: 13). There were claims that the staff were highly ethical, with extreme loyalty to the organisation leading to very much a ‘them and us’ attitude to taxpayers generally (Revenue Office, 1992a: para 1.8). As a result staff had a very negative attitude towards the general public (Reark Research, 1986: Revenue Office, 1992a: para 1.34)4.

**A processing ideology — the revenue factory**

The Revenue Office operated very much as a ‘processing shop’ with a factory Tayloristic processing mentality (Revenue Office, 1992a: para 1.46). The bulk of the day-to-day technical work was in the assessment processes where assessors checked tax returns (Revenue Office, 1992a: 10, 14, 15). At 30 June 1984, 2266 assessors were employed Australia-wide (Audit Office, 1984: 13). The professional work of assessment had to be completed in such a short time frame that there was little time to exercise any real judgement in the process (Government Expenditure Committee, 1986: paras 4.43–4.48). While this work was fundamental to the Revenue Office it was described by Charisma as the ‘lower profile day-to-day work of gathering taxes’ (Revenue Office, 1986: 2). It was also the core training activity, providing many staff with the basic knowledge they required in many other jobs (Program Management Performance Review, 1987: 29; Mathews, 1992: 27).
Much of this work was supported by routine and repetitious data entry. In his speech to the Taxation Institute of Australia in the early 1980s, Colin Charisma outlined the large manual-processing load on Revenue Office staff. Opening twenty million letters annually and handling 9.3 million returns placed considerable strain on staff resources (Charisma, October 1984).

In the late 1970s and early 1980s the Revenue Office strove for greater and greater efficiencies in the handling of tax returns (Revenue Office, 1992a: para 1.46–1.55). As the number of returns increased there was pressure to reduce the time taken to process a tax return down to nine weeks (Revenue Office, 1988a: 23). This led the Revenue Office to introduce Tayloristic attempts to divide the task into small steps and monitor efficiency of the staff involved (Revenue Office, 1992a: para 1.38–1.46). This form of management was the basis of much of the Revenue Office’s work processes (Mathews, 1992: 3). The work of data entry was split into fragments with great precision. There were those responsible for original data entry and those for duplicate keying. Their work was paced by electronic monitoring of keystrokes and they were urged to reach standards of 12 000 key strokes per hour (Mathews, 1992: 3, 22). It is difficult to believe that this work tradition existed in the early 1980s (Mathews, 1992: 3, 21–23). These conditions led to prolonged confrontation with the unions and fostered resentment of the unions by senior management (Revenue Office, 1992a: 10; ‘Committee of Public Accounts, 1993: 20).

Repetitive Strain Injury (RSI) became a serious problem for the Revenue Office management because impossible production targets continued to be set. RSI cases peaked close to 450 in 1985–86 (Revenue Office, 1992a: 28). Reactions to these procedures persisted into the late 1980s with the unions not allowing any form of computerised monitoring of work. Other than personnel information, recording of information on staff was almost completely rejected in the Modernisation project. Many staff perceptions were developed in this processing context where emphasis was on productivity at any cost (Mathews, 1992: 22). According to Charisma, the Revenue Office was clearly a process-orientated organisation, exhausting its staff through the scrutiny of taxpayers’ claims and issuing formal notices. Close to 50 per cent of the people in the Revenue Office were devoted to these tasks (Revenue Office, 1992a: 12 –13).
The Auditor-General defines a problem

Kingdon suggests that problems become ready for a solution when an event occurs that raises it on the agenda (Kingdon, 1984: 187). This occurred in 1982, when the Auditor-General began to investigate many aspects of the operations of the Revenue Office (Juddery, 1986: 32). This focus was probably due to the interest of the Auditor-General, who had previously been Second Commissioner in the Revenue Office. As will be discussed over the subsequent chapters the Audit Office’s interest was to have very serious consequences for the Revenue Office.

In the early 1980s the Audit Office was in need of a successful efficiency audit program to raise its public profile. The Government Expenditure Committee, which later investigated the findings of these audits of the Revenue Office, confirmed this perception by stating in its report that it was:

as much concerned with the audit process and the performance of the Audit Office as it is with the performance of the agency that was audited.

Government Expenditure Committee, 1986: para 1.6

Other than reviews of the financial aspects of its operations, the Revenue Office had not previously been inspected by the Audit Office (Juddery, 1986: 32; Audit Office, 1984: 6). It was the first time that the principle function of the Revenue Office had come under an efficiency review. This meant that for the first time the infra-structure of the Revenue Office, including its ability to assess and collect taxes, was under investigation (Audit Office, 1984: 6).

The audit of the assessment processing was planned to start in 1982 but after a 12-month delay the work finally commenced in mid 1983 (Government Expenditure Committee, 1986: 4). The audit covered four areas:

- Controls over Processing of Income Tax assessments
- Processing and Assessment of Income Tax Returns
- Checking of Dividends and Interest Disclosed in Income Tax Returns
- Processing of Income Tax Instalments Declarations.

Audit Office, 1984
As shown by the issues raised and discussed in the next chapter the Revenue Office must have been concerned with what the Auditor-General would discover. As described above, the processing and assessment of income was a resource intensive process operation (Government Expenditure Committee, 1986: paras 4.43–4.48). Few returns were actually thoroughly checked and few of the anomalies identified were followed up (Government Expenditure Committee, 1986: paras 4.29, 4.44). For example, of the 1.8 million individual returns assessed in a branch in 1983–84, no more than six had been referred by assessors to the Compliance Branch for investigation by a tax audit (Audit Office, 1984: 16). These ineffective processes also required more and more resources to maintain. From June 1975 to June 1884 the Revenue Office’s full-time staff level rose from 12 401 to 15 595, an increase of 25 per cent, while at the same time other departments in the Public Service only rose on average 6.8 per cent (Government Expenditure Committee, 1986: para 3.22).

The audits concluded that there was:

...a need for the Revenue Office to take a fresh look at current practices that have outlived their usefulness, no matter how effective and essential they may have once been. But it is in connection with income tax assessing that the most fundamental question arises...the audit findings have raised some serious doubts about the purpose and effectiveness of the assessing process.

Audit Office, 1984: iii

The Audit Office suggested that limited information be made available to the assessors to help conduct the review of the tax return. It also concluded that the 2 266 assessors in the Revenue Office in 1984 were given only a very short time to review the returns they each processed daily (Audit Office, 1984: 13–16). They adjusted approximately 30 per cent but...a substantial proportion of the total adjustments made by assessors were reversed on objection or complaint by the taxpayer (Audit Office, 1984: 14). Some 3.75 per cent of all tax returns ended in dispute. Of those disputes, 60–70 per cent were resolved in the taxpayers favour (Audit Office, 1984: 18).

The report stated further that the audit of Checking of Dividends and Interest Disclosed in Income Tax Returns showed that the amount of tax evaded could have been as high as $500 million. The Revenue Office agreed with this assessment of the situation because some of the findings were based on information that the Revenue Office itself had collected. However, the Revenue Office claimed that it did not have the resources to address the issue (Government Expenditure Committee, 1986: Chapter 4).
These audits had begun in February 1984 and the final report was completed on 7 December of the same year (Audit Office, 1984: i).

The social context of the problem

The problem for the Revenue Office was that the Auditor-General has begun an audit of an area that had significant problems, as described above. However, problems and solutions are social objects with meaning that are products of a process of social definition (Blumer, 1971). In defining a situation as a problem a specific interpretation of reality is selected from multiple possibilities (Snow et al, 1986). They are part of a reality that is maintained by social processes that are invested with people’s attempts to influence decisions through the exercise of power and negotiation (Smircich and Morgan, 1982).

Kingdon’s model proposes that a ‘problem’ may have existed for some time but only becomes recognised as a problem when a section of society want to do something about the situation (Kingdon, 1984: 115). The changed definition of the problem by the Auditor’s Report must be seen within the tax social context of the 1980s. It was the social context in which the audit occurred that created the new image of a problem. The avoidance industry had developed a large public interest in the Revenue Office and a situation where any issue could have serious consequences. There was a growing concern in the tax communities that the wealthy escaped paying much of the tax (Kitney 1982c; Ryan and Kelly, 1981), as was discussed in Chapter 1. This led to a belief that tax was paid by the middle- to low-income wage earners, so that the tax system supported the rich (Hill and Knowlton, 1987: 1–2, 12: Kitney, 1982c; Ryan and Kelly, 1981). The public mood or climate had changed to one of discontentment with a tax system that was perceived as unfair (Hill and Knowlton, 1987: 12). The pressure on the Revenue Office to do something to address this imbalance grew quickly in the early 1980s.

The public’s compliance with the tax law was seen as being linked to the public’s belief in the fairness of the law and its administration. The Auditor-General captured the critical nature of the problem for the Revenue Office in the following statement:

It is apparent however, that the level of compliance within the community is governed by a number of factors, high among which would be the perceived fairness and efficiency of the collection machinery. To the extent that taxpayers believe that the fiscal responsibilities may be eschewed or
that others are successful in efforts to avoid tax, the motivation of taxpayers generally to accept their taxation obligations will be impaired.

Audit Office, 1984: ii

The Government required compliance with the tax law to ensure that it received the correct level of revenue. It further required an increase in revenue to fund its political agenda (Dowling, 1992a) and an efficient administration of the system was critical to its success.

In this climate the critical review of the Revenue Office's capability to administer the tax law had consequences similar to those that the Costigan Report had on the Australian tax community a few years earlier. The review caused the Government to lose confidence in the Revenue Office and the Commissioner’s ability to effectively administer the taxation system.

An entrepreneurial approach to problem solving

Cohen, Olsen and March (1972) consider an organisation to be a collection of choices looking for a problem, issues and feelings looking for decision situations in which they might be aired, solutions looking for issues to which they may be an answer, and decision-makers looking for work. The Revenue Office had many possible solutions to the problem identified by the Audit Office; however the solution to be selected also depended on what meaning could be created by people in the Revenue Office. Problems and solutions are social objects with meaning which are products of a process of social definition (Blumer, 1971) so people in the Revenue Office would frame the problem in terms of its current reality.

In his first attempt to solve possible difficulties Charisma took action before the audit team had completed its review. His response to this audit was to oppose the Auditor-General's right to access pre-assessment documentation on the grounds that they contained confidential taxpayer information (Government Expenditure Committee, 1986: ii). The Revenue Office claimed that this would be against the requirements of the Taxation Act. Some 12 months of claims and counter claims followed that were eventually settled by the Attorney-General who ruled that the Auditor-General had access under the Efficiency Audit Act (Government Expenditure Committee, 1986: 4; Audit Office, 1984: 6). However, the ruling did not resolve the animosity existing between the Auditor-General and Colin Charisma for most of the period from 1984 to 1993 (Juddery, 1986)³.
The entrepreneur selects an existing solution — self-assessment

Once the Auditor-General had the authority to carry out the audit of the Revenue Office’s administration of tax he began a program of audits that focused on processing income tax assessments as described above. Shortly after the commencement of the audit Charisma decided to radically change the way the Revenue Office administered the taxation law by changing the method of assessment. He moved the responsibility for assessing the amount of tax to be paid to the taxpayer. He proposed the adoption of the self-assessment system, suggesting that it would improve the use of Revenue Office resources (Revenue Office, 1986: 2-3).

The proposed aim was to make compliance enforcement more effective by freeing staff from an assessing role and moving them to the compliance enforcement area of Taxpayer Audit (Revenue Office, 1986: 3). As stated in the Revenue Office submission to the Committee of Public Accounts (CPA), in many ways the introduction of self-assessment marked the threshold of a new era of tax administration in Australia (Revenue Office, 1992a: 189).

The stakes were high for such a radical decision and one made so swiftly. It is difficult to imagine that such a major change could be based on a narrow review that excluded any other options. However, the solution could be seen as aimed at eliminating the criticism of the Auditor-General’s review.

An existing solution from the policy primeval soup

Rationalists would suggest that defining the meaning for a solution is not a critical issue for the policy formulation process; that it would be more important to accurately cost or evaluate the proposal against the problem. However, policy formulation in the Revenue Office did not proceed in this way. The concept or image of a rationalist approach was developed and used to legitimise the policy rather than used as a method to find the “best” solution.

Like so many tax systems there were many variations in the way it was applied. The proposed solution for the Revenue Office was a system in which staff did not validate or check the accuracy of information supplied by the taxpayer before making an assessment, thus placing this responsibility on the taxpayer. Compliance was to be checked through a program of systematic audits sometime after the assessment has been made and the tax paid (Revenue Office, 1985a: 4–5). This was seen as having a more positive impact in the area
of compliance because staff would have more time to check returns, and they could focus on those taxpayers whose statistics and risks indicated there could be an error11.

In terms of the Kingdon model the solution had existed in the ‘policy primeval soup’ of the Revenue Office for a number of years (Kingdon, 1984: 122). The strategy of moving staff from the assessment area to taxpayer audit had been advocated in the 1975 annual report, but it had not been called self-assessment (Revenue Office, 1976). In 1950 the Commonwealth Committee on Taxation investigated the use of self-assessment for individual income tax. Spooner, the Chairman of the Commonwealth Committee on Taxation, recommended the introduction of self-assessment for the financial year ending 30 June 1951 (Commonwealth Committee on Taxation, 1950). The Committee saw the advantages to both the taxpayer and the Revenue Office as simplifying and saving work. In 1953 a committee investigated and recommended the introduction of self-assessment for provisional taxation (Departmental Committee on Self-assessment, 1953). So a solution had existed in the Revenue Office for a number of years but had not been successfully coupled with a problem as proposed by the Kingdon model (Kingdon, 1984: 122). Self-assessment had been the basis for the collection of taxes in Canada and the USA from the time of the Second World War (Commonwealth Committee on Taxation, 1952). Thus, the solution had existed before the problem was identified and defined.

Consideration of other possibilities

The Revenue Office did not evaluate any alternative solution to the problem. While other solutions did exist (Mathews, 1992: 9), the ‘values one brings to an observation play a substantial role in problem definition’ (Kingdon, 1984: 116). The Revenue Office was very much a ‘tax technical’ organisation (Story, 1990), and the problem and solution were seen within this context. Much of the complexity and uncertainty that the Revenue Office had to deal with was created by the state of the tax law (Committee of Public Accounts, 1993: 77). The Committee suggested that, in an indirect way, the Revenue Office benefited from this complexity given that it is difficult for the average taxpayer to question the law’s interpretation (Committee of Public Accounts, 1993: 80). In this way the law contributed to the image of a technical environment in which the Revenue Office operated. It helped to build an image of a tax professional organisation, although that image was sometimes questioned (Committee of Public Accounts, 1993: 102, 105; Government Expenditure Committee, September 1986: paras 5.16–5.21). Self-assessment was a solution that would be accepted within this social context.
Information technology was not considered to be part of the overall social context of the Revenue Office. The Revenue Office's Disputed Assessments Conference identified the use of IT as a possible solution in May 1983 (Audit Office, 1984: 18). This option was not considered in the decision making process. This was commented on later by the review by the House of Representatives (Government Expenditure Committee, 1986: 40–43) which stated that it found the lack of computerisation in the Revenue Office a concern:

Of all the deficiencies noted, the lack of computerisation within Revenue Office's taxation assessment and collection process is the most puzzling. In view of the advantages in computerisation over recent years, it is difficult to imagine that the Revenue Office continues to perform manually many of the repetitive and mundane checking tasks associated with the taxation assessment process. This, however, is the case.


The Revenue Office made only very basic use of information technology. Computers carried out only limited checks and made very limited use of the information considering the amount of time and resources used to enter the data (Government Expenditure Committee, 1986: 19). Computer technology was not seen as important in the overall operation of the Revenue Office as demonstrated by the limited reference made to it in the Annual Reports Revenue Office, 1984; Revenue Office, 1985a). The IT systems were old and fragile (Stein, 1992: 1). Staff and management focused on tax and tax law (Government Expenditure Committee, 1986). To put this into a sociological context, typifications in the organisation were built on ideas around tax law and tax collection.

An alternative option that was not considered was to obtain more staff. In his speeches Charisma continually stated that additional staff resources were not a solution (Charisma, October 1984: 10). Whether he had been informed by the Government or was simply using this to legitimise his decision has not been established. However, it was a solution that was never investigated in the self-assessment review. Charisma evaluated only one solution to the problem—self-assessment. The solution was the option that fitted with the operational context and the probable inter-subjective typifications that existed in the Revenue Office at that time.

The entrepreneur creates a meaning for the problem

When there are favourable political forces solutions becomes joined to problems (Kingdon, 1984: 21). As Kingdon suggests, solutions are developed and then people look for problems
to attach to them (Kingdon, 1984: 93). The prospect of the Auditors’ Report began to create a climate where such a coupling would be possible. The proposal to introduce self-assessment for the solution to this problem was advocated by a First Assistant Commissioner in the Revenue Office (Mathews, 1992: 186) and, as suggested by the Kingdon model (Kingdon, 1984), the entrepreneur, Colin Charisma introduced the change. To make the coupling possible, self-assessment was seen as a technical solution which would have been suited to the context that existed in the Revenue Office at that time and could be legitimised within that context.

The introduction of self-assessment was no guarantee of success. The concept had been used in a number of other western countries with patchy success. The Canadian and American systems had been established for a long time but this did not ensure that the system would be accepted. In an assessment of the applicability of the American system to the British situation, Johnson looked at some of its social implication. He concluded that there was a general acceptance by the USA’s Internal Revenue Service (IRS) that some people would be able to make false claims in some areas. Johnson also concluded that this brought with it some inequalities. Taxpayers unable to use the facility to claim maximum deductions were disadvantaged by the system, effectively suggesting continued advantages to the rich. Johnson concluded that the American system offered benefits in relieving the IRS of a large burden of issuing assessments on all returns but had social costs (Johnson, 1971). Those social costs were those that had been identified as key issues in the Revenue Office’s tax community social context.

Charisma implemented a review to legitimise his choice. On 26 September 1984 he signed the terms of reference for a review of the possible implementation of self-assessment (Revenue Office, 1985b: 1)\(^2\). The terms did not include an evaluation of the problem but suggested that the investigation should concentrate on identifying problems that would occur if self-assessment were implemented\(^3\). Thus the review was to answer the question whether self-assessment should be introduced, not to investigate what was the most appropriate solution to the assessing problem. The review compared selected issues of the current system with the new proposal. The areas were stated as compliance, level of disputation, human resources, job satisfaction, taxpayer convenience and costs and revenue effects (Revenue Office, 1985b).

This “defined” the problem in very subtle ways. It used inter-subject typifications present in the society and the Revenue Office at the time to find a positive result. Compliance was a
major problem for the current process so any solution appeared better than the current situation (For examples see Chapter 1). Compliance with the tax law was a significant public issue because the public and the Revenue Office staff felt that large taxpayers (the rich) did not pay their fair share of tax (Hill and Knowlton, 1987: 1–2 & 12; Kitney, 1982c; Ryan and Kelly, 1981). Levels of disputation were largely a result of the current Revenue Office’s method of determining what tax people should pay based on information taxpayers provided. Therefore, any system where the Revenue Office accepted the information that the taxpayer provided at face value was likely to greatly reduce the levels of dispute between the two parties. Later Charisma claimed that this reduction in the disputes was an indicator of improved performance (Revenue Office, 1989a: 2–3; Revenue Office, 1992a: 2). The levels of resources committed to the system would certainly be less as there would be no checking of returns.

Convenience for the taxpayer was a little more difficult. Taxpayers would see the situation as more complex because they would be responsible for the accuracy of the information in their tax returns. Their returns would not be checked so errors might mean paying too much tax. The issue of taxpayers having difficulty interpreting the law and, as a result, using tax agents were not raised but must have been seen as an issue. However, the review was very inward looking and did not address the impact that the changes would have on the requirements of the general public14. The structure and method seemed to focus on gaining support for self-assessment. By comparing the proposed solution to the weakness of the current system and, in effect, by matching logical weakness to strengths, it was not difficult to provide a review that would support and legitimise the solution15.

As suggested by the Kingdon model, the window of opportunity had opened and Charisma had selected the solution from the policy options (Kingdon, 1984: 91, 190–191). Now he had to use his entrepreneurial skills to obtain acceptance of the proposed change. In this process he legitimised the change by relating it to a number of strongly held inter-subjective typifications.

The entrepreneur legitimises the solution

The review of self-assessment, described above, satisfied the requirements for a rational ‘logical’ approach to the evaluation of self-assessment. The Revenue Office managers could claim that the method had been evaluated and was found to be the most suitable. Charisma
could also claim that it was a solution where all the options had been investigated as well as being the most efficient and effective selected based on a 'rational logical' approach\textsuperscript{16}.

Charisma dealt with resistance to the proposal in a series of public addresses (Mathews, 1992: 28). Unlike his predecessor, who believed that public servants should remain anonymous (Day, 1984; Kitney, 1982b; Kitney, 1982d), Charisma implemented a 'language game' (Pondy, 1975) in the legitimating process. The success of entrepreneurs in gaining commitment and agreement by this process depends on their credibility and the form and process by which they communicate this credibility (Pettigrew, 1979: 577). Charisma began to use certain vocabularies to express communal values and to evoke past experiences to create a context or 'seed bed' to legitimise his actions (Pettigrew, 1979: 575). This process was refined over the remaining years of his term as commissioner and was used extensively from 1989 to 1992 to continually legitimise changes under the Modernisation program. (This will be discussed further in subsequent chapters).

The final report was not released or accepted until 2 April 1985 but Colin Charisma began to suggest the possibility of its acceptance in speeches to the public and to staff well before the review team had finalised it (Charisma, October 1984: 19). As proposed by the Kingdom model, this process attempted to:

\textquote{... 'soften up' both policy communities, which tend to be inertia-bound and resistant to major changes, and large publics, getting them used to new ideas and building acceptance for their proposals.}

\textsuperscript{16} Kingdom, 1984: 134

To understand the typifications used it is important to see them in the organisational climate in which they took place. As stated by Story (1990), and discussed above, the Revenue Office was a tax technical organisation. The most important skill was an understanding of the tax law and the Revenue Office’s administrative systems. Staff saw tax technical skills as the most important requirement for promotion to senior positions. Since the Revenue Office was the only organisation in the Commonwealth Public Service responsible for collecting tax there was limited competition from other organisations. In this way, the importance of tax technical skills had been instilled in staff over a number of years (Story, 1990). This focus meant that the tax technical solution of self-assessment was likely to be more acceptable than the application of computing processes or even some solution based on a reorganisation of the work. This legitimised the solution to many Revenue Office staff.
A system of typifications was also supported by the perceptions of the work of assessment. As described above, the real power in the Revenue Office was in the Branch Office. This was built on the understanding that it was important to have a commitment to getting the bulk of the important day-to-day work done. The majority of this work was done by assessors who were organised on Tayloristic systems (Revenue Office, 1992a: 10, 14, 15; Mathews, 1992: 3). This was the work to be affected by these decisions and the power and influence of this key group was considerable (Story, 1990). Assessors were the key group within the Revenue Office and their jobs were to be eliminated by the introduction of self-assessment.

Overall senior management expected change within this period because of the problem with the schemes and the difficulty staff were having in completing the large volume of work (Mathews, 1992: 3, 26). This expectation was probably one of the most important aspects that could be used in influencing the acceptance of the change. Another issue was that self-assessment had been discussed as a possible solution to many problems in the past, as described above, so it was a concept that was probably well understood by most staff.

Charisma used these beliefs in a subtle way. Firstly he linked self-assessment to solutions used in the USA and the UK, therefore suggesting that it had been successful in those countries and would also be successful in Australia. This was a theme in October 1984, well before the review was completed (Charisma, October 1984: 19).

Part of the legitimation of the decision to change the system was to continually make reference to or to emphasise the negative aspects of the current system. Charisma did this on a number of occasions by referring to the large number of assessors required to operate the system\(^7\), the extremely high workload for Revenue Office staff (Charisma, March 1985), the lack of resources and the Government's being unlikely to allocate more (Charisma, April 1986). These were well-understood problems that the staff had to cope with every year and were all part of a negative perception of the work. Charisma focused on the assessors who would be largely affected by this change, and appealed to the feeling (typification) that their workload was too high for them to cope (Charisma, April 1986).\(^8\) He then suggested that external authorities were of the opinion that this work was not well organised:

The Auditor-General, the Ombudsman, the Press, various high-level committees have all had things to say about us—some of it not complementary either...Might there be just a bit of truth?"

Charisma, April 1986: 2
He effectively aligned to his advantage much of the criticism of the handling of disputes—an area where, despite the staff’s best efforts, the worsening situation had not improved (Charisma, April 1986: 2–5). He was subtly questioning the staff’s performance and suggesting that possibly, if there were no change, they would continue to fail to improve the situation. In this speech he asked whether there was a possibility of a much-improved situation by the end of the year. He then suggested that self-assessment was a natural outcome from the current difficulties:

Could it be a matter of staying out of quantum adjustments altogether? Might it be preferable, and a natural lead-in to self-assessment, for us to start putting aside returns for desk audit.

Charisma, April 1986: 5

So, through the use of inter-subjective typifications he defined perceptions of problems and was able to contrast them against the positive aspects of self-assessment. He later suggested that there were ‘bigger fish to fry’, an appeal to the belief that avoidance was a more serious problem, an idea held strongly in the Revenue Office (Charisma, June 1986: 11). To address this issue they would need a changed assessing function that eliminated the ‘day-to-day hack’ work. To appeal to their sense of ownership he proposed that assessing would still exist, (while perhaps knowing that it was unlikely), suggesting that it would be an important function in the future (Charisma, June 1986).

Charisma had appealed to a number of strongly held beliefs: suggesting that assessing was a key function in the Revenue Office (Story, 1990; Mathews, 1992: 27–28), that disputes were crippling the workload and could not be handled effectively, and that avoidance was the most serious issue facing the Revenue Office (Charisma, April 1986: 2–6). In suggesting that a plan to handle disputes was a natural lead in to self-assessment he tied the changes to their work processes and suggested that it was a ‘logical’ change (Charisma, April 1986: 5).

Charisma was particularly persuasive in arguing that self-assessment was the best option. In a speech made to the Accounting Society on 1 February 1986, he pointed out the high cost of assessing for little return and suggested that this had brought criticism from the Auditor-General (Charisma, February 1986). He stated that the investigation of self-assessment had considered a range of alternatives and self-assessment was the one chosen (Charisma, February 1986). He also indicated that the Government’s own auditor had suggested change and the Revenue Office had investigated the alternatives and chosen the best. This was not really the case but likely to be a ‘story’ that would find acceptance. The ‘rational’ approach
to the problem also supported the claim that they had investigated alternatives (Charisma, February 1986).

Charisma also legitimised the change as ‘logical’. He stated that it was a natural progression from the current position to one of self-assessment (Charisma, April 1986: 5). To legitimise this comment he stated that, after examination of the systems in use in the USA and Canada, it was evident that Australia's move to a self-assessment system was a logical progression (Charisma, April 1986). The evasion period was over, large penalties were in place and audit had grown in effectiveness. Self-assessment was a natural progression. In his speech he suggested that the Revenue Office would need support from the business community to build a cooperative approach (Charisma, June 1986).

The impact of the self-assessment policy

Self-assessment began a process that created other problems. As suggested by Cohen, March and Olsen (1972) when a solution is drawn from the ‘garbage can’ of possible solutions it brings with it other changes. Charisma needed to be able to juggle more than one solution at a time. Once he began his policy quilt, other acceptable patterns had to be accommodated into the overall design. As was stated in the submission to the Committee of Public Accounts review, the introduction of a self-assessment process fed other changes that were not initially planned:

> It soon became clear, however, that these changes were simply the first tentative steps in a much broader and more complex process.

Revenue Office, 1992a: 63

The changes are the subject of subsequent chapters but are discussed briefly here to show the connection between what occurred later and the initial implementation of the self-assessment policy.

Service to taxpayers

The introduction of self-assessment moved responsibility for the accuracy of the information and the calculation of the amount of tax to be paid onto taxpayers. Therefore, they needed service or education to help them perform their new role. The review that was used to legitimise the implementation of self-assessment did not identify this as a major issue. Self-assessment unexpectedly created a tax social context that required a service provider concept
(Chopping, 1987). Later this led to the introduction of the Taxpayer Services Group, the production of the Taxpack, the Public Information Unit and the strengthening of the Tax Agent Liaison Centres (Mathews, 1992: 29-30). The policy formulation and legitimisation of these processes are discussed in Chapter 8.

These processes succeeded in changing the social context of the organisation from one having an aggressive taxpayer audit image to an organisation with a ‘softer’, more positive and publicly acceptable image of helping taxpayers (Mathews, 1992: 36). This perspective was developed through the legitimising theme of ‘voluntary compliance through the right mixture of help and enforcement’ (Revenue Office, 1992a: para 2.43). ‘Help’ was part of the concept of service that was used later as a typification for changes under Modernisation, just as ‘service’ was also to be a theme under Modernisation (See Chapters 6 and 7). Its significance in the context of legitimising changes to the audit program and taxpayer compliance will be addressed in Chapter 8. This progression of changes indicates that one process fed off another (Mathews, 1992: 29).

**Union involvement**

This policy decision was the start of union involvement in the change process even though, initially, it was simply to gain support for self-assessment (Charisma, September 1986: 2). The Revenue Office had to change from an organisation which attempted to force the last bit of efficiency out of staff by Tayloristic methods (Revenue Office, 1992a: 10, 14, 15), to one where the organisation needed the unions’ support for the changes proposed. It bought this support by reaching an agreement that stated that the Revenue Office would involve the unions in the decision-making process (Mathews, 1992: 27–28). This was the beginning of a gradual change in attitude and a dependence on union support that allowed the union to extract better conditions for staff. It also started the process that would form the basis for the eventual Modernisation Agreement with staff and their unions (Mathews, 1992: 28)—another patch in the quilt that would contribute to the overall policy pattern to make changes seem like they were planned and well executed.

**Impact on the social structure**

The move to self-assessment had a profound impact on staff employed in the traditional assessment areas. In the first phase the number of staff committed to this area was reduced by 500. In the second phase the reduction was by 1245 (Revenue Office, 1987: 25). The Revenue Office changed in two fundamental ways. Firstly, assessing was no longer the
training area for tax technical skills and career paths. Job design and future criteria for promotion within the Revenue Office were profoundly affected (Program Management Performance Review, 1987: 29; Mathews, 1992: 27). Secondly, it created the context for the continued development of the powerful Taxpayer Audit group (Charisma, June 1986: 11; Charisma, September 1986: 9). This group became the new power group within the Revenue Office. It reinforced the perception that tax technical was the important skill in the Revenue Office. However, it moved the basis for the development of this knowledge out of assessing and into the developing area of Tax Audit (Story, 1990; Charisma, Nov 1987: 9).

The implementation of the self-assessment policy began the processes that developed other problems that will be discussed in subsequent chapters. It increased the need for the audit process in the Revenue Office because the success of the self-assessment policy was largely dependent on the ability of the audit function to enforce compliance (Committee of Public Accounts, 1993: 242, 245). But, it also meant that the public’s perception of the office would be created mainly by contact through the audit process (Committee of Public Accounts, 1993: 242). This created a number of problems. The assessing staff were not well qualified to conduct technical audits of large organisations. Their power to investigate taxpayers was very extensive and the use of that power had far less supervision than other criminal law enforcement agencies (Committee of Public Accounts, 1993: 307). While more staff were made available their skill level was low (Revenue Office, 1987: 3). This was a criticism raised in the review ‘Shifting the Tax Burden’ (Government Committee on Finance and Public Administration, 1988b: paras 5.5.6–5.8.8). The tactics of the staff were also the subject of criticism in a submission to this committee by a large accounting firm (Government Committee on Finance and Public Administration, 1988b: para 5.7.5). The aggressive audit program created a negative public perception of the Revenue Offices in the late 1980s (Government Committee on Finance and Public Administration, 1988b, para 5.7.1).

So, with the solution of one problem other issues are also drawn from the garbage can (Cohen et al, 1972). The proposed changes to policies and the legitimisation process that are the result of the introduction of self-assessment are discussed in Chapter 8.

Self-assessment was the first major policy decision made by Charisma. It set in place the first patterns of his policy patchwork quilt. It would set tax technical and enforcement of compliance as the predominant pattern for the period 1984 to the late 1980s.
Conclusion

Rather than being a multi-staged event with an identifiable start and finish, the policy formulation process involves ongoing social processes that fed into the social context of both the Revenue Office and the tax society in which the policy was introduced. These changes were part of the ongoing social processes as proposed by the social constructionist paradigm that becomes more important in later chapters.

The meanings created by the policy formulation process are like the pattern and colour developing as a quilter constructs a patchwork quilt. The overall final design is not obvious at the start of the quilt. There are broad overall concepts of colour and pattern. But these may have to be changed as different material for patches becomes available. Just like the quilter, the role of the entrepreneur is to ensure that the pattern and colours are acceptable—in this case, to the staff, public and the Government.

Charisma had begun to develop his overall policy patchwork quilt with a pattern and colour that gradually limited the options that would be available later to solve other problems. Once the pattern develops it is self-limiting in that the possibilities of changing that pattern or colour and still maintaining its acceptability are diminished. Self-assessment also established a new social context in which future decisions would be made and which would begin to influence future decisions. The pattern and colours had been legitimised and the meaning established. Later, other meanings would be negotiated to enable another pattern to be established.

Kingdon suggests that in the policy process entrepreneurs promote ideas, and invest their resources, time and energy in the hope of some reward. The reward may be satisfaction, job security or career promotion (Kingdon, 1984:129). Charisma developed his leadership style by defining an organisation reality to legitimise his role as policy entrepreneur (Smircich and Morgan, 1982: 259). For the implementation to succeed it was important that any such change be widely accepted by both the Revenue Office staff and the public. The first part of the legitimisation process was to use the meaning that was created by the review that was carried out to suggest that a rationalistic method had been used to identify the solution (Charisma, April 1986: 3; Revenue Office, 1986: 22)\textsuperscript{25}.

It would be easy to suggest that this supported the incrementalistic approach proposed by Lindblom but there were a number of significant departures from this model (Lindblom,
1959). It is simple to look back and identify all the issues that should have been addressed or to place a ‘logic’ over the pattern of change that occurred and to suggest that changes are part of an overall development process. However, many changes that occurred as a result of the introduction of self-assessment were not dealt with or identified in the review that was used to justify its implementation—particularly the social ramifications of the changes. Lindblom’s model did not provide an explanation of how self-assessment or any of the future services that would be required would be perceived by the taxpayer (Revenue Office, 1985b). The changes were part of the social processes as meanings shifted rather than as part of development of the solution by an incremental approach.

The model proposed in this thesis provides a better explanation of the processes that took place in the formulation of the self-assessment policy. It proposes that as one change is drawn from the policy soup a number of other issues and problems are attached to the solution picked out—problems that change the overall social context. Changes in the unions, power of the audit group and tax simplification had long-term and profound impacts. As proposed by social constructionists, as social processes are changed, meanings are also altered, a concept that is the basic premise of the proposed model (Berger and Luckmann, 1966). This introduces the concept of a process of continuous change and adjustments in the policy formulation process.
The decade referred to is the 1980s.


See Appendix 3, Ref. 2.5 and 2.9 for supporting views of a senior manager and an external consultant.

See also submission to Committee of Public Accounts (CPA) which describes the perception by Revenue Office staff that all taxpayers cheat on their tax — ‘everyone’s a tax cheat’ (Revenue Office, 1992a: para. 1.28).

In the 1984-85 Annual Report RSI was identified as a major problem for keyboard operators (Revenue Office, 1985: 10).

This argument was dismissed by the Committee review, which claimed that the system was in need of modification and that the Revenue Office should have improved its use of IT in this area (Government Expenditure Committee, 1986: 15-37).

Compliance with the tax law will mean that the correct amount of tax is paid. I am assuming that an increase in compliance will mean an increase in revenue for the Government.

Also in his final Annual Report, the Commissioner criticised the Auditor-General for his ‘quasi-qualification’ of the Revenue Office’s financial statements (Revenue Office, 1992b: 4). This was an unusual precedent for a head of a department to criticise another government organisation in an annual report.

The ruling that the Auditor-General had the right to access taxpayers records did not resolve the animosity between auditors and Revenue Offices staff. Auditor suggested that staff continued to resist the access to information (Appendix 3, Ref. 2.2).

The limited review (Revenue Office, 1985b), that was carried out to support the introduction of self-assessment did not address this fundamental issues. The Revenue Office had previously conducted audits of taxpayers to enforce compliance levels but under self-assessment compliance would be enforced totally by audits (Revenue Office, 1985b: 4–5). The Revenue Office did not test the level of ‘trust’ it could place on the tax community, or the level of compliance that could be obtained through the audit process (Revenue Office, 1985b).

The benefits of the system were to obtain efficiencies so that staff could be moved to a more effective compliance program of audits (Charisma, 1986a; Revenue Office, 1985b).

A senior manager suggested that Charisma chose a person to head this review who would support the desired conclusions (Appendix 3, Ref. 3.3).

Staff also suggested that the review to evaluate whether self-assessment was the best solution to the assessing problem had very narrow terms of reference (Appendix 3, Ref. 1.3).

The Revenue Office stated that self-assessment had little impact on the taxpayer community (Revenue Office, 1989: 3). This line of argument was maintained in the submission to the Committee of Public Accounts (Revenue Office, 1992a: 190). However, the Committee of Public Accounts report noted that the cost to the taxpayer was not investigated by the Revenue Office (Committee of Public Accounts, 1993: para. 4.8). The Committee also commented that the Revenue Office did not fully investigate the impact on the taxpayer (Committee of Public Accounts, 1993: para. 4.11), and that the complexity and uncertainty caused by the implementation of self-assessment forced taxpayers to use professional tax agents to complete their tax returns (Committee of Public Accounts, 1993: para. 4.41, 10.46).
Charisma continued to defend his decision to implement self-assessment for the remainder of his term as Commissioner (Appendix 3, Ref. 2.8).

Charisma did suggest that an evaluation had been carried out of all possible solutions and the most effective chosen (Charisma, February 1986).

In Charisma’s speech on Computers and Mass Decision-making he dismissed the possibility of applying computers to assessing because they are “dumb machines” (Charisma, March 1985).

This opinion was given in a speech to the 1986 Assessing Conference (Charisma, April 1986). The conference was held yearly to address the work standards etc to be imposed on the processing of tax returns and to plan the next year’s work.

The belief by staff and the public that the Revenue Office was not doing enough to catch the tax cheats was confirmed by a survey conducted by Hill and Knowlton for the Revenue Office in 1987 (Hill and Knowlton, 1987: 2).

This was an interesting comment because he often used the large volume of everyday work that had to be done to show the pressure that the Revenue Office was under in its administering of the tax act. In these situations there was no suggestion that it was ‘hack’ work, it was the basis of the work done in the Revenue Office.

Chopping is a pseudonym. The reference can be made available by the author to examiners and others on a need to know basis.

See also Chapters 6 and 7 in this thesis which discusses the unions’ involvement in Modernisation.

The claim that it was a systematic rational approach were even greater in 1992. In the submission to the Committee of Public Accounts it was suggested that it was a review of the effectiveness of the Revenue Office’s traditional system of assessment of income tax (Revenue Office, 1992a: 186). The objective was to assess whether, having regard to the efficiency and effectiveness, ‘...the present system of assessment and limited post-assessment audit of income tax returns should be retained or replaced, in whole or in part, by a system that relies essentially on taxpayer self-assessment’ (Revenue Office, 1985b: 1).
Chapter 5
Creating a New Meaning
for IT Policy

Introduction

This chapter examines the Revenue Office’s response to a problem that developed when the Government Expenditure’s Committee reviewed five efficiency audits conducted by the Audit Office (Government Expenditure Committee, 1986). Like the self-assessment policy formulation discussed in the last chapter, the change to IT policy was initially an isolated decision. However, this decision later caused unexpected problems that required continued change to legitimise the solution to staff, the public and to parliament. These changes are also discussed in Chapters 6 and 7. The changes to the policy required a drawing together of policy solutions to present a pattern that could be legitimised. As Kingdon suggests:

...problems, policies and politics come together at certain critical times. Solutions become joined to problems, and both of them are joined to favourable political forces. This coupling is most likely when policy windows—opportunities for pushing pet proposals or conceptions of problems—are open.

Kingdon, 1984: 21

The results of the examination documented in this chapter are based on the belief that problems and solutions in this policy process are framed within and as part of some pre-existing perception (Kingdon, 1984: 103). Under a social constructionists paradigm problems and solutions are framed within existing inter-subjective typifications (Menahem, 1991). They are part of a reality maintained by social processes that are invested with people’s attempts to influence decisions through the exercise of power and negotiation (Smircich and Morgan, 1982). This chapter begins with an examination of the IT social context that is the setting for this series of policy formulation processes.

The social context of the Revenue Office in early 1987

Even though Charisma had introduced self-assessment in 1985, the social ‘climate’ or ‘mood’ of the office had not changed significantly in the two years since Charisma became Commissioner. The Office still saw tax technical skills as the most critical and important skills for staff in the Revenue Office (Story, 1990). Staff continued with the ‘siege mentality’
which included a negative attitude to the public and a belief that the general public both feared and disliked them (Hill and Knowlton, 1987: 1–2; Revenue Office, 1992a: 13). The public believed that the Revenue Office was not doing enough to catch the taxation cheats and was penalising the small honest taxpayer. Further, the information supplied to the public was too little and often incorrect (Hill and Knowlton, 1987: 2-3). The primary development direction up to this time was the implementation of self-assessment (discussed in the previous chapter) and decentralisation (which will be discussed in Chapter 6). The focus remained on the enforcement of compliance with the Tax Law (Government Expenditure Committee, 1986: para 3.25–3.27).

Tax avoidance was still a significant problem (Government Committee on Finance and Public Administration, May 1988). With the community and parliament anxious for progress on these issues Charisma initiated a review to be conducted by external consultants. This review, the first in Charisma’s time as Commissioner to be conducted by external people, was to separate the focus of audit into complex, business and primary audits (Papps, Carter and Koop, 1987).

In this period Charisma also brought in an outsider, Grant Mogul (a pseudonym) a consultant with XY Consultancy (also not their real name), to establish the Audit Group. Mogul played a major role in the policy direction over the next six years. He brought in a ‘private enterprise’ and ‘managerialist’ approach to the solution of problems (discussed in Chapter 7).

Thus the focus of the Revenue Office was on operational tax-related matters. However, the Revenue Office had begun to take a more managerialist approach in 1985. In August of that year the Revenue Office produced a corporate strategic plan to fit within the framework of the Public Service Financial Management Improvement Program (FMIP). This plan was enhanced in 1985–86 to include a more broadly based framework and was again redeveloped in 1986–87 as the document produced in March 1987 (Revenue Office, March 1987).

**IT social context**

In the 1970s the Revenue Office had been at the so-called ‘leading edge’ of technology having developed large batch systems to store large quantities of tax information. However, in the late 1970s and early 1980s this advantage had been lost (Revenue Office, 1992a: para 1.31–1.34). Its systems were old and many were inefficient and did not support tax business functions (Mathews, 1992: 2–3). Strangely, IT was not seen as important, and was not given
the support needed to keep up with developments in the field (Government Expenditure Committee, 1986). In the period from 1984 to 1987, little publicity was given to IT in the Revenue Office. Developments attracted only a small amount of comment in the 1984–1985 Annual Report and just a brief mention in the 1985–1986 annual report (Revenue Office, 1985a; Revenue Office, 1986; Government Expenditure Committee, 1986: para 3.27–3.29). It should have been apparent that the systems were unstable and, as Mathews was later to comment:

Internally the Revenue Office was close to breaking point. It was adding new computer systems to an increasingly rickety structure.

Mathews 1992: 2

As discussed in the previous chapter, the Revenue Office did not turn to computerisation as a possible solution to problems associated with assessing the tax avoidance schemes (Charisma, March 1985). Charisma was a tax technical person and seemed to see the problems from this perspective—naturally the policies that followed were based on tax technical processes. He stated in his speech to the computer group in 1985 that he could not see what use could be made of computers in tax assessment because it would require computerisation of the whole tax law (Charisma, March 1985). This was an interesting statement from a man that would soon turn to computers to modernise his whole office.

From 1984 Charisma began to initiate steps to develop an IT strategic plan for Revenue Office systems (Revenue Office, 1992a: para 3.220–3.230). He rejected the first attempt at the development of this plan as being too narrow in scope (Revenue Office, 1985a: 39; Revenue Office, 1987: 5). A newly developed plan was released in November 1985 (Mathews, 1992: 42). This did little to change the prevailing view of technology or to change the climate of the organisation. The aim was to better automate the processes that were currently undertaken in the organisation (Revenue Office, 1985a: 39).

In the early 1980s Charisma began to change the culture of the systems group. He brought in IT people from outside the organisation. Firstly he hired an outsider, Tim Byte (a pseudonym)*, to head his computer area (Mathews, 1992: 41–42). Then he hired IT technical consultants to provide input to the development of an IT Plan (Mathews, 1992: 41). The plan was to support the purchase of new hardware equipment; redevelopment of the software systems would be considered later (Revenue Office, 1992a: paras 3.220–3.230). The consultants focused on systems capacity and systems development. The use of IT consultants

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was a complete break with tradition for the Revenue Office (Mathews, 1992: 41) and began a process of using people from outside the Revenue Office that was to continue for nine years.

However, these changes were ‘too little too late’. The Audit Office and the parliamentary committee process were about to define a critical weakness in the management of the Revenue Office. Rather than focusing on the avoidance of taxation these reviews addressed the fundamental capability of the Revenue Office to administer the tax law.

The ‘political’ context of problems

Kingdon’s model suggests that streams of policy ideas flow from one group of people and that other separate groups identify problems (Kingdon, 1984: 90–92). However, in the more micro policy environment of the Revenue Office the streams were not as clearly defined as the Kingdon model suggests. In the period examined by this thesis, the Audit Office and the parliamentary committees identified the problems. This meant that Charisma became a policy entrepreneur who promoted and implemented a change program that was often framed and defined by others.

Kingdon suggests that a hierarchy of domination exists in the American political environment where government clearly dominates the public service in agenda setting (Kingdon, 1984: 33). As expected this structure also existed in the Australian political environment and in the period investigated in this case study the parliamentary committees were powerful groups. Any criticism raised by them would have a serious impact on the Revenue Office.

The definition or creation of a problem by itself is not enough to have a policy solution accepted. The political climate must be such that the problem is considered important. Kingdon’s model suggests that ‘a problem is recognised, a solution is available, the political climate makes the time right for change, and the constraints do not prohibit action’ (Kingdon, 1984: 93). Clearly the Government saw the need to improve the integrity of the tax collection process, so any indication of problems needed to be addressed to maintain public support for the system.

Parliamentary review identifies a problem

On 11 November 1986 the Government Expenditure Committee released its findings into five efficiency audits of the Revenue Office conducted by the Audit Office (Government
Expenditure Committee, 1986). This contained the criticism that the Revenue Office had attempted to eliminate by the introduction of self-assessment (discussed in Chapter 4). Mathews described the effects of the findings as being ‘like tossing a grenade into the public arena’ (Mathews, 1992: 21). The review publicly exposed weaknesses in the administration of the tax law for the first time. It raised significant questions on the capabilities of the Revenue Office to administer the Taxation Act, and importantly, initiated a period of government reviews that controlled and drove the change process.

The Expenditure Review Committee conclusions were damning and found that the Revenue Office had been caught in a ‘time warp’ (Government Expenditure Committee, 1986: para 5.4). The Revenue Office had constantly relied on increasing staff numbers to solve problems in administering taxation (Government Expenditure Committee, 1986: para 3.21–3.33). The Auditor-General claimed that perhaps the problems could have been addressed by the more efficient use of those already engaged. The Committee agreed to this (Government Expenditure Committee, 1986: para 3.24–3.31). The option of further staff increases without organisational change was eliminated. The Committee called for a complete rethink of the strategic direction of the Revenue Office (Government Expenditure Committee, 1986: x–xii).

In defining a situation as a problem a specific interpretation of reality is selected from multiple possibilities (Snow et al, 1986). The Committee defined the problems within the reality of IT. The Committee expressed its amazement that so much of the processing was still done manually (Government Expenditure Committee, 1986: para 4.11). This limited use of IT was in the period 1976 to 1986 when the Government had allocated $88.8 million to purchase computer equipment. But the Revenue Office had used only $39.4 million, an under spending of $49 395 300. Much of this underspending had been in the years 1984 to 1986, while Charisma had been Commissioner (Government Expenditure Committee, 1986: Table 3.1). Although the Committee agreed that a number of staff would be freed up by the introduction of self-assessment and would be available to address the problems in the collection of tax, the Committee concluded that the lack of computerisation remained a problem (Government Expenditure Committee, 1986: para 3.7). The members of the Committee felt that the problem was wide spread in the Revenue Office (Government Expenditure Committee, 1986: para 3.8) and the ‘failure to recognise and take advantage of technological advances was catastrophic’. It is as though ‘the Revenue Office had been caught in a time warp’ (Government Expenditure Committee, 1986: para 5.4, Revenue Office, 1992a: 11). The Committee considered that the revenue loss could conceivably be as high as several billion dollars a year. It concluded that this could not be attributed to highly
organised evasion schemes but simply to the Revenue Office's internal inadequacies (Government Expenditure Committee, 1986: paras 3.17–3.18). These weaknesses were seen as systematic of more a fundamental problem (Government Expenditure Committee, 1986: para 3.18). At the same time the Commissioner was claiming that enforcement had not been as strong as it ought because of the need to deploy staff to introduce new technology:

The necessity to deploy staff for these basic purposes caused some curtailment of enforcement activities and this must be regarded as having brought about at least deferment, if not loss, of some tax revenue.

Revenue Office, 1978

However the Committee suggested that:

Over the last 10 years Revenue Office's operations have become increasingly labour-intensive. Through its inability to successfully integrate computerised processing, Revenue Office has continually relied upon manual processing as the backbone of its operations.

Government Expenditure Committee, 1986: para 3.21

In reply to a statement by the Commissioner that his office was under-staffed, the Committee concluded that forward planning for human resources and IT facilities had been non-existent (Government Expenditure Committee, 1986: para 3.25). The Revenue Office seemed to take the view that as long as traditional collection systems were ticking over, no advanced planning for these systems was required (Government Expenditure Committee, 1986: para 3.27). The Committee also questioned whether the purchases of $10 million of computer equipment at the end of the 1985–86 financial year was planned or in response to the Committee’s enquires (Government Expenditure Committee, 1986: para 3.20).

The Committee was also critical of the procedures in the collection of taxes on dividends and interest but again attributed most of this to the lack of computerisation (Government Expenditure Committee, 1986: para 4.11). It also saw problems in the non-lodgement of prescribed payment returns and income tax (Government Expenditure Committee, 1986: paras 4.21–4.31). It concluded that a review should be conducted of the Revenue Office initiatives to overcome the problems and a planned review of the IT tender document should proceed (discussed in Chapter 6).

The report also stated that much of the problem could be attributed to poor management (Government Expenditure Committee, 1986: para 3.38.). Forward planning for staff
resources and setting of priorities had been virtually non-existent (Government Expenditure Committee, 1986: para 3.25). The Committee had begun to highlight issues that would be the source of criticism of the Government Review of Performance report (Program Management Performance Review, 1987). Many of the current Revenue Office staff had been managers and in other senior positions during 1970’s when there was massive sorting of the tax system. Now, some seven years later a committee was suggesting that poor administration had contributed to these problems. The Revenue Office relied on government confidence for support and funding for IT infrastructure to address these problems but these criticisms undermined the confidence that the Government and the community had in the operation of the Revenue Office:

Although the Revenue Office has confessed to knowing of these deficiencies years ago, remedial actions have only begun in the last few months. Revenue Office’s performance can only count against it as it strives to gain support and funding for future improvements.

Government Expenditure Committee, 1986: para 3.31

The start of a new IT policy

The redevelopment of the Revenue Office’s computer systems had previously been planned as described above, but it was still seen as a background task and secondary to the “real business” of the Revenue Office, which was collecting tax (Government Expenditure Committee, 1986: paras 5.14, 3.25–3.27). IT had received little Revenue Office support and all emphasis had been placed on the tax technical solution under the self-assessment policy. But as the Kingdon model suggests, the presentation of a problem opens a window of opportunity for an entrepreneur to attach an existing solution (Kingdon, 1984: 21).

The Charisma approach was to create a new meaning for the existing IT policy and to propose it as a solution to the problem presented in the review. Then he proposed to the Government that the planned redevelopment of the computer systems was an acceptable solution (Keating, 1987; Mathews, 1992: 62–63) and hastily upgraded the IT technical policy that proposed the purchases of $693 million worth of equipment through a tender process (Revenue Office, 1987: 5). The proposal was developed into the High Level Integrated Design (HLID) that presented a systems approach to the redevelopment of the Revenue Office application systems (Revenue Office, 1987: 5; Revenue Office, 1992a: 63). This was accepted by the Government (Keating, 1987).
In formulating this policy Charisma did not demonstrate any of the entrepreneurial skills that would become evident in the future. Perhaps Charisma did not see IT as a solution to the “real” tax technical issues that were being addressed by self-assessment and its implementation.19 But this simple and narrow IT policy would require Charisma to further change the direction and the meanings associated with his policy. This problem will be discussed in the next chapter.

Changes created by the solution

The seriousness of the criticism provided an opportunity for the continued development of an IT solution as it could then be promoted and gain more support within the Revenue Office. This created a perception of power and importance for the people in the IT area (Jans Fraser-Jans and McMahon, 1989: 65). Since IT did not have a record of successful development projects it needed an event like this to promote its image11. The lack of IT development had been the centre of the criticism and IT was selected as the solution. Because Charisma was a tax technical person and knew little about the overall possibilities that could be created by IT, Byte was placed in a position of power12. He became the critical person to eliminate the adverse findings.

The review had strategic importance for IT staff as it placed them at the centre of the change process (Jans Fraser-Jans and McMahon, 1989: 65), a position they held until 1993. (The loss of this position is the subject of Chapter 9). IT systems development was the most important project in the Revenue Office at that time and became the driving force for the change process13. In future developments all solutions were based on proposed IT changes and this led to considerable changes in the structure of the Revenue Office.

The IT Branch became a Systems Group (Division) and Byte was recruited from outside the Revenue Office to become First Assistant Commissioner (Mathews 1992: 41–42). The systems group grew in size and power with many new staff coming from organisations such as the Department of Social Security, which had begun a redevelopment process some years before. The new staff began to expose the Revenue Office to fresh ideas on computing and management. IT people worked in teams that were not as rigidly structured as had existed in the Revenue Office environment. Projects were managed through steering committees brought together from all parts of the organisation to work as a team (Mathews 1992: 7). This began to change the hierarchical structure of the Office. It also began to break down the
tradition of IT computing people being recruited from within the Revenue Office and began to change the social processes that maintained the perception of the importance of tax technical as the key skill.

Conclusion

The model proposed in this thesis suggests that this policy process is ongoing. It also suggests that the changing social context means that the legitimisation process will be ongoing. This chapter presented the start of this process for the IT policy formulation. However, since Charisma had only just begun to construct the patchwork quilt the changes were easy to explain and to implement, so that they seemed as ‘logical’ and within the overall pattern. The criticism of the Revenue Office in the review discussed in this chapter initiated an ongoing review process that would subject the office to wide criticism. Thus the problems described in this chapter were not resolved by re-focussing the IT policy. The next criticism would again focus not on tax technical but on the management capabilities of staff. It also meant that a single solution would not be possible and would be the start of the major policy formulation process for the Revenue Office. The skill that Charisma used to address these criticisms will be examined in the next two chapters.
XY Consultants had been used to provide advice and assistance on a series of efficiency reviews in the year 1985–86, so their knowledge and understanding of the Revenue Office had been developed over a number of years (Revenue Office, 1986: 25). As an XY consultant, Mogul, provided advice on the structure of the Taxpayer Audit Group and was made manager of that group (first assistant commissioner). When Charisma's initiated changes in the compliance policy (Chapter 8) Mogul was able to use his private enterprise experience to claim knowledge for the change processes (Appendix 3, Ref. 2.7, Ref. 3.1). His involvement on the legitimisation process (promotion of private enterprise management models and terminology) in support of Charisma eventually led to his promotion to second commissioner (See Appendix 2). This promotion of an outside was a break from the traditional of “up through the ranks” promotional process (Story, 1990).

Note: XY Consultants is a pseudonym. The name can be made available by the author to examiners and others on a need to know basis.

The objectives of the Management Improvement Program was set out in a White Paper, Reforming the Public Service (Commonwealth, 1983) and in legislative and other actions (Task Force on Management Improvement, 1992: 2–3).

The limited use and low support for IT development was also commented on by staff of the Audit Office and by a senior manager (Appendix 3, Ref. 2.1, Ref. 2.6, Ref. 3.5).

Tim Byte was the first senior manager hired by Charisma from outside the Revenue Office. He was recruited to head up the newly formed IT Group in 1985. He was to play a key role in the development of the Modernisation policy. He reshaped the image of IT in the Revenue Office by developing ambitious plans to redevelop all its major IT tax systems. This plan was, until the changes described in Chapter 9, the basis of Modernisation. Byte was seen in the Revenue Office as a Charisma supporter. He was promoted to First Assistant Commissioner to manage the new IT Systems Group when it was up graded to the same status as Groups in the Revenue Office. See the Revenue Office Organisational Structure in Appendix 1.

Note: Tim Byte is a pseudonym. The name can be made available by the author to examiners and others on a need to know basis.

The dominance of the Government over the public service was discussed by Weller and Grattan. They questioned the extent of the control of ministers over the bureaucracy (Weller and Grattan, 1981: 65–68).

As stated in Chapter 1, when the new Government was elected in 1983 it was concerned with the blow-out in the size of the deficit and the predicament faced by the tax system because of the wide-spread disquiet in the community over the perceived lack of integrity (Dowling, 1992a).

It is almost traditional that every dollar budgeted must be spent. This under spend must have created an Australian Public Service record. (The figures are quoted in Government Expenditure Committee, 1986: para. 3.11–3.16).

In fact the amount of revenue lost was estimated to be $10 billion (O'Reilly & Sykes, 1986: 24).

A review of the annual reports showed that there was little mention of the redevelopment of the computer systems. (See Revenue Office, 1985 and Revenue Office, 1987.)

This is evident from a review of the Revenue Office’s Annual Reports. The amount of the report dedicated to IT was very small and insignificant prior to the report 'A Taxing Problem'. This report commented on the lack of resources spent on IT (Government Expenditure Committee, 1986: paras 3.13–3.14).
The problems in the development of the Quarterly Provisional Tax (QPT) computer system were so bad that the Commissioner was forced to make reference to them in his annual report (Revenue Office, 1988: 12, 44). This would not have enhanced the standing of the IT staff in the Revenue Office.

See Charisma’s speech where he suggested that computers could not be used to solve problems in taxation because they would need to address all the possibilities in the Tax Law (Charisma, March 1985). Statements like this suggest that Charisma’s knowledge of or interest in IT was limited.

It could be argued that IT driven change was not not likely to lead to improvements and efficiencies or lead to the design of IT systems that support and improve the quality of life for people and staff (Forester, 1989). However, the aim of this these was to examine policy formulation processes and does not attempt to examine whether one decision is better than another.
Chapter 6
Creating New Policies from Old Ideas

Introduction

This chapter demonstrates that policy formulation cannot be explained simply by the application of rational decision models. The continued occurrence of unforeseen issues and problems created by the implementation of the solution described in the previous chapter created a need for ongoing adjustments to the policy solution. Decision modelling attempts to provide an explanation of the single social event of making a decision.

Policy direction in this period was imposed by people outside the Revenue Office. Charisma, in an entrepreneurial role, responded by taking these requirements and forging them into his overall direction of change and proposing them as part of a logical change process. He redefined meanings that had been attributed to past policies, problems and solutions to maintain a perception of consistent and coordinated change and goal attainment. He addressed problems as they were identified. Policy solutions in this period were built on the experience and ideas that existed in the organisation.

This chapter examines changes that were brought about by a number of reviews that were initiated by Parliament. These reviews questioned the direction being taken by management and the capabilities of the Revenue Office to successfully implement its policies. These reviews began a process of change to previous policies. But, unlike the change process described in Lindblom's model, progress was not aimed at achieving an identified organisation goal. The view that organisations move in a consistently calculated and logical direction based on goal setting and developing policies to meet objectives is not supported by these findings.

Reviews initiate change

Colin Charisma began to bring a greater ‘management’ perspective to the Revenue Office early in his tenure. In August 1986 he formed the Management Board, which consisted of the Commissioner and the Second Commissioners and three Deputy Commissioners. This group had responsibility for the development of corporate objectives and priorities (Revenue
Office, 1992a: 129). The Board took over responsibility for the development of the corporate plan, a process that had begun in 1985. The first plan was for a 12-month period but a five-year strategic plan was developed and released in March 1987. This document was entitled Future Directions for the Taxation Office (Revenue Office, March 1987). This plan preceded the reorganisation of the Office into a structure that was claimed to better support the activities and functions of the organisation (Mathews, 1992: 34–35).

The problem

The Government Expenditure Committee’s findings, ‘Problems in the Revenue Office’, recommended a review be undertaken to test whether the solutions currently being carried out by the Revenue Office were adequate (Government Expenditure Committee, 1986: para 2.29). This was part of a series of reviews conducted by parliamentary committees and the Audit Office into the management and tax audit processes in the Revenue Office. A review of the proposal to purchase computer equipment was also conducted because of the requirement that all procurement of IT over $5 million would be reviewed by Government Accounts Committee (Government Expenditure Committee, 1986: para 3.32). These reviews began to shift the focus of the Revenue Office from tax and IT technical issues to a broader management approach.

The evaluation of the adequacy of Charisma’s proposed solutions including the IT and tax technical proposals was carried out by the Performance Review committee in 1987 (Program Management Performance Review, 1987), a few months after the review ‘Problems in the Revenue Office’ was completed (Government Expenditure Committee, 1986). The Government Review of Performance concluded that the Revenue Office did not manage its resources adequately and did not provide proper control of major projects, including the large decentralisation project (Program Management Performance Review, 1987: 37). It was generally critical of the Revenue office’s management capabilities:

> While the Revenue Office has successfully implemented a number of major approaches it has not yet translated this experience into its general management approach. In our view, the key to maintaining the change momentum in the Revenue Office and to focussing the effort of managers is to rapidly develop these values.

Program Management Performance Review, 1987: 41

Later in the report, the need to change the focus from technical solutions such as self-assessment and IT policies to a greater management focus is emphasised:
...our examination of management practices suggests that many of the present overloads and
difficulties can be overcome by shifting some of the change focus away from technical
solutions to address critical management approaches.

Program Management Performance Review, 1987: 43

The review also concluded that personnel management was weak. For example, there was no
high-level personnel function in the Revenue Office (Program Management Performance
Review, 1987: 36). The Performance Review Committee also concluded that plans did not
have an integrated or strategic approach and offered little to the staff through job design or to
the clients through advice and assistance (Program Management Performance Review, 1987:
36).

Job design and training were important functions in the Revenue Office because self-
assessment had changed the work of a large section of its work force from assessment to tax
audit and this had had a large impact on the jobs and careers of staff (Program Management
Performance Review, 1987: 29). In the past, job design had been supported in the Revenue
Office but only on a limited basis and it was based on job satisfaction from a Tayloristic
ideology (Revenue Office, 1992a: 10, 14, 15; Revenue Office, 1988b: 2). The Government
Review of Performance was critical of the Revenue Office’s approach concluding that it had:

...been less successful in meeting general management needs arising from a change program (eg.
training and job design).

Program Management Performance Review, 1987: 45

The Government Review of Performance was followed by a review of a further six efficiency
audits that were conducted by the Auditor-General. These audits supported the findings of
the Government Review of Performance. It found that the Revenue Office did not plan for
changes to taxation legislation (Committee on Finance and Public Administration, May
1988: paras 2.15.18 & 2.5.25), and did not evaluate its current programs adequately
(Government Committee on Finance and Public Administration, May 1988: Chapter 4) and
was a very inward-looking organisation which did not respond well to change in society
(House of Representatives Standing Committee on Finance and Public Administration, May
1988: para 5.2.4). The report also commented on the low morale in the Revenue Office
(Government Committee on Finance and Public Administration, May 1988: paras 6.4.1–
6.4.5).
A further series of reviews carried out by government committees supported these findings. The review, ‘Shifting the Tax Burden’, was an interim report that looked at the problem of moving profits off shore as a means of tax avoidance (Government Committee on Finance and Public Administration, 1988b). But it also was critical of the Revenue Office staff's ability and skills in the audit process. It found that staff were not technically competent to deal with sophisticated tax issues (Government Committee on Finance and Public Administration, 1988b: paras 5.5.6–5.8.8). It also found that the tactics of the auditors were confrontationist and aggressive (Government Committee on Finance and Public Administration, 1988b: para 5.7.1). The review concluded that International Profit Shifting audits were badly managed (Government Committee on Finance and Public Administration, 1988b: para 6.4.4).

The final report in the period 1986 to 1988 looked at specific tax industries and focused on methods of reducing the amount of tax paid. ‘Another Review of the Revenue Office’ was a review of the Auditor-General’s examination of taxpayers in unincorporated businesses (Government Committee on Finance and Public Administration, 1988a). This review was fairly insignificant in its impact on the management of the Revenue Office but suggested the implementation of a citizen card. Charisma openly and publicly supported this proposal, which led to questions about his role and independence in the development of government policy (Charisma, November 1987: 2–3; Charisma, 7 November 1988: 3; Revenue Office, 1989: 4–8)\. 

**Review of the tender process**

After the review, ‘Problems in the Revenue Office’, discussed in the previous section, IT became one of the most important projects in the organisation (Revenue Office, 1988a: 9). The document ‘IT Integrated Plan’ was quickly developed to provide a computer redevelopment solution to problems identified in the review (Revenue Office, February 1987). It proposed a complete redevelopment of all the Revenue Office's IT systems. The aim of this plan was to develop a high-level model of the systems that would run on the new equipment (Revenue Office, 1987: 5). Based on this plan, the Government gave an in-principle endorsement for the purchase of $693 million worth of computer hardware and software in February 1987 and tenders were called in early August of the same year (Revenue Office, 1987: 5).
Late in 1987 the Committee of Public Accounts examined this proposal to acquire IT equipment (Committee of Public Accounts, 1987). This review had begun early in 1987 but elections intervened so it was some time after the acceptance of the proposal that the document was examined in any detail. The review recommended that the Revenue Office rethink certain aspects of its proposal. The Committee stated that it was 'concerned about the quality of integration in the design'. It suggested that the Revenue Office review its IT Integrated Design document, concluding that the Revenue Office had based its design of the systems on very traditional or existing boundaries (Committee of Public Accounts, 1987: xii). This focus continued until the early 1990s when a decision was made to integrate the design of IT systems and the design of jobs. This decision is discussed in Chapter 9.

Thus the integration of the systems was an important issue that began with the recommendations of this committee but was not addressed for over three years, even though Charisma was able to create the image of an integrated approach under the Modernisation policy discussed below. The Committee was also critical of the Revenue Office's management capabilities, suggesting that management did not have the capabilities to manage a project of this size (Committee of Public Accounts, 1987: xii). It also suggested that the Revenue Office would not be able to recruit sufficient IT staff to complete the project and suggested that they begin to develop their existing staff's skills (Committee of Public Accounts, 1987: xi).

The period from 1984, when Charisma became Commissioner, until the end of 1988 was a very turbulent time for the Revenue Office. Over the period from 1986 to 1988 continuous examination of the Revenue Office's administrative and management capabilities occurred, resulting in scathing criticism of its performance. From these criticisms job design, union involvement, IT projects and a number of other key policies were developed, all in an environment of managerialism. The question to be considered is how the solutions were identified and how Charisma legitimised these recommendations to the Government, the community and Revenue Office staff.

**Solutions drawn from the policy soup**

Charisma's initial response to the problems raised in the review, 'Problems in the Revenue Office', discussed in the previous chapter, had been to propose minor changes of focus for existing policies which provided single and relatively simple solutions. This committed him to solutions that were built mainly on self-assessment and IT policies. At this time these
policies were implemented in a social framework where management style was based on tax technical and Tayloristic ideologies with limited union and staff involvement (Revenue Office, 1992a: 10, 14, 15; Revenue Office 1988b: 2).

With such wide-ranging criticism from the reviews described above, it could be expected that new policy solutions would be initiated for the problems identified. But under the model of policy formulation proposed by this thesis, solutions are easier to legitimise if they fit within the existing social context. This suggests that any new policies would be easier to legitimise if they were to fit with the pattern of the policy patchwork quilt that was being created over the period 1984 to 1987. This was what Charisma proceeded to do.

In the first six months of 1988 three conferences were held in the Revenue Office that developed the solutions for the problems proposed by the reviews. At these meetings senior staff drew together significant existing administration policies in the Revenue Office as suggested solutions to the emerging problems (Mathews, 1992: 83). These policies underpinned most of the change in the Revenue Office in the late 1980s and included many government priorities for the introduction of technology, including a high level of participation by staff and unions (Revenue Office, 1992a: 27). This process was the beginning of an ongoing legitimisation process that would exist for the remainder of his term in office. Charisma adopted the role of entrepreneur rather than policy initiator and manipulated the meanings of current policies and legitimised them through the use of ideologies and other inter-subjective typifications. The ongoing legitimisation process will be discussed in the next chapter.

**Modernisation — a policy umbrella**

Charisma’s solution to this wide range of problems was to create a single theme for all the policies. He initiated the use of the term ‘Modernisation’ as a powerful description for this theme. The term suggested the complete revamp of the Revenue Office. But, as will be shown, the meanings supporting Modernisation changed as the social context was changed by the implementation of policies and the ongoing legitimisation processes. So while Charisma presented the policies as having a single overall objective that was accurately costed (a rationalist approach), policy formulation was more accurately described as a social process where meanings were continually negotiated.
It is difficult to identify an exact date for the commencement of the Modernisation project. Mathews suggests that it existed in the organisation before it was funded by the Government or officially commenced at the 1988 conference process (Mathews, 1992: 42). However, Modernisation did not begin with a single overall approach but was developed over a number of years. ‘The initial focus was on the introduction of new technology—new computer equipment and systems’ (Revenue Office, 1991a: 6). At this time the focus of the IT policy was simple and narrow. Later, to address the criticism of the Government Review of Performance, a policy, work and job design was included in Modernisation. However, this policy was seen as a separate policy to IT and was not combined with the change of jobs through the use of IT. As stated by the Revenue Office:

\[\text{It was a little later that we came, aided by public-wide reforms, to act on the realisation that development of people is the key ingredient in the success of any change program, of any organisation.}\]

Revenue Office, 1991a: 6

Initially, decentralisation was not included (Revenue Office 1991a: 6) but was added soon after the identification of the Modernisation policy. Solutions were drawn from events that were occurring in the Revenue Office at this time (Revenue Office, 1991a: 6). As the Kingdon models suggests solutions exist and are attached to problems (Kingdon, 1984: 190–191). All these projects existed in the Revenue Office prior to the commencement of Modernisation⁵.

Later the Modernisation policy included policies to provide an effective tax administration and also to provide systems that had the ability to readily accommodate future changes in business requirements (Revenue Office, 1992a: 81). Charisma finally changed the meaning of the Modernisation policy to include improving client service, risk management and management support, developing an environment where staff would be equipped, trained and committed to contributing to the achievement of the Revenue Office mission and vision (Revenue Office, 1992a: 81). After several years Modernisation was based on agreements with key participants and stockholders such as the unions (Revenue Office, 1990a).

By 1989 there were over 100 projects identified in Modernisation (Revenue Office 1989a: 4). It was initially costed in 1987 at $0.693 billion (Committee of Public Accounts, 1993: para 7.12) but was later increased to $1.16 billion in 1989–90 and again increased in 1991–92 to $1.257 billion (Committee of Public Accounts, 1993: para 7.85). It was such a large budget commitment by the Government that special funding arrangements were approved between
the Revenue Office and the Department of Finance to allow the Revenue Office flexibility to shift funding between years and to change the level of funds committed to specific areas (Department of Finance, 1989; Committee of Public Accounts, 1993: para 7.79–7.84).

**IT policy and Modernisation**

Initially the Modernisation policy was based on the implementation of new IT systems. In the Revenue Office’s annual report Modernisation was described as an IT redevelopment and re-equipment program (Revenue Office, 1988a: 125). Most of the other projects were in support of the large change process driven by the amendments to the systems. The majority of funding provided for Modernisation was for the upgrade of the Revenue Office’s business systems (Revenue Office, 1987: 5). This dominance was to end in 1992–93 when work and job design became the driving force for Modernisation (see Chapter 9). But the policy for IT was continually created and recreated as problems were identified.

The IT policy that commenced in 1984, as described in Chapter 5, was adopted in 1986 as a solution to the issues raised in ‘Problems in the Revenue Office’ (Government Expenditure Committee, 1986; Revenue Office, 1991a: 6). Because of the criticism earlier described in this chapter it was changed again to incorporate a much broader approach, encompassing the redevelopment of all the main business systems in the Revenue Office. The development of the IT Integrated Design document was the first major change for IT following the criticisms in the document ‘Problems in the Revenue Office’ (Government Expenditure Committee, 1986; Revenue Office, February 1987). It was a ‘systems solution’ to the suggested problems (Revenue Office, 1992a: paras 3.243–3.244). At this time the term ‘Modernisation’ was used as the theme to support the purchase of the new equipment and to create an image of a new meaning for the IT policy (Revenue Office, 1988a: 125).

When the new meaning for the IT policy to support the acquisition process was criticised by the review of the acquisition process, discussed above, the Revenue Office responded by modifying the IT Integrated Design to a more ‘people’ approach outlined in the document ‘Integrated Processing Project’ (IPP) (Revenue Office, 1989c). IPP presented a schedule for the implementation of the systems and took account of the large changes to people’s work practices (Revenue Office, 1989c). IPP was still a policy for the redevelopment of the existing IT systems. The last stage of the IT Plan that was begun in 1985 (Mathews, 1992: 42–43).
The IT policy was changed again when the ‘people projects’ for work and job design (Stein, 1992: 16–22) finally took over from the IT group as the main drivers of the Modernisation policy (Mathews, 1992: 88). The changes had slowly moved to integrate the systems and to provide support to staff providing service to clients (taxpayers). This was summarised in the Revenue Office’s submission to the Committee of Public Accounts:

Corporate management approaches also applies equally to the way we go about developing our systems so that, for example, there is a clear commitment to the involvement of clients and staff in the development process.

Revenue Office, 1992a: 81

This was a completely different approach to the development outlined in the original plan or even in the IT Integrated Design document which saw the aim as simply ‘...to ensure that the various systems are properly integrated’ (Revenue Office, 1987: 5).

The IT projects major development was implemented in 1994 as the Revenue Office Integrated System after having been initially called Collections Systems Modernisation 93 (CSM93). The progress of this project is the subject of Chapter 7.

So Charisma’s response to the criticisms raised in the reviews was to continually modify the meaning of his IT policy and plans, and to propose them again as a solution to new problems raised. It was never a completely new assessment of the solution; solutions simply grew out of what already existed. This had the advantage that the policies as proposed in the IT plan had already been legitimised in the Revenue Office. The legitimisation of the IT policy will be discussed in the next chapter. It was easier to modify the meanings supporting the policy rather than start with a new proposal.

Under Modernisation, IT became the dominant policy in the Revenue Office and had a significant impact on work in the Office. It introduced a team approach to project work (Steady, February 1990: 13), it introduced participation in management and decision making (Mathews, 1992: 64–64), distributed responsibility for systems development to branch developments sites (Revenue Office, 1989a: 80), changed the collection and processing of tax returns (Steady, February 1990: 13) and introduced IT terminals onto the desks of all staff (Mathews, 1992: 89–94). The introduction of new technology for electronic lodgement of tax returns (Electronic Lodgement Service) and the dispatch of tax advice and cheques (Automated Document Dispatch) changed the jobs of a large number of staff and reduced the number of staff employed in these areas (Mathews, 1992: 95–99). Despite the impact on
3500 staff, these systems were introduced with minimal job redesign (Mathews, 1992: 95, 99).

If the external perspective of the Revenue Office was seen through the actions of its tax auditors (Committee of Public Accounts, 1993: para 11.4), internally the view of the operation of the office was heavily influenced by the operations of the IT Group (Jans et al, 1989: 56). The power around the IT systems was centralised in the systems group even though the development process contained significant numbers of business staff. During this process the image of the IT systems people changed. Jan's survey of staff suggested that Modernisation increased the status and power of the IT Group in the view of other staff (Jans et al, 1989: 56).

The changing social context of the Revenue Office also drove changes to the meaning of IT. This will be discussed in the next chapter.

**Work and job design—the people issues**

Until 1987 the IT policy had not addressed the impact of IT on jobs. This approach had been criticised by the Government review discussed above (Program Management Performance Review, 1987: 45). In November of the same year the Government and the public service unions concluded an agreement providing a four per cent productivity pay increase for all public servants. The agreement provided for the integration of a separate clerical assistance and the clerks structure (Revenue Office, 1988b: 2). This restructure required extensive redesign of jobs and structures (Revenue Office, 1988b: 2). By 1989 seventy five per cent of administrative jobs had been redesigned (Revenue Office, 1989a: 3). So, to resolve the criticism on the lack of job design in the IT policy, the response was to draw a solution from the design of jobs to support the restructure of job classification in the office structure implementation project, and to place this under Modernisation policy (Mathews, 1992: 46; Revenue Office, 1988b: 6–7). Again the solution was created from other policy initiatives that existed within the Revenue Office and introduced into Modernisation to present an image of an integrated approach.

The decision to use the existing work and job design solution and present it as part of the IT development was made during the three conferences held in early 1988. These conferences included people in the development project and suggested that people were a key resource for the Revenue Office (Mathews, 1992: 83). This was a critical decision for the Revenue Office.
because it aligned work and job design with IT development plans (Revenue Office, 1988b: 64) and initiated a policy that would be continually changed to legitimise the changes that were being brought in by IT technology (discussed in the next chapter).

Despite the joint nature between systems development and job design policy initiatives and Charisma’s statement in 1988 to present the two policies as integrated (Revenue Office, 1988: 7–9), they existed as separate policies under Modernisation:

> When we embarked on Modernisation the initial focus was on the introduction of new technology—new computer equipment and systems …. It was a little later that we came, aided by public-wide reforms, to act on the realisation that development of people is the key ingredient in the success of any change program, of any organisation.

Revenue Office, 1991a: 6

This separation was the problem identified in the Committee review of the IT Integrated Design document, yet the Revenue Office's solution ignored this issue for over two years. It continued until 1991 when work processes and job design were finally combined with systems redevelopment (Revenue Office, 1991a: 6; Mathews, 1992: 83). The submission to the CPA inquiry in 1992 stated that people did not become an integral part of Modernisation until August 1990 (Revenue Office, 1992a: 130). Consequently, it was two or three years before this connection was made. However, it was part of Charisma’s ability to present the two policies as a solution of the requirement to integrate systems development and job design. Charisma’s ability to support policy changes will also be discussed in the next chapter.

The policy changes to support the inclusion of job design in Modernisation also changed the social context of the Revenue Office. To implement this new staff policy, Charisma brought in May Gibbs (a pseudonym) from the Public Service Board as head of a new People and Structures Branch. In December 1987 this Branch produced a document that described the likely changes that would occur in the Revenue Office (Revenue Office, December 1987) that proposed a radical departure from the way the Revenue Office traditionally did things (Revenue Office, 1991a: 6). There was staff participation and representation through union representation in job design (Revenue Office, 1992a: 131). This, combined with the team-based development of systems, changed the structure of work processes and was one of the largest impacts on the way work was carried out in the Revenue Office. The team-based approach to the implementation of the design of jobs broke down many of the hierarchies (Revenue Office, 1988b: 34–37). It facilitated a change from a 'factory process' to an 'image
machine’ (Revenue Office, 1992a: 1). Under the leadership of May Gibbs the Branch continue to implement solutions to many of the problems identified. This created a major role for the Branch in the Modernisation project (Revenue Office, 1988a: 138) that considerably increased the power of the Branch. These processes eventually saw May Gibbs promoted to Second Commissioner12.

Changing the meaning of the decentralisation policy

Policy formulation does not follow any set development procedures. This is particularly demonstrated by the development of policy around decentralisation of accommodation. Over the period of the 1980s to the early 1990s this program increased the number of Revenue Office workplaces from seven to twenty five (Revenue Office, 1992a: para 3.93). Further, the meaning supporting these developments was also manipulated during this time.

Decentralisation had commenced early in 1975 under the previous Commissioner of Taxation, but had lapsed by the early 1980s (Revenue Office, 1992a para 3.59). In the period from 1984 to 1986 Charisma reintroduced the Decentralisation policy and aimed to build a number of smaller offices in distributed locations in major capital cities and regional centres (Revenue Office, 1992a: paras 3.57–3.105). The project allowed staff in overly large offices to be divided into smaller offices with the aim of improving service to taxpayers, efficiency and working conditions (Revenue Office, 1986: 22). The 1987–88 Annual Report said that experience had shown that smaller offices were more efficient (Revenue Office, 1988a: 18). The project was not initially part of Modernisation (Revenue Office, 1988a: 9). However, the 1987–88 Annual Report gave an indication that it would be combined with Modernisation. It stated that new offices would be needed because current accommodation would not suit the proposed technology nor meet the requirement of 20 square metres per staff (Revenue Office, 1988a: 4). It was integrated into the Modernisation Policy in 1988-89 (Revenue Office, 1989a: 79).

The meanings developed to legitimise the decentralisation policy gradually changed from suggesting that smaller offices were more efficient to suggesting that new offices were needed to support new IT technology (Revenue Office, 1988a: 4). This led Mathews to suggest that the decentralisation approach had been more or less ad hoc since 1984 (Mathews, 1992: 38)13. During 1991 Charisma was propounding that the driving force in the broad decentralisation of activities was getting close to the customer (Charisma, March 1991: 9). However, in the submission to the Committee of Public Accounts (CPA), hearing in 1992
it was suggested that decentralisation supported government programs by providing employment in regional areas (Revenue Office, 1992a: 54)\textsuperscript{14}. The meaning of decentralisation changed a number of times over a period of six years.

The Modernisation policy legitimised major decentralisation development, effectively doubling the number of taxation offices. It conveyed an image of new and better accommodation to support changes under IT technology. The final number of offices was twenty five, a very significant commitment of funds. The Modernisation project enabled the meaning for the development to be changed to fit with the meaning created for Modernisation. Perhaps, more importantly it also provided funding for this expensive policy. However, Charisma was able to adjust the meaning for decentralisation and use it to support the changes in IT technology (discussed in the next chapter).

**Negotiations with the unions**

The policies that were part of Modernisation were simple in concept but the changes for staff were complex. Many staff were required to move from an office in a central city location to an office located in the suburbs. The introduction of IT would change the nature of many jobs in the organisation. Also, to obtain funding for the Modernisation policy, Charisma had agreed to reduce the number of staff by 3000 (Revenue Office, 1992a: 83).

While the extent of these changes was not obvious at the outset, they created major problems towards the end of the 1980s\textsuperscript{15}. Charisma resembled a juggler continually adding more balls to his act. Throwing these into the air did not create the problems but as the balls began to fall problems would begin to emerge. A successful juggler must be able to keep the balls in the air, but in the 1990s they all began to fall—and this is the story in Chapter 8.

The Government Review of Performance was critical of the way the Revenue Office involved its staff and its unions in the change process (Program Management Performance Review, 1987: 13). Senior management in the Revenue Office did not have a good working relationship with the unions because of previous attempts to obtain maximum efficiency from the data entry staff in the early 1980s (Mathews, 1992: 3, 70).

The unions rejected the first proposal from the Revenue Office, put to them in March 1988 as not being a serious attempt to negotiate an acceptable outcome. Seven months later the Public Service Union (PSU) tabled its own log of claims. The requirements included that
there be no compulsory redundancies, no compulsory redeployment commitments to training, staffing levels be maintained and childcare provided. The Revenue Office responded with its own claim, seeking the use of temporary and casual staff (Mathews, 1992: 70–74).

The agreement was finally reached by both parties and formally endorsed by the Industrial Relations Commission on 23 March 1990 after two years of negotiation (Revenue Office, 1992a: 84). During the process, the unions' support was obtained by the Revenue Office’s agreement to the majority of their demands. It supported the one union policy of the Government, and the Administrative and Clerical Officers Association and Australian Public Service Association merged to provide a single union coverage of the Revenue Office by the Public Sector Union (PSU). The Federated Clerks Union (FCU) was excluded from this agreement. The agreement was endorsed by Australian Industrial Relation Commission in June 1990. The Revenue Office agreed that staffing levels would not drop below 17,100, there would be no compulsory retrenchments, and no compulsory transfer of staff. The Revenue Office agreed to the involvement of the PSU in all levels of the Modernisation program, support for training and development of staff, and support the PSU Modernisation Research Unit (Mathews, 1992: 72). The union agreed to support Modernisation and the decentralisation program, to allow contract staff to be used and work to be transferred to even out the workload. It did not allow staff to be moved, just the work (Revenue Office, 1990a; Mathews, 1992: 72).

The agreement had two important implications for the operating processes in the Revenue Office. It led to a participative management style where staff affected by change had a chance to contribute to the decision (Revenue Office, 1991a: 11). This was significantly different from the situation of the early 1980s where prolonged confrontation with the unions and resentment by senior management existed (Revenue Office, 1992a: 10; Committee of Public Accounts, 1993: 20)\(^6\). Staff now felt that they had greater participation in the process (Jans et al, 1989: 10).

The agreement was to form the basis of the Modernisation agreement between management and the unions. Charisma later claimed it as an example of Revenue Office achievements (Revenue Office, 1992a: 4, 137). The agreement was based on the experiences and ideas gained from the negotiations for self-assessment and the Office Structures Implementation process (Mathews, 1992: 6, 26).
Conclusion

The Modernisation Policy was an urgent fix applied to problems previously identified. Initially the policy did not address any integration possibilities. The solutions instigated were implemented as they existed in the Revenue Office at the time the problems were identified. So, once again as Kingdon suggests, solutions exist and when problems are identified they are modified and manipulated to present a solution to the problems (Kingdon, 1984: 192).

This large policy development was not carried out in a way that was consistent with any of the rationalistic models. The major policy was not developed as a single all-embracing policy that was put together before the commencement of the changes, as would be proposed by a rationalist decision model. Instead, as has been shown, it was forged out of many individual projects and involved different concepts that were continually changed and reshaped (Revenue Office, 1991a: 6). There was no single clearly stated objective for each of the areas. Meaning would continue to be negotiated and developed over the next three to four years. But, Charisma applied many separate minor policies that could be presented as a single cohesive policy and legitimised to staff and the Government (discussed in the next chapter).

Over a number of years Modernisation was used to justify almost all changes in the Revenue Office and became the theme that legitimised policy changes. Gaining acceptance of the major changes by staff and the Government, when there had been criticism of Charisma’s management by these reviews, required the excellent skills of an entrepreneur. As Quinn suggests:

> Successful corporate leaders who give direction to the organisation in a strategic sense frequently do so by providing an image or pattern of thinking in a way that has meaning for those involved.

Quinn 1980, as quoted by Smircich and Morgan 1982

The importance of this policy cannot be over emphasised. It was a $1.2 billion project. Charisma described it as the largest Public Service change to take place to that time (Revenue Office, 1988a: 9). It created an image of Charisma as a manager and promoter of large changes. It was also suggested that he had created his own ‘perestroika’ (Dodd, 1991: 12).
1 The review, 'Problems in the Revenue Office' (Government Expenditure Committee, 1986) had addressed the Revenue Office as it had existed. It was the purpose of the suggested new review to consider the Revenue Office's future capabilities to solve the problems that had been identified.

2 In his response to the Government Committee on Finance and Public Administration, Charisma, suggested that evidence for low morale was only 'impressionistic'. He suggested that there was no morale problem in the Revenue Office. However, only a few months later the first staff attitude survey confirmed low morale (Revenue Office, 1988b; Revenue Office, 1992a: 68). In the Public Accounts Committee review low morale was also suggested as one of the reasons for the development of the Modernisation program (Public Accounts Committee, 1993: 124).

3 In this speech Charisma comments and supports government policies which was an unusual process for the Commissioner (Charisma, 7 November 1988: 2–3).

4 See, for example, the Commissioner's Overview in his 1986-87 Annual Report, where the main themes were self-assessment and IT as drivers of change (Revenue Office, 1987: 2–6).

5 The three main areas were all mentioned in the Revenue Office Annual Report 1986–87. While Office Structures Implementation (OSI) was only in its initial stages (Revenue Office, 1987: 34), IT and decentralisation were discussed in the Commissioner's Overview (Revenue Office, 1987: 4–5).

6 It is suggested that the Revenue Office was, in the main, reactive. Charisma responded to problems as they were identified by other groups, particularly the Auditor-General and parliamentary committees. However, the timing is often quite difficult to determine accurately as some issues may have been discussed in the organisation before the review publicly announced its findings. Also, meanings can be changed. A document on IT issues from a systems perspective can later seem to suggest it had a more people approach. However, the Revenue Office generally did not lead in the overall change process. In documenting past events the Revenue Office often suggested a favourable interpretation of events. For example the IT High Level Integrated Design document was criticised for its lack of system integration by the Committee of Public Accounts (Committee of Public Accounts, 1987: xii). The direction and management of change, including the IT strategy was criticised by a government review (Program Management Performance Review, 1987: 45). However, the Revenue Office submission to the Committee Public Accounts (CPA) suggests it was part of the Revenue Office process and did not identifying the review (Revenue Office, 1992a: 63–64).

7 Steady was a manager who worked in the Revenue Office. During most of the period of this case study he was a Second Commissioner and manager of the large Modernisation policy. He had spent most of his working life in the Revenue Office. Most of the positions he had held were in the tax technical areas. He was eventually promoted to Commissioner. See Appendix 1 for his positions in the organisation charts during the period of this study.

Note: Steady is a pseudonym. The name can be made available by the author to examiners and others on a need to know basis.

8 Although work and job design and IT projects existed together in the Modernisation project, the work was conducted separately until the early 1990s. These issues are the subject of Chapter 8.

9 May Gibbs was recruited from another government department to assist with the implementation of OSI (Mathews, 1992: 45). She was a senior manager of the Peoples and Structures Branch. The OSI process provided the experience to implement work and job design which was identified as a problem in Program Management Performance Review (1987). This provided her with considerable influence and a key role in the Modernisation policy. She was later promoted to First Assistant Commissioner of the Corporate Services Group and later to Second Commissioner. See the Revenue Office Organisational Structure in Appendix 1.
Note: May Gibbs is a pseudonym. The name can be made available by the author to examiners and others on a need to know basis.

10 The Government disbanded a government department, so staff moved to other government agencies. May Gibbs, and a number of other staff, moved to the Revenue Office. These staff brought a 'people' focus to the Revenue Office. The setting up of the People and Structures Branch was based on a recommendation of the Program Management Performance Review (1987) (Charisma, November 1988: 10).

11 This change described the structure to be put in place to coordinate the Modernisation project (Steady, 1990: Part 3).

12 See Revenue Office report that shows May Gibbs in the position of Second Commissioner (Revenue Office, 1994: 4-8).

13 The justification for the decentralisation policy was also questioned in 1989 by a senior staff member (Appendix 3, Ref. 1.1).

14 One senior manager suggested that decentralisation was a policy that supported the government by building new offices in their electorates (Appendix 3, Ref. 4.1).

15 See Senator Knight's dissenting report in the report of the CPA Committee where she outlines some of the difficulties that the Revenue Office faced, including additional funding for excess staff (Joint Committee of Public Accounts, 1993: 154).

Note: Knight is a pseudonym. The name can be made available by the author to examiners and others on a need to know basis.

16 These working conditions were described in Chapter 4.
Chapter 7

A Legitimisation Process

Introduction

The stated purpose of this thesis is to provide a way of understanding policy formulation. This chapter progresses that aim by examining the ongoing legitimisation processes used by Charisma for the solutions described in the last two chapters. The two previous chapters have discussed policy formulation from a point view of a decision process, that is the actions that create social meanings for solutions or problems. In this and the remaining chapters the continued adjustment of the social meanings supporting these policies and their legitimisation is examined.

The model proposed by this thesis suggests that people may use any means, including forms of power and influence, to advance their own solution and problems. As has been described in Chapter 4, a solution existed before a problem developed to which it could be matched. In Chapters 5 and 6 existing solutions were matched to problems identified in various review processes. This chapter looks at these policies as part of an ongoing continuous social process, where meaning is continually adjusted to legitimise the policies in the changing social context in which they exist. In this process the role of the entrepreneur is critical. It is the entrepreneur who causes innovation to be accepted through the generation, translation, and implementation of new ideas (Roberts and King, 1991: 128).

To define a situation in a way that was acceptable to the Government and staff, Charisma used inter-subjective typifications about rules, beliefs and ideas and other meanings to try to align people’s meanings on problems and solutions. This is a process of drawing attention to situations and events in ways that are consciously or unconsciously designed to shape the meaning of the problem and solution (Roberts and King, 1991). This transformed complex situations into something more discrete with a specific pattern of meaning. Therefore, typifications were an important tool in the management of meaning (Smircich and Morgan, 1982: 261, 263).

The Government reviews had provided much of the framework for Charisma’s solutions (see Chapters 5 and 6). Consequently Charisma focused on bringing the ideas presented or
suggested by others into a logical and explainable framework. He presented the perception that all the recommendations of the reviews were part of his coordinated and logical overall plan. As Kingdon suggests:

Policy entrepreneurs play a major part in the coupling at the open policy window, attaching solutions to problems, overcoming the constraints by redrafting proposals, and taking advantage of politically propitious events.

Kingdon, 1984: 174

To legitimise these changes, Charisma used inter-subjective typifications that had broader general public appeal to shape the meanings of the situations. Typically these were based on ideas such as rationalist approaches to decision-making, academic models of management, scientific proofs, ideologies, and organisations and functions that have a legitimate role in the community. They were also based on beliefs that staff participation was necessary in the process of developing computer systems and that to change organisations there was a need to change the organisational culture (Revenue Office, 1988b: Jans et al, 1989).

The process of legitimisation described in these remaining chapters was aimed at creating meanings for the problems and solutions discussed. Descriptions of the processes of legitimisation have been discussed under separate headings. However, it is important to understand that all the processes were carried on at the same time and created a complex context for the legitimisation of the policies. From 1986 to the end of his period as commissioner in 1992, Charisma began to create his policy patchwork quilt by defining meanings that would establish patterns and colours to legitimise the broad decisions he had made.

Modernisation and IT as part of a legitimisation process

The term ‘Modernisation’ should not be seen as simply a name for a policy but also as a legitimation process. To place all the projects under one title that suggested a progress to create a modern office would certainly be acceptable to staff and the community. If this perception worked (which, from the evidence gleaned over the years, it seems to have) it would legitimise all projects associated with this policy. Charisma suggested these policies were a process of developing the ‘…Taxation of the Future…’ (Charisma, 7 November 1988: 6).
Under Modernisation, technology was part of a five-year plan to replace the aging Revenue Office’s computer systems (Mathews, 1992: 43). This was to change the work practices of many of the 18,000 Revenue Office staff (Mathews, 1992: Chapter 5) - a frightening prospect for people unfamiliar with technology. In 1989 it was said that ‘giving Modernisation to the Tax Office was like giving a microwave to a dinosaur’ (Revenue Office, 1992a: 179). Technology was made acceptable to staff through a process of policy legitimisation.

In the late 1980s the Revenue Office’s management began to focus on creating a context of meaning to gain Revenue Office staff’s support for the possible changes that would be created by the proposed use of technology. This was done by a number of processes. First criticism from the Government and the Auditor-General’s review process had created some acceptance by staff that change was needed. But the costing and creation of the Modernisation policy made it seem that an overall process of change was legitimate. This was a large project that was presented as an approved direction in which to proceed and an accepted context for the change process.

Second, a range of meanings was created for technology that would legitimise its use to staff. Charisma began to create the belief that staff were ‘in control of the technology’ that would change their work processes. Initially the main method to create this social context was to suggest that they would participate in the development processes. The Modernisation Project Handbook detailed the participation and consultative process for staff involvement in projects (Revenue Office, 1988b). Committees were used to ensure participation and staff were asked to initiate change processes (Revenue Office, 1988b: 30–36). It was suggested that staff participate in all work and job design processes and the Revenue Office would ensure that technology assisted to enhance their skills (Revenue Office, 1988b: 12–15). The handbook also stated that IT would create ‘worthwhile and satisfying jobs’ (Revenue Office, 1988b: 12). These guarantees softened the image of change and IT.

To encourage participation Charisma implemented a decentralised development policy (Revenue Office, 1988b: 13). Major projects were initiated in branch offices away from National Office to creating a meaning that the ‘workers’ controlled the development and change process.

In the late 1980s Charisma began to present technology with a soft image by portraying it as a ‘tool to assist staff to do their work’ (Charisma, July 1988: 13). This suggested that staff
would always be in control of how technology would be used to assist in their work rather than replacing them (Revenue Office 1988b: 18). The agreement between the Revenue Office management and the union addressed many of the concerns of staff, including a statement that no staff would be made redundant by Modernisation (Revenue Office, 1990a: para 3; Revenue Office, 1988b: 13). The wide-ranging issues addressed in this document were aimed at reducing staff resistance to technological change.

The creation of meaning for technology completely altered the image of IT in the late 1980s. However, as argued in this thesis, the meanings that support policies and continue to maintain their legitimacy need to be continually adjusted as the social context for the policies change. Charisma, as entrepreneur, continued the legitimization process to support his policies. In the early 1990s technology was also changing, or threatening to change, the structure of most of the jobs in the Revenue Office. Changes to jobs and the Revenue Office climate was summarised in the 1990–1991 Annual Report:

We’ve moved a long way from a traditional, hierarchical structure towards a more participative style where individuals, in teams, carry greater responsibility for their own work, and where managers act as leaders, coaches and mentors.

Revenue Office, 1991a: 7

Lower level staff, representing some 50 per cent of the total staff, would have their routine jobs carried out by computers (Stein, 1992: 5). Charisma changed the meaning context for technology to suggest technology would improve the quality of work and create ‘whole jobs’ for staff (Revenue Office, 1992a: 62). It was proposed that staff would not be required to do small repetitive parts of tasks as they had in the past. Modernisation was supposed to break down the Tayloristic work practices that had existed in the Revenue Office (Revenue Office, 1992a: 62–64). Jobs would be joined to make them more worthwhile, satisfactory and interesting, and to include a combination of tasks to make a complete job (Revenue Office, 1988b: 11–14). The result of the changes were presented as resulting in an upward shift in the classification levels as staff moved into more value-added jobs (Stein, 1992: 5).

Charisma was able to use the changes in the structure and method of work to his advantage. In 1991 Charisma stated that taxpayer help would be provided by teamwork (Charisma, 10 May 1991: 1; Charisma, 14 May 1991: 1) and the Revenue Office was moving ‘towards oneness’ supported by teamwork (Charisma, March 1991: 5). Modernisation projects provided a more diverse and interesting way of working¹. Finally, as described below, people would replace technology as the main policy focus under Modernisation.
Working conditions as a legitimisation process

In the early 1990s Charisma began to provide legitimisation for his policies through a greater focus on management and people (Revenue Office, 1988a: 135–139). The initial focus on work and job design was initiated to solve a problem identified by the Government Review of Performance. He suggested that since IT would change the jobs of staff, there needed to be a process of job design to ensure that workers’ requirements were included in the overall design of systems (Revenue Office, 1988a: 6–7). However, as discussed in the previous chapter, the policy was separate from the IT development policy; although it was placed under the Modernisation umbrella and presented as an integrated solution, it was clearly focused on the redesign of jobs affected by the Office Structures Implementation (OSI) restructure⁶.

As the head of the new People and Structures Branch, May Gibbs, used the ideas and meanings developed through the implementation of the new staff structures and in dealing with the unions as a basis for establishing a recreated people policy (Mathews, 1992: 45). Gibbs drew the meanings together into a complete policy for staff that was presented in the OSI Handbook developed by her Branch and used as the basis of meaning creation for staff in the late 1980s (Mathews, 1992: 45–51; Revenue Office, 1988b). The principles were stated as providing staff with skilled, more interesting and whole jobs (Revenue Office, 1988a: 135; Revenue Office, 1988b: 3, 12).

Gibbs’ developments were also supported by another people issue created by Charisma. Charisma established a Human Resources Sub-committee (HRM) to support the concept of ‘people’ as critical to the success of the Modernisation project and the continuing success of other programs (Revenue Office, 1992a: paras 4.50–4.52). In August 1990 a HRM conference was held where it was agreed that people were an integral part of Modernisation (Revenue Office, 1992a: para 4.50). By 1991 Charisma was stating in his annual report the advantages of ‘the people path’ (Revenue Office, 1991a: 5–6). In this document he claimed that the Revenue Office had turned the corner and was beginning to see the benefits from the ‘investment’ in people. This report and the report to the Committee of Public Accounts had large sections devoted to the people and personalities of the Revenue Office, helping to create a perception that the staff were important in the overall operation of the office (Revenue Office, 1991a: 6–8; Revenue Office, 1992a: 6).
During this legitimisation process people became the Revenue Office’s ‘most important asset’ (Revenue Office, 1992a: 6). We see that meaning surrounding the changes under the Modernisation policy were altered from those based on technology to those that would be more acceptable to staff — a people perspective (Revenue Office, 1991a: 6). Charisma also purported the ‘value’ of trust:

Trust: We trust our staff and clients to do the right thing—unless appropriate risk management shows that trust to be ill founded.

Revenue Office, 1992b: 2; Revenue Office, 1991b: 3

This concept is examined further in Chapter 8 on legitimising change to the public, but trust was also a powerful inter-subjective typification to use with staff. He was suggesting that he trusted his staff and obviously wanted them to trust his change program (Revenue Office, 1992a: 62).

The changes were also supported by shifts in the meaning of the decentralisation policy. The objectives of decentralisation policy were changed from modern offices to support the introduction of technology (discussed in the last chapter), to a policy supporting staff. Staff would be able to choose where they wanted to work and, in most cases, they could find an office closer to their homes (Revenue Office, 1992a: 55). This policy also suggested that the accommodation standard would be greatly improved. Decentralisation became a central plank of changes to organisational culture (Revenue Office, 1992a: 42). It created:

...human sized manageable offices, which are structured to give people within one work location, a range and progression of career opportunities.

Revenue Office, 1992a: 42

Decentralisation now supported the working conditions and opportunities of staff because they would have more meaningful and rewarding jobs (Revenue Office, 1992a: 36). Under decentralisation staff would be ‘freed’ from routine production-line processing and have better jobs as professional service providers. This would involve the Revenue Office in every aspect of people management (Revenue Office, 1992a: 42, 53–55). Therefore, in the late 1980s, the image associated with technology had been downplayed to concentrate on a positive image of work and jobs. The 1990–1991 Annual Report claimed that these negotiations and change management processes had worked and commitment to the organisation and its change program had increased from a commitment level of 35 per cent in
1989 to 81 per cent in 1991 (Revenue Office, 1991: 7). One survey suggested that all the 'variables' targeted by job design showed improvements (Jans et al, 1989: 8).

Charisma also began to rely on the use of training and seminars to build commitment. Courses were used to facilitate and support the changes in meaning for all staff (Revenue Office, 1992a: para 3.211). The course 'Management in the Nineties' included the 'involvement of senior executives in the delivery of training...to ensure a creditable message from people already setting an example of good management practice' be provided to middle managers (Revenue Office, 1992a: 75). Charisma commissioned a review by consultants to identify the training requirements to focus on leadership, culture and performance. The Revenue Office acted on the 45 recommendations and suggested that middle management should be modelled from top management (Revenue Office, 1992a: 75).

A degree course was undertaken in conjunction with a University (Revenue Office, 1992a: 74). Other courses were designed for Administrative Services Officers (Grades 1 - 2) to provide training in taxation and operating procedures in the Revenue Office (Revenue Office, 1992a: 73). These courses were presented under a Human Resources Development (HRD) policy that recognised the need to provide a high level of service to the community and staff would be trained to provide that service (Revenue Office, 1992a: 73). These courses carried a consistent message to staff to ensure they had the right values and ethics, and to 'build shared understandings and commitment' (Revenue Office, 1992a: 75). Values sought were those stated in the corporate plan (Revenue Office, 1991b: 3) and were also tied to people's personal values (Revenue Office, 1992a: 5). These values contributed to the perception of an organisation described as having 'a strong sense of family' (Revenue Office, 1992a: 9).

Risk management was another management ideology that supported a large group of intersubjective typifications that could be used to support the creation of particular meanings. It was used particularly to legitimise many of the changes in taxpayer compliance (Revenue Office, 1992a, Attachment 3.15 p. 3) to be discussed in the next chapter. The concept also supported the value of trust.

In 1986 people in the Revenue Office did factory-type work and were treated as though they did. By the 1990s there was a different view of staff. They were now the 'Revenue Office's greatest asset' (Revenue Office, 1992a: 1, 5). Therefore, the logic to support policy was
developed over a number of years, changing as the circumstances changed. It was an ongoing process where the meanings were manipulated and changed.

**Using management typifications to legitimise changes**

In the late 1980s the Revenue Office’s management also used another context of meaning to legitimate all the changes under Modernisation. This context was based on publicly accepted management ideologies introduced into the vocabulary of the Revenue Office. The initial one was the ideology of ‘culture’. It was the first of a series of terms that were used to create a modern image for the Revenue Office. There was a great interest in the topic of culture in this period indicated by the many theses and journal articles which dealt with this subject written at this time. This typification brought with it a whole literature base that could be referenced to support what was being proposed.

Major reports began to refer to the need to ‘change the culture of the Revenue Office’ (Revenue Office 1988b: 7; Revenue Office, 1992a: 7). One of the objectives of OSI was to ‘bring about cultural change’ (Revenue Office, 1992a: 29). The ideology was brought in ostensibly by May Gibbs, but other people in the Revenue Office supported its use, particularly Grant Mogul, the consultant who headed the new Taxpayer Audit area. ‘Cultural change’ was a term used to suggest to staff that change was inevitable that all organisations were subject to change, and that it should be accepted (Revenue Office, 1992a: 62). Culture was also seen as an important aspect of the change process in a staff survey conducted (Jans et al, 1989). Therefore ‘cultural change’ was used to suggest that the changes required by policy should be accepted as part of normal organisational life.

In order to manage the changes brought about by Modernisation, the Revenue Office needed to be seen as an innovative organisation that could administer the large projects it was undertaking. Charisma initiated the development of a context that would suggest that the Revenue Office was an effective and efficient organisation. He accepted the criticism and agreed to the recommendations (Revenue Office, 1987: 4, 16; Revenue Office, 1988: 2) and initiated the design of a corporate plan for the period 1987–1988 that focussed on key issues identified in the Government Review of Performance. He further agreed to report progress each July in the years 1987, 1988 and 1989 (Government Committee on Finance and Public Administration, May 1988: paras 5.2.5–5.3.1).
A more fundamental and general management change also took place over the period from 1987 to 1992. Charisma encouraged an overall management ideology to a leadership model (Revenue Office, 1992a: 7) where:

All leadership is show business. That doesn’t mean tap dancing; it means shaping values, symbolising attention - and it is the opposite of administration. The leader (not manager) is a cheerleader, enthusiast, nurturer of champions, hero, finder, welder, dramatist, coach, facilitator, builder.

*A Passion for Excellence* quoted in Revenue Office, 1992a: Attachment 4.7: 11

In the 1990s he began to use quotes from management writers such as Peter Senge (Charisma, 4 June 1991: 4) Tom Peters, CEO of IBM, and Antony Jay (Charisma, March 1991). This was a totally different concept from the approach of the late 1980s. As Kingdon suggested, initiators of ideas wait until a window of opportunity opens and attach their solutions to the problems (Kingdon, 1984: 190). A promoter of management ideas was also Grant Mogul who began to use his experience in the private sector to create new meaning for Revenue Office management. Mogul attempted to develop the perception of the Revenue Office as an ‘enterprise’ organisation (rather than a bureaucracy), similar in operation to a private enterprise body (Mogul, 1992). He suggested that most of the large private organisations in Australia were still bureaucracies. However, the Revenue Office had passed this to be a ‘learning organisation’ (Mogul, 1992). In its submission to the Committee of Public Accounts, the Revenue Office claimed that by 1992 it had become a ‘matrix management structure’. This had required a massive cultural change (Revenue Office, 1992a: paras 4.24–4.25).

**Gaining government support**

Charisma differentiated between findings of government committees and the Auditor-General. To achieve government support his first strategy was to accept the proposed changes. For example it was stated that:

...the Government’s commitment to workplace bargaining provides us with an opportunity to build on our recent efforts and to work ever more closely and co-operatively with our staff and unions in managing change and developing a productive culture.

Revenue Office, 1992a: Attachment 4.7: 12
In Charisma's speeches he spoke as though the findings were encouraged by him (Mathews, 1992: 4). The recommendations were praised and implemented without question. Mathews suggested that he used the findings as ammunition in his campaign for change (Mathews, 1992: 4, 23). This was the broad basis of achieving government support. However, many of the findings were based on Auditor-General's reports and these were disputed and often rejected by Charisma (Juddery, 1986: 32; O'Reilly and Sykes, 1988: 26). His continued acceptance of government ideas and ideologies began to bring him into conflict with people who suggested that he lacked independence (Committee of Public Accounts, 1993: 430–431). His public support for an Australia Card (Charisma, Nov 1987: 2–3) and the Fringe Benefits Tax (Charisma, November 1987: 6) were examples. This criticism was answered in a lengthy statement in the 1988–1989 annual report on the role of the Commissioner (Revenue Office, 1989: 4–8).

To maintain government support, Charisma created the perception that the Revenue Office was a more friendly and open organisation that supported public participation. He opened the organisation to outside influences by introducing committees which included representatives from the community. The Tax Liaison Group commenced in March 1985 and the Commissioner's Advisory Panel commenced on 9 May 1989 (Committee of Public Accounts, 1993: paras 3.110–3.115). These committees had little power to introduce change (Committee of Public Accounts, 1993: paras 3.127–3.129). Further, the Revenue Office staff resented these committees and suggested that they tried to influence decisions to support their clients (Committee of Public Accounts, 1993: 37, 58). But the Government committees supported the concept and felt that they had a very positive influence on administration, suggesting that the role be strengthened (Committee of Public Accounts, 1993: para 3.131).

The success of this legitimisation can be gauged by the support the Revenue Office received. In the late 1990s the Government began to use the Revenue Office to undertake:

...revenue collection roles which can most appropriately be aligned to social policy objective rather than general revenue gathering. That is, the Government has utilised the expertise of the Revenue Office in revenue collection for the purpose of advancing social schemes.

Committee of Public Accounts, 1993: 35

In particular these included the collection of child maintenance payments through the Child Support Agency, Higher Education Contributions (HECS), Medicare, Superannuation Guarantee and Training Guarantee Levy. This suggests that by the end of 1992 Charisma had
the confidence of the Government: his programs to legitimise his changes with the Government had been quite successful.

Conclusion

At the end of the period, 1987 to 1990, Charisma and his managers had drawn together most of the solutions for the problems identified by the Committees’ review process under the single title of Modernisation. Charisma stated that this ‘may well be the most significant program of organisational change undertaken in the Australian Public Service’ (Revenue Office, 1988a: 9). He saw the systems redevelopment, which gave staff technology to do their work, as being the driving force for change (Charisma, July 1988: 13; Revenue Office, 1988a: 6). Significantly, external groups and people had played a major role in the development of these policies. But more critically, Charisma had legitimised them by placing them within the same banner and bringing them together as if they had been planned in this way. The project presented an image of coordinated logical change. It had legitimised the changes and suggested that the Revenue Office was a rapidly changing organisation. Many solutions existed: all that was required was to find the problem(s) that they were to solve and more importantly to create an ongoing logic process to legitimise the policy changes.

Finally, it is important to understand that programs under Modernisation were separate. There was little integration of projects. This would be the next policy change to be legitimised and implemented. However, Charisma had now developed his policy patchwork quilt to the stage where it had particular colours and patterns. Over the period 1987 to 1990 these had been developed and enhanced. Now all changes needed to ‘fit’ with these patterns. The policies of IT, job design and decentralisation and the new style of management, service, trust, participation etc would limit the opportunities that were available for change. It would no longer be possible to completely change the approach that had been proposed. This will be the subject of examination in the last two chapters. To use another analogy, Charisma, as the juggler, had thrown a large number of balls into the air. He had so far succeeded in keeping them in the air; however, as more balls needed to be added to solve problems it would become increasingly difficult to keep the act going.
1 This is a significant theme in the submission to the Committee of Public Accounts (CPA) Review. Also, Charisma played down the importance of the review process as a driver of change. A review of the document shows that the Revenue Office took much of the credit for the changes process (Revenue Office, 1992a). For example, the change process around IT was driven to a large extent by the Auditor-General and the parliamentary review process as shown in Chapter 4. However, this was not accepted in the Revenue Office's submission to the Committee of Parliamentary Accounts (Revenue Office, 1992a: 63–64).

2 The opening of a policy window, referred to by Kingdon, is the result of an event that makes a change possible—for example the crash of an aircraft opens an opportunity for an entrepreneur to propose a new policy on air safety (Kingdon, 1984: 176).

3 In 1980 the majority of the day-to-day work of collecting and processing tax was carried out in Branch Offices. Therefore the majority of staff were located in these offices (See Revenue Office, 1989: 145 for the staff numbers in each Branch and Revenue Office 1992a: Attachment 5.17 for salaries). To gain acceptance of change Charisma had to convince these staff that there was no threat to their jobs from IT technology.

4 This idea would eventually be incorporated as a philosophy in the Revenue Office plan (Revenue Office, 1992a: 5).

5 At a project meeting in Parramatta I met one woman who had only been to one course outside the state in which she worked. For that trip, she had to travel by bus because there were insufficient funds for her to travel by plane. At this meeting, however, she was driven from her hotel to the meeting and returned each day by a hire car. She later made frequent trips to Brisbane to advise on changes. This was a complete change from her previous working life. The change was provided by Modernisation funding.

6 The Revenue Office’s 1988 Annual Report clearly shows that the focus of the work and job design was on the impact of OSI to support the implementation of IT. No concept of job redesign was considered (See Revenue Office, 1988: 135–139).

7 See for example Izraeli and Jick, 1986; Allaire and Firsirotu, 1984; Pennings and Gresov, 1986; Pettigrew, 1979; Gagliardi, 1986.

8 Mogul came from private enterprise and was able to use this experience to his advantage during his time in the Revenue Office (Appendix 3, Ref. 2.7).

9 As shown in the submission to the Committee of Public Accounts, Mogul’s responsibilities included ‘Promoting people and culture development’ (Revenue Office, 1992a: 127).

10 Charisma often disagreed with the findings of the Auditor-General (See Government Committee on Finance and Public Administration, May 1988: Chapter 2). He refused the Auditor-General entry to his office to conduct audits (Government Expenditure Committee, 1986: ii) and also took the unprecedented step of commenting on audit findings in his annual report (Revenue Office, 1992b: 4).

11 For an example of this issue see ‘A Review of the Revenue Office’ where the disagreements were a major issue discussed in the review. (See particularly Government Committee on Finance and Public Administration, May 1988: paras 2.3.1–2.5.3). Also of interest is a comment in Charisma’s speech where he claimed that the Auditor-General told the Revenue Office what they already knew (Charisma, September 1986: 14).
Chapter 8
A Change of Meaning for
Revenue Office Policies

Introduction

The policy initiatives examined in this chapter are a continuation of those initiated by the implementation of self-assessment (discussed in Chapter 4). The chapter explores the way that the core self-assessment policy, previously proposed as a ‘logical’ change, was reformulated. It further analyses Charisma’s and other individuals’ use of ‘legitimising’ processes to influence, modify and manipulate the meanings that were attributed to problems and the self-assessment policy solution, particularly, the ongoing legitimisation of the self-assessment and compliance policies to the Government and the taxpaying society in a changing social context. The compliance policies and the resulting increased focus on the audit role are examined within the social context created by the Modernisation legitimisation processes (discussed in the last chapter).

As well as criticising his lack of ability to manage the development of new systems, many reviews also brought into question Charisma’s ability to manage the collection of taxes. The legitimisation processes of the Modernisation policy also set the internal Revenue Office’s social context for the compliance policy.

Policy manipulation and service to clients

Policies that addressed taxpayers’ compliance with the tax law were always a major focus for the Revenue Office. Compliance had been important from the time of the avoidance schemes in the late 1970s (as discussed in Chapter 1). The compliance policy of self-assessment was probably the largest policy development in the Revenue Office and, in terms of importance to the Government revenue, may have over-shadowed Modernisation (Revenue Office, 1992a: para 7.28). With the introduction of self-assessment the Revenue Office placed greater reliance on the audit process to ensure people paid the correct amount of tax (Charisma, Sept 1986: 9; Committee of Public Accounts, 1993: para 11.17).
Communication of ideas and changes

To manage the meaning that supported his policy changes Charisma needed to be able to communicate his ideas to staff and the taxpaying community. His communication strategy had began in the legitimisation process of self-assessment initially discussed in Chapter 4. However, in the period 1988 to the time of his resignation in 1993 Charisma recognised the different relationships of his audience and employed many techniques to gain acceptance of his policies and actions. In many ways there is a high degree of anonymity in the socialisation process (Berger and Luckmann 1967: 142) so that only the pure features of roles become evident (Jehenson, 1973: 225). Charisma existed in an impersonal relationship with the majority of his staff and the taxpaying community, and was able to use this anonymity to his advantage.

In the processes discussed in this chapter Charisma initially relied on speeches to the public (at clubs, professional societies and so on) and to staff to convey his ideas, and to facilitate his legitimisation process. Through such a detached process he was able to very effectively communicate on broad issues in generalities. In this period he also began to make greater use of the media. Charisma established a very effective media unit to present his views to the public and to continue to legitimise his policies (Media, 1988). While this became common in many departments in the 1990s, it was an innovation in the 1980s. The Media Unit was responsible for creating a positive image and as stated in a speech by Jenny Media3 (a pseudonym), to senior officers, much free publicity was to be gained by getting the press on side (Media, 1988: 6). Charisma began to create special units and branches to control and support communication (Story, 1990). The introduction of the Taxpayer Service Group discussed below was one such group.

An assertive program of audits

In a speech in September 1986 Charisma outlined the Revenue Office's long-term policy to focus on the use of audit to enforce compliance (Charisma, September 1986). Typically there were statements such as '400 additional auditors' and 'ensuring a two per cent audit coverage' (Charisma, June 1986: 11). A year later, the themes were similar (Charisma, September 1987). In this speech there was acceptance that the majority of taxpayers complied with the law and the Revenue Office had provided service to these people and had reaped the benefits. However, again the main focus was on the assertive audit program with little mention of service or help (Charisma, Sept 1987)4. Therefore, in period from 1986 to
1987 his speeches focused on tax technical issues and the enforcement of compliance through the audit process.

Later Charisma refined this broad legitimising meaning for the compliance policy. Based on the public’s belief that the ‘big fish’ always escaped paying their tax (Charisma, June 1986: 11; Hill and Knowlton, 1987: 2), different audit strategies were proposed for different classes of taxpayers. Taxpayers were divided into three audit categories: complex audit, business audit and primary audit in 1986 to 1987 (Papps et al, 1987). Then Charisma initiated a project to audit the top 100 companies in Australia (Mathews, 1992: 31). This was an idea taken from the USA and Canada (Charisma, November 18 1988: 6; Charisma, September 1987: 9). Charisma claimed that between March 1988 and 26 February 1992 this program raised assessments of $2.786 million (Committee of Public Accounts, 1993: 258). Media coverage gave Charisma the opportunity to present the Revenue Office as addressing the imbalance between the rich paying little tax (the ‘big fish’), and the poor paying the majority. He was also able to use the media to present an image of the Revenue Office providing a service to the community by collecting the revenue that was used to support community projects such as roads, health and education (Charisma, September 1987: 1). Because the beliefs that supported this policy change were strongly held in the community, Charisma was able to claim that he had the support of the community for his new assertive audit program (Revenue Office, 1990b). This approach brought an equally aggressive response from those who were the focus of his aggressive audit program, suggesting that the Revenue Office did not understand the companies they were auditing. However, news articles reporting the low level of tax paid by some of Australia’s wealthiest citizens maintained the public support for this strategy.

To continue to legitimise his assertive policy Charisma tried to create a context of meaning through public speeches, suggesting that only people who had something to hide should be worried about the methods used (Charisma, August 1988: 9–10; Charisma, February 16 1989: 3). He also suggested that if some of the community did not pay their fair share of tax then the rest of the Australian community had to pay a large amount (Charisma, September 1988: 1, 2, 8). Charisma also introduced the idea that the audit process was working for the good of the Australian community by enforcing compliance (Charisma, September 1988: 7). So Charisma’s focus up to 1988 was to create meaning that suggested that audits were positive action taken to eliminate the tax schemes (Revenue Office, 1992a: 24). These legitimising processes for the new audit policy had a significant impact on the image of the Revenue Office. The Committee of Public Accounts:
As discussed above, Charisma realised the importance of having the facilities to control communication with the paying public. A new function called the Taxpayer Service Group (TSG) was created in 1986–1987 to carry out this role. This group was responsible for media, public information and internal communications strategies and, by the end of 1988, had a staff of 1800 (Revenue Office, 1988a: 79–96). This new group attracted people with different perceptions. Many of the staff were women with qualifications in journalism or communications. This group was the first of a new type of function within the office and began to change the climate in the Revenue Office. The staff in TSG were not totally tax technical and saw themselves as being innovative. While the focus was on communication with taxpayers it also provided Charisma with the capability to provide other information through the media. For example, the TSG provided the capability to address the criticism raised by the audit of the top 100 companies described above. While groups like this are now part of many public service organisations their introduction into the conservative Revenue Office caused major change in the organisation (Story, 1990).

Creating a social context built on clients, markets and service

Charisma stated that he had always been conscious of the need to maintain public support (Revenue Office, 1992a: 32) because he believed that such support would ultimately mean that taxpayers would comply with the taxation law and voluntarily accept the need to pay their tax (Revenue Office, 1992a: 30; Charisma, November 1987: 9; Steady, 1987: 2-3). In this context Charisma had to maintain public support for his compliance policy. However, drawing the self-assessment policy solution from the ‘solution soup’ also brought with it a number of other problems. Initially, the legitimisation process concentration on using the audit process to create a meaning of enforced compliance had a positive outcome. Charisma was able to show the public that he was serious and effective in collecting tax from those who tried to avoid paying (Charisma, June 1986: 11; Charisma, September 1986: 3, 10–18; Charisma, September 1987). However, problems with using this legitimisation strategy started to become apparent at the end of 1987 when certain sections of the community began to question Charisma’s tactics (Charisma, August 1988: 9). Charisma now required other meaning to support self-assessment and compliance with the tax law.
Smircich and Morgan (1982) suggest that leaders create dreams for others to gain their support (Smircich and Morgan, 1982). The meaning of this metaphor depended on the context (Smith and Simmons, 1983) and the management of meaning. In this way, leaders use typification as a tool to manage meaning in an organisation (Smircich and Morgan, 1982: 263). As part of an ongoing process of legitimisation, Charisma began to manage meaning to create an image of a more service-orientated approach aimed at gaining public support and compliance with the tax law (Revenue Office, 1992a: 30). This process took place in the same period that Charisma, Gibbs and Mogul were using ‘cultural change’ - private sector images - and had begun to stress the importance of staff and the role of service in the success of the Revenue Office. This process was integrated within the context of meaning that was developed at the same time for Revenue Office staff (as described in chapter 7).

To create a new meaning to support the compliance policy Charisma began a process to open the Revenue Office to community involvement (Revenue Office, 1992a: 30). Charisma now began to introduce the inter-subjective typifications of private enterprise capitalist organisations to legitimise his compliance policy. Taxpayers became ‘clients’ of the Revenue Office late in 1987 (Charisma, November 1987: 9, 21); a description that was to last for the remainder of his term as Commissioner\(^9\). Even though there was not really a two-way relationship where a service was provided by the supplier and paid for by the client, Charisma began to make speeches referring to markets, customers and products (Charisma, November 28 1988: 2–5). ‘Clients’ were separated into ‘market segments’ even though the Revenue Office did not sell any products (Revenue Office, 1992a: para 3.315). These ‘clients’ were analysed to identify characteristics of diversity and size (Revenue Office, 1992a: 38). The market was defined as an environment of different groups to which an organisation seeks to deliver value. The value to be delivered to the public were in the form of ‘products’ (Mogul, 1992; Revenue Office, 1992a: 38). The ‘market’ and ‘product’ image create a perception of a business providing goods and services to a willing recipient (Mathews, 1992: 151). The ‘service’ was the provision of information sessions and better documentation\(^10\).

The image of markets and clients created a context of meaning where the Revenue Office seemed more like a ‘normal’ private sector business enterprise. It also created an image unlike that of a public service bureaucracy, which supported perceptions of an efficient and effective private sector organisation that was at the forefront of innovative approaches (Mogul, 1992). With this image (inter-subjective typification) it was easier to legitimise
policies to staff, the Government and to the public. A number of very important concepts were built on this image.

**Trust and service as legitimating meanings**

In 1988 Charisma began to change his strategy in another way to legitimise his compliance policy. He suggested that there were two types of taxpayers, those who complied with tax laws and those who did not (Charisma, September 1987: 2). In 1988 the Government Committee on Finance and Public Administration recommendation suggested that the Revenue Office pursue a policy that addressed initiatives that could be applied to ‘honest’ taxpayers (Government Committee on Finance and Public Administration, May 1988: para 7.3). Charisma developed these ideas into two themes under a paradigm of ‘trust’. The first theme was aimed at those who could not be trusted and he proposed that these were the rich and powerful. This built on the public perception that the ‘big fish’ (Charisma, June 1986: 11; Hill and Knowlton, 1987: 2) and the rich did not pay their fair share of the tax burden (Hill and Knowlton, 1987: 2; Kitney, 1982c; Ryan and Kelly, 1981). This project concentrated on auditing this section of the community and the aggressive audit of the top 100 companies (Revenue Office, 1992a: 105). It was a continuation of his aggressive audit compliance policy discussed above. It received large media coverage and, initially, greatly improved the image of the Revenue Office held by the general public and, importantly, by the Government.

The second theme was for those who could be trusted and it was suggested that this was the majority of the tax-paying public. This was in contradiction to the approach previously advocated by the Revenue Office under the broad umbrella of taxpayer audit (Committee of Public Accounts, 1993: 246). The requirement of trust was stated in the Revenue Office planning strategy. The great majority of taxpayers were to be ‘trusted’ to pay the correct amount of tax and, provided that they were given the right assistance to interpret the law, would comply with its requirements. As was discussed in the previous chapter he had also tried to create the meaning for his staff that they would be trusted in their work. So the same meaning and the legitimation processes was created for staff and taxpayers.

Service was used to support the development of a meaning for the concept of ‘trust’. Traditional Revenue Office staff were seen as ‘very straight’ and believed it was okay to inform taxpayers what their obligations were but not their rights—to inform taxpayers of their rights would cause too much work in answering questions and providing information.
(Story, 1990). It would have been difficult to convince staff that they should provide a service to a community that they could not trust. Consequently a change in staff attitude was required: from the ‘siege mentality’ already noted, to a much more open perception of people (Hill and Knowlton, 1987: 1–2; Government Committee on Finance and Public Administration, November 1988b: paras 5.7–5.8; Government Committee on Finance and Public Administration, May 1988).

Service was provided to ‘trusted clients’ through education programs, shop fronts and volunteers providing information and help to people to complete their tax returns. Charisma used people who had a ‘popular image’ with the public to present new ideas. The Doug Anthony Allstars (an Australian rock/pop group) launched a package aimed at helping school leavers understand the tax system (Revenue Office, 1989a: 19) and Con the Fruiterer (an Australian comedian) helped sell the Higher Education Contribution Scheme (HECS) (Revenue Office, 1991a: 32, 90). In the submission to the Public Accounts Committee this new approach was described as a recognition that people failed to comply for reasons such as ignorance, a mistake or a genuine difference of opinion, so the Revenue Office should seek to find ways to assist and encourage future compliance (Revenue Office, 1992a: 40).

Charisma created the Taxpayer Service Group early in 1987 to provide service to taxpayers (Revenue Office, 1992a: 63). With many initiatives being conducted to create a perception of change 1989–90 became the year of service for the Revenue Office (Revenue Office, 1990b: 19–20). In May 1990 consultants were used to identify how the Revenue Office could ‘help’ clients comply with the tax law (John Little and Associates, 1990). In 1990 Charisma, on the advice of the consultants, created the Taxpayer Assistance Group to provide quality information, assistance and advice to taxpayers (Revenue Office, 1992a: Attachment 4.2: 1). This group consisted of approximately 2000 staff and utilised 10 per cent of the Revenue Office salary budget (Committee of Public Accounts, 1993: 225–226). These projects were a significant change in direction from an office that had previously focused on processing and enforcement (Charisma, 7 August 1990).

The focus on service in the compliance policy changed the direction of the Modernisation IT systems development. In this period, development began to focus on changing the core business systems that processed and stored large amounts of taxpayer data. The focus on service changed the role the systems would have in the Revenue Office. Rather than supporting an audit process they changed to supporting a service role. This impact of this change process is the subject of the next chapter.

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Management of tax collection—getting the right balance

These changes also allowed Charisma to claim a more ‘systematic’ or ‘scientific’ approach to the management of the compliance of taxpayers. The management of the audit function was a process of getting the correct balance between help and enforcement (Revenue Office, 1992a: para 4.88). A graph was created to show the revenue collected through service and the correct targeting of enforcement against actual community costs decreasing (Revenue Office, 1992a: Attachment 1.1). This allowed Charisma and his senior managers to create the context of meaning that suggested that management of the compliance policy was professional and effective because achieving the right ‘balance’ between the enforcement and service was an identifiable goal (Revenue Office, 1992a: para 4.88). To achieve this ‘balance’ Charisma claimed that the Revenue Office could employ risk management techniques against the market segments that had been identified (Revenue Office, 1992a: Attachment 3.15). For example, for small business, and salary and wage earner the approach is ‘more at a “being helpful” level than an investigative one’ (Charisma, November 28 1988: 6–7). This view would find acceptance with the Government and the general community.

Building an image for the public

To support all these major themes Charisma introduced a number of initiatives that also contributed to the legitimisation of his compliance policy. He took ideas from overseas and implemented them in Australia. The Amnesty program, which gave taxpayers who had not put in a return for a number of years the chance to provide a return without prosecution, was one such idea (Revenue Office, 1988a: 12–13). ‘The amnesty gives me the opportunity to show that the tax man is not an ogre’ (Charisma, July 1988: 15). However, the action was actually in response to the Auditor-General review of the Taxpayers in unincorporated Business (Government Committee on Finance and Public Administration, November 1988: para 5.3.1)13.

Community involvement in the tax system was an idea that Charisma used effectively to create a context that suggested a partnership with the taxpayers. Initially he suggested that there was a need to build a ‘fair and equitable tax system’ (Charisma, November 1987: 4; Charisma, September 1988: 6; Charisma, November 28 1988: 1–2). This was a perception that could build on the community’s beliefs about equality and fairness. Any organisation that was conscious of the need to be fair to the public would gain considerable public support (Charisma, November 1987: 21; Revenue Office, 1989a: 5).
In 1988, the bicentennial year, Charisma used the theme of ‘Taxes – Building a Better Community’ (Charisma, August 1988: 2). This presented the Revenue Office as an organisation providing a ‘service to the community’ and contributing to society. This motto was introduced on all stationery and continued to be built and used over the next few years to create a context of meaning. In 1988–89 Charisma stated in his Annual Report that the Revenue Office had adopted the theme:

...‘Revenue Office in the Community’ — a theme that was taken up by our Corporate Plan and now reflected in this Annual Report.

Indeed, this year has seen us play an important role in the community in taking the Revenue Office out from behind closed doors and working closely with the people who provide the taxes that ‘Build a Better Community’.

Revenue Office, 1989a: 1

By 1992 Charisma was suggesting that the tax system was owned by the taxpaying public (Revenue Office, 1992b: 5; Revenue Office, 1992a: 35). This idea was also combined with the idea that the Revenue Office reflected the values of the community.

Using a paradigm of values to legitimise actions

Values were used as a theme as part of the 1991 Corporate Plan which contained a statement of the values of the organisation (Revenue Office, 1991b: 3). The submission to the Committee of Public Accounts review stated in part that people’s personal lives were influenced by personal values, so the Revenue Office would have values that would influence staff as well (Revenue Office, 1992a: 5). In this way Charisma began to create a theme or picture of clients and staff working together to ensure that the correct amount of tax was being collected. This constituted a strong image for tax staff who had previously thought of taxpayers as the enemy (Hill and Knowlton, 1987: 1–2: Government Committee on Finance and Public Administration, November 1988b: paras 5.7.5–5.8.3).

The document ‘The Path to the Modern Revenue Office’ suggested that values were the basis of each of the Revenue Office’s initiatives (Revenue Office, 1992a: 5; Revenue Office, 1991a: 6–7). Values were used to suggest that the most valuable ‘asset’ for the Revenue Office was its people, suggesting that the Revenue Office needed values that would ensure satisfying jobs, good career prospects, excellent working conditions and allow staff to enjoy working (Revenue Office, 1992a: 5). These statements suggested that Charisma was going to create a climate that would meet these ‘values’.
All these themes were drawn together in the mission statement of the Revenue Office presented in the 1990-91 Annual Report:

An organisation of people equipped, trained and committed to helping taxpayers and other clients carry out their responsibilities under the law.

Revenue Office, 1991: 7; Revenue Office, 1991b: 3

The Revenue Office had completely changed its belief of the early 1980s, detailed above, where ‘everyone’s a tax cheat’ (Revenue Office, 1992a: 12) to where people, both staff and taxpayers, were believed to be trust worthy—‘We trust our staff to do the right thing’ (Revenue Office, 1992a: 39) and ‘our staff are our most valuable asset’ to ‘provide the appropriate level of service to enable clients to voluntarily comply with the law’ (Revenue Office, 1991a: 2). In the 1990s Charisma applied the concept of values to job design and service to underpin the integration of IT and service. This will be discussed in more detail the next chapter.

Conclusion

This chapter shows how one change fed off another. As solutions were drawn from the policy soup other problems were introduced. In this chapter, we have seen Charisma cleverly continue to address these issues in an ongoing policy formulation and legitimation process.

The changes also shifted the climate and meanings held in the organisation. Service to clients had become an important function and served to underpin all the inter-subjective typifications attached to this concept, such as ‘trust’ of taxpayers and staff. ‘Trust’ was also an emerging organisation ‘value’ that became enshrined in the management philosophy of the Revenue Office (Revenue Office, 1992a: para 3.130). The idea brought a much greater emphasis on service (Revenue Office, 1992a: para 3.308).

Mathews likened this change process to a sailing boat tacking to gain the most favourable wind (Mathews, 1992: 85). However, the introduction of a constructionist paradigm into the policy formulation model suggests that the changes brought about by new policies and the ongoing need to continually carry out a legitimation process would also continually change the social context in which later decisions would be made. The policy process examined in
this chapter demonstrated that policies and their legitimisation process responded to these changes by making adjustments and introducing further changes to the social context.

The original policy of self-assessment set the start of a colour and pattern for the Revenue Office’s policy patchwork quilt. This was then added to by a number of different policy decisions. The pattern in the policy patchwork quilt needed to be pleasing and acceptable to those whose would view the quilt. We will see in the next chapter that this legitimisation process would result in job redesign policy replacing IT technology policies as the most important (Steady, February 1990: 23).
1 This is confirmed by the review of the Revenue Office Annual Reports for the period 1984 to 1993. The issue of compliance was always given considerable space in the publication.

2 Prior to self-assessment the Revenue Office relied primarily on checking tax returns submitted by taxpayers to detect avoidance. Audit was relatively a minor role.

3 Media joined the Revenue Office from another government organisation in 1988 as a middle manager. She was influential because of the important position she held in the newly created media team that was use to create much of the image for the Revenue Office in the mid to late 1980s. She was promoted to Assistant Commissioner in the similarly powerful group, Taxpayers Assistance group. See Revenue Office Organisational Structure in Appendix 1.

Note: Media is a pseudonym. The name can be made available by the author to examiners and others on a need to know basis.

4 With the change under self-assessment to move the responsibility to the taxpayers for ensuring the information in their returns was correct, it should have been obvious that there would need to be an increase in service and help. However, this did not become a part of the compliance policy until later in the 1980s. This omission in the policy was identified by an evaluation of self-assessment carried out by Revenue Office staff but was removed from the report by Charisma (Appendix 3, Ref. 1.3).

5 The assertive audit program was seen by staff as developed by Charisma and that he would support his staff in their actions in carrying out this role (Appendix 3, Ref. 1.2).

6 This view was supported by a comment by a journalists that the audit program had created a poor image for the Revenue Office (Appendix 3, Ref. 2.4). The assertive audit program was also questioned by a Government Committee (Appendix 3, Ref. 1.2)

7 Mogul also supported the changed focus for the compliance policy, but suggested they were part on an ongoing process of adjustment (Appendix 3, Ref. 3.1).

8 In the implementation of private sector concepts Charisma was supported by Mogul (Appendix 3, Ref. 2.7).

9 See the Revenue Office's submission to the Parliamentary Accounts Committee where a section describes the Revenue Office's strategies to promote voluntary compliance to 'clients' (Revenue Office, 1992a: 38 - 39).

10 These ideas were expressed in 'Marketing: The Revenue Office as a Case Study' (Media. 1988).

11 The project was supported by the House of Representatives Standing Committee on Finance and Public Administration (November 1988, para 3.8.1).

12 An idea taken from the USA and Canada (Charisma, November 1987: 17).

13 The response was to findings of the Auditor-General rather than Charisma's. However, this was another instance where the Commissioner was able to suggest that an action was his initiative (Government Committee on Finance and Public Administration, November 1988: para 5.3.1).
Chapter 9

The 1990s—A New Policy Process

Background

The policy patchwork quilt had been established over the period from 1984 to 1990, so the meaning associated with the colour and pattern of the quilt had been well established over a number of years. A change in direction shifted the meanings associated with the policy quilt. In this chapter I examine how the established meanings for policies and their social context limit the policy plausibility thus limiting the changes to policies that can be legitimised.

Policy formulation must be understood within the phenomenon of an organisation where people enact a particular form of social reality. In earlier chapters we saw that through their review processes the Government and the Auditor-General created the reality that supported problems. The Revenue Office simply had to identify solutions to these problems. However, during the policy formulation process examined in this chapter a problem was created to change an existing policy. It is a process not explained well by rationalist policy formulation or decision models.

By the beginning of the 1990s the social context of the Revenue Office had changed significantly from the organisation that had existed in the early 1980s. The OSI process, which supported the processes of work and job design (Revenue Office, 1990b: 7), had begun to provide the skills and knowledge to introduce different job structure than had been traditionally in public service hierarchies. Under the influence of the large Modernisation project, which had a team structure and was dispersed into various interstate offices (Mathews, 1992: 127–128), the strict hierarchical structure of the office began to change. The Modernisation policy was managed by a series of committees, which also contributed to the perception of team-based projects (Revenue Office, 1989a: 79–81; Mathews, 1992: 127–130). The unions were involved in most projects and strongly represented in the identification of staff requirements (Mathews, 1992: 70–74).

The 'anonymous public servant' image had disappeared because Charisma had taken a very high public profile to defend his actions and performance. Rather than remain out of public
contact Charisma had made public speeches and written articles to legitimise and defend his actions. He displayed the skills and behaviour of a policy entrepreneur, created meanings for problems and solutions, and developed the legitimization processes to support the process of attaching solutions to problems. He had developed a close working relationship with the Government which was evidenced by the number of additional social revenue collection processes given to the Revenue Office to administer (Committee of Public Accounts, 1993: 37). By the 1990s the Modernisation policy had become the process ‘to build a world class tax system’ (Revenue Office, 1992a: 1; Revenue Office, 1992b: 3). The theme of ‘collecting the revenue, implementing tax reform and modernising’ were used to describe the work undertaken (Revenue Office, 1992a: 1).

The Revenue Office had also taken a much more pro-active role in evaluating the social changes that were occurring (Committee of Public Accounts, 1993: 36). The Government had begun to develop the confidence that the Revenue Office was capable of identifying and addressing issues and problems in the administration of the tax system as they occurred (Government Committee on Finance and Public Administration, 1988b: para 3.1.1; Government Committee on Finance and Public Administration, May 1988: paras 7.3.3–7.3.4).

Some staff had been recruited from outside the Revenue Office, but these were mainly IT people. Tax technical staff continued to be promoted from within the Revenue Office (Committee of Public Accounts, 1993: 178–179). Suggesting that the climate valuing tax technical still existed strongly in the Revenue Office. The view that more adaptive attitudes now existed was probably limited to areas where significant numbers of new staff existed.

The policy patchwork quilt

A major part of the policy patchwork quilt had been established for the Revenue Office. The pattern had begun when self-assessment was introduced. The change to a technology solution and then to a more people-oriented approach to support service to clients had established a pattern that would influence future decisions. As Berger and Luckmann argue, changes in social process do change the meaning and knowledge that society uses (Berger and Luckmann, 1966). The social processes within the Revenue Office had changed and a different social context had been established. The legitimisation process had established a context of meaning for the existing policies. A ‘logic’ had been established for the
legitimisation process. To introduce a different policy direction would require changing that carefully established meaning. However, Charisma had demonstrated a method that could be used, as depicted when he legitimised changes in the audit process as discussed in the previous chapter.

In this chapter the policy formulation process is examined from a social constructionist perspective that sees problems and solutions as social objectives that are open to creation and manipulation. As we have seen solutions and problems can be developed and used to advantage individuals and groups. This chapter shows how a climate of change was established by Charisma and later by Steady, by defining new problems and solutions. We will see how individuals benefited from this process.

The development of a new context of meaning

In 1990 Charisma began to change the context of meaning for the policies, especially for the large Modernisation policy by suggesting how he saw the direction of change. For him it was a matter of:

drawing things together, seeing the links that are there between all of what at first blush may be seen as separate activities.

Charisma, 26 February 1990: 2

Charisma saw that projects under Modernisation needed to be drawn together to focus on providing help to clients of the Revenue Office as explained in the following statement that encapsulated his strategy for the next two years:

The modern Revenue Office will be an organisation of people equipped, trained and committed to helping taxpayers and other clients carry out their responsibilities under the law.

Charisma, Feb 26 1990: 2

Early in the 1990s Charisma began to create a new or changed context of meaning by suggesting that all policies needed to be combined to form an effective tax system. As previously noted, Charisma suggested that the Revenue Office should work ‘towards oneness’ (Charisma, March 1991). This idea was explained in a speech to the branch-based staff, where he stated that there were three main principles. Firstly, the staff existed to collect the revenue; secondly, the way to do this was to invest all actions under the single umbrella
of the tax Modernisation Policy; and thirdly, every bit of capacity they could generate must go to improving service to clients (Charisma, March 1991). Service was the theme for the 1989-1990 Annual Report, which carried the title of ‘The Year of Service’ (Revenue Office, 1990b). In the 1990s service was to legitimise the compliance policy as it was now used to support the joining of all the Modernisation projects. These ideas were the basis of many of his speeches for the period from 1990 to 1993. The meanings created to bring all these policies together was focused on service. Service was discussed in the previous chapter but what follows is an examination of the process of creating further meaning, joining two concepts into one policy.

Negotiating a new meaning for the policy quilt

Bringing the policies together required a process where some past actions were given different interpretations (meanings) to support this new emphasis on service. Self-assessment (discussed in chapter 4), which had been initiated to improve the use of staff for detection of tax avoidance, was changed to a service initiative (Charisma, February 26 1990; Charisma, August 7 1990). Steady suggested it was the first part of an overall ‘emerging Revenue Office philosophy’, which changed the resources committed to assessment so they could be applied to improving service and enforcement (Steady, August 27-30 1990: 2-3). It was also suggested that the program of audit helped all taxpayers including those who wanted to comply. It also assisted those who did not know what was required (Charisma, 7 August 1990). Audits were now part of a program to ‘help’ all taxpayers. Charisma began to extend these ideas to support his aim of creating an image of ‘oneness’ for all projects (Charisma, March 1991).

Job design, service and values

Charisma began to use the concept of social values and suggested that the Revenue Office had values (Revenue Office, 1992a: 5–7) as discussed in chapter 7. Charisma encouraged the use of people’s values, and used the concept to suggest that the Revenue Office also had high moral values (Revenue Office, 1992a: 5). ‘Service’ demanded the values ‘to get things right the first time ‘and to help taxpayers get things right (Revenue Office, 1991a: 2). Charisma also effectively tied in the terms ‘strategies’, ‘objectives’, ‘goals’ and ‘missions’ with ‘people’ and ‘values’ (Revenue Office, 1991a: 2). Therefore, he brought together typifications of management with a ‘people’ approach (Revenue Office, 1992a: 6) and by using the typification of values helped legitimise the new policies.
In his final years as Commissioner the Taxpayer Services Group became the media support for Colin Charisma and were used to create a media image for him. The group wrote stories for the media and organised interviews, playing a major role in developing the public image of Charisma. During the Modernisation period the group tried to change the image of the Revenue Office from one of a low profile processing factory to one of a professional organisation (Revenue Office, 1992a: 1). This formed the basis of many of the typifications that would support the legitimisation of the final major policy change in Charisma’s era. In this way, the creation of this group was an important step in the control over the meaning attributed to Revenue Office policy. But Charisma’s role in new policy creation process was reducing. A new policy entrepreneur was about to take over.

**Steady, the new entrepreneur**

In the 1980s the Auditor-General and the parliamentary committee review process created events that focused attention on problems⁴. These reviews drove the change process in the Revenue Office. But in the period 1987 to 1993 these groups no longer carried out a role that created events and meanings that initiated the development of problems and formed the basis of legitimised solutions. The Auditor-General had suspended audits of taxation systems because he had agreed to wait and see what improvements would be brought about by the Modernisation policy. He concentrated on ensuring that the Revenue Office response to the government reviews and the Revenue Office Information Technology Strategy was effective (Government Committee on Finance and Public Administration, May 1988: para 6.1.4). The Government review process was also limited in this period. Its reviews had concentrated on tax avoidance in specific sectors of the community. The reports, ‘Shifting the Tax Burden’, ‘Taxpayers or Tax Players’ and ‘Another Review of the Revenue Office’ considered in part the management of audit of taxpayers but concentrated on tax technical issues rather than the management processes that had been the focus in the past (Government Committee on Finance and Public Administration, 1988b; Government Committee on Finance and Public Administration, 1989). Changes to the management process in the Revenue Office would need to be initiated by other processes.

To initiate a change process, Steady adopted the role as the new policy entrepreneur and set about creating the meaning for a problem in the social context created by Charisma and described above⁵. He suggested that the Revenue Office could be criticised for its
performance and that it was seriously lacking in overall consideration about its own future (Steady, February 1990: 3–4).

The process of matching existing solutions to problems as they occurred through the later part of the 1980s was in danger of not producing the outcomes that would improve the public image of the Revenue Office. Steady also expressed the problem in economic rationalistic terms by suggesting that the Government and the community had invested a billion dollars and there should be an ambitious return (Steady, February 1990: 3). At this time a number of other reviews began to support Steady. For example, the cost to the taxpaying community in meeting the requirements of the tax law was identified by the Government Committee on Industry, Science and Technology (1991). It noted the complexity of the tax law and reported the cost of compliance especially for small business (Government Committee on Industry, Science and Technology, 1991). Another issue was the cost where the community becomes part of the tax administration system, for example gathering taxes for the Revenue Office in systems such as pay as you earn (PAYE) and processing data in the electronic lodgement system (Revenue Office, 1992a: 35). These views were later supported by the Committee of Public Accounts, which actually suggested that the Revenue Office’s cost of collecting the revenue had risen (Committee of Public Accounts, 1993: 198–199).

The Revenue Office commissioned reviews to be carried out by consulting groups such as Chant Link and Associates who suggested that service levels were not adequate (Mathews, 1992: 113). Internal research also identified the poor image and the lack of service of the Revenue Office (Revenue Office, 1991a: 57). This research confirmed the findings of a review carried out in 1987, which had identified that the public had negative attitudes towards the Revenue Office, including the perception that they were not diligent in catching tax cheats (Reark Research, 1986: Part 1). These results suggested that there were public expectations that were unfilled or not addressed.

Steady also suggested that in 1990 there were still unfulfilled expectations regarding Modernisation providing better service. The public had begun to require service to support the operation of self-assessment and this was not being delivered (Steady, February 1990: 6–7). A market survey commissioned by the Revenue Office found that the public believed that there were low service levels through under skilling, poor systems and complex tax law. It also found that information was difficult to obtain, disputes were slow to resolve and there was a lack of personal service. Finally the research concluded that there was an expectation
on the part of the public that their problems would be fixed by Modernisation. Steady also argued that the there was no clear sense of direction for the Modernisation projects. In his speech on 5 March 1990, Samuel Steady stated his belief that a clear sense of direction was what held change programs together and the Revenue Office was working on building that through the Modernisation Project (Steady, March 1990).

IT was also included in the meaning being created for the problem. The Revenue Office had used an 'incremental-like' approach to problem solving. As described in previous chapters, as problems are highlighted they were solved, bringing them within the framework of the change program of Modernisation. As explained in Chapter 6, these fixes tended to be short term and were drawn from the ideas that existed at that time. As Kingdon suggests that this incremental approach was 'a strategy that one might use to manipulate outcomes' (Kingdon, 1984: 84).

**IT becomes part of the problem being developed**

In the early 1990s Revenue Office management began to plan for the redevelopment of core tax business systems (Mathews 1992: 113; Steady, February 1990: parts 1 and 2). Charisma had been promoting the idea that the basis of operations was service to 'clients', as described above. However, Steady suggested that the IT systems did not support this concept (Steady, February 1990: 4). A senior staff member of the Revenue Office, Stein (a pseudonym), supported Steady's suggestion that there was no integrated and fully developed plan for Modernisation (Stein, 1992: 16). Stein believed that what was the actual driving force behind Modernisation was divided between a technology and a 'people' approach (Stein, 1992: 14). IT technical had been the initial driving force for Modernisation but the review by the Government Review of Performance in 1987 had begun to change the focus to include a greater people perspective (Program Management Performance Review, 1987). By the 1990s the people perspective had become a fundamental part of Modernisation and had provided a major part of the overall project (Charisma, 17 February 1989: 6).

**The final policy solution**

In the early 1990s Charisma had changed the meaning that supported the legitimisation of his compliance policy as described above. Service had now become central to the support of most of his policies. The concept of a balance between of help and audit, developed in the late 1980s, was developed into a broad concept to be used as the basis for the 'Modern'
Revenue Office (Revenue Office, 1992a: para 4.88; Steady, February 1990; Steady, August 27-30 1990: 2). Steady began to used the ideas that had been developed by Charisma to support his new policy approach and used the description of the Office:

An organisation of people equipped, trained and committed to helping taxpayers and other clients carry out their responsibilities.

Steady, August 27-30 1990: 5.

In June 1990 a meeting for senior tax officers was held to consider the strategic direction for Modernisation (Mathews, 1992: 113). This meeting provided the basis of the solution that would be proposed later by Steady, Cocker and Smith\(^ {11} \) (pseudonyms). The meeting agreed to a change in the design of the core IT business system to a remittance and collection system. This was the Collection Systems Modernisation (CSM) (Mathews 1992: 109, 113). But importantly, in this process Steady began the changes that would later have a major impact on the overall composition of Modernisation and the ‘power’ of key groups in the Revenue Office\(^ {12} \). In a paper produced in February 1990, Steady questioned whether the Modernisation projects had focused on how to provide a better service to taxpayers (Steady, February 1990: 4, 68). This paper approached the service to taxpayers as a separate policy from the development of the IT Systems. The June 1990 meeting changed three projects that were being run to test the best structure for staff to focus on the best work structure to provide service to taxpayers when CSM was implemented (Mathews, 1992: 113–115). This was the Integrated Payment Service System (IPSS) project set up as a key part of Modernisation (Stein, 1992: 21) which had grown out of the experience of work and job design (Steady, February 1990: 3, 23-24; Stein, 1992: 10, 21). It changed the focus from providing staff with the information they required to do their work to more directly focus on taxpayers and how they would interact with the Revenue Office in the future (Stein, 1992: 17).

Importantly, in 1990 it was not seen that the IT systems would need to be designed to support the concepts that were being proposed by the IPSS project (Stein, 1992: 16). These two projects were to be developed in parallel for some two years before it was proposed that a single approach was required\(^ {13} \). This joining of the policies became the basis for the solution to be proposed.
Senior managers, Steady, Cocker and Smith used the IT project and IPSS to establish a solution to the problems that Steady had been developing for a number of months. The problem was defined by him as Modernisation not providing an adequate return to the Government and not meeting taxpayers’ demands (Steady, February 1990: 3-5). Steady then used the concept of service to taxpayers established by Charisma to legitimate the integration of the policies of CSM and IPSS into one policy under the Modernisation policies (Steady, February 1990: 68). The meaning of job design in IPSS was developed into a ‘People Architecture’ (Stein, 1992: 16–22). The aim was to ‘shift the focus of change away from implementation of technology to focus on people…and business objectives using technology as a tool’ (Stein, 1992: 14). Steady had used many of the meanings developed over the preceding years to integrate the IPSS and the IT development of the payments systems to change the focus of the core system Collections Systems Modernisation (CSM) (Stein, 1992: 17, 24).

This changed the policy direction of the Revenue Office from its original focus in 1984 of total reliance on checking tax returns and audits to administer the tax system, to one of relying largely on service and the encouragement of voluntary compliance (Revenue Office, 1992a: 39) supported by the IT system, CSM. This change had a very significant impact on the overall power structure of senior management in the Revenue Office, as described below.

**Final changes to the social context**

Information technology was always the driving force for the Modernisation policy (Revenue Office, 1988a: 125). It set the direction of the redevelopment of policy through the redevelopment of the tax business systems. IT was focused on automating the functions of data capture, dispatching information to taxpayers in the form of assessments and providing capabilities to support the Modernisation the office through the provision of office automation tools. The development of centralised tax systems was to be the last part of the IT development (Mathews, 1992: 85–130). The systems for each of the tax lines (sales tax, income tax etc) were designed as separate systems (Mathews, 1992: 108–112). This had been the plan for the systems for six or more years and little had changed. Until Steady, Cocker and Smith proposed the change of focus onto service, many of the initiatives by other groups had been separate from the large systems development project (Mathews, 1992: 108–112; Revenue Office, 1991a: 72).
The systems group controlled the core computer systems being developed (Revenue Office, 1990b: 66; Revenue Office, 1991a: 203). The group’s resource commitment to the development of these systems was large in terms of staff numbers and budget. When these systems were completed the Systems Group would maintain and operate all major systems. Therefore, this project development process was important because it maintained the power of the systems group. The work and job design projects (the people approach) were controlled by the Corporate Services group under May Gibbs. These two projects were brought together under the title of Collection Systems Modernisation 1993 (CSM93) (Revenue Office, 1992b: 6; Mathews, 1992: 88). It was described as ‘an approach to work and job design in which integrated client-based teams will provide a ‘one-stop-shop’ service to clients’ (Revenue Office, 1992b: 6).

The change that created the CSM93 system removed control of this most important project from the IT Group and placed it with the Sales Tax Group and placed Smith as an Executive Consultant to the project. Therefore, the change in policy proposed and introduced by Steady focused the systems development on an integrated system based on the service to clients (taxpayers) and moved the key Modernisation project from the control of the powerful IT Group and made it a tax business project (see Appendix 1, Figure 3). This in effect displaced the IT Group as the leading group in the Modernisation project. The IT Group was now responsible only for the hardware, the provision of systems staff to the development of business applications of IT and the operation of the systems (Revenue Office, 1992b: 188–189). The IT Group was now back to the position they held before the development of the systems commenced (see Chapter 4). It brought Corporate Services into more Modernisation projects because the Group was responsible for the work and job design through its People and Structure Branch (Revenue Office, 1991a: 204–205). This would have greatly increased the power and influence of its newly appointed head, May Gibbs.

The management group that proposed and implemented the changes were all promoted to senior management in the Revenue Office. The seemingly minor change in focus to create a new policy focus had broad ramifications for management who were able to use these changes, altering the power structure of the senior management of the Revenue Office.
A final assessment of the policy entrepreneur

Charisma had created meaning for the policy decisions that had occurred over the past nine years. At the end of this period the pattern and colour schemes of the policy patchwork quilt were well established. He had created the images (meaning) of technology as a tool to be used to assist staff in their tasks (Charisma, July 1988: 13; Revenue Office, 1988a: 6) and staff and their union played a major role in the change process and acceptance of the policy. The decentralisation policy and the agreement with the unions had played an important role in the legitimisation of the changes (see Chapters 5 and 6). Self-assessment had allowed the move of resources to the audit process and had created an image of an effective compliance policy. These processes and many others have been described in great detail in the previous chapters.

The policy social context supported the legitimisation for a whole range of policies. The context was created and maintained by social processes that were part of the policies that had been implemented. Because the meanings for policies and their legitimation were well established changes would be difficult to introduce and legitimise. Alterations required changes to the socially constructed meaning that supported policies. Much of this meaning was associated with the direction established by Charisma. To propose a different meaning and direction for policy would be difficult for him. Without the Government and Auditor-General review process, which had created and identified problems and solutions, new changes would be difficult. Thus the limitation on policy plausibility presented problems for Charisma. Consequently, much of the final policy development and the construction of legitimising processes in the future were initiated by Steady. Charisma began to play a more minor role.

The limits of policy plausibility

In November 1991 the Committee of Public Accounts announced that it would conduct a inquiry into the Revenue Office (Committee of Public Accounts, 1993: 3). The findings supported the actions of Charisma and in many ways were a tribute to his leadership and the changes that he had initiated. However, there were questions about the arising problems (Committee of Public Accounts, 1993: 395–462). These could not be left but would be difficult to address given the logic and meaning that had been developed in the creation of the projects.
The accommodation costs under the decentralisation policy were excessive and could not be afforded in the long term (Committee of Public Accounts, 1993: paras 8.85–8.87). However, under the Modernisation policy it was agreed that staff numbers would be reduced by 3000 (Revenue Office, 1992a: 83). In the early 1990s staff numbers began to be scaled down because of reduced government funding for salaries. This raised concerns about ‘the capacity of the Revenue Office to afford the additional property it has acquired’ (Committee of Public Accounts, 1993: xx). The difficulties that this program brought were not obvious until the early 1990s. When the staff numbers were reduced, the floor space per staff member began to increase significantly. The Government, through the Committee of Public Accounts, then called for urgent action (Committee of Public Accounts, 1993: paras 8.85–8.86). Charisma’s policy, which had helped legitimise the implementation of technology, was now difficult to maintain and a change in policy meaning would do little to change the economic problems.

A further problem began to occur in funding for staff. When Charisma agreed with the Government for an overall staff reduction of 3000 in the staffing levels (Revenue Office, 1992a: 83), staff turnover was high and it was expected that there would be little difficulty in shedding excess staff. However, the economic recession in the late 1980s and early 1990s caused the rate of turnover to drop (Committee of Public Accounts, 1993: 152–153). Because of the agreement with the PSU preventing forced redundancies and the compulsory transfer of staff to under-staffed offices and high workload areas (Revenue Office, 1990a: Section 3, 20), Charisma found it very difficult to reduce staff numbers. Even if he were successful it would impact still further on the accommodation problem discussed above. By 1993 the Revenue Office was in a very difficult situation. With funding being reduced in line with the agreed staff reductions Charisma resorted to paying salaries out of the administration budget which was considered to have ‘deeply disturbing implications for the Revenue Office’s long term efficiency’ (Committee of Public Accounts, 1993: xx, 152–153). With large funds and the flexibility available under the Modernisation funding agreement the situation was not desperate but could not be allowed to continue (Committee of Public Accounts, 1993: 152). However, by now Charisma’s bargaining power had increased from the mid-1980s. The Revenue Office was able to negotiate an acceptable outcome for additional funding with the Government. For each of the three years to 1993 the Revenue Office entered into an agreement with the Government for extra funding to address the extra issues it had identified. Therefore the Revenue Office was funded for the excess staff it could not afford to pay out of its budget allocation (Committee of Public Accounts, 1993: 154–155). Charisma could not
reduce his accommodation costs, nor could he reduce the number of staff required. Problems directly resulting from his decisions. The review process also reduced the possibility for change for Charisma by identifying an environment of problems that were also directly attributed to his policy process.

Senator Knight’s (a pseudonym) dissenting report of the Parliamentary Accounts Committee report released in November 1993\textsuperscript{31} claimed that the Revenue Office would not have been able to meet its salary bill in the years 1993 to 1996 (Committee of Public Accounts, 1993: 432). The Committee of Public Accounts 1993 was also very critical of this process and suggested that:

...the use of the fund in this instance was not a ‘commercially' prudent investment, given the Revenue Office's own estimates....

Committee of Public Accounts, 1993: 221

The Committee also questioned the way negotiations had occurred between the Revenue Office and the Government and the fact that funding had been agreed outside the budget process (Committee of Public Accounts, 1993: 221). Senator Knight was more direct and suggested that the Revenue Office would only identify how it could raise additional revenue if it were given more funding after the budget funding process was completed:

The question arises as to why the Revenue Office did not identify this avenue of additional revenue until after the crisis over the black hole in the Budget had arisen.\textsuperscript{32}

Knight, 1993: 431

Senator Knight also claimed that:

If the Commonwealth had not bailed out the Revenue Office with an additional $114 million three weeks after the Budget, it would have been likely that the Revenue Office would not have been able to meet its wages bill in the years 1993-94, 1994-95 and 1995-97.

Knight, 1993: 432

A recruitment freeze was required for the years 1991-92 and 1992-93 to lower staffing numbers. However, this action was considered by the Committee of Public Accounts to have a risk of producing low staff morale and lowering the skill level of the Revenue Office (Committee of Public Accounts, 1993: 156–158).
The staff problem was as a result of Charisma’s agreement with the union that no staff would be made redundant (Committee of Public Accounts, 1993: 432–434), which was needed to gain agreement to implement new technology. In 1993 the agreement was reviewed (Committee of Public Accounts, 1993: 143–144). It was concluded that the agreement was a blueprint for union involvement in development projects and considered that such an agreement was important for the success of the program. However, the cost of the agreement was questioned. Information provided by the Revenue Office suggested that the direct cost was $2.4 million over five years, but the Finance Department suggested that this figure could be as high as $60 million (Committee of Public Accounts, 1993: 143). The Committee of Public Accounts recommended that the agreement should be examined by the Auditor-General to ascertain the effects on the efficiency of the Revenue Office (Committee of Public Accounts, 1993: 143–144). Senator Knight also questioned the funding of the union by the Revenue Office:

The absurdities of the lengths to which industrial democracy can be carried is seen where the Revenue Office is to fund a Union Advisory Unit to carry out research and provide advice on Modernisation for the Union. This amounts to direct taxpayer funding to the Union...

Knight, 1993: 433

Senator Knight also questioned the participation by union members on all steering committees, project teams and working parties. Travel and accommodation expenses of these officers were to be paid by the Revenue Office (Knight, 1993: 433).

Consequently, the agreement that was needed to implement the change process, brought with it a number of other changes that had a large financial cost to the Revenue Office and long-term consequences that were unexpected. Thus, as argued in the previous chapter, one change fed off another. However, in this situation the changes created were not positive. The pattern created in the policy patchwork quilt, in this instance, limited Charisma’s possibilities to make changes to fit the emerging problems.

The Committee also raised the question of the economic efficiency of the Revenue Office. It suggested that the cost of collection had risen even when the revenue had increased sharply. The Committee used this performance indicator to question the Revenue Office on its efficiency (Committee of Public Accounts, 1993: 198–199). The Committee was also critical of the Revenue Office’s ability to accurately estimate the revenue to be collected. Since the
Government used these estimates in setting its budget, accuracy was important (Committee of Public Accounts, 1993: 200–201)\textsuperscript{24}.

The problems described above demonstrate the limits of the legitimization process for Charisma. Indeed, they presented a fundamental problem for him. He had made deals with the unions to get his policies accepted and defined particular integrated meanings for problems and solutions within the social context. However, the unexpected problems over the previous two years began to create serious issues for his role as policy entrepreneur. While the evidence suggested that he still enjoyed considerable government support, there was the possibility that this would not be maintained without a solution to the problems described above. Charisma had created his policy quilt. The patterns and colours were established. As a result, he could not easily begin a new direction for his policies because the direction and meanings of his policies were entrenched. He had very limited possibilities for creating new meaning for the problems or the solutions to the problems that were now beginning to occur. As discussed above Steady, and others took advantage of this situation and were beginning to replace Charisma as new policy entrepreneurs. The possibilities for new policies were not as restricted for the new entrepreneurs. Steady and other managers were able to suggest policy new direction free from the meanings that had been created to support existing Charisma policies.

Government support had been provided but after the findings of the Government review this could not continue (Committee of Public Accounts 1993: 152). Charisma was in a very difficult situation with few policy options available. He had reached the limits of policy plausibility.

\textbf{Conclusion}

Charisma resigned from his position on 23 January 1993 to take up a position as an ambassador. He departed in the midst of an inquiry into the Revenue Office by the Parliamentary Accounts Committee. Described as a crusader, a visionary, audacious and aggressive, and as welding the Revenue Office into an efficient fighting force (Jones, 1992), he had fundamentally changed tax administration and the role of the Tax Commissioner. Rather than being the anonymous public servant, Charisma had adopted a high profile to gain acceptance for his changes (Dodd, 1989). But there were also many questions raised about his nine-year term, such as claims that he had left the office technically bankrupt (Committee
of Public Accounts, 1993: 432), and had conspired with the Government to ‘paper over the problem’ (Committee of Public Accounts, 1993: 437–439). In the final years, claims of bias in his dealings towards government policies and party members, accusations that the cost of collecting taxes had risen, and the amount of tax revenue stated in his budget for those years had been seriously over-stated, were levelled at his administration (Dowling, 1992b)\textsuperscript{25}.

Charisma had been a very effective entrepreneur. He began his term as Commissioner when the Revenue Office was in considerable trouble with its management and administration being criticised by parliamentary committees and the Auditor-General\textsuperscript{26}. He was able to change the organisation’s image from a factory that simply processed tax returns, a process that added little value to the prevention of tax avoidance, to an effective and efficient office (Revenue Office, 1992a: 1).

As policies were found to solve problems they created other problems. Charisma was able to match other solutions to these additional problems and to draw them together to present the changes as a ‘logical’ process. In the process of gaining support for his changes he demonstrated an excellent understanding of the policy formulation process and the processes needed to gain support for the change. For nine years he was able to create legitimising processes and beliefs to support the changes.

The ability to manipulate meaning allowed Charisma to continue his policy formulation process despite the problems that began to occur in the final years as Commissioner. The pattern created in his policy patchwork quilt however, limited his ability in his final years to introduce the radical changes he needed to reduce expenditure and change policies.
1 This is confirmed by the large number of Charisma’s speeches referenced in this thesis.

2 This close working relationship with the Government brought many criticisms and questions as to his impartiality (Korporaal, 1988: 132).

3 Service was not identified in the review that led to the implementation of self-assessment (Revenue Office, 1985b). It was not anticipated that once taxpayers became responsible for calculating their own tax they would need help to ensure that calculations was correct. This idea was suggested in a draft of the internal evaluation of self-assessment by staff in the Revenue Office (Revenue Office, 1989b). The suggestion that the tax law was too difficult and complex for the average taxpayer was in the original draft but was removed from the document (Revenue office, 1986b) at Charisma’s insistence (see Appendix 3, Ref. 1.3).

4 For example see Chapters 5, 6 and 7.

5 Steady would approach this role differently to Charisma, see Appendix 3, Ref. 4.1.

6 Under ‘a pay as you earn’ (PAYE) system the employer collects the tax on behalf of the Revenue Office and, in effect, contributes to the efficient collection of tax with no financial return to the employer.

7 The review was carried out by Chant Link and Associates (another research organisation), and quoted in Mathews (Mathews, 1992: 113).

8 Stein was a Senior Assistant Commissioner in the Corporate Services Group. The head of this group in 1992 was May Gibbs. See Revenue Office Organisational Structure in Appendix 1 for details of his position in the Revenue Office.

Note: Stein is a pseudonym. The name can be made available by the author to examiners and others on a need to know basis.

9 These issues have been discussed more widely in Chapter 6 of this thesis.

10 This note was taken from a document developed by Steady to explain the key strategies for achieving the ‘Modern Revenue Office’. The document was titled ‘A Blueprint for Changing the Tax Office ‘The Modern Revenue Office’ (Steady, 1990). But see also (Revenue Office, 1991: 7; Revenue Office 1991b: 3; Charisma, Feb 26 1990: 2) where such ideas are also expressed.

11 See endnote above for a brief description of Steady’s position in the organisation.

Cocker was a senior manager during the period of this case study. During the 1980’s he worked on the implementation of self-assessment and also in the Taxpayer Audit Group. He was later promoted to First Assistant Commissioner in charge of this group. He was involved in the promotion of the system to support the service to taxpayers project (discussed in Chapter 9) during his time as First Assistant Commissioner. He was later promoted to Second Commissioner. See Revenue Office Organisational Structure in Appendix 1.

Smith was a manager in the IT Group at the commencement of this case study. He was promoted to Assistant Commissioner, a position he held for the remained of the period of review. He had been in the Revenue Office for all his working life. Much of his time was spent in the IT Group and in systems related positions. See Revenue Office Organisational Structure in Appendix 1.

Note: Cocker and Smith are pseudonyms. The names can be made available by the author to examiners and others on a need to know basis.
Smith also suggested that there was a need to put Revenue Office Tax Groups requirements into the design process. This suggests that there was a move to take much of the IT systems development away from the IT Group (Appendix 3, Ref. 4, 4). The Revenue Office Organisational Structure in Appendix 1 shows the break up of the Modernisation projects.

This conclusion was drawn from reading Steady’s paper ‘A Blueprint for Changing the Tax Office’ (Steady, 1990). Steady was project manager for Modernisation at this time. In this document he did not address the need for systems to be designed to support the provision of helping clients (taxpayers). He did discuss the work and job design that was being carried out to identify the structure of teams to help clients but did not relate it to systems development work.

The Annual Report shows that the systems group had 404 systems people while the large Modernisation project had only 337. Therefore, the systems group had the largest number of people devoted to development projects (Revenue Office, 1990b: 172).

See also Appendix 3, Ref. 3.6 for Smith’s comments on the system.

See Mathews for a description of CSM93 (Mathews, 1992: 87–88) and the description of Steady’s and Smith’s involved in Mathews, 1992: 190 (Note 52). The structure if the Revenue Office and Smith’s position now in the Sales Tax Group is shown in the Revenue Office Organisational Structure, Appendix 1. Figure 3. This figure also shows the break up of the Modernisation project by the move of projects to other Groups in the organisation.

May Gibbs’ promotion to the head of Corporate Services Group took place in the year 1990–91 (Revenue Office, 1991a: 69).

The promotions and positional changes of Gibbs, Cocker, Smith and Steady are shown on the Revenue Office Organisational Structure in Appendix 1.

See Appendix 3, Ref. 2.10 for evidence of Charisma’s attitude on staff numbers.

At the time government funding was divided into categories. The Revenue Office funding was divided into the general categories of salaries and administration. There was also budget funding for special projects such as Modernisation. The Revenue Office had to apply to have funding for one category used in for another category, that is, to spend the budget allocated for salaries on capital works projects.

This was the An Assessment of Tax, Report 326, Joint Committee of Public Accounts. Senator Knight did not agree with the conclusions of the Committee and entered a Minority Report (Committee of Public Accounts, 1993: 393–462). Along with a number of concerns she was critical of the agreement with the unions claiming that it favoured the PSU. She was also concerned that it was an agreement with only the PSU, not the FSU who had the larger numbers (Committee of Public Accounts, 1993: 432). See the Committee’s conclusion on this issue (Committee of Public Accounts, 1993: xx).

Senator Knight’s dissenting account was also recorded (Committee of Public Accounts, 1993: 431). The budget referred to in this statement is that of the Revenue Office’s funding.

The increase in taxation revenue should have reduced the costs of collection. If the costs to collect the revenue remained the same or only increased marginally while the revenue increased sharply the ratio should fall.

In 1991–92 the Revenue Office over-estimated the amount of revenue that would be collected by $3.4 billion or 4.5 per cent of the revenue (Revenue Office, 1992b: 7, 19).
There were also questions whether Modernisation delivered the benefits expected (Appendix 3, Ref. 3.3, Ref. 3.4).

This was discussed in Chapters 4 and 5.
Chapter 10

Results and Conclusion

Background

The period 1970 to 1984 set the background for the policy formulation in the Revenue Office examined in this thesis. Tax avoidance schemes were prevalent and the amount of tax not being paid amounted to billions of dollars (O’Reilly and Sykes, 1988: 24). Over the following nine-year period, 1984 to 1993, under the leadership of the Commissioner, Colin Charisma, changes were initiated within the administration of the Taxation System to address the problems that had become apparent. These changes, based on the development of a number of key policies, altered both staff’s and society’s perception of their roles under the tax system. In the words of the Revenue Office management it was a process of:

....modification of organisational culture from that of a paper processing factory environment towards one of a professionally orientated service provider.

-Revenue Office, 1992a: 1

Aim of thesis

The purpose of this thesis was to shine some light on the events in the organisation that are portrayed or categorised by research as policy formulation. In order to do this the model developed in Chapter 2 was used to provide an explanation and therefore a greater understanding of policy formulation process by providing answers to the following two key questions identified in that chapter:

1. How do changes introduced by the implementation of a policy change the social context and how do these changes affect subsequent policy formulation processes?

and;

2. How are policies made acceptable to the policy community and how is that acceptability maintained in an ongoing and changing social context?
The aim was not necessarily to identify a more effective or efficient policy formulation process but to provide a clearer understanding of common processes identified in other models as policy formulation. While this thesis has argued that the rationalist models do not provide an adequate understanding of policy formulation, it does not suggest that these decision-based models did not have a role in the process.

A case study methodology was used to try to explain and interpret the processes from the perspective of a person involved and to obtain an understanding of why these processes, events and changes occurred. The case study also considers how meaning of problems or solutions was manipulated and why. The thesis attempts to use this knowledge to understand how policy decisions were legitimised and also to investigate the limits of that legitimisation process, that is, to understand the limits of policy plausibility.

This examination of policy formulation was different from many another studies because it looked at a number of policy developments over an extended period. A number of vital issues concerning policy formulation were identified. It is suggested that the policy process should be seen as much more than a decision process that simply introduces a change to the social context at the time a policy is implemented. What was seen is that the creation of solutions and problems often bring unexpected changes. These had to be addressed again and again to maintain and create the legitimacy of the policies to the Government, the public and staff. Policy formulation was an ongoing process and often a corollary to the unintended outcomes of former policy decisions.

**Policy formulation, meanings and contexts**

This thesis has proposed that policy formulation should be viewed from a social construction paradigm. By taking this view of the Revenue Office policy formulation, it became evident that events can be seen as processes where the meaning of policy decisions, solutions and problems were manipulated and adjusted to maintain their legitimisation to staff, the public and government for the gain of an individual. A constructionist perspective allowed policy formulation to be explained, not as a single decision, but as ongoing integrated social processes. The model also provides an understanding of how the changing social context influenced the ongoing policy formulation process and eventually limited the policy changes that were possible. The role of the policy entrepreneur in this process was paramount.
The manipulation of meaning

In the case study it was found that many methods were used to create acceptable meanings for problems and policy solutions. The acceptance of those meaning was based on the use of inter-subjective typification held by staff and the tax community and included ideas about management, rationalistic economics or other claims to power or support to gain acceptance for what was being proposed. The meanings of problems and solutions were combined with these inter-subjective typifications to gain acceptance (Smith, 1982: 4). By this process people manipulate and negotiate different meanings to have their ideas of possible problems or solutions accepted. Policies were presented to staff with inducements such as claims of improved jobs through work design or jobs security or cultural change to modernise work. These inducements were used to legitimise the changes.

The change towards treating taxpayers as clients brought ‘baggage’ from private enterprise models that was used to legitimise the policy. This allowed the entrepreneurs to use all the inter-subjective typifications of a private enterprise organisation to legitimise change. In this process taxpayers became “trusted clients” and given help, education and service based on the idea that taxpayers were really customers and they could be trusted to pay the correct tax.

The social context

Many models propose that there is a structured policy formulation process for finding the ‘correct’ or the most efficient solution to the identified problem. It became apparent, instead, that the policy formulation should be seen as a social process creating meaning for problems and solutions in a social context, where the introduction of policies eventually changed that social context. As described in the case study the implementation of the self-assessment and compliance policy created a different social context that eventually required a different policy approach to make the audit approach ‘softer’ on the general tax payer population. Also, throughout the period examined in the case study, the changes caused by the implementation of IT had to be continually addressed by changing the image of technology.

Solutions and problems did not exist separate from people; they were part of the reality of the organisation and are constructed by the social processes that took place (Berger and Luckmann, 1966). They are a normal part of the social meanings created by the process of
everyday life in organisations (Smircich and Morgan, 1982). They are part of a social context that is constructed and maintained.

Problems and solutions are not clearly defined or ‘matched’ together based on rationalistic or scientific process to gradually create an integrated whole. Rather, the process is more like the construction of a patchwork quilt where the materials at hand are matched into the overall pattern.

Policy formulation and legitimation as an ongoing process

Policies existed in a continually changing social context and had to be managed to ensure they maintained their relevance and legitimation. Every implementation of a new policy changes the social context of that policy and all other policies (Garfinkel, 1967b). In the case study, when policy solutions were drawn from the policy soup other meanings were attached. These meanings often changed the ‘structure’ and ‘culture’ of the organisation and introduced changes into the social context. Therefore, the meanings that support the legitimation needed to be changed to ensure that the policies remained legitimate in the new social context.

The policies were not re-evaluated and new policies developed as proposed by rational models, but the meanings of key aspects were manipulated and changed. This was found in the decentralisation policy where the purpose of the policy was changed from reducing the size of the Revenue Offices, to legitimising the implementation of IT because of likely resistance to the changes caused by technology. The work and job design project was changed from supporting the Modernisation policy to also support and legitimise the implementation of the IT system. The occurrence of changes in the social context meant that there was a continuous need to ensure that the policies remained legitimate to staff, the public and the government.

The ongoing policy meanings were continually managed by the entrepreneurs in the Revenue Office to create an acceptable image. Just as a quilter works with the material available to create a pattern, policies were joined into the overall policy pattern, where the meanings of policies had to be continually maintained to remain legitimate. This need to continually adjust the meaning eventually caused problems for Charisma when he was unable to manipulate the meaning of existing policies because they became an ‘entrenched’ part of an
overall social context that he, in part, had constructed. As described below it meant that there was a limit to policy plausibility. It was evident that policies were developed in increments, but they certainly did not progress towards an overall objective except Charisma’s ultimate success and survival.

**Entrepreneurs and policy formulation**

Charisma and his managers used various strategies to formulate policy and were able to argue that their interpretation of problem or solution was logical and acceptable. The concept of the policy entrepreneur enables an explanation of how they were able to use these skills to build and maintain their policies.

While unexpected changes are often seen as problems, they give people the opportunity to present a solution and initiate a change that will assist their ambitions and ‘improve’ their position in the organisation. The many reviews that took place in the Revenue Office during the period of this case study opened ‘windows of opportunity’ for these entrepreneurs. Led by Charisma, they used their interpersonal skills to define meanings for problems and solutions in order to support changes or opportunities that would be to their future advantage.

The many problems identified by the Audit Office, Government reviews and by staff as discussed in chapters 4 through 9 presented Charisma and other senior staff with an opportunity to use ideas of other staff members, or policies and process as their solutions. Through the use of rationalistic approaches and other acceptable meaning constructions they were able to make these solutions acceptable to the public, staff and the Government. By these means the key players in the policy formulation process in the Revenue Office gradually progressed to very senior positions². So new policy problems and solutions were objects and meanings that could be used to increase a person’s ‘position of power’.

**The Limits of policy plausibility**

In the case study the ‘logic’ that was maintained by the entrepreneur, Charisma, to hold policies together eventually became difficult if not impossible to maintain. The solution to the continued identification of problems and changes, especially those described in Chapter 9, eventually could not be made to appear ‘logical’ to staff and the tax community. The
'logic' could not be adjusted because it would be seen as contradicting what went before, as the meaning of the policy had become accepted by the policy community and staff and so existed within the policy social context. The large changes that were required to address the budget, staffing and decentralisation issues became increasingly difficult to justify for Charisma.

The manipulation of policy meanings had initially brought success for Charisma, when the policies had been isolated and relatively simple. The limits of policy plausibility began when policies became increasing complex and integrated as described in Chapter 9. By the early 1990s the complexity and integrated policies made it difficult for Charisma to legitimise new policy solutions to the new problems that began to occur. This enabled other staff to take the policy initiative. They were not restricted by the logic that had been used to support the legitimisation of the existing policy and were able to ignore the policy problems and provide new solutions by integrating existing policy. Their policy patch work quilt, unlike that of Charisma, was not established to the point where a change was difficult or near impossible.

**Implications for Organisations**

This case study provides a very useful means to explain policy formulation. It recognises that meanings of policies problems and solutions, and the 'logic' that is used to justify or support the legitimation of the decision, are all open to manipulation and change. It provides a means of understanding and therefore the ability to use the legitimising processes involved in the policy formulation process.

This longitudinal study of policy formulation has demonstrated the difficulties that a policy entrepreneur who had dominated the policy formulation process for a long period has in maintaining this leadership over time. The risk to any organisation that has a similar situation is likely to increase the longer this policy entrepreneur remains and where policies are integrated and complex. It would be wise for such organisations to critically examine their policy process with a view to assessing their vulnerability and putting in place a process to support the changes that may be needed.

**Limitations of the Study**

This thesis has been written a number of years after Charisma left the Revenue Office. The study was historical and at the time of the study some people had left the organisation. This
has increased the difficulty of ascertaining how the social actors involved in the process understood the policies. Therefore, meanings and perspectives had to be inferred from reports, other studies and surveys. While these were limiting factors to this study, the examination of a long period of policy formulation provided considerable insight into a period of rapid change in a large organisation.

While there was the advantage of not having to seeking formal approval from management of the organisation (there was no requirement or pressure to produce a report that supported management actions and views), it did reduce access to staff and the possibility of easily obtaining managers' views of events. It also resulted in considerable time being spent in finding documents. This is always a challenge in a large organisation like the Revenue Office, but particularly so when guidance cannot be obtained from staff. The development of an understanding of the events in the complexity of the policy formulation also proved time consuming without easy access to senior staff.

**Future Research**

This thesis used a case study to explore the concept of policy formulation in a large government organisation over a number of years. Further work needs to be carried out to ascertain whether the model developed and used in the study has application to other policy development scenarios. This study had some difficulties because of the duration of the policy process. A more detailed examination of a shorter policy process could explore in greater depth the methods used to create and maintain the legitimacy of policies.
1. See Appendix 1 which shows the changes positions of various key players in organisation structure over the period of the case study.

2. However, none of the information obtained was sensitive or confidential.
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Note: For confidentiality reasons these references are not directly identified. However, they will be provided by the author to the examiners or other persons on a “needs to know basis”.

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Appendix 1.

REVENUE OFFICE ORGANISATIONAL STRUCTURE
1985

Source: Revenue Office, 1985: 24

Commissioner

| Charisma |

Second Commissioner's

| Second Commissioners |

First Assistant Commissioners

<table>
<thead>
<tr>
<th>Compliance Group</th>
<th>Interpretation and Appeals Group</th>
<th>Management Group</th>
<th>Policy and Legislation Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enforcement</td>
<td>Interpretation</td>
<td>Operations</td>
<td>Revenue and Legislation</td>
</tr>
<tr>
<td>Research and Compliance</td>
<td>Appeals</td>
<td>Systems</td>
<td>Policy and Legislation</td>
</tr>
</tbody>
</table>

Deputy Commissioners

<table>
<thead>
<tr>
<th>Branch Offices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steady</td>
</tr>
</tbody>
</table>

Assistant Commissioners

<table>
<thead>
<tr>
<th>Sitien</th>
<th>Tim Byte</th>
</tr>
</thead>
</table>

Notes:

- All names in the diagram are pseudonyms and only those staff who play a major role in the development of the policies discussed in the case study are shown. Those not on the chart were either at a lower level on the chart or had not joined the Revenue Office at this time.

- At this time the focus was on the collection of revenue by Revenue and Legislation Group and on the enforcement by the Compliance Group.

- IT was only a branch and so had limited power compared to what it would have later in Charisma's period as Commissioner.

- The Branch Offices were very powerful entities in this structure.

Figure 1.
REVENUE OFFICE
ORGANISATIONAL STRUCTURE
1989

Source: Revenue Office, 1989: 9

Commissioner
  Charisma

Second Commissioner's
  Second Commissioner
  Steady, Newman plus 1 other

First Assistant Commissioners

<table>
<thead>
<tr>
<th>Corporate Services Group</th>
<th>IT Group Tim Byte</th>
<th>Sales Tax Group</th>
<th>Appeals &amp; Review Group</th>
<th>Taxpayer Audit Group Mogul</th>
<th>Revenue Collection Group</th>
<th>Taxpayer Service Group</th>
<th>Policy &amp; Legislation Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gibbs</td>
<td>Smith</td>
<td></td>
<td>Cocker</td>
<td></td>
<td>Media</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Slen</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Note:

- Only the key players in the policy formulation are discussed in this case study are shown.
- All names are pseudonyms.
- A number of key policy staff have been promoted by this time - Steady, Smith and Mogul. Gibbs would be promoted in 1990 to First Assistant Commissioner in the Corporate Services Group.
- The IT Branch had become a Group because of the importance of the IT Policy.
- Modernisation is treated as a Group and headed by a Second Commissioner (Steady).
- The number of Branch Offices had increased to 14 under the Decentralisation Policy.

Figure 2.
REVENUE OFFICE
ORGANISATIONAL STRUCTURE
1993

Source: Revenue Office, 1993

Commissioner
Steady

Second Commissioner’s
Second Commissioner
Cocker, Washer and
Gibbs

First Assistant Commissioners
Accounting
Services
Stien
Corporate
Services
Group
Gibbs
IT Services
Group
Tim Byte
Sales Tax
Group
Appeals and
Review
Group
Taxpayer
Audit
Group
Revenue
Collection
Group
Taxpayer
Assistance
Group

Assistant Commissioners

Collection Systems
Modernisation
(CEM)
Executive
Consultant Smith
Audit
Modernisation
Income Tax
Modernisation
Data Capture
Responsibilities for Modernisation Policies placed in Tax Groups

Notes

- Modernisation no longer identified as a separate group but is part of tax group as depicted in the structure diagram.
- Key players all have been promoted to senior positions (Smith was still a Assistant Commissioner but was promoted to First Assistant Commissioner at the end of 1994).
- Decentralisation increased the number of branch offices to 25.
- All names are pseudonyms.
- Mogul had been promoted to Second Commissioner but resigned after Steady was made Commissioner.

Decentralisation Policy had increased the number of branch offices to 25

Modernisation Project
Project Director
Second Commissioner
Steady
Making use of the opportunities provided by technologies

There were eight major projects under Modernisation. All were IT system based

Figure 3
## CHRONOLOGICAL LIST OF EVENTS

<table>
<thead>
<tr>
<th>DATE</th>
<th>EVENT DESCRIPTION</th>
<th>DOCUMENTATION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>1984</strong></td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>Charisma appointed Commissioner for a period of 3 years</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tim Byte appointed to lead IT Group.</td>
<td>Mathews, 1992: 42</td>
</tr>
<tr>
<td>July</td>
<td>First Revenue Office planning conference held.</td>
<td>Revenue Office, 1992a: 134</td>
</tr>
<tr>
<td>August</td>
<td>Commissioner held discussions with Accounting Society, Institute of Accountants and Law Council on the establishment of a Tax Liaison Group.</td>
<td>Revenue Office, 1992a: 138</td>
</tr>
<tr>
<td>August</td>
<td>Technical Strategic Plan put to the Commissioner. Rejected.</td>
<td>Mathews, 1992: 41</td>
</tr>
<tr>
<td>26 September</td>
<td>Charisma initiates Self-Assessment Review</td>
<td>Revenue Office, 1985b</td>
</tr>
<tr>
<td>1 October</td>
<td>Self-Assessment review group formed</td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>New IT Strategic Plan produced</td>
<td>Mathews, 1992: 42</td>
</tr>
<tr>
<td></td>
<td>- Controls over Processing of Income Tax Returns</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Processing and Assessment of Income Tax</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Checking of Dividends and Interest Disclosure in Income Tax Returns</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Processing of Income Tax Instalment Declarations</td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>New IT Strategic Plan produced</td>
<td>Mathews, 1992: 42</td>
</tr>
<tr>
<td>Date</td>
<td>Event Description</td>
<td>Reference</td>
</tr>
<tr>
<td>------------</td>
<td>-----------------------------------------------------------------------------------</td>
<td>----------------------------</td>
</tr>
<tr>
<td>2 April</td>
<td>Self-Assessment review group report issued</td>
<td>Revenue Office, 1985b</td>
</tr>
<tr>
<td>September</td>
<td>Major tax changes announced by Treasurer</td>
<td>Revenue Office, 1992a: 43</td>
</tr>
<tr>
<td>September</td>
<td>Capacity Planning study commissioned to quantify the mainframe capacity. Completed early 86.</td>
<td>Mathews, 1992: 42</td>
</tr>
<tr>
<td></td>
<td>Basis of the costing for the submission to Gov for the Tender.</td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>Revised ADP Plan issued. Mathews claims that this was the start of Modernisation but the plan was entirely technical and probably was produced to meet the requirements of DOF on IT Planning.</td>
<td>Mathews, 1992: 42</td>
</tr>
</tbody>
</table>

<p>| 1986       |                                                                                  |                            |
|------------|                                                                                  |                            |
| 1986       | Chopping efficiency Unit set up by Prime Minister.                               | Mathews P37                |
|            | Block Unit had a significant impact on the ATO:                                  | Revenue Office, 1987: 27   |
|            | Triggered the setting up of Taxpayer Assistance Group.                           |                            |
|            | Led to the separation of Interpretation and the Appeals Group                    |                            |
| March      | Auditor-General's reviews of the Revenue Office. Report on                       |                            |
|            | • External sources of Info                                                       |                            |
|            | • Disclosure of diesel fuel rebates                                              |                            |
|            | • Partnerships and Trusts Distributions                                          |                            |
|            | • Late Lodgement Penalties                                                       |                            |
| March      | Negotiations with the unions started for Self Assessment project.                | Mathews, 1992: 27          |</p>
<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1986</td>
<td>Review of the Audit Group initiated by Charisma and others. Recommended that Audit classify areas as: Complex, Business, Primary. Complex to include the top 100 businesses. Revenue Office reorganised October 1987.</td>
<td>Mathews, 1992: 30</td>
</tr>
<tr>
<td>1986-87</td>
<td>1986-87 Annual report states what size Revenue Offices should be</td>
<td>Revenue Office, 1986</td>
</tr>
<tr>
<td>July 1986</td>
<td>Under the Decentralisation Policy the first new regional office opened. Mathews makes the statement about the power of the two major state offices.</td>
<td>Mathews, 1992: 37</td>
</tr>
<tr>
<td>August 1986</td>
<td>Audit Offices report Unpresented Group Certificates Efficiency Audit presented to Parliament.</td>
<td></td>
</tr>
<tr>
<td>August 1986</td>
<td>Corporate Management Board formed to facilitate corporate planning.</td>
<td>Mathews, 1992: 35</td>
</tr>
<tr>
<td>September</td>
<td>Audit Office report PPS Efficiency Audit presented to parliament.</td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td>Event</td>
<td>Source</td>
</tr>
<tr>
<td>------------</td>
<td>---------------------------------------------------------------------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Mid 1987 thru 1988</td>
<td>Office Reorganisation. Structural changes initiated in the structure of the Revenue Office. Consultants undertook the review. The changes suggested were implemented in NO in Mid 1987. The reorganisation was proceeded by a corporate planning exercise and the production of the document <em>Future Directions for the Taxation Office</em>. Note: This change was driven by the report to Parliament of the Government Expenditure Committee (1986).</td>
<td>Mathews, 1992: 34-35</td>
</tr>
<tr>
<td>1987</td>
<td>Public Service Board abolished and key staff recruited by Revenue Office</td>
<td>Revenue Office, 1992a: 27</td>
</tr>
<tr>
<td>4th February</td>
<td>Cabinet gives Revenue Office in-principle approval to seek tenders for computer equipment</td>
<td>Mathews, 1992: 42, 61</td>
</tr>
<tr>
<td>February</td>
<td>Report - Attitudes of the Revenue Office report produced</td>
<td>Revenue Office, 1992a: 30</td>
</tr>
<tr>
<td></td>
<td>(Report to survey needs of clients.)</td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>Project commenced to develop a corporate view of the data and applications required for the Revenue Office. Consultants selected to provide systems development methodology as part of this project. Also provided Info Systems Plan. They recommended the production of a high level design. This was the start of HLID.</td>
<td>Revenue Office, 1992a: 79</td>
</tr>
<tr>
<td>March</td>
<td>5 year corporate plan published: <em>Future Directions for the Revenue Office</em>.</td>
<td>Mathews, 1992: 36</td>
</tr>
<tr>
<td>Month</td>
<td>Event Description</td>
<td>Source</td>
</tr>
<tr>
<td>-------</td>
<td>-------------------</td>
<td>--------</td>
</tr>
<tr>
<td>May</td>
<td>Report <em>A Taxing Solution</em> complete. This report summarises the emphasis being given to by the Revenue Office to areas for improvement. Recommended a high priority be given to people aspect.</td>
<td>Program Management Performance Review, 1987</td>
</tr>
<tr>
<td>July</td>
<td>Self-Assessment introduced for business Individuals partnerships and companies.</td>
<td>Revenue Office, 1988: 19</td>
</tr>
<tr>
<td>July</td>
<td>Office structure implemented along the line outlined in the corporate plan, Future Directions. This document also spelt out a new role for the Taxpayer Services Group.</td>
<td>Mathews, 1992: 36</td>
</tr>
<tr>
<td>October</td>
<td>People and Structures Branch created in preparation for Office Structures Implementation. This was the start of 'people' issues in the Revenue Office.</td>
<td>Revenue Office, 1992a: 63 Mathews, 1992: 48</td>
</tr>
<tr>
<td>November</td>
<td>Report on the computer re-equipment proposal. expressed reservations on job design and staffing matters. Urged the Revenue Office to develop an agreement with the unions. Start of Modernisation Agreement. The report criticised the High Level Integrated Design which resulted in a more people approach in Integrated Processing Plan.</td>
<td>Committee of Public Accounts, 1987</td>
</tr>
<tr>
<td>November</td>
<td>Two national workshops held that outlined the implementation of Office Structures Implementation</td>
<td>Mathews, 1992: 48</td>
</tr>
<tr>
<td>November</td>
<td>Meetings held by senior staff on OSI.</td>
<td>Mathews, 1992: 48</td>
</tr>
<tr>
<td>December</td>
<td>OSI Principles endorsed by Revenue Office Board.</td>
<td>Mathews, 1992: 49</td>
</tr>
<tr>
<td>December</td>
<td><em>Tax Office of the Future</em> published by People and Structures Branch (May Gibbs). This report emphasised the role of accommodation, technology, training and, participation.</td>
<td>Mathews, 1992: 58</td>
</tr>
<tr>
<td>Date</td>
<td>Event Description</td>
<td>Source</td>
</tr>
<tr>
<td>------</td>
<td>-------------------</td>
<td>--------</td>
</tr>
<tr>
<td>End 1987</td>
<td>The APS wide Second Tier Agreement provided a catalysts for a major change to work and job design, training and management processes. Note: These requirements were the driving force behind the issues that the Revenue Office (Charisma) picked up to include unions and people in their design process.</td>
<td>Revenue Office, 1992a: 64</td>
</tr>
<tr>
<td>1988</td>
<td>Large case taxpayers protest against audit process.</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>Lodgement Amnesty</td>
<td>Revenue Office: 1989: 1</td>
</tr>
<tr>
<td>February</td>
<td>Second Meeting on Modernisation Planning conference held. (meeting on Redevelopment Planning) Determined the sequence of systems to be redesigned in Modernisation.</td>
<td>Mathews, 1983: 83</td>
</tr>
<tr>
<td>February</td>
<td>Survey on working in the Revenue Office produced. Some of the impetus for this may have come from the government reviews.</td>
<td>Jans, N. A. 1988</td>
</tr>
<tr>
<td>March</td>
<td>Revenue Office Human Resource Management Conference. (meeting on OSI and its implications for Redevelopment). First staff survey produced just before this meeting.</td>
<td>Revenue Office, 1992a: 64, 67</td>
</tr>
<tr>
<td>March</td>
<td>Proposal for changes under Modernisation put to the unions by Revenue office. This was probably typical of how the Revenue Office worked with the unions in the past. The proposal was not even considered by the union as it was country to their stance.</td>
<td>Mathews, 1992: 70-74.</td>
</tr>
<tr>
<td>Date</td>
<td>Event</td>
<td>Source</td>
</tr>
<tr>
<td>---------</td>
<td>----------------------------------------------------------------------</td>
<td>----------------------------------------------</td>
</tr>
<tr>
<td>May</td>
<td>OSI Handbook endorsed by management.</td>
<td>Revenue Office, 1988b</td>
</tr>
<tr>
<td>May</td>
<td>Government approved Amnesty Program to run from 30 May to Oct 88. A scheme taken from USA.</td>
<td>Revenue Office, 1988: 12-13</td>
</tr>
<tr>
<td>November</td>
<td>Government committee publishes Another Review of the Revenue Office.</td>
<td>Government Committee on Finance and Public Administration (1988a)</td>
</tr>
<tr>
<td>November</td>
<td>Government committee publishes A Review of International Profit Shifting</td>
<td>Government Committee on Finance and Public Administration (1988b),</td>
</tr>
</tbody>
</table>

**1989**

| August  | Resource agreement on Modernisation reached between Revenue office and Department of Finance | Mathews, 1992: 67                             |
| September| Treasurer announces Modernisation program                              |                                              |
| 1989-90 | Theme for the year was "SERVICE"                                      | Revenue Office, 1992a: Attachment 4.7, 10    |

**1990**

<p>| February| Steady outline his proposed changes for the Revenue Office             | Steady, Samuel. (February 1990)              |</p>
<table>
<thead>
<tr>
<th>Month</th>
<th>Event</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td>Modernisation agreement reached between Revenue Office and Public Service Union. 23 March endorsed by the Industrial Relations commission S115 Agreement. Contained an agreement that the Revenue Office would fund a Union Advisory Unit to research and provide union advice on modernisation matters.</td>
<td>Revenue Office, 1992a: 183 Mathews, 1992: 70-74.</td>
</tr>
<tr>
<td>March</td>
<td>Delivery of report into market segmentation</td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>Conference of senior taxation officers met to consider the strategic direction for modernisation.</td>
<td>Mathews, 1992</td>
</tr>
<tr>
<td>July</td>
<td>Taxpayer Assistance Group set up to enhance service to clients.</td>
<td>Revenue Office, 1992a: Attachment 4.2, 1</td>
</tr>
</tbody>
</table>

**1991**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>Integrated Processing Project review carried on the work of IPP</td>
<td>Revenue Office, 1992a: 81</td>
</tr>
<tr>
<td>June</td>
<td>Number of Branch Offices reaches 22; an increase of 15 from 1984</td>
<td>Revenue Office, 1992b: 7</td>
</tr>
</tbody>
</table>

**1992**

<table>
<thead>
<tr>
<th>Month</th>
<th>Event</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>February</td>
<td>Announcement of a CPA inquiry into the Revenue Office</td>
<td>Revenue Office, 1992b: 2</td>
</tr>
<tr>
<td>24 April</td>
<td>Revenue Office submission to CPA</td>
<td>Revenue Office, 1992a</td>
</tr>
<tr>
<td>June</td>
<td>Tax revenue fall short from budget estimate by $3.4 billion (4.5%)</td>
<td>Revenue Office, 1992b: 7</td>
</tr>
<tr>
<td>22 October</td>
<td>Charisma announces intention to resign in January 1993</td>
<td>Revenue Office, 1992b: 8 Also in a note to staff</td>
</tr>
</tbody>
</table>
Appendix 3

DISCUSSIONS WITH KEY PEOPLE
AND OBSERVATIONS OF EVENTS

Ref. 1.1
Senior Manager 1. Senior Manager in the Revenue Office.
Date: May 1989.
Observation of Event. During a break in a meeting of senior managers, Senior Manager 1 suggested to the managers that the development of 10 principle for the Decentralisation Policy was trying to justify expenditure after the policy had been implemented.

(Note: This event was in 1989 and the policy had commenced in 1985.)

Ref. 1.2
Charisma
Date: May 1989.
Observation of Event. Staff of the Revenue Office were being questioned by a Government Committee on their aggressive tactic in carrying out audits. The Committee was not supportive of the tactics used. All staff being questioned looked to Charisma to provide them with advice on their answers (as a witness would look to their council). Clearly these staff believe that Charisma would support them and that he was responsible for the aggressive approach taken.

Ref. 1.3
Staff 1 and Staff 2. Middle Managers in the Revenue Office.
Date: October 1989.
This is a record of a discussion with two staff of the Revenue Office. It took place before the thesis had commenced. They had been at a meeting to discuss a draft report on an evaluation of the implementation of self-assessment (Revenue office, 1986b), attended by Charisma and a number of senior managers. Both these staff members suggested that the investigation to support the implementation of the Self-Assessment policy had been very narrow. They believed that it did not look at the support that the taxpayers would need under the new
approach. This view had been supported by a number of senior managers. Charisma had this view removed from the report.

Ref. 2.1
Auditor 1 and
Auditor 2. Auditors from the Auditor-General’s Office who conducted the review of the assessing of tax returns (discussed in Chapter 4).

Date: August 1991.

This information was obtained in a telephone conversation with Auditor 1. I had known that he had been involved in the initial audits of the Revenue Office and it was a conversation to verify my interpretation of the issues and to obtain background information on this critical period. His background was in IT and expressed concern at the limited use that was made of IT in the Revenue Office. He said that at the time of the audit, the Revenue Office kept some of its strategic information on taxpayers on paper files, so sorting the data into different categories could not be carried out easily. He suggested that the IT skills and knowledge of the Revenue Office staff was very limited. He felt that the management of the tax assessment process was not effective.

Ref. 2.2
Auditor 1. See above for role.

Date: August 1991.

A telephone conversation later to follow up on the cooperation between the Revenue Office and the Audit Office. He believed that the Revenue Office did not cooperate with the audit staff and while they didn’t lie they definitely did not give all the information required. He believed that the Auditor-General had spoken to Charisma about the possibility of using his powers to summons Revenue Office staff to give evidence under oath. He stated that generally the atmosphere was not friendly.

Ref. 2.3
Journalist. Journalist from one of the major newspapers.

Date: September 1991.

Telephone conversation to obtain background information on Charisma. He stated that Charisma was picked by the Treasurer to solve many of the perceived problems in the Revenue Office. The Government wanted to have the revenue to support their change program. This journalist believed that the Government were concerned about the capabilities
of the Office to deliver these changes because of their poor performance in addressing the schemes of the 1970s and 1980s. He believed that the Government saw Charisma as a person who performed.

Ref. 2.4

Journalist: See above for description of this person.
Date: September 1991
This discussion was to seek background information on the Revenue Office and particularly Charisma. In conversation with the journalists he suggested that the Revenue Office was perceived as having many problems in its administration in the early 1980s. This was gradually addressed by a number of policy initiatives. He believed that Charisma was a key person in the change process. He also stated that the public image of the Revenue Office was poor. That the assertive audit program created a “poor image” for the Revenue Office in the late 1980’s which took sometime to eliminate and he was not sure if Charisma had fully overcome this image.

Ref. 2.5

Consultant: Consultant for Chartered Accounting Organisation
Date: October 1991
This was a discussion held with an external consultant to ascertain the general view of the Revenue Office’s management capability was in the early to late 1980s. This person had experience in consulting to government organisations, but only limited experience in the Revenue Office. He believed that the Revenue Office lack creditable management skills for the period 1980s to the 1990s. He also believed that their skills had not improved in key areas such as accounting and resource management.

Ref. 2.6

Consultant: IT Consultant to large government organisation
Date: October 1991
This was a discussion held with an external consultant to ascertain the general view of the Revenue Office’s management capability was in the early to late 1980s. He expressed the opinion that other government organisation believed that the Revenue Office lacked knowledge and ability in IT (the period referred to, I believe, was the 1980 through to 1990s).
Ref. 2.7
Mogul.  Senior Manager (See Organisation chart Appendix 1).
Date:  October 1991.
Observation of Event. At this meeting attended by senior managers including Charisma, Mogul stated that his experience in private enterprise has given him insight into the problem being discussed (how to reach the correct balance between help and enforcement). He then proceeded to tell the members of the meeting (who he assumed did not have any experience in the private sector) how the problem should be solved. In this discussion he used terms such as ‘markets’, ‘return on investment’ and ‘culture’ to emphasis his experience and knowledge.

Note: Mogul was supported by Charisma. After Charisma resigned Mogul and Steady had a heated exchange at a meeting and was told by Steady that the meeting did not want to hear his views on how this issue should be addressed.

Ref. 2.8
Charisma
Date:  November 1991.
Observation of Event. Charisma continues to justifies Self Assessment. In a speech to staff, Charisma stressed that the tax system could not work without self-assessment. He suggested that the time taken to review tax returns with the large number of returns processes would be prohibitive. He claimed the Revenue Office would need thousands of more staff. (He failed to mention the possible use that could be made of IT to target those tax returns with possible errors. It may have been possible to carry out the work without self-assessment).

Ref. 2.9
Mogul  See above
Date:  November 1991
A brief discussion with Mogul during a break in a meeting. Mogul suggested that prior to 1989 the Revenue Office was not perceived by people external to the Revenue Office as capable of administering the Taxation Act or managing it resources well. He suggested that prior to the changes to the management style the Revenue Office was bureaucratic and rule bound. He stated that the senior management had little real skills other than tax technical.
Observation of Event. At a senior managers meeting Charisma began to discuss the budget problems in the Revenue Office. He stated that there were too many staff to pay within the current budget. He discussed the process of encouraging redundancies. His comment was "we love our staff but we love some more than others".

Note: At this time there had been not any notice to the staff that redundancies were being planned. This would have been a critical process in the Revenue Office at this time.

General discussion with Mogul. In discussing the changes that were made to the compliance strategy in the late 1980s, Mogul suggested that the audit program was changed because it had achieved its purpose and need to be balanced against the need to provide a service to those tax payers that could be trusted to do the right thing. To get the balance between help and enforcement was the aim of the Revenue Office management.

In a general interview he suggested that the decentralisation policy was believed by many staff to be a political process. The new offices were built in the electorates of government politicians. He believed that it was probably true that the offices were built in areas to benefit the government.

In a interview to discuss Charisma's ability to maintain the confidence of staff and what he believed was the attitude of staff to the changes that had occurred. This senior manager believed that generally staff trusted Charisma. That this was because he had encouraged their involvement in decision making and things like work and job design. He also believed that
because Charisma had promised better jobs and no redundancies they were confident their jobs were secure. Senior Manager 2 believed that Charisma had given staff all they wanted and this was leading to problems with the budget.

The implementation of self-assessment had been done quickly because Charisma wanted a solution to the problems being identified by the Audit Office. He believed that Charisma had selected the Senior Manager who carry out the self assessment review (Revenue Office, 1985b), because he could be relied upon to come up with the required solution.

Ref. 3.4
Senior Manager 1. Manager in the Revenue Office
Date: May 1992.
A interview to discuss Charisma’s ability to maintain the confidence of staff and what this manager believed was the attitude of staff to the changes that had occurred. He believed that Charisma had been very luck to maintain staff’s support. He believed that in many way he had bought this support by agreeing to many of staff’s demands. In the long run this would not benefit the Revenue Office. He believed that the Revenue Office had spent millions of dollars to change the culture of the organisation which in some cases has been at the expense of changes to the tax systems. The Revenue Office had not achieved the changes that were required to improve the efficiency of the tax collection systems.

Ref. 3.5
Smith. Senior Manager (See Organisation chart Appendix 1).
Date: May 1992.
A interview to discuss Charisma’s ability to maintain the confidence of staff and what he believed was the attitude of staff to the changes that had occurred. Smith believe that Charisma had the confidence of staff. He believed that despite the very large changes that had occurred and were still occurring people in the Revenue Office were very loyal and very keen to support the objectives of the Office. He suggested that this had been supported by staff surveys such as Jan (see Jan 1988: Jan et al, 1989). He believed that Charisma deserved and got the support of all senior manager.
In a general discussion on IT, Smith expressed the opinion that the Revenue Office had placed little importance on developing and maintaining IT capability in the early 1980s because it saw tax technical as the required skill to be developed and maintain. The IT system had been built and were ‘ticking over well’ and so did not need to be improved by the introduction of better technology. The head of the systems area (person before Byte) was not seen as innovative and probably did not help to maintain a high profile for IT. Changes did not really begin to happen until 1986 and 1987.

Note: Smith had spent some time in an IT area in the 1980’s.

Ref. 3.6
Smith. See above for his position.
Date: June 1992.
General discussion about the changes in the systems development strategy (CSM93). He suggested that the change in the Modernisation policy to focus on servicing taxpayers was also driven by the need to put Revenue Office tax Groups (divisions) requirements into the system development process. It was important to be able to support tax staff in their service to the taxpayer. Major tax IT systems should be integrated so staff are able to have access across all systems to find the information they required to support the service concept.

Ref. 4.1
Staff 3. Middle Manager from Public Relations Unit.
Date: June, 1993
In a discussion it was stated that Charisma had used the Public Relations Unit to find journals and other outlets that could be used to present a positive view of policies and other Revenue Office decisions. It was also believed by this person that they were used to present a positive view of Charisma. The new commissioner Steady had stopped all those processes and had proposed that all senior managers should be involved in presenting a view to the public. He wanted to change the Charisma tendency to be the main manager to carry out interviews and speeches.
## 'Logic' Matrix

Logic and boundaries for chapter 4 in the case study of the Revenue Office. Period 1984-85

<table>
<thead>
<tr>
<th>STARTING SOCIAL CONTEXT</th>
<th>PROBLEM/ISSUE THAT INITIATES ACTION</th>
<th>SOLUTION INITIATED</th>
<th>TYPOIFICATIONS USED TO LEGITIMISE CHANGE</th>
<th>METHODS USED TO LEGITIMISE CHANGE</th>
<th>RESULTS/ENDING SOCIAL CONTEXT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Office hierarchal and process orientated (Revenue Office, 1992a: Mathews, 1992)</td>
<td>The problem was created by the Auditor Office’s review of the tax assessment processes (Government Expenditure Committee, 1986).</td>
<td>Claim that the Audit Office did not have authority to review tax payers records. Implement self assessment to change the assessment process (Revenue Office, 1985b).</td>
<td>• Staff could not cope with the work load without self assessment. • Put energies into catching the ‘big tax evaders’. • Self-assessment used in other countries • Elimination of disputes over tax assessments (Revenue Office, 1985b)</td>
<td>Conducted a review that supported the implementation of self assessment (Revenue Office, 1985b). Charisma used many public speeches to obtain support for the new policy.</td>
<td>Began to move staff from the assessing area to audit Service to taxpayer became an issue because they needed more help in completing their returns (see below) Increase in the importance of audit to detect errors and evasion. Mogul was able to use this to gain promotion in the Revenue Office (see Appendix I for the changes in positions).</td>
</tr>
<tr>
<td>Tax technical seen as the important skill (Story, 1992)</td>
<td>Revenue Office had not been quick to address the tax avoidance schemes (Costigan, 1982) so there were questions about its performance (Appendix 3, Ref. 2.3)</td>
<td>IT was not seen as a important skill in the Revenue Office. The system had not been updated or maintained to retain their capability (Appendix 3, Ref. 3.5; Government Expenditure Committee, 1986).</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Logic and boundaries for chapter 5 in the case study of the Revenue Office. Period 1986

<table>
<thead>
<tr>
<th>STARTING SOCIAL CONTEXT</th>
<th>PROBLEM/ISSUE THAT INITIATES ACTION</th>
<th>SOLUTION INITIATED</th>
<th>TYPIFICATIONS USED TO LEGITIMISE CHANGE</th>
<th>METHODS USED TO LEGITIMISE CHANGE</th>
<th>RESULTS/ENDING SOCIAL CONTEXT</th>
</tr>
</thead>
</table>
| Self assessment policy was the focus of tax technical developments.  
The IT profile had not changed by the beginning of 1986 (Appendix 3, Ref. 3.5; Government Expenditure Committee, 1986)  
Revenue Office had a view that to improve IT they needed to purchase new equipment (Government Expenditure Committee, 1986) | The Audit Office criticised the use of IT  
A government review evaluated the Audit Office review and published a very critical review of the Revenue Office capabilities (Government Expenditure Committee, 1986) | Charisma seemed to believe that his IT policy was adequate to address this issue. Started to plan for a very traditional redevelopment of the current systems. (Mathews, 1992: Chapter 7) | Charisma relied on the current policy to legitimise the change. | No real effort to legitimise changes. | IT became more important in the Office.  
Little structural or cultural change |
Logic and boundaries for chapter 6 in the case study of the Revenue Office. Period 1987-1990

<table>
<thead>
<tr>
<th>STARTING SOCIAL CONTEXT</th>
<th>PROBLEM/ISSUE THAT INITIATES ACTION</th>
<th>SOLUTION INITIATED</th>
<th>TYPIFICATIONS USED TO LEGITIMISE CHANGE</th>
<th>METHODS USED TO LEGITIMISE CHANGE</th>
<th>RESULTS/ENDING SOCIAL CONTEXT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only minor changes from above.</td>
<td>Policy direction established by reviews by Government</td>
<td>Modernisation - a policy umbrella, Charisma drew together existing policies to form Modernisation - OSI (work and job design), Decentralisation, IT systems development, agreement with the unions</td>
<td>Rationalistic approach. The policies were the most effective solution. (subject of next chapter below)</td>
<td>See below</td>
<td>See below</td>
</tr>
</tbody>
</table>

Committee review decided that another review was required to test whether the Revenue Office’s approach to management was adequate (Program Management Performance Review, 1987)

Reviewed the Revenue Office’s IT tender proposal (Committee of Public Accounts, 1987)

Problems:
- systems approach to IT developments
- Lack of work and job design
Logic and boundaries for chapter 7 in the case study of the Revenue Office. Period 1987-1990

<table>
<thead>
<tr>
<th>STARTING SOCIAL CONTEXT</th>
<th>PROBLEM/ISSUE THAT INITIATES ACTION</th>
<th>SOLUTION INITIATED</th>
<th>TYPIFICATIONS USED TO LEGITIMISE CHANGE</th>
<th>METHODS USED TO LEGITIMISE CHANGE</th>
<th>RESULTS/ENDING SOCIAL CONTEXT</th>
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| Problem being addressed in this chapter is the legitimisation of the changes (discussed in chapter 6) to staff and the Government | Charisma continued his legitimisation process. By this time he was very effective at creating acceptance for change. | Legitimising changes to staff:  
- assist them to do their work (Charisma, July 1988)  
- no staff to be made redundant (Revenue Office: 1990a: para 3)  
- improve quality of jobs (Revenue Office, 1992a: 62-64)  
- included in job design (Revenue Office, 1988a: 6-7)  
- staff were ‘trusted and valued’ (Revenue Office, 1991b: 3)  
- Decentralisation policy changes to providing modern offices to support IT changes (Revenue Office, 1992a: 55)  
- changed culture (Revenue Office, 1988b)  
- leadership and management models used (Charisma, 4 June 1991; Charisma, March 1991) | The main method of promoting these legitimating typifications was through the publication of internal documents and speeches | Staff involved in the change process (Revenue Office, 1988b: 30-36)  
- Teams to do the development work broke down the hierarchy (Revenue Office, 1988b: 30-36) |

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<td>Assertive audit program used to ensure compliance with the tax law (Charisma, September 1986)</td>
<td>Criticism of the focus of the compliance policy based on aggressive audit process. Self assessment placed greater reliance on audit processes to detect tax avoidance (Charisma, Sept 1986: 9; Committee of Public Accounts, 1993: para 11.17). Appendix 3, Ref. 1.3, Ref. 2.4 and Ref. 3.1.</td>
<td>Assertive audit approach for those that did not pay tax (Charisma, September 1987) Trust and service for those that could be trusted (the ordinary tax payers)</td>
<td>'Big fish' escaped paying tax (Hill and Knowlton, 1987: 2; Charisma, September 1987). Only 'people who had something to hide' should worry about audits (Charisma, August 1988: 9-10). Taxpayers became 'clients' and separated into 'markets' for service (Charisma, November 28 1988: 2-5). 'Trust' used to soften aggressive approach for 'clients' (Revenue Office, 1992b: 2). Getting the right balance between &quot;enforcement&quot; and 'service' became a management policy (Revenue office, 1992a: para 4.88).</td>
<td>Taxpayer Service Group created (Revenue Office, 1988a: 79-96) Speeches, public documents and use of public personalities (Charisma, November 28 1988; Revenue Office, 1992b: 2; Revenue Office, 1989a: 19; Revenue Office 1991a: 32, 90) Media unit used to publicise his policies (Media, 1988)</td>
<td>Revenue Office changed to an organisation that used greater management and private enterprise models (eg risk assessment) (Revenue Office, 1992; Attachment 3.15, para 4.88).</td>
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<td>Revenue Office had introduced the use of committees and teams to carry out and manage work (Mathews, 1992: 127-128; Revenue Office, 1989a: 79-81). It also had strong staff participation through the unions (Mathews, 1992: 70-74).</td>
<td>Problem initiated by policy entrepreneurs who used internal and external reports to support the development of problems (Steady, February 1990: 6-7). (This was a different approach to the definition of problems from the past methods)</td>
<td>Created the integration of service and IT systems policies (Mathews, 1992: 109, 113)</td>
<td>To equip, train and commit staff to helping taxpayers and others meet their responsibilities (Steady, August 27-30 1990: 5).</td>
<td>Propose a change to the policies of service and IT system to have one system to support the provision of service (Mathews, 1992: 109, 113).</td>
<td>Charisma claims that he has taken the Revenue Office from a paper processing factory to a professional service provider (Revenue Office, 1992a: 1). Work is based on teams and staff participation (Mathews, 1992: 127-128, 74; Revenue Office, 1989a: 79-81).</td>
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Policy Formulation and the Limits of Plausibility

A Case Study of Policy Formulation
in a Revenue Office

By

©Michael McNamara

A Thesis presented to the School of Management,
College of Law and Business
University of Western Sydney
for the Degree of

Master of Commerce (Honours)

April 2001
PLEASE NOTE

The greatest amount of care has been taken while scanning this thesis,

and the best possible result has been obtained.
CANDIDATES CERTIFICATION

I certify that the thesis entitled *Policy Formulation and the Limits of Plausibility: A Case Study of Policy Formulation in a Revenue Office* and submitted for the degree of Master of Arts, is the result of my own work, except where otherwise acknowledged, and that this thesis (or any part of it) has not been submitted for a higher degree at any other university or institution.

________________________________________________________________________

Michael McNamara

________________________________________________________________________

Date 12/12/02
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Abstract

This thesis looks at policy formulation in a Revenue Office over the nine-year period from 1984 to 1993. It presents a case study that is based on actual events: but, because of the difficulties in reporting on the events in a large organisation without the possible influence of some staff, particularly senior management, it was decided to change the names of the organisation, the people and policies.

The thesis is based on an examination of a number of policy initiatives that were ‘quilted’ together. Its focus is not on the contents of the policies or primarily on their economic success, but on the bureaucratic and stakeholder processes involved in their formulation.

The purpose of the thesis is to provide a way of understanding events in organisations that are portrayed or categorised by research as policy formulation. Policy formulation is considered to be a core process in organisations, but it is still poorly understood or explained by current models, particularly those based on a rationalistic view of the world. Many of these models have their roots in economic theory and rationality, which promotes the idea that policy is a fundamental and almost inevitable part of organisation goal attainment. These ideas permeate and structure the theory and depiction of organisations and, hence, the way we understand the nature of the social actions and interactions supporting policy formulation.

The thesis rejects the assertion that organisations move in a consistently calculated and logical direction based on goal setting and developing policies to meet objectives. An alternative view is proposed: that policy formulation must be understood within the phenomenon of an organisation where people enact a particular form of social reality. Under this model organisations are created and maintained by social processes that are continually executed by people. In this context, individuals and groups use processes of negotiation and power to manipulate and re-define the meanings attributed to problems and solutions to maintain a perception of consistent and coordinated change and goal attainment in policy formulation. This social practice is an attempt to define reality and maintain legitimacy for the policy changes. Thus, the emphasis is on social processes rather than outcomes, thereby focusing on the development and maintenance of perceptions of problems and solutions.

This thesis analyses policy formulation as a distinctive kind of social practice using a case study of policy developments in a revenue office, as a means of explaining the basic nature
of ongoing corporate life. The case study explores the way that core revenue office policies, proposed as ‘logical’ change, were formulated by individuals and groups who constantly used ‘legitimising’ management models and principles, agenda management, and bargaining and power processes to negotiate, influence, modify and manipulate the perceptions of change. The aim is to explain how policy options were generated in the “Charisma period”, to examine their origins and how they were acted upon, and to develop a set of summary concepts that might be used to understand policy development behaviours.