

**TAX COMPLIANCE AND SMALL AND MEDIUM
ENTERPRISE OPERATORS:
AN INTRA-CULTURAL STUDY IN NEW ZEALAND**

SUE (SIEW ENG) YONG

PhD

2011

**TAX COMPLIANCE AND SMALL AND MEDIUM
ENTERPRISE OPERATORS:
AN INTRA-CULTURAL STUDY IN NEW ZEALAND**

SUE (SIEW ENG) YONG

A Thesis submitted to Auckland University of Technology

In fulfilment of the requirements for the degree of

Doctor of Philosophy (PhD)

2011

School of Business

Primary Supervisor: Professor Keith Hooper

Table of Contents

Table of Contents.....	ii
List of Tables and Figures.....	viii
Attestation of Authorship.....	ix
Acknowledgements.....	x
Abstract.....	xii
CHAPTER 1: Introduction.....	1
1.1 Overview.....	1
1.2 Background.....	2
1.2.1 SMEs in New Zealand.....	2
1.2.2 SMEs and tax compliance.....	4
1.2.3 Research on tax compliance and ethnicity.....	5
1.3 Rationale for the study.....	6
1.3.1 Rationale for studying New Zealand SME operators.....	6
1.4 Research aims and questions.....	8
1.5 Research methodology and method.....	9
1.6 Structure of the thesis.....	11
CHAPTER 2: Ethnicity and Tax Compliance of SMEs.....	13
2.1 Introduction.....	13
2.2 Determinants of tax compliance behaviours.....	13
2.3 Tax compliance of SMEs and taxpayers.....	14
2.3.1 The uniqueness of SMEs' tax compliance behaviours.....	15
2.3.2 Ethnicity and tax evasion.....	16
2.3.3 Ethnicity, public spending, and tax morale.....	17
2.3.4 Intra-cultural studies on tax compliance.....	17
2.4 Culture and tax compliance on taxpayer and student samples.....	19
2.4.1 Cross-cultural research.....	20
2.4.1.1 Cultural dimensions and tax compliance.....	21
2.4.1.2 Limitations of cross-cultural tax research.....	23
2.5 Culture and tax compliance of SMEs.....	24
2.6 Tax knowledge and record keeping systems of SMEs.....	27

2.6.1	Purpose and types of record keeping by SMEs	27
2.6.2	Cash flow management and tax payments	28
2.7	SME's relationship with, and perception of, tax authorities.....	29
2.8	Tax practitioners and SMEs.....	30
2.8.1	Preference for tax practitioners over other sources of tax help	31
2.9	Summary	32
CHAPTER 3:	Cultural Diversity of New Zealand SME Operators	33
3.1	Introduction.....	33
3.2	Cultural differences of New Zealand SME groups.....	33
3.2.1	Business assistance programs in New Zealand	35
3.3	Cultural differences and business behaviours.....	36
3.4	European cultural values and tax compliance.....	37
3.5	Maori cultural values and tax compliance	38
3.6	Pacific cultural values and tax compliance.....	39
3.7	Asian cultural values and tax compliance.....	40
3.8	Summary	41
CHAPTER 4:	Hofstede's Theoretical Framework and Cultural Dimensions	43
4.1	Introduction.....	43
4.2	Culture and human behaviours	43
4.3	Comparisons between Hofstede and GLOBE cultural frameworks	44
4.3.1	Weaknesses of the GLOBE framework.....	44
4.3.2	Credibility of Hofstede's study.....	45
4.3.3	Criticisms of Hofstede's cultural framework	46
4.3.4	Justification for adopting Hofstede's framework	47
4.4	Hofstede's cultural dimensions.....	48
4.4.1	Power distance	48
4.4.2	Individualism-collectivism	49
4.4.3	Uncertainty avoidance	50
4.4.4	Masculinity and femininity.....	50
4.4.5	Long term and short term orientations	50
4.4.6	Hofstede's framework and ethnic groups.....	51
4.5	Comparative cultural dimensions for the ethnic groups	52
4.5.1	Power distance (PD) for the ethnic groups.....	53
4.5.1.1	Power distance and tax compliance	54
4.5.2	Individualism-collectivism for the ethnic groups.....	54

4.5.2.1	Individualism-collectivism and tax compliance.....	54
4.5.3	Uncertainty avoidance (UA) for the ethnic groups	55
4.5.3.1	Uncertainty avoidance and tax compliance.....	56
4.5.4	Long term (LT) and short term (ST) orientation for the ethnic groups .	56
4.5.4.1	Long term and short term orientations and tax compliance.....	57
4.5.5	Masculinity-femininity of the ethnic groups	57
4.5.5.1	Masculinity-femininity and tax compliance.....	57
4.6	Overall positions of the cultural dimensions for the ethnic groups	58
4.7	Intra-cultural studies and Hofstede’s cultural framework	59
4.8	Summary.....	61
CHAPTER 5:	Methodology and Research Method.....	62
5.1	Introduction.....	62
5.2	The research problem.....	62
5.3	Qualitative research and tax compliance	64
5.4	Constructivist-interpretive paradigm	64
5.4.1	Relativist ontological assumption.....	65
5.4.2	Subjectivist epistemology.....	65
5.4.2.1	Researcher - insider or outsider?.....	67
5.4.2.2	Acculturation to Maori, Pacific and Asian customs.....	69
5.4.3	Naturalistic methodology	70
5.5	Research method and sample participants	71
5.5.1	Qualitative and quantitative research on SMEs.....	71
5.5.2	Survey research and SMEs	72
5.5.3	Focus groups and ethnic SMEs	72
5.5.4	Sample participants.....	73
5.5.5	Ethics approval and confidentiality	75
5.5.6	Sample selection process for this study	76
5.5.7	Using key informants to access participants.....	77
5.5.8	Demography of the sample participants	78
5.6	The interview research method.....	79
5.6.1	Interview questions.....	80
5.6.2	Limitations of the interview process	81
5.6.3	Triangulation	82

5.7	Data analysis	82
5.7.1	Data reduction.....	83
5.7.2	Data display	83
5.7.3	Data interpretation and conclusion drawing.....	85
5.8	Reliability, validity, and trustworthiness issues of qualitative research ...	86
5.9	Summary	88
CHAPTER 6:	Tax Compliance Perceptions and Record Keeping Functions of Ethnic SME Operators	89
6.1	Introduction.....	89
6.2	Tax compliance perceptions	90
6.2.1	Record keeping systems and tax compliance - Asian group	92
6.2.2	Record keeping systems and tax compliance - European group	93
6.2.3	Record keeping systems and tax compliance - Pacific group	94
6.2.4	Record keeping systems and tax compliance - Maori group.....	95
6.2.5	Tax compliance perceptions of tax practitioners and business experts .	96
6.3	Accounting systems of SME operators.....	97
6.4	Record keeping responsibility for SMEs.....	99
6.4.1	Accounting systems and the record keeping function - European group	101
6.4.2	Accounting systems and the record keeping function - Asian group ..	101
6.4.3	Accounting systems and the record keeping function - Maori group..	102
6.4.4	Accounting systems and the record keeping function - Pacific group	104
6.4.5	Accounting systems and the record keeping function of SME operators	105
6.5	Interplay of cultural factors for filing timely tax returns	106
6.6	Summary	107
CHAPTER 7:	Sources of Tax Assistance Used, Perceptions of the IRD and Audit Experiences of SME Operators	109
7.1	Introduction.....	109
7.2	Sources of tax assistance used by ethnic operators.....	109
7.2.1	Tax help from unpaid friends and peers	110
7.2.2	Tax help from paid accountants/tax practitioners.....	111
7.2.2.1	Use of accountants by the non-Asian groups.....	112
7.2.2.2	Use of accountants by the Asian group.....	114
7.2.3	Tax assistance from the IRD	115

7.3	Ethnic SME operators' perceptions of the IRD	116
7.3.1	Maori operators' perceptions of the IRD.....	116
7.3.2	European operators' perceptions of the IRD	118
7.3.3	Asian operators' perceptions of the IRD	119
7.3.4	Pacific operators' perceptions of the IRD	120
7.3.5	SMEs perceptions of the IRD from the tax practitioners and business experts' perspectives	121
7.4	Tax audits and SMEs	122
7.4.1	Audit experience and financial literacy of the Asian operators.....	123
7.4.2	Audit experience and financial literacy of the Maori operator.....	123
7.4.3	Audit experience and financial literacy of the Pacific operator	126
7.4.4	Audit experiences and financial literacy of the European operators ...	127
7.5	Interplay of cultural factors for sources of tax assistance used	128
7.6	Summary	129
CHAPTER 8:	Tax Payment Experiences and Tax Spending Perceptions of Ethnic SME Operators	132
8.1	Introduction.....	132
8.2	Tax payment experiences and tax spending perceptions	132
8.3	Tax payments and tax spending perceptions of the Asian group	134
8.3.1	Asians' perceptions of and participation in the cash economy	134
8.3.2	Perceptions of tax spending by Asian operators.....	136
8.4	Tax payments and tax spending perceptions of the European group	137
8.4.1	Europeans' perceptions of and participation in the cash economy	139
8.4.2	Europeans' perceptions of tax payments	140
8.4.3	Perceptions of tax spending by European operators.....	141
8.5	Tax payments and tax spending perceptions of the Pacific group.....	142
8.5.1	Pacific operators' cash management and planning skills	143
8.5.2	Pacific operators' perceptions of tax payments and cash jobs	144
8.5.3	Pacific operators' perceptions of tax spending and business decisions	145
8.6	Tax payments, tax spending and the Maori group.....	147
8.6.1	Maori perceptions of tax payments and cash jobs.....	148
8.6.2	Perceptions of tax spending by the Maori operators	149
8.7	Interplay of cultural factors for tax payment and tax spending perceptions	150
8.8	Summary	152

CHAPTER 9: Conclusions, Contributions, Recommendations and Future Research	153
9.1 Introduction.....	153
9.2 Significance of the study.....	155
9.3 Contributions to tax compliance research on SMEs.....	155
9.3.1 Cultural values and tax compliance of SME operators	156
9.3.2 Theoretical and empirical contributions of this research.....	158
9.3.3 Interplay of cultural factors and tax compliance behaviours of SMEs	159
9.4 Contribution to qualitative tax research on SMEs	161
9.5 Policy and Practice recommendations	162
9.5.1 Monitoring and assisting Asian business taxpayers with tax compliance	162
9.5.2 Monitoring and assisting Maori and Pacific business taxpayers with tax compliance	164
9.5.3 Monitoring and assisting European business taxpayers with tax compliance	165
9.5.4 Practice changes required of the IRD	166
9.6 Limitations of this research.....	167
9.7 Suggestions for future research.....	169
9.8 Conclusions.....	170
REFERENCES	172
LIST OF ACRONYMS	211
Appendix 1: New Zealand population by ethnicity from 1996 to 2006	212
Appendix 2: Cultural diversity by regions in New Zealand	213
Appendix 3: Purpose of the research as given to the participants	214
Appendix 4: Participants' consent form.....	216
Appendix 5: Listing of the 2006 Australian and New Zealand Standard Industrial Classification (ANZSIC)	217
Appendix 6: Interview schedule for ethnic SME operators.....	218
Appendix 7: List of questions for business experts	221
Appendix 8: List of questions for tax practitioners.....	222
Appendix 9: Demographics of European SME operators.....	224
Appendix 10: Demographics of Asian SME operators.....	225
Appendix 11: Demographics of Maori SME operators	226
Appendix 12: Demographics of Pacific SME operators	227

List of Tables and Figures

Figure 5.1: Summarised procedure for data analysis. An adaptation of O'Dwyer's (2004) method.....	84
Figure 6.1: Types of accounting system used by the ethnic operators	98
Figure 6.2: Person(s) responsible for the business record keeping function by ethnicity	100
Figure 7.1: Main source of tax assistance used by ethnic groups	110
Figure 8.1: Tax payment difficulties by ethnicity.....	133
Figure 8.2: Number of operators, by ethnicity, who were satisfied with the education and welfare public spending.....	133
Table 1.1: Census data – percentage ethnic groups by status in business (excluding paid and unpaid employment) in 2001 and 2006.....	7
Table 4.1: Comparative cultural dimensions by ethnic groups in New Zealand.....	58
Table 6.1: Words and concepts associated with tax compliance by ethnic SME operators	90
Table 6.2: Interplay of cultural factors on the ethnic SME samples and their inclination to file timely and accurate tax returns.....	108
Table 7.1: Interplay of cultural factors on the main sources of tax assistance used and perception of the IRD by the ethnic SME samples.....	130
Table 8.1: Interplay of cultural factors on tax payment difficulties and ethnic groups	151

Attestation of Authorship

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree of diploma of a university or other institution of higher learning.

Acknowledgements

I would like to acknowledge the following people for their support, understanding, advice and guidance during this research journey. Their assistance has inspired me to continue with the journey despite many difficult moments.

Professor Keith Hooper, my primary supervisor, for his flexibility and guidance in this thesis.

Professor Deryl Northcott, my secondary supervisor, for her detailed and thought-provoking comments and direction.

The AUT Ethics Committee, for their guidance during the ethics application process and for granting me approval on the 12th July 2006: reference 06/92.

Professor Lee Parker, for his constant encouragement to complete the PhD.

Violetta Petersen-Lesatele, for her invaluable contacts to access the Maori and Pacific participants, without which this thesis would not have been possible.

The Pacific Business Trust and **Te Puni Kokiri**, to whom I am indebted for teaching me and giving me so much insight into ethnically owned businesses.

Tavero Turua and her connect group, **Ingrid Rusbatch**, **Max Legg** and **Tony Busck** from VCC, who have supported me in prayers to complete this journey. Your support and prayers have made this thesis possible.

All my participants: who have taught me so many things during the last four years. Thank you for sharing a part of your life with me. I have grown to appreciate and love your different cultures.

Kay Switzer, my helpful editor and proof-reader, whose assistance has been outstanding.

Madam Wong, my precious and dearest mother who taught me tenacity and patience.

Patches Yong, my eldest sister, for whom I have so much respect. Thank you for your constant encouragement and for still believing in me.

Jonathan Lim, my precious son, who has been so patient with me while I completed my PhD. Thank you for believing in Mum over these years.

Jessica Lim, my beautiful and witty daughter, who is more responsible as a result of her mother's study. Thank you for growing up so quickly.

Patrick Lim, my beloved husband, whose patience and loving support has helped me through those difficult moments. Without your understanding and emotional support, this thesis would not have been possible.

My Heavenly Father, Jesus Christ and the Holy Spirit, to whom the utmost thanks and glory should be given.

Abstract

Despite the economic importance of the tax collection process undertaken by small and medium enterprises (SMEs), little is known about their tax compliance behaviour in general, and particularly in relation to cultural factors. With the growing cultural diversity of SME ownership, there is a need for an intra-cultural study of how SME operators comply with tax regulation. This knowledge is important for both tax authorities and the business community in identifying cultural factors that may hinder successful tax compliance, so that remedial actions can be taken to improve compliance by SMEs.

This qualitative study applies Hofstede's (1980, 2001) cultural framework to examine the differences in the tax compliance behaviours, attitudes, and perceptions of European, Maori, Asian and Pacific SME operators in New Zealand. As the aim was to gain rich and in-depth understanding of the tax compliance dynamics of ethnic SME operators, additional perspectives were sought from tax practitioners and business experts to provide insights into the influences of networks, time and risk orientations, and SME operators' perceptions of the tax authority. To achieve that, 59 ethnic SME operators, tax practitioners, and business experts were interviewed between 2006 and 2010.

The study found some collectivistic groups used their networks to lower their tax compliance costs, whereas others were required to fulfil their group's obligations, thereby hindering their ability to pay their taxes on time. Groups with higher uncertainty avoidance, long term time orientation and masculinity traits had better record keeping systems and fewer tax compliance problems. High power distance groups showed greater reverence and fear towards the tax authority and tax practitioners. The Asian SME operators who participated in this research showed the least difficulty with filing their tax returns and paying their taxes on time, whereas the Europeans experienced some difficulties and the Maori and Pacific SME operators encountered the most problems. Given that, tax compliance activity can no longer be thought of as culturally neutral, as is assumed in some tax compliance research.

Since Hofstede's work was based on a quantitative methodology, the qualitative design of this study aimed to validate and understand Hofstede's dimensions in the tax compliance context for SME operators intra-culturally. The qualitative approach generated rich content in terms of providing real tax compliance stories, perceptions and experiences that highlighted some difficulties created by cultural incompatibility with the New Zealand tax requirements. The study also offers suggestions to the tax authority, policy makers and business community to reduce the likelihood of noncompliance amongst SMEs. In order to comply with the tax regulations, there is a need for SME operators to modify and adapt their cultural values to align with the tax requirements, as failure to do so will result in tax compliance difficulties. In addition, the tax authorities also need to be culturally aware that some ethnic groups may have difficulties complying due to their cultural values, thereby requiring targeted assistance and monitoring measures.

CHAPTER 1: Introduction

1.1 Overview

This thesis examines the cultural influences on the tax compliance behaviours of ethnic SME operators in New Zealand by using Hofstede's (2001) theoretical framework. The knowledge gained from this research should inform the efforts of tax regulators, government agencies, and policy makers to more effectively target their regulatory measures and assistance programs towards SMEs. This is particularly relevant given the increasing cultural diversity in most Organisation for Economic Co-operation and Development (OECD) countries including New Zealand.

As shown in Appendix 1, New Zealand is culturally diverse with ethnicities of European, Maori, Asian, Pacific Peoples and "others". People from similar origin, geographical areas and regions are categorised into these broad ethnic groups (Macpherson, 2001; Pio, 2010), which follows what commonly occurs in most government censuses (Ogden, Ogden, & Schau, 2004). Statistics New Zealand defines ethnicity as a measurement of cultural affiliations (Statistics New Zealand, 2011). Culture determines the identity of human groups (Hofstede, 1980) and ethnicities are cultural groups with a set of shared values, beliefs, and norms to solve basic human problems (Basu & Altinay, 2002; Hampden-Turner & Trompenaars, 1996). The importance of cultural diversity is also reflected in the ethnic SME business ownership, shown later in Table 1.1 in section 1.3.

This research examines the tax compliance behaviours and perceptions of New Zealand SME operators from the perspectives of three major players in the tax arena: SME operators, tax practitioners and business experts. Since tax compliance decisions are undertaken by SME operators, their views are included in this research. The views of tax practitioners are included as they assist SMEs with tax filing and tax planning (Marshall, Armstrong, & Smith, 1998; Tan, 1997). The views of business experts who advise SME operators on regulatory requirements, financing and business decisions are also included. They are government representatives, business mentors/coaches/advisors and tax regulators and they interact with SMEs on an on-going basis.

This chapter begins by outlining the research background and introduces prior literature on tax compliance and ethnicity in section 1.2, followed by the rationale for pursuing this course of research in section 1.3. Section 1.4 outlines the research aims and questions followed by a brief discussion on the research methodology and method in section 1.5. The chapter concludes with the structure of the remaining thesis in section 1.6.

1.2 Background

This section discusses the economic importance of SMEs and prior literature on tax compliance and ethnicity. Since the aim of the research concerns ethnicity and SMEs, it is worthwhile defining ethnicity and SMEs to clarify the basis taken for this research. The concept of ethnicity refers to a sense of kinship, common culture, and self identification with an ethnic group (Hutchinson & Smith, 1996). An ethnic group is defined as a “collectivity within a larger society having real or putative common ancestry, memories of shared historical past” (Basu, 2006, p. 582). An ethnic business is therefore a business having “a set of connections and regular patterns of interaction among people sharing common national background or migratory experiences” (Aldrich & Waldinger, 1990, p. 112).

In New Zealand, there is no agreed definition of SMEs. The Ministry of Economic Development (MED) defines them as “enterprises with 19 or fewer employees” (Ministry of Economic Development, 2009, p. 7). However, Cameron and Massey (1999, p. 6) define SMEs as “enterprises having up to 99 employees”, which is closer to the definition of SMEs used in other OECD countries. Hence for the purpose of this research, Cameron and Massey’s (1999) definition is used, given that most SME literature has emerged from OECD countries.

1.2.1 SMEs in New Zealand

SMEs are the dominant form for organisations in most countries including New Zealand (IFC & The World Bank, 2010; OECD, 2004). The New Zealand government recognises the important economic contributions SMEs make towards production and employment (Commerce Committee, 1998; Small Business Advisory Group, 2006). As at February 2008, SMEs provided “50 percent of all employment in the country” (Ministry of Economic Development, 2009, p. 13) and in 2007, they contributed “58

percent of all total value-added output, amounting to \$48,508 million” (Ministry of Economic Development, 2009, p. 18).

New Zealand SMEs are largely concentrated in Auckland, Canterbury, and Wellington regions. Auckland has the highest number of SMEs and as at February 2008, it had a “total of 147,622 SMEs compared to Canterbury with the second highest number of 58,487” (Ministry of Economic Development, 2009, p. 21). As shown in Appendix 2, Auckland is the most ethnically diverse region in New Zealand with the highest concentration of the European, Maori, Asian and Pacific Peoples (Statistics New Zealand, 2010c). It has the highest percentage of net Maori asset base in the country relevant for indigenous SME undertakings (NZIER, 2003, 2007). Auckland is also the fourth largest Pacific “country” by population and it is the Polynesian capital of the world (Robie, 2009). Given that, Auckland provides an ideal location for researching New Zealand SMEs.

Taxation issues are pervasive to SME operators as they affect decisions made in terms of business structures, wages paid to employees, amount of charitable contributions made, and the amount of profits made for the period. New Zealand SMEs are regulated under a self assessment tax regime which requires fair and honest reporting of their tax liability and to pay their taxes on time (James & Alley, 2000). For most SMEs, taxation issues are one of their primary concerns (Business New Zealand, 2008; Massey & Quin, 2001) and business failures have been associated with poor record keeping for tax purposes (Prescott & Hooper, 2009).

Despite taxation issues being real concerns for SMEs, taxes need to be collected to fulfil three governmental objectives, which are economic, fiscal and social (Alley, Maples, Veal, & Polson Higgs & Co., 2004; Chittenden, Kauser, & Poutziouris, 2003). First, they are used to fund public and merit goods and services such as infrastructure, health, education etc. Second, they are used to achieve economic goals including employment, growth and balance of payments. Third, taxes are used to achieve social equality between the rich and the poor, the unemployed, the sick and the elderly.

There are three reasons why this research is important for the tax authority, policy makers and business community. First, SME operators’ tax compliance affects the amount of taxes collected. Second, small businesses are known to participate in the cash economy (Ashby & Webley, 2008; Bajada, 2002; Noble, 2000). They have

“unregistered income with no third party reporting” (Gerxhani & Schram, 2006, p. 403) and consequently, they are considered the “hard to tax group from the informal sector” (McGee, Ho, & Li, 2008, p. 147). Third, the cultural diversity of the ethnic SME groups may reveal differences in their tax compliance practices and perception thereby requiring customised monitoring approaches and assistance from the tax authority and business community.

1.2.2 SMEs and tax compliance

The tax literature has unanimously found that small businesses bear a disproportionate tax compliance cost (G. Cooper, 1998; Hasseldine, 1995; Tran-Nam, Evans, Walpole, & Ritchie, 2000) which has led to greater resentment towards the tax system (Kirchler, 1999; McIntosh & Veal, 2001). They have more opportunities for cash jobs (S. Morse, Karlinsky, & Bankman, 2009; Reinhart, Job, & Braithwaite, 2004) where no tax is paid for cash transactions. Some provisional tax (tax by instalments) is withheld from New Zealand SME operators if they made taxable income in the previous year, or they estimate that they will be making income in the coming year. The efforts and compliance costs involved in collecting and accounting for taxes can be substantial for some SME operators (Evans, Carlon, & Massey, 2005; Prescott & Hooper, 2009). Due to limited resources, SME operators are required to multitask (Ministry of Economic Development, 2004) and are not well represented at governmental policy making processes (Sawyer, 1996).

At present most tax policies adopt the tax authority-centric perspective of what tax compliance should be, and of the expected behaviour from SME taxpayers. This perspective focuses on the different regulatory approaches for the different taxpayers’ behaviours, such as commitment, disengagement, retaliation, and resistance towards the tax system (Braithwaite, 2003a; Inland Revenue, 1998). On the other hand, the taxpayer-centric perspective emphasises the processes and decisions taxpayers undertake in order to comply. To have effective tax policies, it is necessary for the tax authority to understand what and how tax compliance activities are undertaken and perceived by SME taxpayers.

The different ethnic groups sampled in this research had different beliefs, origins, and values. For example, all the Europeans in this research were of Anglo-Saxon descent, and the Maori were predominantly tribal with strong affiliation with their extended

families. All the Asians were first generation migrants and most of the Pacific participants were affiliated to a traditional church. All the Europeans, Maori and more than half of the Pacific participants were born in New Zealand whereas the Asians were migrants with tertiary qualifications.

1.2.3 Research on tax compliance and ethnicity

The aim of this research is to discuss how cultural values brought about by ethnicity affect the tax compliance behaviours of SME operators. On this basis, different ethnicities may exhibit varying outcomes in tax practices and perceptions including record keeping, tax assistance used, and their views of the tax authority and tax spending.

Tax compliance studies on culture have largely been cross-cultural, using experimental and survey research methods on students and general taxpayers (Alm & Torgler, 2006; McGee et al., 2008; Torgler & Schneider, 2007). Cross-cultural researchers assume cultural homogeneity within countries, which is considered fallacious by Tung (2008), given the increasing cultural diversity in most OECD countries. Furthermore, students may be inappropriate proxies for taxpayers due to their age, education, work and taxpaying differences (Cuccia, 1994; Fehr, Fischbacher, Rosenblatt, Schupp, & Wagner, 2003).

There have been various intra-cultural studies on ethnicities and tax compliance with students, general taxpayers and SME operators (Birch, Peters, & Sawyer, 2003; Coleman & Freeman, 1994, 1997; Kasipillai & Abdul-Jabbar, 2006; Rothengatter, 2005a; Song & Yarbrough, 1978). However their focus was on tax evasion and noncompliance attitudes, where existing literature had proven that not everyone had the intention or predisposition to cheat on their taxes (Alm, 1999; Long & Swingen, 1991; Pyle, 1991). A more beneficial study would be to consider what taxpayers do to comply, because not all taxpayers have the intention or want to evade taxes due to their tax morale (Frey & Torgler, 2007; Torgler, 2003). Tax morale is defined as “a moral obligation to pay taxes, a belief in contributing to society by paying taxes” (Torgler & Schneider, 2007, p. 444) and is closely related to taxpayer ethics, which is “the norm of behaviour governing citizens as taxpayers in their relationship with the government” (Song & Yarbrough, 1978, p. 443). Furthermore, there are tax penalties if taxpayers are caught cheating (Ahmed & Braithwaite, 2005; D. Ho & Wong, 2008).

Research has shown the links between: culture and innovations amongst entrepreneurs (Mueller & Thomas, 2001; Shane, 1993a); business success (S. Lee & Peterson, 2000); and networking (W. Allen, 2000; Ram, 1994). However, little is known about culture and the tax compliance behaviours of business operators, despite taxation being one of their primary business concerns (Cullen, Swain, & Wright, 2001; Evans et al., 2005; Joulfaian & Rider, 1998). Given that, it is worthwhile determining whether cultural values brought about by the ethnicity of SME operators affect their tax compliance behaviours and perceptions.

1.3 Rationale for the study

Most research on SMEs thus far has not considered the interface of culture (brought about by ethnicity) and tax compliance. However the study of culture is important as “the efficacy with which a culture equips a people to deal with situations it faces is seldom explored, yet it is one of the most important determinants of advantage and disadvantage” (Crocombe, 2008, p. 150). Though the study of ethnicity is considered an emerging issue in tax compliance research (Birch et al., 2003), this research limits the study of ethnicity to SME taxpayers. SME taxpayers are unique as they: have regressive tax compliance costs (Hasseldine, 1995); have lower compliance statistics compared to other taxpayers (Giles & Caragata, 1999; K. Smith & Kinsey, 1987); are tax collectors on behalf of the government for employment and value added taxes (Committee of Experts, 1998; Joulfaian & Rider, 1998); and have more opportunities to participate in the cash economy (Kirchler, 2007; Noble, 2000). The rationale for this research is to determine whether SME taxpayers are culturally homogeneous in terms of their tax compliance behaviours and perceptions whilst regulated by a Western tax regime.

1.3.1 Rationale for studying New Zealand SME operators

There are several reasons for choosing New Zealand SME taxpayers for the study of ethnicity and tax compliance. First, this country’s culturally diverse population is reflected in the significant percentages of the European, Asian, Maori and Pacific ethnic groups who are in business, as shown in Table 1.1.

Ethnic group (grouped total responses)	Total percentage of the ethnic groups in business (2001)	Total percentage of the ethnic groups in business (2006)
Europeans	21.8	20.8
Maori	9.6	9.8
Pacific Peoples	6	5.9
Asian	21.7	18.5

Table 1.1: Census data – percentage ethnic groups by status in business (excluding paid and unpaid employment) in 2001 and 2006

Source: (Ministry of Economic Development, 2009, p. 37).

Despite the significant percentage of non-European groups in business, they all face similar tax compliance requirements. However the process in addressing these requirements may differ in the approach, intensity and priority of the ethnic groups. The self assessment tax regime in New Zealand implicitly assumes European values of independence, achievement, and accountability which may or may not coincide with the cultural values of other ethnic groups. Hence, an intra-cultural study on ethnicity and tax compliance may be appropriate and important to determine how ethnic SME operators perform in terms of filing their tax returns and paying their taxes on time. This is because an understanding of their tax compliance behaviours would provide information to the tax authority, tax practitioners and business community to deploy their resources effectively to meet SMEs' tax needs.

Furthermore, the latest census reported that Asians and Pacific Peoples made up the fastest growing groups in the country (Statistics New Zealand, 2010c) and therefore it is essential to determine if these groups have the same tax compliance behaviours as the Europeans. The knowledge gained from this study can provide insights as to how to effectively assist and monitor these taxpayers, given that some have had business failures resulting from poor tax compliance activities (Prescott & Hooper, 2009). The

tax literature shows that different taxpayers' behaviours require different regulatory approaches and strategies from the tax authorities (Braithwaite, 2007).

New Zealand has been ranked as one of the easiest countries to set up and do business in the world since 2007 (IFC & The World Bank, 2010), with indigenous Maori having one of the highest entrepreneurial indices in 2005 (Frederick & Chittock, 2006). Despite that, the survival rates of SMEs, especially micro businesses, have been low (Ministry of Economic Development, 2009). In addition, the Small Business Advisory Group (SBAG) raised their concerns regarding the high failure rate of "67 percent of Maori businesses compared to only 33 percent of European businesses within 42 months of establishment" (Small Business Advisory Group, 2008, p. 11). The question remains as to why there is the low survival rate among SMEs and why more Maori businesses are failing despite their having one of the highest entrepreneurial indices in the world. One of the reasons could possibly be related to SMEs' inability to discharge their tax compliance obligations in terms of filing timely tax returns and paying their taxes on time.

1.4 Research aims and questions

The overall aim of this research is to determine whether the ethnicity of SME operators affects their tax compliance behaviours and perceptions. Specifically, the way they perceive tax compliance obligations, their record keeping system and responsibility, sources of tax assistance used, their tax payment experiences, and perceptions of tax spending and the tax authority are some of the issues discussed in this research. This research attempts to answer the following research questions:

1. What do ethnic SME operators perceive tax compliance to be?
2. What are the tax practices, decisions, perceptions, attitudes, and experiences of ethnic SME operators in terms of:
 - a. Accounting systems and record-keeping responsibilities;
 - b. Sources of tax assistance used;
 - c. Tax payments;
 - d. Tax spending, and
 - e. Tax audits?

3. How do ethnic SME operators view their relationship with the tax authority and tax practitioners?
4. Does culture affect the tax compliance behaviours of SME operators and if so, how?
5. What are the policy implications and regulatory strategies required to assist SME operators to file timely and accurate tax returns and to pay their taxes on time?

The rationale for considering tax compliance and ethnicity was partly influenced by Rothengatter (2005b) who claims that the “extent that cultural norms and values regarding business conduct and one’s payment of taxes may vary from one ethnic group to another” (p. 14). This research aims to fill a gap by comparing the implications of cultural values of SME operators from indigenous, non-indigenous and migrant backgrounds and how these values affect their tax decisions, practices and perceptions. This is because SME taxpayers are not culturally homogeneous and that “intra-national variations can often be as significant as cross-national differences” (Tung, 2008, p. 41). The overall research question is to identify what and how cultural values brought about by the ethnicity of SME operators may enhance or thwart their ability to file timely tax returns and pay their taxes on time.

Given that tax compliance is a socio-technical activity, other contextual factors such as accounting and tax knowledge and financial literacy may play some role in SME operators’ tax compliance behaviours. By understanding SMEs’ tax compliance behaviours, it should help the tax authority and business community to identify areas of strengths, weaknesses, concerns, and challenges that may hinder their ability to comply. The findings from this research will therefore not only assist tax authorities to better communicate their tax regulations to the different ethnic groups, but also to provide targeted monitoring, support and education to help ethnic SME operators comply.

1.5 Research methodology and method

Though the tax literature suggests several tax compliance factors for general taxpayers, adopting a taxpayer-centric view of tax compliance requires the researcher to avoid imposing any preconceived tax compliance notions on the taxpayer-participants. Instead, the researcher must draw out the taxpayers’ own perceptions of what tax compliance means for them. This focus of inquiry is best served by a qualitative

methodology. In addition, quantitative survey questionnaires are unable to fully “reflect the cognitive processes required to assess complex phenomena” (Popper & Sleman, 2001, p. 230) such as tax compliance. In order to gain some understanding of the taxpayers’ cognitive processes associated with tax compliance, in-depth semi-structured interviews with open-ended questions were employed. In addition, face-to-face interviews were more appropriate for accessing the Asian, Maori and Pacific groups, who valued trust and relationship building.

The methodological underpinnings of this research influence the basis upon which the data is collected, analysed and reported. This research is concerned with reporting the ethnic SME operators’ decisions, practices, and perceptions when undertaking tax compliance activities. It is considered that the answers to the research questions will be found by using the constructivist-interpretivist paradigm where multiple realities are accepted due to the unique construction of each participant (Guba, 1990; Patton, 2002). This paradigm focuses on the subjective and interactive perspectives of the participants and therefore the findings are very contextual, spatial, relational and time dependent (Denzin & Lincoln, 2005; Guba, 1990). It is based on the participants’ evaluations of how they make sense of what is going on in their world, which constitutes their reality. It also allows for “multiplicities” of views (Baxter & Chua, 2008) to be projected regarding tax compliance behaviours and perceptions.

This thesis adopted a series of interviews with 59 purposive, snowballing and “information rich” (Arksey & Knight, 1999) participants from three inter-related groups from November 2006 to May 2010. These groups comprised 36 ethnic SME operators, eight tax practitioners and 15 business experts and the four and half years in the field familiarised the researcher with the ethnic groups’ tax compliance dynamics (Baxter & Chua, 2008; Law, 2004). The aim of this research is not to determine the frequency of ethnic operators’ tax compliance behaviours, nor is it about generating quantitative survey-based descriptions of those behaviours. Instead, this research is about interpreting the tax compliance practices and decisions of the interviewed participants using Hofstede’s (2001) cultural framework. The aim is to provide a rich picture of the ethnic groups and how they perceive and manage their tax compliance activities and practices. Hofstede’s (2001) framework has been widely acknowledged as the leading framework for studying cultural differences between groups for various disciplines, including business, tax compliance, accounting and social sciences (de Mooij, 2001;

Harrison & McKinnon, 1999; S. Lee & Peterson, 2000; G. Richardson, 2008; Tsakumis, Curatola, & Porcano, 2007). The main attribute of Hofstede's framework is the five cultural dimensions of power distance, individualism-collectivism, uncertainty avoidance, masculinity-femininity, and long and short term orientation. Power distance relates to the management of inequality between people, and individualism-collectivism deals with the relationship between individuals and collectives. Uncertainty avoidance relates to the group's stance towards ambiguity and uncertainty and masculinity-femininity is associated with being achievement or relationship focussed. Finally, long term and short term orientations are associated with the group's stance towards time and traditions. Each of these dimensions will be used to characterise how different ethnic groups organise themselves and make tax compliance decisions, such as gathering information for filing tax returns, decisions on tax payments, and sources of tax assistance used.

From the qualitative mode of the inquiry proposed here, it is appropriate for the researcher to declare her position and motivation for this research. The researcher's position is likely to have been influenced by her Asian ethnicity, with a family business background for 14 years. Prior to undertaking this study, the researcher had a New Zealand tax agency from 2000 to 2005 to assist SME operators with their tax returns. During those years the clients exhibited much anxiety towards, and made many complaints about, tax compliance. This created a curiosity in the researcher to examine the reasons for their tax compliance concerns and to discover whether these concerns were isolated to certain ethnic groups. Tax compliance is more than just record keeping, but also cash management and relating to the tax authority. With this, it is therefore worthwhile examining each of these issues from the perspectives of SME operators, tax practitioners and business experts.

1.6 Structure of the thesis

The remainder of the thesis is organised from Chapters Two to Nine. Chapter Two summarises prior literature of tax compliance on SMEs and their differences from other taxpayers. It also includes discussion on cross-cultural and intra-cultural research on ethnicity and tax evasion attitudes and identifies the gap in existing literature. This is followed by Chapter Three which describes the cultural diversity of SMEs and their importance to New Zealand and other OECD countries. Chapter Four summarises and

evaluates the two main cultural frameworks used in business research including GLOBE (House, Hanges, Javidan, Dorfman, & Gupta, 2004) and Hofstede (2001) and the rationale for choosing Hofstede's (2001) framework. Chapter Five describes the reasons for choosing the qualitative approach and details the research methodology and method. Chapters Six, Seven and Eight report on and analyse the research findings, using Hofstede's five cultural dimensions. Chapter Nine is the concluding chapter and discusses the policy implications and the contributions this research makes towards empirical research on tax compliance. It also incorporates the research limitations and suggestions for future research.

CHAPTER 2: Ethnicity and Tax Compliance of SMEs

2.1 Introduction

This chapter provides an overview of the importance of studying the ethnicity of SME operators and their tax compliance behaviours. The chapter begins with a general discussion of the determinants of tax compliance in section 2.2, followed by an examination of the tax compliance research on SMEs and taxpayers in section 2.3. Next is a review of prior literature on cross-cultural and intra-cultural tax research on students and general taxpayers (in section 2.4), and SMEs (in section 2.5). Section 2.6 examines SMEs' tax knowledge and record keeping processes, which many find problematic. Literature concerning SMEs' relationship with and perceptions of tax authorities is discussed in section 2.7. The use of tax practitioners by SMEs is discussed in section 2.8, with the concluding summary in section 2.9.

2.2 Determinants of tax compliance behaviours

Since taxes are collected by the government, tax payments are commonly associated with these emotions: "hope, despair, anger, outrage, defiance, frustration, disdain, suspicion, and deference" (Rawlings & Braithwaite, 2003, p. 265). These emotions motivate some to evade taxes by understating their taxable incomes and/or overstating their deductible expenses. Economic deterrence theories assume that taxpayers are amoral utility maximisers deterred only by tax audits and penalties for cheating (Allingham & Sandmo, 1972; Klepper & Nagin, 1989a). Hence, many tax authorities rely on their suggestions to curb tax evasion through these monitoring and regulatory measures (Braithwaite, 2003b; Robben et al., 1990; Tran-Nam, 2003).

However, there are increasing criticisms of economic deterrence theories to fully explain actual tax compliance behaviours. Despite the extremely low tax audits in most OECD countries, tax compliance level has been high (Andreoni, Erard, & Feinstein, 1998; Torgler, 2005). Tax compliance experiments have shown participants declaring higher levels of incomes than what is predicted by the economic deterrence theories

(Alm, 1999; Torgler, 2002). Alm (1991) concludes that there are both economic and non-economic factors affecting tax compliance, which was later proven in much experimental, survey and empirical research (Alm, Sanchez, & De Juan, 1995; Cullis & Lewis, 1997; Jackson & Milliron, 1986; McKerchar, 2001; M. Richardson & Sawyer, 2001). One of the major non-economic factors considered currently in the tax literature is tax morale (Frey & Torgler, 2007; Torgler, 2003) which relates to the taxpayers' intrinsic motivation to comply regardless of the deterrence measures (Frey, 1997).

Acknowledging the importance of non-economic factors on tax compliance, Erard and Feinstein (1994) and Andreoni et al. (1998) stress the need to integrate non-economic factors with the economic deterrence theories to provide a reasonable explanation of actual tax compliance behaviour. The primary reason for not fully understanding tax compliance behaviours is due to lack of empirical evidence of actual behaviours (Pyle, 1993; Torgler, 2007). Pyle (1993) observes that "the solution should lie in the results of empirical studies [as]...the current harvest of such studies is remarkably thin" (p. 73). Some researchers claim that tax compliance research is still in its infancy with "many of the most important behavioural hypotheses and policy questions yet to be adequately investigated" (Andreoni et al., 1998, p. 836). Not only is there a lack of tax compliance evidence but it has been observed that "in general, evidence on tax compliance in countries outside the United States is rare" (Torgler, 2007, p. 7), and that "more empirical work is needed outside the United States" (Torgler, 2007, p. 52). Given that, it is worthwhile gathering empirical evidence on actual compliance behaviours of taxpayers outside the United States, such as in New Zealand.

2.3 Tax compliance of SMEs and taxpayers

In most OECD countries, SMEs are required to file annual income tax returns in addition to returns for consumption and employment related taxes. For countries such as New Zealand, Australia, and the United Kingdom, business taxpayers are regulated under a self assessment tax regime which requires business taxpayers to honestly and accurately calculate and declare their taxable incomes, subject to the uncertainty of audits (James & Alley, 2000). In order to do so, SME operators should have a proper record keeping system, cash flow management skills, and tax knowledge.

Sanford (1995) specifies business compliance costs as “costs of collecting, remitting and accounting for tax on the products or profits of the business and on the wages and salaries of its employees; and also the costs of acquiring and updating the knowledge to enable this work to be done, including knowledge of legal obligations and penalties” (p. 1). He acknowledges the psychological cost as another facet of compliance costs which includes stress and anxiety in managing one’s tax affairs. The compliance costs and the pervasiveness of taxation on SME operators’ tax decisions has resulted in much resentment and concern from SMEs (Business New Zealand, 2008; Joulfaian, 2000; McKerchar, Hodgson, & Walpole, 2009).

2.3.1 The uniqueness of SMEs’ tax compliance behaviours

A significant number of research projects have concentrated on the tax compliance behaviours of general taxpayers (Jackson & Milliron, 1986; McKerchar, 2001) but little is known about business taxpayers, even though they are important tax collectors on behalf of the government. Joulfaian (2009) claims that “ business tax compliance is critical to the fiscal viability of governments” (p. 227) because the bulk of the government’s tax revenues, including taxes on profits, consumption taxes, income tax withholding, and employment taxes were collected and paid by business (Joulfaian, 2000). This view is reinforced by Torgler (2007) who claims that “business tax evasion in general and value added tax (VAT) compliance in particular, have received very little attention. This is surprising taking into account the economic importance of the business sector and the importance of business taxation for the tax administration. Work in this area is therefore highly relevant” (p. 57).

With the above comments from Torgler (2007), research has proven that SMEs evade VAT or Goods and Services Tax (GST) in France and Netherlands (Agha & Haughton, 1996), the United Kingdom (Adams & Webley, 2001), the United States (Joulfaian & Rider, 1998), New Zealand (Noble, 2000) and Australia (Bajada, 2002). In addition, they also evade income taxes from cash jobs in the hairdressing industry (Ashby & Webley, 2008), the building industry (Sigala, Burgoyne, & Webley, 1999), home maintenance, home-based services, teaching, entertainment (Cash Economy Task Force, 2003; Noble, 2000), retailing and direct selling (S. Morse et al., 2009), and the food industry (Adams & Webley, 2001).

Even though cash jobs are illegal, many small business operators are aware of or have undertaken these practices (Ashby & Webley, 2008; Coleman & Freeman, 1994; Noble, 2000). They do not view cash jobs as committing serious offence (Devos, 2006; Reinhart et al., 2004) and the probability of getting caught is low due to the insignificant per item transactional value (Braithwaite, Reinhart, & Job, 2005; Noble, 2000). Other common business practices to evade taxes include bartering and overstating business expenses (Ashby & Webley, 2008; Coleman & Freeman, 1994; S. Morse et al., 2009). Consequently, the compliance of SMEs was considered lower than wage and salary taxpayers (Ahmed & Braithwaite, 2005; Giles & Caragata, 1999; Kirchler, 1999).

2.3.2 Ethnicity and tax evasion

Though SMEs in various industry groups participate in the cash economy, little is known about the ethnicity of SME operators and tax evasion. An Australian focus group research showed that tax evasion is endemic among SMEs, regardless of ethnicity, as “tax evasion has become embedded in the daily working attitudes and practices of most small business owners, regardless of ethnicity” (Rothengatter, 2005a, p. 305). Bajada (2002) claims that cash economy activities have been entrenched in the psyche and working ethos of individuals and SMEs. Given the little attention paid to ethnicity of SME operators and their engagement in cash jobs, it would be worthwhile gathering empirical evidence on their perceptions and participation in these activities as they affect the amount of tax liabilities and the risk associated with getting caught.

Other research studying ethnicity and tax evasion attitudes has differentiated between whites and non-whites as proxy variables for ethnicity (Roth, Scholz, & Witte, 1989; Song & Yarbrough, 1978). Whites are found to be more compliant and show greater commitment towards paying taxes than non-whites. Research also shows a positive correlation between lower compliance rates and the proportion of non-whites in the United States communities (Beron, Tauchen, & Witte, 1992; Li, 2010). Given the data limitations of whites and non-whites, ethnicity needs to be broken down further to gain a better understanding of how different ethnic groups make tax decisions. This is important for culturally diverse countries such as New Zealand, Australia, the United Kingdom, the United States, Canada and Western Europe. Furthermore, the non-white groups are increasing in population in most OECD countries (Statistics New Zealand, 2010c; United States Census Bureau, 2010) and therefore warrant some attention

regarding their compliance behaviours and perceptions, and how they might differ from the dominant ethnic cultural values.

2.3.3 Ethnicity, public spending, and tax morale

Ethnicity not only affects tax evasion decisions but also the taxpayers' willingness to contribute to taxes. Due to "intergroup bias" (Li, 2010, p. 149), ethnic groups are more willing to pay taxes to finance public spending that benefitted their own group but are reluctant to bear the economic cost for other groups (Alesina, Baqir, & Easterly, 1999; Alesina & Ferrara, 2005). For example, Luttmer (2001) finds that individuals increase their support for welfare spending when the recipients are from their own ethnic group. In addition, the greater the ethnic fractionalisation, the greater is the probability of noncompliance (Li, 2010). Given that, it is important to gain some understanding of the public spending preferences of the ethnic groups and how this may be related to their underlying cultural values.

In general, experimental results show that tax compliance is higher when individuals can vote on the use of taxes than when there is no voting alternative (Alm, Jackson, & McKee, 1993). Various studies claim that taxpayers are more willing to contribute to taxes when their preferences are heard and taken into account in government spending (Bagnoli & McKee, 1991; Feld & Frey, 2002; Frey & Torgler, 2007; Song & Yarbrough, 1978). According to some researchers, there is "a strong connection between tax payments and the supply of public goods" (Alm & Torgler, 2006, p. 243). Given that, it is important to identify the various ethnic groups' satisfaction and perceptions towards types of tax spending as it may affect their willingness to comply.

2.3.4 Intra-cultural studies on tax compliance

Recognising the cultural diversity of countries, there have been several attempts to study the cultural effects on tax compliance from people within the same country. Frey (2003) found that southern Italians have lower levels of civic virtue than northern Italians. Similarly, Ockenfels and Weimann (1999) discovered that former East Germans are less cooperative than former West Germans in public goods contribution. However, more recent research shows that former East Germans demonstrate higher tax morale than former West Germans and "the cultural background seems to have an effect on tax morale" (Torgler, 2007, p. 232).

In an attempt to study New Zealand ethnicity and tax evasion attitudes, Birch et al. (2003) surveyed tertiary accounting, taxation and continuing education students in Christchurch, New Zealand. Their research found that 51 percent of European and 28 percent of Chinese students admitted to understating their taxable incomes in the five years preceding the study and that Europeans and Maori are more likely to know others who had evaded taxes.

Though the Birch et al. (2003) research contributes to the existing sparse knowledge of ethnicity and tax compliance, it has some limitations. First, their student sample was heavily weighted towards 15 to 29 year olds which did not reflect the New Zealand population (Statistics New Zealand, 2001) and therefore students in this sample are not representatives for actual taxpayers, due to their age differences from actual taxpayers (Cuccia, 1994; Yong, 2006). There are claims that students do not behave differently from non-students in experimental research (Alm, 2011; Alm, Bloomquist, & McKee, 2010; Alm & Jacobson, 2007). However, others argue that student findings from these methods lacked realism and had low external validity. This is because real factors such as social stigma of jail time and financial losses cannot be modelled in experimental research (Levitt & List, 2007). In addition, Gerxhani and Schram (2006) discovered that students behaved differently from non-students, are comparatively less compliant and they take more risks than non-students.

Second, the Birch et al. (2003) student sample was heavily weighted towards Europeans and Chinese and had insufficient representation from the Maori and Pacific groups as they were and are generally under-represented in accounting and taxation courses (Ministry of Pacific Island Affairs & Statistics New Zealand, 2002; NZIER, 2007; Statistics New Zealand, 2010a).

An intra-cultural Malaysian study on ethnicity and tax evasion attitudes was undertaken by Kasipillai and Abdul-Jabbar (2006) on Malay, Chinese, and Indians taxpayers, and their survey revealed “no significant differences among ethnic groups on the overall noncompliance attitude” (p. 85). Though this study adds to the literature on ethnicity and tax noncompliance, there are some gaps which need mentioning. First, they ascertain a taxpayer’s noncompliance attitude is based solely on hypothetical scenarios which may not reflect the actual situations faced by taxpayers. Second, their focus is on tax noncompliance attitudes which may not be translated to actual behaviours, since

Elffers (2000) claims that “not everyone with an inclination to dodge his taxes is able to translate his intention into action” (p. 187).

In a similar vein, Loo and McKerchar (2011) surveyed a random sample of 600 Malay, Chinese, Indian, and “other” taxpayers in Malaysia between January to June 2010 to ascertain whether ethnicity affects tax fairness perceptions. With a response rate of 23.8 percent (143 usable responses), they find that ethnicity is significantly correlated to risk personality and tax fairness perceptions. They indicate that “the relationship between ethnicity and tax fairness could indirectly affect tax compliance, even though a direct relationship was not found between ethnicity and tax compliance” (Loo & McKerchar, 2011, p. 16) which confirms the earlier findings from Kasipillai and Abdul-Jabbar (2006). However, another study shows that tax education in relation to personal tax evasion has more impact on Indian than Malays and Chinese taxpayers (Kasipillai, Aripin, & Amran, 2003).

Hence these intra-cultural studies show that tax behaviours can differ between ethnic groups within the country. To address their research limitations, Birch et al. (2003) suggest “the mix of respondents [be] broadened in order to more closely represent the New Zealand population and further data to be collected to explore the underlying reasons behind taxpayers’ responses” (p. 96). Given that, it may be fruitful to consider actual taxpayers from representative ethnic groups, using different research methodology, and by broadening the research focus to incorporate the process of what taxpayers actually do to comply, and not be limited to tax evasion attitudes.

2.4 Culture and tax compliance on taxpayer and student samples

The influence of culture on one’s behaviour is recognised as important, as “culture bridges the tension between individuals and the social group, and hinges on learned institutions and their underpinned values” (Kasper & Streit, 1999, p. 162). In comparison to other tax compliance factors, little is known of ethnicity and tax compliance, and the “effects of different ethnic background on compliance attitudes is an emerging trend in tax compliance literature” (Birch et al., 2003, p. 95). As shown in the next subsection, the majority of the tax research on culture is largely cross-cultural between countries, with a strong emphasis on tax evasion attitudes.

2.4.1 Cross-cultural research

There have been several research reports linking culture to tax evasion attitudes between countries. The survey study undertaken by Alm and Torgler (2006) finds that tax morale is higher in the United States than in Spain and that the United States and Switzerland have higher tax morale relative to other European countries. They attribute the differences to cultural differences caused by institutional and political differences, trust in government, and the fiscal exchange between the taxpayers and government. Similarly, Cummings et al. (2004) discovered that tax compliance behaviour differences between the United States, Botswana, and South Africa are due to cultural differences in the perceived fairness of tax administration, the perceived fiscal exchange between the taxpayers and government, and the taxpayers' overall attitudes towards government.

Other cross-country tax research was undertaken by Frey and Weck-Hannemann (1984) who compare survey results from 1960 to 1978 to identify each country's level of "tax immorality" (tax evasion) index. They attribute a median rank to the United States, Canada, Japan, and Ireland, which lie between Scandinavian countries, Britain, the Netherlands, and the German speaking countries, whereas Romanic countries such as France, Italy, and Spain have higher tax immorality indices than most other countries.

The importance of culture in tax compliance research is further reinforced by Richardson (2005). He discovered differences between Australian and Hong Kong students concerning general tax fairness, tax rate structure, and self-interest and suggests that "it might be that cultural setting is an important factor that should be taken into account" (G. Richardson, 2005, p. 22). However, his research on students has been criticised for not providing real life perspectives of actual tax compliance behaviours (D. Ho & Wong, 2008). This is because students may gameplay (Cuccia, 1994) and were shown to undertake more risks than actual taxpayers (Gerxhani & Schram, 2006; Starmer, 1999). Unlike actual taxpayers, any tax evasion undertaken by students in experimental and survey research will not cost them or affect their reputation adversely (see section 2.3.4).

Although the abovementioned cross-cultural studies indicate that country, as a generic measure of culture, does affect individuals' tax morale and tax attitudes, they did not explore the different characteristics (Hofstede, 1980), multidimensionality (Tsakumis et al., 2007) and complexity of culture (E. Hall, 1976; Trompenaars, Hampden-Turner, &

Trompenaars, 1994). Given that “culture is a multivariate concept” (Tsakumis et al., 2007, p. 132), it is imperative to study the different dimensions of culture to better understand how they might affect tax compliance decisions and perceptions.

2.4.1.1 Cultural dimensions and tax compliance

To better explain the effects of culture on tax evasion perceptions, several cross-cultural studies compare collectivistic to individualistic societies. McGee et al. (2008) surveyed tertiary business students from Hong Kong and United States and finds that collectivistic Hong Kong students are more conditional in their perceptions on tax evasion compared to individualistic United States students, who view tax evasion as morally wrong. Hong Kong students justify their tax evasion perceptions based on the government’s performance whereas United States students form their judgements on moral values and less on government’s performance. They observe that Hong Kong students have tendencies to be self-righteous and are willing to compromise towards tax evasions if their expectations of their government are not met.

Similarly, Chan et al. (2000) observe that collectivistic Hong Kong students are less compliant and have less favourable attitudes toward the tax system compared to individualistic United States students. These two cross-cultural studies provide some useful insights into the individualism-collectivism effects on tax perceptions. However, Oosterbeek, Sloof and van de Kuilen (2004) argue that most cross-cultural surveys and experiments contain data from only one city of each country, and that differences in outcomes may simply reflect differences across different locations rather than differences across countries. They therefore caution the generalisability of cross-cultural research findings as representative of the entire country. Hence, a more fruitful research would be to consider the tax compliance behaviours of the different ethnic groups within a city or location. In addition, there may be other cultural dimensions beyond collectivism-individualism that can help explain the differences in the students’ tax compliance behaviours.

Furthermore, cross-cultural student research has some limitations that should be considered. Students are not good representatives of actual taxpayers since they are younger; have higher education than average citizen (Fehr et al., 2003); and have less taxpaying and working experience than general taxpayers (Cuccia, 1994; Yong, 2006). Heavy punishments, such as jail, cannot possibly be implemented in tax compliance

experiments and surveys. The “absence of social pressures could inhibit the same psychological processes as actual taxpayers which are important in the real world” (Torgler, 2007, p. 11). It is argued that though students are important participants for tax research, their results ought to be interpreted carefully (Webley, Robben, Elffers, & Hessing, 1991) so as not to mislead readers that their compliance behaviours can be equated to that of actual taxpayers. This is important as tax policies and regulatory strategies are targeted at taxpayers and not at students.

In an attempt to incorporate several cultural dimensions on tax compliance, Tsakumis et al. (2007) differentiated compliant from non-compliant countries by applying Hofstede’s (2001) four cultural dimensions of individualism-collectivism, power distance, uncertainty avoidance, and masculinity-femininity. They profile non-compliant countries as those with high uncertainty avoidance, low individualism, low masculinity and high power distance values. Their research findings are valuable for international tax comparisons and in identifying audit strategies for taxpayers from different countries. However, there are certain gaps in the research which should be considered. One of the main gaps is the omission of Hofstede’s cultural dimension of long term and short term orientation (Hofstede, 2001; Hofstede & Bond, 1988). This dimension is particularly relevant for Asian countries, given their significant economic development over the last two decades (Hampden-Turner & Trompenaars, 1996; Joynt & Warner, 1996). It may also help provide additional information as to whether individuals choose to comply or not given their orientation towards time and traditions.

Richardson (2008) extended the Tsakumis et al. (2007) study by examining in addition to culture, the impact of legal, political, and religious variables on tax evasion across 47 countries. His regression results indicate that the higher the level of uncertainty avoidance and the lower level of individualism, legal enforcement, trust in government, and religiosity, the higher is the level of tax evasion across countries. This adds to the current sparse knowledge of culture and tax evasion. However, his study did not consider Hofstede’s (2001) fifth dimension of long term and short term orientation. In addition, the author admitted that research data used from country survey ratings “could be prone to measurement error” (G. Richardson, 2008, p. 72), though the measurement error can be reduced by using averages over several years. Furthermore, cross-cultural tax research has some other limitations which are elaborated in the next subsection.

2.4.1.2 Limitations of cross-cultural tax research

Most cross-cultural tax research uses countries as proxies for culture which implicitly assumes cultural homogeneity within the country. This contradicts the increasing trend of multi-cultural societies in the world (Naylor, 1996). Torgler (2007) advises that some cross-country tax analysis may be misleading as “further efforts are still needed to better control for the properties of the tax system and the way in which taxes are administered so as not to confound culture with features of the tax structure” (Torgler, 2007, p. 56). He acknowledges that in addition to culture, differences in the country’s tax structures, tax administrations, types of taxes and tax policies may affect the individuals’ tax compliance decisions and perceptions.

Agha and Haughton (1996) caution using tax recommendations based on cross-country analysis. They state that “recommendations based on cross-country comparisons are apt to have a “one size fits all” quality, which overlooks the history, traditions and special features of any given country” (Agha & Haughton, 1996, p. 307). Li (2010) also admonishes cross-country tax analysis, as other important factors such as “the countries’ tax burden, legal origin, culture, and income distribution ought to be taken into account” (p. 160). Given that cross-country tax analysis can be misleading because of the uniqueness of each country’s tax system and historical background, it may be fruitful to undertake an intra-cultural study to overcome these limitations. By doing so, comparative analysis can be achieved by identifying the possible effects of cultural values on ethnic groups’ tax behaviours, since they are regulated under the same tax system and business environment.

While most cross-cultural tax evasion studies have enhanced our understanding of compliance variables, there are several limitations which ought to be explained. First, most of the survey questionnaires are directed at tax evasion perceptions and attitudes which imply a deliberate intention to cheat on taxes (Kasipillai & Abdul-Jabbar, 2006). With the criminal connotation and penalties associated with tax evasions, taxpayers may choose not to participate in tax research (Hanefah, Ariff, & Kasipillai, 2001) and they may overrate their own compliance by projecting themselves in a better light (Hessing, Elffers, & Weigel, 1988). Furthermore, not everyone wants to cheat on their taxes, as research has shown a considerable proportion of honest taxpayers, who always pay their taxes (Baldry, 1987; Elffers, 2000; Pyle, 1991).

Pyle (1991) observes that “it seems that whilst the odds are heavily in favour of evaders getting away with it, the vast majority of taxpayers behave honestly” (p. 173). It has been claimed that some taxpayers are “simply predisposed not to evade” (Long & Swingen, 1991, p. 130) and they do not search for ways to cheat on taxes (Frey & Foppa, 1986). Torgler (2007) laments that “tax compliance researchers have paid substantial attention to tax evasion and thus to the decision as to how much income to report in a tax return. But little is known about individuals’ compliance behaviour and variables such as timely filing out of the tax form and paying individual taxes on time” (p. 258). Given that, it is worthwhile researching actual tax compliance behaviour relating to filing tax returns and the timely payment of taxes, as they affect tax compliance costs.

So far, the research on culture has been on students and general taxpayers. Given the importance of culture and tax compliance, the next section examines some intra-cultural research on SMEs.

2.5 Culture and tax compliance of SMEs

SMEs have been recognized as heterogeneous in terms of business size, business duration and the sectors in which they operate (Collins & Jarvis, 2002; Cunningham & Lischeron, 1991; Hebert & Link, 1989). However, there is an increasing recognition of cultural diversity and its potential effects on tax attitudes. Coleman and Freeman (1994) observe that the “cultural background of small business people is so varied” (p. 355) and that “attitudes towards taxes and the tax system is a product of taxpayers’ cultural background” (p. 366). Their research shows that one South African business operator practiced income smoothing to avoid attention from the tax authority. They also speculate tax attitude differences between local born Australians and migrants and conjecture that business operators from low paying and unregulated tax regimes to have different taxpaying attitudes compared to those exposed to regulated tax systems (Coleman & Freeman, 1994). However, these speculations and conjectures were made without further supporting empirical evidence. Moreover they did not specify what the tax attitude differences are between the cultural groups, to provide specific information helpful to regulatory bodies even though they claim that “a strategy which is successful with one group may completely repel another” (Coleman & Freeman, 1994, p. 355). More empirical evidence on the tax compliance behaviours of the different cultural

groups is needed to increase our understanding of the impact of ethnicity and tax compliance. This limitation is partly addressed by Rothengatter (2005a, 2005b).

Rothengatter (2005a, 2005b) claims that ethnicity of SME operators is important in determining their tax compliance behaviour. His focus group study reveals the differences in tax attitudes between the Asians, Greeks, Lebanese, and local born Australians, with the Asians undertaking extensive tax planning to minimise taxes. The tax attitude variations were traced to the deeply embedded social networks of collectivistic Asians, Greeks and Lebanese, which in turn influenced their tax compliance behaviours. In addition, not declaring cash jobs is not considered unethical by the collectivistic SME groups, though the local born Australian SME operators perceive the practice as morally wrong. SME operators who identify themselves as Australians are more willing to contribute towards taxes than those who do not. He concludes that “ethnicity appears not to be as a significant predictor for these types of noncompliance as popular perceptions tend to suggest, because tax noncompliance is endemic and cuts across ethnic lines” (Rothengatter, 2005a, p. 294).

The use of focus groups by Rothengatter (2005a, 2005b) is useful in identifying broad compliance issues and gaining insights that otherwise may not be obvious to the researcher (Kitzinger & Barbour, 1999). However, focus groups’ findings are dependent on the perceived status of the group representatives and the more dominant voices within the group may mute the quieter ones and therefore valuable information may be lost and the results can be skewed (Arksey & Knight, 1999). Since Rothengatter’s study focused on the extent of noncompliance amongst ethnic SMEs, each ethnic group was accusing each other of tax cheating. To avoid finger pointing, a more useful approach is to study the compliance behaviours of ethnic SMEs and seek alternative views to verify their actions. This is because cultural values are embedded in an individual’s mental programming, taken for granted by the individual, and he or she is usually unaware of them (Hofstede, 1980). In addition, by taking an “etic” view and triangulating the empirical evidence of SME taxpayers, the business experts and tax practitioners may provide in-sights into the cultural underpinnings of SME taxpayers’ compliance behaviours.

Another study which linked the cultural backgrounds of SME operators to tax attitudes was undertaken by Dornstein (1976) who associated the socio-cultural background of Israelite self employed to their level of conformity to tax regulations. She discovered

that self employed migrants from the least developed countries, with a non-democratic socio-political background, have relatively negative attitudes toward taxes and are least conforming to tax regulation compared to other groups. In contrast, self employed from western European backgrounds are most conforming compared to all other groups, with native Israelis somewhat conforming in the middle of the scale. In addition, her research shows taxpayers who have been in the country longer are more compliant, which is consistent with the findings by Rothengatter (2005a) and Coleman and Freeman (1997).

Although now dated, Dornstein's (1976) research was one of the few attempts to link ethnicity of SMEs to their level of tax conformity. However, her findings are based solely on taxpayer files which are provided by the tax authority. Since those taxpayer files are assessments of the tax authority of ethnic business taxpayers, her findings may be skewed, given the taxpayers' views are not included. This is important since taxpayers are the ones required to comply with the tax regulations. Additional and different information may be found if the taxpayers' views had been accounted for in her study. Given that Dornstein's (1976) research is nearly 40 years old, it is worthwhile undertaking more current intra-cultural research on ethnic SME operators, and seeking their views in terms of tax perceptions and practices.

To summarise, the existing literature on tax compliance and ethnicity points to the potential effects of culture on SMEs' tax compliance behaviours and perceptions. As a result of the sparse research conducted on SME operators' ethnicity and tax compliance, this thesis aims to study the four largest ethnic SME groups in New Zealand and to identify their similarities and differences in their tax compliance decisions, practices and perceptions in relation to filing timely tax returns and paying their taxes on time. Empirical evidence is sought from ethnic SME operators, along with accounts given by "outsiders" to give an "etic" perspective of their tax decisions and the possible underlying cultural underpinnings of their behaviours.

As tax compliance is a socio-technical activity, taxpayers' compliance may be shaped by more than cultural values; also significant are institutional and economic factors relating to record keeping, cash management, tax knowledge, and assistance from tax practitioners. The remaining few sections discuss prior literature on the tax knowledge of SMEs, their perceptions of the tax authorities and the use of tax practitioners.

2.6 Tax knowledge and record keeping systems of SMEs

Research shows that SME operators strongly dislike tax payments (Ahmed & Braithwaite, 2005; Noble, 2000) as they restrict their economic freedom (Kirchler, 1999, 2007), and also because tax compliance requires some accounting and financial management knowledge (Australian Taxation Office, 1996; McKerchar, 1995). In order to file their tax returns on time, SME operators need appropriate record keeping systems to process accounting and tax information (Evans et al., 2005; Glover & Tran-Nam, 2005). Accounting systems can also provide “managerial benefits” (Lignier, 2009b) to SME operators by providing information on business stock, debtors, creditors, sales and cash (Hasseldine, 1995; Tran-Nam et al., 2000). The accounting information enables SME operators to make informed decisions based on objective information instead of relying on their “intuition” (Lignier, 2009a; Yong, 2005).

Though accounting information and record keeping are important and useful to the business, SME operators do not give priority or attention to it. For some, record keeping is viewed as a time waster and therefore not considered an integral part of their business (Ashby & Webley, 2008; Prescott & Hooper, 2009). For others, they are not interested in record keeping due to poor accounting and tax knowledge (McKerchar, 1995; Wallschutzky & Gibson, 1993, 1994). For some, accounting and record keeping is perceived as challenging, a business barrier and a possible cause for business failures (Collins & Jarvis, 2002; Evans et al., 2005; Firebrace, 1999; Lignier, 2009b). In New Zealand, the record keeping function is usually done by spouses on a part time basis to save on compliance cost (Firkin, 2001).

2.6.1 Purpose and types of record keeping by SMEs

Unlike in their larger counterparts, small business record keeping is largely for tax compliance purposes (Adams & Webley, 2001; Ashby & Webley, 2008; Sandford & Hasseldine, 1992), although some operators have used their records to manage their business (Evans et al., 2005; Lignier, 2009b). Most Australian SMEs have a computerised accounting system with a minority using the traditional paper-based manual system (Evans et al., 2005). Current research shows that Pacific SME operators in New Zealand adopt predominantly the manual system (Prescott, 2009; Prescott & Hooper, 2009) and they underutilise information technology in their record keeping system.

One would expect those who are proficient in accounting to use a computerised accounting system to take advantage of the many “managerial benefits” of accounting information. However, tax practitioners have been disappointed with the extent of accounting errors made by SMEs, regardless of whether computerised or manual accounting systems are used (Evans et al., 2005). The question remains as to what type of accounting system is used by SME operators, as it affects their tax compliance costs and the ease with which they could retrieve tax information. Another interrelated question pertains to the record keeping function of SMEs, as it affects their administrative and psychological compliance costs, and timeliness of their tax returns. Given that, it would be beneficial to seek out the types of accounting system adopted by SME operators and their record keeping function and the rationale for their decisions.

Pacific business operators in New Zealand have found the self assessment tax regime onerous and foreign to them (Prescott & Hooper, 2009). There is a deliberate reluctance to comply and the normal Pacific response is that “it is often ignored or pushed to one side for some calculation at some vague later date” (Prescott & Hooper, 2009, p. 296). Many also avoid tax compliance by deliberately operating below the tax registration threshold, with evidence of business failures caused by tax obligations. Pacific operators are also “reluctant to engage in written and on-going record keeping” (Prescott & Hooper, 2009, p. 297). Though the authors attribute the Pacific’s compliance plights to their collectivistic cultural value, there may be other cultural dimensions that can help explain their reluctance, fear and difficulty with tax compliance.

2.6.2 Cash flow management and tax payments

In terms of tax payments, Wallschutzky and Gibson (1993, 1994) discovered that Australian SMEs do not have problems with accounting for taxes but they have tax payments and cash management problems. In particular, the collection of taxes which have to be remitted at a future date to the tax authority is a major concern for SMEs. Instead of setting aside tax monies payable at a future date, some have unintentionally spent them on their businesses (Adams & Webley, 2001; Evans et al., 2005). SME operators also place great importance on their cash balance as an indicator of their business success instead of profitability (Ashby & Webley, 2008; Evans et al., 2005; Firkin, 2001; Prescott, 2009).

Cash flow management implies cash accounting knowledge and future planning whereas profitability implies accrual accounting knowledge and managing revenues and expenses. Timely payment of taxes involves cash management skills, and inability to pay taxes on time would incur tax penalties, anxiety, higher compliance costs and business failures (Collins & Jarvis, 2002; Evans et al., 2005). However, cultural values pertaining to wealth accumulation, access to alternative funding sources, frugality, giving towards members of the collective, spending to maintain customs and traditions have not been considered by tax researchers as possible influences on SMEs tax compliance behaviours. The next section examines the existing literature on SMEs' relationships with the tax authorities.

2.7 SME's relationship with, and perception of, tax authorities

Literature on the fiscal exchange between taxpayers and government (Alm et al., 1993; Spicer & Becker, 1980) and whether government spends tax monies in accordance with taxpayers' wishes has been found to affect compliance. The exchange viewed by the taxpayers as either fair or unfair will determine their willingness to contribute to taxes (Schmolders, 1970). In addition, if government trusts the taxpayers, they will be rewarded by greater trust in government by improving tax morale (Feld & Frey, 2002; Kirchler, Hoelzl, & Wahl, 2008). It has been shown that taxpayers can be induced to comply if they have been positively rewarded for their honest behaviour (K. Smith, 1992; K. Smith & Stalans, 1991) and given that, it would be fruitful for tax authorities to motivate taxpayers to comply by assisting and trusting them to do the right thing instead of merely enforcing tax laws. To understand whether taxpayers are motivated to comply, information should be gathered from the taxpayers regarding their interaction with the tax authorities via tax audits and/or tax query experiences.

Tax authorities have been found to be helpful to some SME operators (McKerchar, 1995) as well as unhelpful to others (Bird, 1992; Noble, 2000), with some SME operators showing strong resentment towards the tax system and tax levels (Australian Taxation Office, 1996; Coleman & Freeman, 1994; McIntosh & Veal, 2001). Prior studies observe that SME operators in the United States, United Kingdom, Australia and New Zealand are concerned by the range of taxes paid (Joulfaian & Rider, 1998; Noble, 2000; Webley, Adams, & Elffers, 2002) and they view the tax system to be unfair (Murphy, 2003b; Webley et al., 2002). SME taxpayers also feel more disassociated

from the tax system than larger businesses and they admit to paying less than their fair share of taxes (Ahmed & Braithwaite, 2005). They are more likely to experience greater conflict with, and sanctions from, the tax authorities (Ahmed & Braithwaite, 2005; S. Morse et al., 2009; Noble, 2000).

Australian SME operators infrequently contact their tax authority and they do so only if they have a problem or wish to check on legislation changes (Coleman & Freeman, 1994; Wallschutzky & Gibson, 1993). They prefer written instead of verbal or face-to-face contact (Bird, 1992; Coleman & Freeman, 1994), and they perceive the Australian tax authority as unsympathetic, unaccommodating, judgemental and uninterested in them (Bird, 1992; Murphy, 2003a). SME operators from the food and retailing industries in the United Kingdom also experienced unsatisfactory interactions with the tax auditors (Adams & Webley, 2001). However, the written communication with the tax authorities may be less applicable to some ethnic groups who value relationship building, thus preferring alternative modes of communication.

The literature on procedural fairness (Blissenden, 2002; Murphy, 2003b; Tyler, 2006) suggests that feelings of unfair treatment or negative experiences with the tax authority can dampen taxpayers' voluntary compliance and heighten their resentment towards the tax system (Braithwaite, 2003a). This resentment can result in retaliation, resistance and non-contact with the tax authorities (Braithwaite, 2003a). This stance assumes that all taxpayers have the same view of tax authorities. However, with the increasing cultural diversity of population in most OECD countries, as discussed in section 1.1, some taxpayers who hold authorities in high regard as part of their cultural values may be reluctant to contact the tax authorities willingly. Given that, they may then employ tax practitioners as intermediaries for tax matters.

2.8 Tax practitioners and SMEs

The New Zealand self assessment tax regime requires SME taxpayers to voluntarily disclose their tax liabilities with the possibility of an audit occurring as a result of their declarations (James & Alley, 2000). Faced with increasing tax complexity, SMEs are turning to tax practitioners for assistance (Erard, 1993; Klepper & Nagin, 1989b; Marshall et al., 1998; Tan, 1999). With this, tax practitioners can exert significant and direct influence on the compliance level of SME operators (Attwell & Sawyer, 2001;

Klepper, Mazur, & Nagin, 1991). Research shows that some tax practitioners in the United States and Australia have been employed to aggressively exploit ambiguous tax laws to lower their client's tax liability (Klepper & Nagin, 1989b; S. Morse et al., 2009; Murphy, 2003a), whereas others argue that the primary reason for employing tax practitioners by Australian and New Zealand SMEs is to file accurate tax returns and to minimise the potential conflict with the tax authority (Ahmed & Braithwaite, 2005; Sakurai & Braithwaite, 2003; Tan, 1999). However, little research has been carried out to examine the impact of ethnicity and culture on SME operators' relationships with, and perception of, their tax practitioners. This is important as it determines their level of voluntary compliance and their overall tax compliance costs. It is by gathering evidence of SME operators' perceptions and interactions with tax practitioners and tax authority that answers to research question 3 for this thesis will be provided.

2.8.1 Preference for tax practitioners over other sources of tax help

SMEs used a variety of paid and free sources of help to fulfil their tax obligations. New Zealand SMEs consider their accountants-tax practitioners to be the most frequently used, the most helpful and the most significant source of help compared to other sources of help obtained privately, from family or peers, books and government (Business NZ-KPMG, 2008; Lewis, Ashby, Coetzer, Harris, & Massey, 2005). Government agencies, including the IRD, are ranked very low in terms of access, usefulness, and significance "even though their services are free" (Lewis et al., 2005, p. 12), as many SME operators are unaware of their services and some do not trust government departments.

Though it may be true that tax practitioners are cited as the most frequently used and the most significant source of help for SMEs, this implicitly assumes that SME operators can afford and are willing to pay for their services. This assumption may be less applicable to some ethnic groups, particularly those who are overly obsessed with frugality and business spending. In addition, some ethnic groups have business networks where information exchanges take place (Basu, 2006; Rothengatter, 2005a) that reduce their reliance on tax practitioners. Given that, it would be worthwhile identifying the source of tax assistance used by SME operators as it affects their compliance costs (Sandford, 1995).

2.9 Summary

This chapter details prior research on culture and tax compliance of general taxpayers, students and SME operators. Relative to other compliance variables, issues relating to both culture/ethnicity and business taxpayers have received little attention. Most studies of culture and tax compliance were conducted on cross-country student and taxpayer samples and a lesser extent on SMEs. Though research on students has generated useful tax findings, there are some reservations regarding the applicability of student findings to the taxpayer population. This is because students differ from taxpayers in their age, working, and tax filing experiences and they do not face adverse repercussions from noncompliance decisions made in experimental and survey research.

The use of cross-country tax findings can be misleading for comparative purposes as researchers have overlooked the unique history, tax system, and tax administration of the various countries. In addition, Gerxhani and Schram (2006) have found “significant differences exist across groups within a country and that these are sometimes larger in magnitude than the differences between countries” (p. 417). Given that, an intra-cultural study may be able to reveal the tax compliance differences between the ethnic groups within the same tax jurisdiction.

As this thesis focuses on SME taxpayers, the existing literature pertaining to their tax compliance has been discussed. As tax compliance is a socio-technical activity, the issues of ethnicity, record keeping, sources of tax help, perceptions of cash jobs, tax payments, interactions with the tax authorities, interactions with tax practitioners and compliance cost were included. Several attempts to link ethnicity of business taxpayers to tax noncompliance (tax evasion) have been undertaken but there are gaps in understanding what ethnic operators do in terms of filing tax returns and paying their taxes on time (Torgler, 2007). With this, it is appropriate to discuss the cultural values of the different ethnic SME groups such as those found in New Zealand in the next chapter.

CHAPTER 3: Cultural Diversity of New Zealand SME Operators

3.1 Introduction

This chapter discusses the cultural values of the four largest ethnic groups in New Zealand namely the European, Maori, Asian and Pacific Peoples. The cultural diversity in most OECD countries including New Zealand serves as a catalyst to study ethnicity of SME operators and their tax compliance behaviours. This chapter brings together literature pertaining to the influence of culture on business practices including tax compliance.

The discussion begins by examining the cultural differences of the ethnic groups in section 3.2. Section 3.3 outlines the impact of cultural differences on business behaviours. Section 3.4 discusses the European cultural values and tax compliance. Sections 3.5, 3.6 and 3.7 detail the cultural values of Maori, Pacific and Asian and tax compliance respectively. The final part provides a summary of the chapter in section 3.8.

3.2 Cultural differences of New Zealand SME groups

The cultural diversity of New Zealand is reflective of the changing trend experienced by other nations brought on by globalisation (Stahl, Miller, & Tung, 2002) and lax immigration and emigration barriers (Johnston, 1991). Nations are becoming more diverse and “virtually every nation state of the world is a multicultural one made up of a number of groups” (Naylor, 1996, p. 93). Like most OECD countries, there are four dominant ethnic groups in New Zealand namely the European, Maori, Asian, and Pacific Peoples.

This research focuses on these four ethnic groups given their high population numbers and percentage of business ownership since 2001. Of the four ethnic groups, the Pacific Peoples and Asians are the more recent migrants compared to Europeans (Anglo-Saxon decent) who arrived in the nineteenth century and Maori who are the indigenous people

(Henry, 2007; Pio, 2010). Some ethnic groups exhibit certain values and rituals (Hofstede, 1980), such as a majority of Pacific Peoples are affiliated to a traditional church (Statistics New Zealand, 2010b). The church is where “language and culture is regularly practiced” (Tu'inukuafe, 1996, p. 211) and it is the central means of providing “an embodiment of Pacific knowledge and [it enhances] Pacific cultures by becoming a mirror image of village life in the Islands” (Tiatia, 1998, p. 7). Although Pacific Peoples over the past fifty years have migrated to countries such as New Zealand, Australia and the United States, they are resilient in keeping their own culture (Prescott, 2009). For example, many Pacific SME operators practice common sharing and reciprocal relationships (Helu-Thaman, 1995; Prescott & Hooper, 2009), which result in tax payment difficulties.

In general, tribal Maori are highly collectivistic as they have strong affiliations to their *whanau* (extended family), *hapu* (sub-tribe) and *iwi* (tribe) (Mead, 2003; Warriner, 2007). These affiliations demand that group obligations prevail over individual interest, but over the last decade there is an increasing disconnectedness to the extended families in urban Maori (National Urban Maori Authority, 2010). Given the changing cultural values of Maori, it would be interesting to gather evidence as to how they comply with the New Zealand tax requirements.

Historically, most Maori and Pacific businesses were based around subsistence agriculture and small scale bartering (Crocombe, 2008; Henry, 2007). On the whole, large scale commercial business endeavours are relatively recent developments compared to European and Asian businesses. With their delayed exposure to commercial businesses, some grapple with issues of profitability and cash management, necessary for successful tax compliance (Henry, 2007; Prescott & Hooper, 2009).

Migrant Asians are, on average, more qualified than their New Zealand born counterparts due to the strict immigration entry procedure (Pio, 2010). Business migrants are predominantly skilled migrants, are likely to own property, and are reported to dislike the New Zealand tax system (Pio, 2010). Over the last two decades, Asians have migrated to New Zealand with the hope for better work and education opportunities for themselves and their families (Department of Labour, 2010).

Research has classified Maori, Pacific Peoples and Asians as collectivistic in comparison to Europeans, who are generally more individualistic (Begley & Tan, 2001;

Crocombe, 2008; Earley & Gibson, 1998; J. Patterson, 1992). Individualistic traits have been noted as one of the factors for successful businesses (Earley & Gibson, 1998; McGrath, MacMillan, & Scheinberg, 1992) but Asians have also shown considerable business success due to their extensive business networks (Morris & Schindebutte, 2005; Tung, 1996). Much business and tax information takes place within these networks (Ahlstrom, Chen, & Yeh, 2010; Basu, 2006; Rothengatter, 2005a). Contributions from extended families in terms of labour, finances, business knowledge, and emotional support to Maori, Pacific and Asian business operators (Crocombe, 2008; Mataira, 2000; Ram, 1994; Ram, Smallbone, & Deakins, 2002; Tsang, 2002) demonstrate their collectivistic traits.

Though Maori and Pacific groups have strong kinship and family ties (R. Duncan, 2008; Henry, 2007), they lack business networks to assist with their business decisions, including tax compliance activities (Baker, 2007; NZIER, 2007). The emphasis placed on reciprocal relationships can pressure Maori and Pacific operators to give up business resources and time to fulfil kinship obligations, such as retaining unproductive staff, giving free or discounted goods, employing consensus business decision making processes and using tax monies to meet family needs (Cahn, 2008; Mataira, 2000; Prescott & Hooper, 2009; Warriner, 2007). Fulfilling kinship obligations at the expense of the individuals' needs can hinder successful business operation including paying their taxes on time.

Given the cultural differences of the ethnic groups, government bodies, including the Inland Revenue Department (IRD), need to have a "poly-contextual sensitivity" (von Glinow, Shapiro, & Brett, 2004, p. 588) with regard to the factors that influence SME taxpayers' compliance behaviours. This is particularly relevant when the cultural values of ethnic groups may differ from the European values which are dominant in New Zealand.

3.2.1 Business assistance programs in New Zealand

The New Zealand government assists SMEs through business training programmes offered through various government agencies such as New Zealand Trade and Enterprise (NZTE) and Enterprise New Zealand (through the various councils). The business training includes understanding the New Zealand business environment and their tax obligations. Although these services are provided free of charge, the Small

Business Advisory Group (SBAG) are concerned with the low uptake by Maori, Asian and Pacific Peoples (Small Business Advisory Group, 2008), which can lead to business failures resulting from their unfamiliarity with business and tax requirements.

It has been found that Maori and Pacific operators do not learn well from mainstream business courses as they are considered too academic and lacking practical relevance (Crocombe, 2008; Zapalska, Dabb, & Perry, 2003). Instead they prefer “a more participative, hands-on approach using practical examples” (Zapalska, Dabb, et al., 2003, p. 172). To meet their unique needs, business training programs are now offered via Te Puni Kokiri (TPK) (Ministry of Maori Development) and the Pacific Business Trust (PBT). Both TPK and PBT provide business facilitation services, customised business training workshops, business advice and mentoring to Maori and Pacific entrepreneurs respectively (Pacific Business Trust, 2010; Te Puni Kokiri, 2010).

3.3 Cultural differences and business behaviours

Culture, although basically unconscious, manifests itself in the business practices and decisions made (E. Hall, 1976; Hampden-Turner & Trompenaars, 1996; Schein, 1985). According to Hofstede and Hofstede (2005), the actions, words and behaviours of an individual can be traced to their underlying cultural values. The study of culture is also important as one “cannot strip people of their common sense constructs or routine ways of seeing” and one “cannot understand why [an] individual and organisation acts as they do without considering the meanings they attribute to their environment” (Trompenaars et al., 1994, p. 19). Cultural values are enduring and are deeply embedded within individuals and they are resistant to change (Hofstede & Hofstede, 2005; Hoppe, 1990).

Recognising the cultural underpinnings of business behaviours, the SBAG suggests government staff be culturally aware of the ethnic groups’ needs, to encourage more participation in government funded business programs (Small Business Advisory Group, 2008). This is because having cross-cultural understanding reduces one’s own biases and prejudices and allows for better cooperation and communication (Ao, 2008; Joynt & Warner, 1996). Adler (1991) suggests that cultural diversity can lead to superior performance when it is well managed. With this, there is much incentive for government agencies including the IRD to understand the cultural values of the ethnic groups to encourage successful compliance. Given the importance of cultural values on

business behaviours, the next few sections detail the cultural values of the four largest ethnic groups in New Zealand and how they may affect business behaviours including tax compliance behaviours.

3.4 European cultural values and tax compliance

Since the European taxpayer sample for this research is of Anglo-Saxon origin (see Chapter 1, section 1.2.2), it is therefore appropriate to draw literature from this cultural group. Literature written about New Zealand Europeans acknowledges that they are predominantly from Anglo cultures (Frederick & Henry, 2004; Pfeifer, 2005) where “capitalism has its deepest roots” (Arruda & Hickson, 1996, p. 184). The Anglo culture encourages individualism, self-reliance, individualistic pursuits of wealth, status and achievement through hard work and competition (Bellah, 1985; Cox, Lobel, & McLeod, 1991; Hofstede, 1991; McGrath, MacMillan, & Scheinberg, 1992; Wagner, 1995). Their “personal identity is distinct from the business identity” (Gupta, Levenburg, Moore, Motwani, & Schwarz, 2008, p. 228) and they seldom mix personal friendship with business relationships.

Unlike the collectivistic groups, they are free to pursue their dreams and aspirations without having to consider the demands from extended families and community (Hampden-Turner & Trompenaars, 1996). However, they have less access to contributions from extended families in terms of finance, labour and business information (Triandis, Bontempo, Villareal, Asai, & Lucca, 1988). Their individualistic traits cause the Europeans to be accountable for their own actions. Given that, how do their individualistic values impact on their tax compliance behaviours compared to collectivistic groups? The answers can be provided by examining their record keeping system, cash management and the sources of tax assistance used.

Survey research indicated that Europeans are risk takers and are willing to accept uncertainty in business (Frederick & Henry, 2004; Shane, 1995) which are necessary traits for business success (S. Lee & Peterson, 2000). These attributes motivate them to find creative and innovative ways to solve business problems, including dealing with taxes. They believe that the code of law exists equally for all, with no preferences given for different circumstances (Frederick & Henry, 2004). Frederick and Henry (2004) attribute the individualistic, achievement oriented, risk taking, and universalistic traits

of Europeans to their having more business success relative to Maori businesses. However, given their cultural values, do they also have more tax compliance success than the other ethnic groups? Answers to this question can be sought from their tax payment experiences and perceptions of tax compliance.

3.5 Maori cultural values and tax compliance

Maori emphasised nurturing interpersonal collective relationships through mutuality, *aroha* (love) and retaining one's *mana* (aura and prestige) (Mead, 2003; J. Patterson, 1992). With this, the needs of the collective often override the individual's needs, as refusal to comply can stain one's *mana*, considered unbearable for collectivistic Maori (Warriner, 2007). In return, Maori operators can expect financial and emotional support, business information, and labour assistance from extended families when needed (De Bruin & Mataira, 2003; Henry, 2007; Mataira, 2000; Zapalska, Perry, & Dabb, 2003).

Maori self employed have been identified as having relatively less formal tertiary education and/or trade qualifications than non-Maori (Zapalska, Perry, et al., 2003). They are less exposed to business related subjects whilst at school and many have ventured into business without much business knowledge, experience or planning (Frederick & Henry, 2004). This resulted in them having "higher failure rates compared to non-Maori businesses" (Small Business Advisory Group, 2008, p. 11). In addition, there are several factors that contribute to their business failures. They include: multiple title land ownership (Warriner, 2007); lack of business knowledge and skills (Frederick & Henry, 2004); poor governance and compliance capabilities (Frederick & Henry, 2004); and incorrect perception of wealth accumulation (De Bruin & Mataira, 2003; Mahuta, 1989).

Maori collectivism is reflected in their joint land ownership and though they are asset rich, they are cash poor (NZIER, 2007), as their land assets are considered unsuitable for commercial development or security for borrowings (De Bruin & Mataira, 2003; Warriner, 2007). Their lack of suitable security prohibits many from mainstream finance and a survey reveals that only 35 percent of Maori businesses have bank loans (Zapalska, Dabb, et al., 2003). Their collective mentality encourages them to "to utilise and share their possession which contrast(s) to the accumulate and acquire dispositions of non-Maori" (De Bruin & Mataira, 2003, p. 179). Given that, it would be fruitful to

determine how Maori operators fare in terms of filing their tax returns and paying their taxes, given that their cultural values are different from what is required under the self assessment tax regime.

3.6 Pacific cultural values and tax compliance

The collective Pacific traits encourage individuals to put the group's interest ahead of their own needs by giving and sharing their resources (Cowley, Paterson, & Williams, 2004). Examples of their sharing mentality include giving towards the extended families (Cahn, 2008; Kramer & Herbig, 1994), overseas remittances (R. Brown, 1994; Tisdell, 2000) and church giving (Macpherson & Macpherson, 2004; Meleisea, 1987). Their motivation for giving is: to maintain their social standing within the community (Prescott, 2009); to avoid being seen as hoarding wealth for oneself (Connell & Conway, 2000; Cowley et al., 2004); and to express their gratitude towards God and families (Meleisea, 1987; Taule'ale'ausumai, 1994; Tiatia, 1998). Some Pacific churches publicly announce their member's giving (Meleisea, 1987) which can lead to competitive giving and financial hardships for some families (Tiatia, 1998). With their giving mentality, how might that affect Pacific operators' ability to pay their taxes on time? This question is pertinent as persistent non tax payments can result in business failures and tax penalties.

Prescott (2009) has found that majority of Pacific operators do not have proper business planning or business skills. Their reluctance to record business transactions and delaying tasks to some vague future date is symptomatic of lack of planning or urgency in business related matters (Lucas, 2009; Prescott, 2009). In addition, Prescott's (2009) research shows that Pacific operators are unskilled in accounting, unwilling to embrace business technology and are fixated with their cash balances as measures of their business success. Their reluctance towards on-going record keeping, lack of business planning and low anxiety towards the future (McCoy & Havea, 2006) has resulted in some business failures (Prescott & Hooper, 2009). With this, how would their cultural values affect their ability to gather tax information necessary for tax returns? It is by answering this question that one could gain a better understanding of their tax behaviours and how they may differ from other ethnic groups in New Zealand.

3.7 Asian cultural values and tax compliance

The interactions amongst collectivistic Asians are characterised by trust and communal sharing within in-groups, with cold indifference to outsiders and out-groups (Hui & Triandis, 1985; Tung, 1996). In business, they develop long lasting relationships using spoken (rather than written) agreements and they clearly distinguish between “insiders and outsiders” (Fulop & Richards, 2002, p. 275). Asians show allegiance to the groups to which they belong (Hui & Triandis, 1985), but are individualistic (Hui, 1988) and exhibit increased opportunism towards out-groups (Chen, Peng, & Saporito, 2002).

Strong Asian collectivism is manifested in the practice of *guanxi* or “connections” (Tung, 1996) which relates to drawing on personal networks to secure favours in business relationships (Bjerke, 2000; C. Ho & Redfern, 2010). Good *guanxi* is crucial for business success (Bjerke, 2000; C. Chu, 1991) as having the “right” connections with certain individuals and/or authorities (including tax authorities and government officials) is more important than having the right product and knowledge (C. Ho & Redfern, 2010; Yeung & Tung, 1996). Consequently, they take extensive measures to ensure they “do not get on the wrong side with the authority” (Gupta et al., 2008, p. 238).

Research shows that Asian businesses have strong informal networks which are developed from kinship and close associates (Tsui-Auch, 2005). These networks are relationship based, long term and provide rich reservoirs of cheap or free finance, cheap co-ethnic labour, information, and vital business connections (Basu & Altinay, 2002; Licht & Siegel, 2006; Tsang, 2002). The networks are enforced by the practice of “reciprocity and retribution” (Fulop & Richards, 2002, p. 282) and coordinated through “trust and relationship building” (Gupta & Moore, 2008, p. 1). Like *guanxi*, the networks are utilitarian focussed with exchanges of favours expected from in-group members (Bjerke, 2000; Fan, 2002; Weidenbaum, 1996). For some, business networks constitute “commercial investment or a form of insurance” (Wang, Zhang, & Goodfellow, 1998, p. 36). Due to the close business ties, *guanxi* has been equated as unethical (Dunfee & Warren, 2001). Given the strong Asian networks and benefits and costs of *guanxi*, how might Asian operators in New Zealand utilise their networks for tax compliance and if so, how? Answers to these questions can help inform the IRD on the influences of networks on Asian operators.

“Saving face” to the Asians is important as it is more than esteem or self respect (Tung, 1996) and they take measures to prevent failures including business failures (Yang, 1991). This is because business failure bring a “loss of face” (S. Redding & Ng, 1982) and it “shames the founder due to its public nature, loss of social status and the sense of letting the family down” (Begley & Tan, 2001, p. 539). The seriousness of business failure for some equals castigation and ruin (Ray, 1994). Business success is therefore critical to “save face” since their business and family reputation is very much intertwined (Begley & Tan, 2001; Earley, 1997; Tsang, 2002).

Literature has shown that overseas ethnic Chinese, Japanese and Koreans are heavily influenced by Confucian teachings which emphasise diligence, perseverance, flexibility, filial piety, self sacrifice, delayed gratification, frugality, responsibility and recognition of the hierarchical orderings of relationships (Gupta & Hanges, 2004; Hofstede & Bond, 1988; Tung, 1996). These practices have led to high saving rates, business tenacity, increased wealth accumulation, superior business skills and knowledge, and low business costs (Hampden-Turner & Trompenaars, 1996; Hofstede & Bond, 1988; McGrath, MacMillan, Yang, & Tsai, 1992). They are obsessed with wealth accumulation to protect against precarious environments (McGrath, MacMillan, Yang, et al., 1992) and to “provide security for future generations” (Gupta & Moore, 2008, p. 13). Asians are also highly secretive, adaptable, undertake pragmatic business decisions, and can expect family contributions (Bjerke, 2000; P. Chu, 2000; Zheng, 2002). Given the foregoing Confucian influences on overseas Asians, how would that affect their tax compliance practices and perceptions in New Zealand? Information gained from their tax compliance behaviours can benefit the IRD in terms of regulatory and assistance measures towards the Asian group.

3.8 Summary

To summarise, this chapter details the differences in the cultural characteristics of the four largest ethnic groups in New Zealand, and the potential effects of cultural values on tax compliance. Collectivistic Pacific, Maori and Asians have access to group resources but they are also obliged to fulfil group needs. Unlike the Asians, who emphasise wealth accumulation, the Maori and Pacific groups emphasise sharing and giving

towards their groups. Individualistic Europeans are more self reliant and manage their business and financial affairs using their own efforts. Given the cultural differences between the ethnic groups, an intra-cultural study may reveal the impact of ethnicity on tax compliance. In order to study cultural differences, a cultural framework has been adopted for this study as discussed in the next chapter.

CHAPTER 4: Hofstede's Theoretical Framework and Cultural Dimensions

4.1 Introduction

Chapters 2 and 3 discussed the prior literature on ethnicity and tax compliance, and the cultural values of New Zealand ethnic groups respectively. Given that cultural values may affect tax decisions and practices, it is important for one to adopt a cultural theoretical framework to provide explanations for the tax compliance behaviours of the different ethnic groups. The two main cultural frameworks used in business and social studies on national and ethnic groups are Hofstede's (2001) and GLOBE (House et al., 2004). After considering the arguments for and against the two cultural frameworks, this study has decided to adopt Hofstede's framework, which is elaborated in sections 4.3.1 and 4.3.2.

This chapter provides an overview of culture and the cultural dimensions of Hofstede's framework. It begins with the definition of culture and how it affects human behaviour in section 4.2. Section 4.3 compares the cultural frameworks of Hofstede and GLOBE with justifications for choosing Hofstede. Section 4.4 discusses the five cultural dimensions of Hofstede's framework, followed by the comparative positions of the ethnic groups for the cultural dimensions in section 4.5. Section 4.6 summarises the overall positions of the cultural dimensions for the four ethnic groups, followed by section 4.7 which details intra-cultural study using Hofstede's framework. The chapter concludes with a summary in section 4.8.

4.2 Culture and human behaviours

Culture has been defined as the "collective programming of the mind that distinguishes the members of one group or category of people from others" (Hofstede & Hofstede, 2005, p. 4). Broadly speaking, culture is a set of shared values, beliefs, and norms of a group of people with which they understand and interpret the world (Basu & Altinay, 2002; Geertz, 1973; Trompenaars et al., 1994). Associated with culture are the norms or "standards of behaviour that exist within a group or category of people" (Hofstede &

Hofstede, 2005, p. 21). The core of culture, according to most authors, is rooted in values (Erez, 1993; Hofstede, 1980; Schein, 1985) where values are the “broad tendencies to prefer certain states of affairs over others” (Hofstede, 1991, p. 263). Culture generates likely reactions and tendencies for one’s behaviour (Manstead, 1997) and “it forms the roots of action” (Trompenaars et al., 1994, p. 24). For example, marketing literature shows that “culture greatly influences the way consumers perceive and behave” (Ogden et al., 2004, p. 1). Given the impact of culture on human behaviours, the next section compares the two cultural models of Hofstede and GLOBE.

4.3 Comparisons between Hofstede and GLOBE cultural frameworks

Hofstede’s (2001) and GLOBE (House et al., 2004) frameworks have been widely used in business research but the former has a longer history than the latter. The frameworks of Hofstede and GLOBE were developed in 1980 and 2004 respectively. GLOBE is more up-to-date, incorporates more countries, and has nine cultural dimensions compared to Hofstede’s framework of five. The participants in Hofstede’s study were employees of one company, IBM, and they included all levels, including management, whereas GLOBE’s participants were middle managers from three industrial sectors. This study adopts Hofstede’s framework due to the weaknesses of GLOBE and the credibility of Hofstede’s framework, as discussed in the next two subsections.

4.3.1 Weaknesses of the GLOBE framework

The GLOBE study has several weaknesses. First, the framework focuses on leadership instead of general differences between national cultures (P. Smith, 2006). Second, the views of middle managers as their main participants may not necessarily reflect the general view of a country’s population, since they may have better education, and have more exposure to other cultures resulting from international travel, education and business contacts. Third, GLOBE’s value measurements are based on the participants’ perception of how others are behaving, instead of their own behaviour (P. Smith, 2006). Consequently, the GLOBE “values measure has no necessary logical linkages with other measures of values used by Schwartz or Inglehart” (P. Smith, 2006, p. 917). Fourth, GLOBE poses additional challenges for cross-cultural researchers due to the nine cultural dimensions used. The “complexity demanded of analyses built upon nine dimensions of culture will defeat many research designs” (P. Smith, 2006, p. 918).

Fifth, GLOBE contrasts their rankings between “as it is” (practice) and “what it should be” (values) with some significant divergences between the two. GLOBE suggests that practices may be independent from values, which contradicts the fundamental assumption of values affecting peoples’ behaviours (see section 4.2) . Due to GLOBE’s weaknesses, the next subsection examines the credibility of Hofstede’s framework in various studies.

4.3.2 Credibility of Hofstede’s study

Hofstede’s cultural framework has garnered much attention from business and social science scholars since its inception. From 1987 to 1997, his work has been cited substantially and business databases “from 1981-1998 have yielded 134 conceptual and empirical studies relating to Hofstede” (Sivakumar & Nakata, 2001, p. 556). According to Harzing’s “Publish or Perish” citation index for 2010, there were “54,000 citations to Hofstede’s work” (Tung & Verbeke, 2010, p. 1259). Hofstede’s model has been heralded as one of the most well recognised cultural theories for empirical social science research (Newman & Nollen, 1996; Schuler & Rogovsky, 1998; Williamson, 2002). Pugh and Hickson (1993) regard Hofstede’s contributions to be as important as Etzioni, Fayol, Silverman and Weber. Hofstede’s popularity had surpassed Hall’s (1976) rival theory of culture (Sivakumar & Nakata, 2001) and therefore his framework is considered “a watershed conceptual foundation for cross-national research endeavours” (Fernandez, Carlson, Stepina, & Nicholson, 1997, pp. 43-44) and provides the foundation for scientific theory building in cross-cultural research (Sekaran, 1983).

The reliability and validity of Hofstede’s model have been independently tested, proven, researched and published in numerous publications at different times and with different groups of participants (Hoppe, 1990; Merritt, 2000; Sondergaard, 1994). Subsequent to 1980, three large scale replications of his study involving 15 to 32 countries (de Mooij, 2001; Mouritzen & Svava, 2002; van Nimwegen, 2002) confirmed most, but not all of the cultural dimensions. A 30 year meta-analysis conducted until 2010 by Taras, Kirkham and Steel (2010) find that Hofstede’s cultural dimensions remain “theoretically relevant to the study of cultural differences and his value survey measures can be used to conduct individual level studies” (p. 435). The numerous external validations of Hofstede’s work attest to the credibility of his framework in providing the rationale and an analytical tool for cultural studies.

In addition, Hofstede's framework has been widely applied to other disciplines including accounting (J. Cohen, Pant, & Sharp, 1995; Gray, 1988; Harrison & McKinnon, 1999), international tax (G. Richardson, 2007; Tsakumis et al., 2007), management (Kogut & Singh, 1988), entrepreneurship (S. Lee & Peterson, 2000; McGrath, MacMillan, Yang, et al., 1992), business ethics (Armstrong, 1996), tourism and hospitality (Kueh & Voon, 2007), marketing (Donthu & Yoo, 1998), information systems (Bryan, Ephraim, & Smits, 1995) and leadership (Mouritzen & Svara, 2002). Despite his popularity, his study is not devoid of criticism, as shown in the next subsection.

4.3.3 Criticisms of Hofstede's cultural framework

Hofstede's framework of cultural differences has not been endorsed by all, as some argued for more qualitative analyses to capture the complexities of culture (Baskerville, 2003; McSweeney, 2002). However, Williamson (2002) cautions readers not to disregard Hofstede's study merely because he was adopting the "etic" viewpoint of comparing national cultures instead of the "emic" viewpoint of culture normally used by most anthropologists. Another criticism of Hofstede's study relates to his sample respondents' ability to reflect a country's national culture (McSweeney, 2002). McSweeney (2002) questioned the suitability of self report surveys and statistical inferences to derive national cultural differences and suggested that the difference may be due to other non-cultural factors. His criticism was refuted by Williamson (2002), as no survey sample is truly representative of the total population in any country. The use of self report surveys to identify cultural differences was not unique to Hofstede, as other quantitative social psychologists, such as Schwartz and Triandis, have used similar methods (Schwartz, 2004; Triandis et al., 1988). Almost all subsequent contributors to cultural studies accepted that studies of "national culture are operationalised by aggregating the self descriptive responses obtained from individuals drawn from a series of different national samples" (P. Smith, 2006, p. 916). In addition, Hofstede and Hofstede (2005) acknowledge that other economic, political and institutional factors can affect behaviours and that culture only partly explains the differences in how people behave in each country.

It has been suggested by some authors that, due to the globalised, multicultural nature of most countries, Hofstede's use of nations, as defined by national borders, is not the best

unit for studying cultures (Baskerville, 2003; Tung, 2008). In recognition of the cultural heterogeneity within nations, Hofstede and Hofstede (2005) argue that the cultural dimensions can also be used for ethnic, regional and religious groups. Critics of Hofstede claim that culture is changeable and is not static (Sivakumar & Nakata, 2001; Tung, 2008) and question the stability of Hofstede's cultural dimensions over time (Baskerville, 2003). However, "cultures are resilient" (Hofstede & Soeters, 2002, p. 12) and that even if there are changes, they occur slowly and not all of the cultural dimensions will change concurrently. For example, the economic success and westernisation of post war Japan has caused Japanese to become more accepting of foreigners and more individualistic but Hofstede and Soeters (2002) find that "despite the shift to greater individualism, it does not seem to impact on the other value dimensions" such as uncertainty avoidance and long term orientation (p. 12).

The durability and resilience of cultural values was proven in research on ethnic Chinese populations of China and Taiwan. Despite 50 years of different political ideologies in the two countries, some cultural dimensions are malleable, such as power distance values, whereas others such as collectivism are deeply rooted and unchanged (McGrath, MacMillan, Yang, et al., 1992). Furthermore, the Pacific culture of sharing and giving is deeply entrenched within the Pacific Peoples despite 50 years of migration to New Zealand (Prescott, 2009).

4.3.4 Justification for adopting Hofstede's framework

After carefully considering the credibility of Hofstede's framework and the weaknesses of the two frameworks, this study chose to adopt Hofstede's framework based on these grounds. First, Hofstede's framework is more established than GLOBE and it has been used extensively in research from multiple disciplines over the last forty years. Second, its robustness and validity has been proven in many published research articles. Third, the application of Hofstede's framework is far ranging and is not limited to leadership and management, which are the primary focus for GLOBE. Fourth, the various rebuttals from other authors regarding Hofstede's limitations were satisfactory and did not deter other researchers from continuing to use this framework. Fifth, the use of five instead of nine cultural dimensions to explain differences in human behaviours reduces the complexity of data analysis for cross and intra-cultural research. Sixth, business researchers have applied Hofstede's framework in dramatically increasing numbers,

making it “the dominant culture paradigm” (Sivakumar & Nakata, 2001, p. 557), because “Hofstede has carefully provided both the conceptual basis and the empirical evidence for his cultural dimensions” (Sivakumar & Nakata, 2001, p. 558). With this, it is only appropriate to discuss the five cultural dimensions of Hofstede’s framework in the next section.

4.4 Hofstede’s cultural dimensions

According to Hofstede and Hofstede (2005), the main cultural differences between nations/ethnic or regional groups or people lie in their values. Systematic differences exist in values about power and inequality, the relationships between the individual and the group, the emphasis placed on task achievement or relationship building, the ways of dealing with the uncertainties of life, and with respect to whether one is present, past or future oriented. They claim that the cultural dimension scores given to each country meant that statistically more people, rather than less, prefer certain states of actions over others (Hofstede & Hofstede, 2005). In other words, there are more people conforming to rather than differing from the norms of their particular culture. In order to understand how values affect people’s behaviours, Hofstede (2001) uses these five cultural dimensions, which are as follows:

1. Power distance (PD): the management of inequality between people
2. Individualism-collectivism: the relationship between individuals and collectives
3. Certainty avoidance (UA) : their stance towards ambiguity and uncertainty
4. Masculinity-femininity: achievement or relationship focussed
5. Long term (LT) and short term (ST) orientations: their stance towards time.

Each of these cultural dimensions will be discussed at depth in the next five subsections beginning with the power distance cultural value.

4.4.1 Power distance

Power distance (PD) is defined as “the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally” (Hofstede & Hofstede, 2005, p. 46). In high PD societies, they accentuate power differences between the members of society, and the more powerful

members (authority figures) normally assume a paternalistic role in which they are to be respected, revered and not to be questioned (Hofstede, 2001). Shane (1993b) finds that individuals from high PD cultures have lower degrees of interpersonal trust towards authority figures and they perceive authority figures as possessing significant power to reward (punish) them for their good (bad) behaviours (Popper & Sleman, 2001).

In contrast, low PD cultures tend to minimise the power differences between people with a preference for consultation from authority figures (Hofstede & Hofstede, 2005). They also prefer status and position to be derived from one's achievements through competition and hard work rather than from one's provenance, or by birth, kinship, gender, age, and connections (Trompenaars et al., 1994).

4.4.2 Individualism-collectivism

Hofstede and Hofstede (2005) define individualism-collectivism as: "individualism pertains to societies in which the ties between individuals are loose, collectivism pertains to societies in which people from birth onward are integrated into strong, cohesive in-groups, which throughout people's lifetimes continue to protect them in exchange for unquestioning loyalty" (p. 76). High individualism places emphasis on individual initiatives, achievements, autonomy, independence, on leadership rather than membership and on accomplishing goals through personal effort (Earley & Gibson, 1998; Hui & Triandis, 1985; Wagner & Moch, 1986).

Individualists are not accountable for other people's needs or do they need to conform to the norms of others as their orientation is towards the self. The individualist classifies others as individuals whereas the collectivist classifies others as either "in-group" or "out-group" (Chen et al., 2002). Hofstede (2001, p. 247) notes that "collectivist societies do not view legal norms as universal and are characterised by the view that laws and rights should differ by group, while individualist societies hold the view that laws and rights should be equal for all people within a country." For the individualists, task prevails over relationship, whereas for the collectivist, relationship takes priority over task.

4.4.3 Uncertainty avoidance

Uncertainty avoidance (UA) is defined as “the extent to which the members of a culture feel threatened by ambiguous or unknown situations” (Hofstede & Hofstede, 2005, p. 167). Low UA cultures accept rather easily the notion of ambiguity and unfamiliar risk, whereas high UA cultures attempt to overcome ambiguity and unfamiliar risks by having rules and regulations, as they give them some form of security and predictability (Hofstede & Usunier, 2003; McGrath, MacMillan, & Scheinberg, 1992). High UA cultures view uncertainty as a threat to be overcome (Erez & Earley, 1993).

4.4.4 Masculinity and femininity

Masculinity-femininity traits are closely associated with emphasis placed on work goals or on relationship goals (Hofstede, 2001). Highly masculine cultures strive for a performance society which “focuses on the pursuit of material success in an unjust world” (Hofstede, 2001, p. 321). On the other hand, low masculinity (or femininity) cultures focus on “caring for others, the preservation of nurturing values, and generally view the world as a “just” place that should provide a minimum quality of life for everybody through higher taxes” (Hofstede, 2001, pp. 317-318).

Masculinity refers to masculine values of “performance and visible achievement [which] are emphasised relative to traditional feminine values of relationships, caring and nurturing” (Tsakumis et al., 2007, p. 138). Masculine societies believe in equity: with rewards given according to performance and achievement and feminine societies believe in equality: reward being given according to need (Hofstede, 1984). Hofstede (2001) finds that countries with higher masculinity traits are less permissive towards lawbreakers, and preferred punishments, whereas countries with lower masculinity traits are more lenient and focused more on correction and rehabilitation (Tsakumis et al., 2007).

4.4.5 Long term and short term orientations

Long term (LT) orientation stands for the “fostering of virtues oriented toward future rewards, long term planning, perseverance, and thrift. Short-term (ST) orientation stands for the fostering of virtues related to the past and present, respect for tradition, living for the day, preservation of “face”, and fulfilling social obligations” (Hofstede &

Hofstede, 2005, p. 210). LT orientation values emphasise thrift which leads to cash savings, whereas ST orientation values emphasise spending to maintain customs and “saving face” (Yeh & Xu, 2010). It was the LT orientation of East Asians, which values savings and perseverance, that led to their economic growth and success over the last two decades (Hofstede & Soeters, 2002).

4.4.6 Hofstede’s framework and ethnic groups

Hofstede’s framework has predominantly been used in cross-country research but Hofstede recognises the different levels of culture and differentiated them into national, regional/ethnic/religious, gender, generational, social class and organisational levels. Hofstede and Hofstede (2005) emphasise that “regional, ethnic, and religious cultures, insofar as they are learned from birth onward, can be described in the same terms as national cultures; basically the same dimension that was found to differentiate among national cultures apply to these differences within countries” (Hofstede & Hofstede, 2005, p. 34). In other words, the five cultural dimensions can be used for ethnic groups in a similar way to cross-cultural research. Hofstede does not distinguish the cultural scores for ethnic or regional groups intra-culturally except for South Africa. For example, northern Italy has low PD and southern Italy has high PD but there is only one score given to Italy as a country. Similarly, multicultural Indonesia and Malaysia are given one score for each of the cultural dimensions.

Schwartz (1999) argues that national boundaries do not always correspond with homogeneous societies with a shared culture. In some situations, the “differences between ethnic or cultural groups within a country might be stronger than differences between countries” (A. Cohen, 2007, p. 274). Tung (2008) claims that there are starker differences between Francophones (French speaking Canadians) and Anglophones (English speaking Canadians) in Canada, as Anglophones are more similar to their American neighbours, than to their fellow Francophones. She states that “given the growing diversity of the workforce within a country, intra-national variations can often be as significant as cross-national differences” (Tung, 2008, p. 41). Increasing multiculturalism has caused several different cultures to exist together, each with its own norms, religion, language and way of life, and therefore “combining all of them into one group might result in a faulty representation of the nature of the culture of a given country” (A. Cohen, 2007, p. 274).

Given the importance of studying ethnic groups within a country, it would be worthwhile identifying the comparative cultural dimensions for the ethnic groups in the next section.

4.5 Comparative cultural dimensions for the ethnic groups

In order to use Hofstede's framework intra-culturally, certain assumptions are made to position the ethnic groups within the cultural dimensions continuum. First, cultural rankings are aggregated for countries as a whole and not for individual groups within the country as discussed in the previous subsection 4.4.6. Second, not all countries were included in Hofstede's framework and therefore one has to infer from other literature to determine the cultural dimensions of the ethnic groups. This is particularly relevant for the Maori and Pacific groups in this study.

Third, it is assumed that Hofstede's score, given to a country, was based on the dominant ethnic group in the country. Hence, the New Zealand scores reflect Anglo Europeans, as it is very likely that the employees of IBM in the 1970's were largely of that origin (Pfeifer, 2005). Fourth, the cultural dimensions for the ethnic groups are aggregated based on the regions that they come from. For example, the Asian sample for this study comprised of ethnic Chinese (Chinese residing outside of mainland China) (S. Redding, 1993), Indian and one Japanese and therefore their country of origin's score will be used. Fifth, it is assumed that the cultural values are enduring and resilient and therefore the Asian and Pacific groups will largely maintain their country of origin values despite residing in New Zealand, and that the European and Maori groups will also retain most of their cultural values despite the increasing exposure to other cultures (Hofstede, 2001; McGrath, MacMillan, Yang, et al., 1992; Prescott, 2009).

In this thesis, the actual ranking of the scores as prescribed to a country by Hofstede and GLOBE is not as important as their approximate and relative positions in the cultural dimension continuum. The more important questions are whether ethnic groups tolerate unequal relationships, and how they relate to others and authoritative figures, which may affect their tax compliance behaviours.

4.5.1 Power distance (PD) for the ethnic groups

New Zealand on the whole has one of the lowest PD rankings and Asians, as a group, rank high in PD. According to Hofstede and Hofstede (2005), the high PD of some Asian countries, especially those of ethnic Chinese, can be traced back to traditional Confucian teachings on hierarchical and unequal relationships (Ahlstrom et al., 2010; Gupta & Moore, 2008). These “relationships contain mutual and complementary obligations, for example, the junior partner owes the senior respect and obedience, and the senior owes the junior partner protection and consideration” (Hofstede & Hofstede, 2005, p. 64). Confucian traditions such as “respect for elders, the importance of family, and the primacy of relationships are thought to influence the structure and decision making in ethnic Chinese firms” (Ahlstrom et al., 2010, p. 343). On the other hand, English-speaking western countries, such as New Zealand, are influenced by Protestant values which, in varying degrees, are non-hierarchical (Hofstede & Hofstede, 2005).

Frederick and Henry (2004) find that Maori are split in their view of PD with 47 percent tolerant of unequal relationships and 53 percent not, and therefore they exhibit midway range in PD. However, Pfeifer (2005) claims that tribal Maori exhibit high PD, as authority leaders are chosen based on genealogy and seniority. Traditionally, Maori leadership follows a largely male chieftainship structure, and rank and is based on primogeniture (the right of inheritance belonging exclusively to the eldest son), *whakapapa* (genealogy) and seniority (Mahuika, 1992; J. Patterson, 1992).

As the Pacific sample is largely Samoan and Tongan, these cultures are used as primary points of reference to approximate their cultural values. Pacific Peoples demonstrate high PD because of traditional hierarchical values in their societies and the role the church plays in their lives (R. Duncan, 2008; Lucas, 2009). The core value of *fa'asamoa* (the Samoan way) is based on *fa'aaloalo* (respect), which “demands that elders be treated with utmost respect” (Tiatia, 1998, p. 2). Teachers, elders, parents, pastors and *matai* (chiefs) are seen as authoritative figures and are highly respected in Pacific societies (Tiatia, 1998). Tongans have a high PD culture based on royalty, nobles and rank (Lucas, 2009). The Samoan practice of respect, esteeming those in authority with unquestioning obedience, is best described by Duncan (1994) as “*fa'asamoa* (the Samoan way), that *taulaga* (rank) should always be observed and maintained through the principles of *usita'i* (obedience) and *fa'aaloalo* (respect)” (p. 138).

4.5.1.1 Power distance and tax compliance

In low PD societies, authorities are set up to serve a function because of their position or expertise rather than due to tradition. Subordinates and individuals in low PD societies are least dependent on the authority figures for direction or guidance compared to high PD cultures (Hofstede & Hofstede, 2005). High PD cultures are less likely to relate to tax authorities on an equal basis and therefore may hire an intermediary or an expert to assist with meeting their tax compliance obligations.

In low PD cultures, checks and balances are put in place to ensure power is not abused by authoritative figures, such as the implementation of the 2001 New Zealand Taxpayer Charter for the tax authority (Inland Revenue, 2007). The Taxpayer Charter details the rights and obligations of taxpayers and the expected services from the IRD. Despite the existence of the Taxpayer Charter, taxpayers from high PD cultures are unlikely to openly question or criticise the actions of the authorities, even though they may be dissatisfied with their services, due to fear of retribution.

4.5.2 Individualism-collectivism for the ethnic groups

New Zealand as a country is ranked high on the individualistic dimension in Hofstede's (2001) framework. Asians, as a cluster, have lower scores on individualism and have a tendency to be collectivistic (Earley & Gibson, 1998; S. Redding, 1993). Both Maori and Pacific Peoples are considered collectivistic because of their kinship and community ties. Tribal Maori are influenced by their core values of *whanaungatanga* (relationships) (Mead, 2003) and *manaakitanga* (to support, care for others) (J. Patterson, 1992). As for the Pacific Peoples, the deeply embedded cultural norms of *fa'asamoa* (the Samoan way), or other similar norms, promotes collectivism (Macpherson, 2004; Meleisea, 1987).

4.5.2.1 Individualism-collectivism and tax compliance

Research shows that individualism celebrates the individual ownership of resources, status, and wealth obtained through personal achievement and efforts (McGrath, MacMillan, & Scheinberg, 1992) whereas collectivism is founded on sharing resources with families and others within in-groups (Triandis et al., 1988). Economic self-interest, self actualisation and the cultivation of personal interests is highly prized by

individualists, compared to the social harmony, consensus and sense of belonging prized by collectivists (A. Cohen, 2007).

Individualists give priority to task over relationship, since the ability to successfully achieve the task is rewarded by accomplishments and material wealth (Chen et al., 2002). They have the freedom to pursue their own interests instead of satisfying their group's obligations, thus enabling the completion of work tasks (Chen et al., 2002; Earley & Gibson, 1998). Individualists have less access to in-group resources, but for the collectivists, accessing in-group resources requires one to fulfil group's obligations. In individualist cultures, precedence is given to business consideration over relationships, whereas in collectivist cultures, personal and business relationships are integrated (Hofstede, 1984).

4.5.3 Uncertainty avoidance (UA) for the ethnic groups

Asians as a cluster, especially Japanese, score high to medium for UA whereas New Zealand score medium to low (Hofstede & Hofstede, 2005). Asian migrants who were faced with difficulties in securing mainstream employment have gone into business and assumed greater risks (Basu, 2006; Pio, 2007). They reduce the probability of adverse events occurring through hard work, networking with others and maintaining a low profile despite their wealth (Ray, 1994). They also spread their risk by supporting fellow members, hiring cheap co-ethnic labour and operating in co-ethnic markets (Deakins, Smallbone, Ishaq, Whittam, & Wyper, 2009; Pio, 2007).

Frederick and Henry (2004) find that Maori are split in their view of uncertainty avoidance with "46 percent exhibiting strong uncertainty avoidance and 54 percent exhibiting weak uncertainty avoidance" (pp. 125-126). Many are found to be "conservative in their outlook" (NZIER, 2007, pp. 13-14) and they manifest themselves in passivity and risk aversion. Maori also have a higher fear of failure rate than non-Maori (Frederick & Henry, 2004), which is detrimental for successful businesses (Honig, 1998). Opposition from within the community to succeed in business perpetuates their passivity and therefore little future planning is emphasised (Boswell, Brown, Maniopoto, & Kruger, 1994; De Bruin & Mataira, 2003). These factors point to them having a low uncertainty avoidance trait.

The Pacific cultures are traditionally high in UA due to the many rituals determining how one should behave socially and hierarchically (Lucas, 2009). However, in relation to work uncertainty, Lucas (2009) concludes that “Tongans are not concerned or do not have the resources to deal with uncertainty” (p. 29) and given that, their high UA is moderated by their laid back, carefree and non-stressful attitude towards work (Crocombe, 1976). The “island time” is an indication of their lack of urgency in getting things done and things are done only when they are absolutely necessary (Crocombe, 1976). Pacific Peoples have a tendency to not allocate resources over time nor plan their tasks, and when a task needs completion, it is done in a hurry collectively and usually at the last minute (Crocombe, 1976; McCoy & Havea, 2006). McCoy and Havea (2006) explain that the Pacific’s low anxiety about the future and a lack of business planning partly contribute to their businesses failing.

4.5.3.1 Uncertainty avoidance and tax compliance

People from low UA cultures are more likely to take risks (S. Lee & Peterson, 2000) and they have a tendency to be less concerned with orderliness and maintaining meticulous records (Lucas, 2009). Businesses may be set up with minimal planning and the decision making process is less likely to be analytical (House et al., 2004). High UA cultures have a strong dislike towards ambiguity and express a need for precision, predictability and good record keeping. Individuals with high UA traits “seek greater stability and avoid risk” (A. Cohen, 2007, p. 280) whereas lower UA individuals are more willing to accept the consequences of unfamiliar risk (Chew & Putti, 1995).

4.5.4 Long term (LT) and short term (ST) orientation for the ethnic groups

Asian countries are high scorers for long term (LT) orientation, whereas New Zealand has medium term orientation (Hofstede & Hofstede, 2005). Pacific Peoples can be described as short term (ST) oriented as they tend to live for the present and not plan for the future (Crocombe, 1976; Lucas, 2009; Prescott, 2009). To the Maori, time is cyclical (past and present) and there is an understanding that “decisions require much contemplation and consideration from every angle” (Mataira, 2000, p. 25). They are not oriented towards the future as they emphasise nurturing relationships to preserve one’s *mana* (aura) which suggests a ST orientation (Clydesdale, 2007; Mitchell, 2009).

4.5.4.1 Long term and short term orientations and tax compliance

Long term oriented Asians demonstrate their business success due to their frugality, perseverance, adaptability and pragmatism (Bond, Leung, & Wan, 1982; Gupta et al., 2008; Hofstede & Bond, 1988). Asians work with low business margins (Basu & Altinay, 2002; Tipton, 2009), are “hawk-eyed on cost control” (Bjerke, 2000, p. 121) and demonstrate “an excellent mastery of financial levers” (Lasserre & Schutte, 1995, p. 106). The majority of their business funding is from families or from personal savings (Basu & Altinay, 2002; Tipton, 2009; Tsui-Auch, 2004). On the other hand, short term oriented Maori and Pacific operators place much emphasis on retaining traditional customs by contributing towards the group (Mataira, 2000; Prescott, 2009), which may hinder their ability to comply successfully. Europeans, being of medium term orientation, may encounter a combination of success and difficulty with tax compliance.

4.5.5 Masculinity-femininity of the ethnic groups

Together with New Zealand, Asian countries ranked high for masculinity. Asians are highly performance oriented and the growth of Asian societies “has been driven by merit-based performance” (Gupta & Moore, 2008, p. 4). The Maori and Pacific cultures exhibit elements of lower masculinity as they value nurturing relationships and caring towards their extended families (Jayne, 2005; Mead, 2003; Saffu, 2003). Their traditions require them to invest heavily in relationship building to retain their *mana* (aura) and social standing within the community (J. Patterson, 1992; Prescott, 2009).

4.5.5.1 Masculinity-femininity and tax compliance

As material success and achievements are highly prized by masculine cultures, individuals are motivated to gain status and success in the tasks that they undertake. However, for the less masculine (femininity) cultures, achievements and success for oneself are less valued and therefore they are less motivated to achieve something for themselves. Masculine cultures are more inclined to find innovative ways to succeed and complete their business tasks compared to the less masculine cultures. As feminine cultures are welfare oriented, they are more tolerant of government using the tax system to assist the poor and needy. On the other hand, the masculine cultures are more achievement oriented and are self-reliant instead of expecting assistance from others.

Following the elaboration of Hofstede’s cultural dimensions in this section, it is important to summarise the overall positions of the cultural dimensions for the four ethnic groups in New Zealand as shown in the next section.

4.6 Overall positions of the cultural dimensions for the ethnic groups

In order to place the positions of the different ethnic groups, it would be worthwhile summarising them for comparative purposes as shown in Table 4.1 below:

Cultural dimensions	European	Asian	Maori	Pacific Peoples
Power distance	Low	High	High	High
Individualism-collectivism	Individualistic	Collectivistic	Collectivistic	Collectivistic
Uncertainty avoidance	Medium to low	High to medium	Low	Low
Long term-short term orientation	Medium term	Long term	Short term	Short term
Masculinity-femininity	Masculinity-performance focussed	Masculinity-performance focussed	Femininity – relationship focussed	Femininity – relationship focussed

Table 4.1: Comparative cultural dimensions by ethnic groups in New Zealand

In Table 4.1, the cultural values of the Maori and Pacific groups are almost identical and therefore there is likelihood they will experience similar tax compliance perceptions, practices and behaviours. On the other hand, their cultural values are most dissimilar to the European group which indicates that the most contrasting tax compliance behaviours would be between European on the one hand and Maori and Pacific groups on the other.

Taxpayers under the New Zealand self assessment tax regime are expected to independently calculate their tax liabilities and pay their taxes, which implicitly assumes low power distance, medium to high uncertainty avoidance, individualism and medium to long term orientation. As these implicit cultural values are more congruent with the European cultural values, there is a greater likelihood that Europeans may face fewer tax compliance challenges compared to the Maori and Pacific groups. On the other hand, the Asian group has three cultural traits similar to the European group which are medium term orientation, high and medium UA and masculinity. On the other hand, they differ in cultural values of PD and collectivism. Given that, these two groups may experience some similar tax compliance behaviours and practices but not all.

Since this thesis is an intra-cultural study, it would be worthwhile examining prior literature that has used Hofstede's framework for studying ethnic groups within the same country.

4.7 Intra-cultural studies and Hofstede's cultural framework

The majority of studies on culture have been focused on the national level of analysis and compare aggregated scales of cultural values across countries (Harrison & McKinnon, 1999; Morris, Davis, & Allen, 1994). Few studies examine the "effect of personal cultural values on attitudes and behaviours at the individual level" (A. Cohen, 2007, p. 274). Although the main justification for examining cultural values is that these values affect people's perception of given situations (Schwartz, 1999; Schwartz, Sagiv, & Boehnke, 2000), few studies had actually test this claim in general (A. Cohen, 2007). This is relevant since each person will interpret a situation differently given their cultural values and that different interpretations can lead to different actions.

Cohen's (2007) intra-cultural study of work commitment by the teachers and their relationships with authority figures (school principal) has found strong support for Hofstede's framework. The sample groups are secular Jews, orthodox Jews, kibbutz teachers, Druze and Arabs, and his ANOVA findings discover substantial differences between the groups in PD, individualism-collectivism, masculinity-femininity and UA. He finds that the Arab, Druze and orthodox Jewish groups have higher levels of masculinity, collectivism, PD and UA than secular Jews and kibbutz members. As a result of these cultural differences, their work commitments and relationships with their

superiors (the principals) differ significantly. In addition, the high PD Arabs, Druze and orthodox Jews show less initiative in their work commitments whereas the lower PD secular Jews and kibbutz teachers have more informal relationships with their superiors. His findings show that “differences between ethnic or cultural groups might be stronger than differences between countries” (A. Cohen, 2007, p. 297).

Another intra-cultural study using Hofstede’s framework was conducted by Luczak (2009) in the United States who examines the marketing strategies adopted by individualist American and collectivistic Indian SME owners. She quantitatively tested the relationship between Hofstede’s five cultural dimensions and the two ethnic groups’ marketing networks. Significant differences are found between collectivistic, long term oriented Indians in using social networks as part of their marketing strategies, compared to the individualistic and shorter term oriented Americans. The Indians rely more on their social networks for business connections, information exchanges and are more relationship oriented relative to the Americans, in terms of clients’ contact. This intra-cultural study again showed the stark differences in marketing approach when considering ethnic groups within a country.

Popper and Sleman (2001) conducted an intra-cultural study on leadership perception among two Israeli cultural groups, Jewish and Druze teachers, using four of Hofstede’s dimensions: individualism, masculinity, UA and PD. These two groups were chosen because the Druze are conservative, collectivist and exhibit high PD compared to the more modern, individualistic and low PD Jews. They observe that high PD Druze tend to view authoritative figures as “transactional” with the power to punish or reward them, while low PD Jewish teachers perceive closer relationship with their authoritative figures and view them as friends. Their research shows that the groups’ cultural differences help to explain their different perceptions of authority figures.

Another intra-cultural research project was conducted by Koch and Koch (2007) on Chinese from the larger metropolitan cities compared to those from the smaller inland cities. They tested the individualism-collectivism of these two groups and their level of contribution to the community pot. They find that Chinese from the larger cities are more individualistic than the Chinese from the smaller cities. The collectivistic Chinese from the smaller cities are reluctant to contribute to the community pot and they cooperate more with a friend than with a stranger, whereas the individualistic Chinese show no such distinction. These studies show the use of and the merits of studying

intra-cultural differences using Hofstede's framework to better understand cultural groups within national borders.

4.8 Summary

This chapter discusses the comparative features of Hofstede (2001) and GLOBE (2004) frameworks and provides justification for choosing Hofstede for this thesis. Not everyone endorses Hofstede's framework despite the extensive validations and wide citations of his work in the business and social science disciplines. The main criticisms of Hofstede's work revolve around his methodology, the samples chosen, durability of cultures and the cultural homogeneity of a country. The responses and rebuttals to each of these criticisms were included to provide a balanced view as to why Hofstede had been chosen as the theoretical framework for this thesis.

Hofstede's five cultural dimensions of individualism-collectivism, power distance, uncertainty avoidance, masculinity-femininity and long term and short term orientation were discussed in detail in this chapter. They were supplemented with the relative positions of each ethnic group on the cultural dimension continuum and the potential implications of each dimension on their tax compliance practices. Given the importance of understanding the potential effects of culture on ethnic SME operators' tax compliance behaviours in New Zealand, the next chapter details the methods used to collect research data.

CHAPTER 5: Methodology and Research Method

5.1 Introduction

This chapter describes and explains the methodology used and discusses in detail the research and analysis methods and the ethical considerations in exploring the tax compliance behaviours of ethnic SME operators. The emphasis of the study is to identify how tax compliance practices and perceptions may be affected by ethnicity. To meet this purpose, inquiry using a qualitative approach and the constructivist-interpretive paradigm is considered most appropriate, given the interest in understanding tax compliance from the ethnic SME operator's perspective. A series of in-depth, face-to-face, semi-structured interviews with three groups of participants were undertaken from November 2006 to May 2010. A total of 59 participants comprising 36 ethnic SME operators, 15 business experts and eight tax practitioners were included in the sample.

This chapter begins by reiterating the research problem in section 5.2, followed by an evaluation of the qualitative approach to the research in section 5.3. Section 5.4 discusses the ontology, epistemology and methodology of the constructivist-interpretive paradigm, together with the justification for choosing this paradigm. This is then followed by an outline of the research method and sample selection in section 5.5. Section 5.6 discusses the advantages and limitations of the interview methods, and section 5.7 outlines the data analysis process. Section 5.8 identifies the reliability and validity concerns regarding qualitative research and how this particular study seeks to address these concerns. The chapter concludes with a summary in section 5.9.

5.2 The research problem

As identified in Chapter 2, very little is known about ethnicities and tax compliance behaviours of SME taxpayers within any given country. Though ethnic groups are recognised to be different, most of the research has concentrated on their tax evasion practices and noncompliance attitudes (Birch et al., 2003; Dornstein, 1976; Rothengatter, 2005a). Little is known about the ethnic groups' relationship with and

perception of the tax authorities, their view of tax compliance, and their tax payment experiences and perceptions of tax spending. In particular, the overall aim of this research is to determine what practices ethnic SME groups undertake to meet the tax requirements, in terms of filing accurate and timely tax returns and paying their taxes on time. This research attempts to have a deeper understanding of their tax compliance behaviours and perceptions by taking into account their cultural beliefs and values. To reiterate, this study aims to answer these research questions:

1. What do ethnic SME operators perceive tax compliance to be?
2. What are the tax practices, decisions, perceptions, attitudes, and experiences of ethnic SME operators in terms of:
 - a. Accounting systems and record-keeping responsibilities;
 - b. Sources of tax assistance used;
 - c. Tax payments;
 - d. Tax spending, and
 - e. Tax audits?
3. How do ethnic SME operators view their relationship with the tax authority and tax practitioners?
4. Does culture affect the tax compliance behaviours of SME operators and if so, how?
5. What are the policy implications and regulatory strategies required to assist SME operators to file timely and accurate tax returns and to pay their taxes on time?

Given the above research aim, along with the specific, related “what” and “how” research questions, the qualitative approach is considered more suited to answer these questions (Denzin & Lincoln, 2000; Punch, 2005; Wisker, 2008). Since the intention is to acquire deeper understanding of the nature of tax compliance behaviours and decisions made, the qualitative–interpretive approach is therefore adopted. In qualitative inquiry, research usually comes about from the researcher’s prior experience in the field and from their real-life observations (Chua, 1986). This study came about as a result of the researcher’s prior tax agency experiences with SMEs from 2000 to 2005. This was discussed in section 1.5 and will be elaborated later on in section 5.4.2.1.

5.3 Qualitative research and tax compliance

According to Miles and Huberman (1984), the main task of qualitative research is to explicate the ways people in particular circumstances come to understand, account for, take action and manage their day to day situations. The purpose of this research is to study the ethnic operators' understanding, practices and perceptions of tax compliance, and how their cultural values affect their behaviours and perceptions. In order to understand how perceptions are created and given meaning, the researcher needs to interact with SME operators in their normal business activity, instead of in a controlled laboratory experiment. With this, qualitative findings are therefore value laden, context sensitive, and subjective (Pinnegar & Daynes, 2007; Sarantakos, 2005). Unlike quantitative research, qualitative research is participant-centred, allowing the participants to describe their life-worlds "from inside out" instead of having assumptions imposed on them by the researcher (Denzin & Lincoln, 2005). This provides opportunities for discovering new ideas and concepts which otherwise may have been overlooked in other tax compliance research. Hence the analysis would be inductive and reflexive (Neuman, 2006; Punch, 2005; Sarantakos, 2005).

Within qualitative research, there are two main strands of paradigm which are constructivist-interpretivist and critical theory (Guba, 1990). Constructivists study the multiple realities constructed by people and the implications of those constructions on their actions and interaction with others (Patton, 2002). They believe that the "human's reality is constructed and shaped by cultural and linguistic constructs" (Patton, 2002, p. 96). On the other hand, critical theorists challenge the status quo by seeking to emancipate the people involved and to transform the world (Guba, 1990; Putnam, 1983). This, however, does not fit with the overall aim of this research. With that, the constructivist- interpretive paradigm is chosen as it fits with this study's aim.

5.4 Constructivist-interpretive paradigm

The constructivist-interpretive paradigm is guided by a set of ontological and epistemological assumptions and methodology. The ontological assumption deals with the nature of the reality whereas the epistemological assumption determines the relationships between the researcher and the participants, and the methodology describes the way in which we know the world (Denzin & Lincoln, 2000; Lincoln & Guba, 2000). Guba and Lincoln (1990) summarise the constructivist-interpretive

perspective as being ontologically relativist, epistemologically subjectivist, and methodologically hermeneutic and dialectic.

5.4.1 Relativist ontological assumption

Given that ethnic SME operators are influenced by their cultural backgrounds and social upbringing, it is expected that they will perceive the world differently from other ethnic groups. Hence, it is only appropriate to adopt the relativist ontology where multiple realities are accepted (Denzin & Lincoln, 1994). According to Walliman (2001), the view of the world by individuals is the creation of the mind and constructed realities by the business operators have been acknowledged by Hill and McGowan (1999) as the “only reality” in small business research.

Multiple realities enable the researcher to be open minded to new concepts and to allow the data to emerge for theory discovery and development (Denzin & Lincoln, 2005). Realities under the constructivist-interpretive framework are derived from community consensus regarding what is “real”, what is useful, and what has meaning (especially meaning to take further steps and actions) (Guba, 1990; Patton, 2002). Law (2004) and Baxter and Chua (2008) state that good field research encourages researchers to address “multiplicities” as well as singularities in their narrations of the field, to highlight the multiple realities which co-exist in the field.

5.4.2 Subjectivist epistemology

The constructivist-interpretive framework adopts a subjectivist epistemology whereby the participants and the researcher interact with each other and co-create meanings, understandings and knowledge from the inquiry (Denzin & Lincoln, 2000). As the researcher is not operating at “arms-length” from the participants, the outcome of the inquiry is therefore subjective and is value laden (Denzin & Lincoln, 2005; Patton, 2002). In order to understand the constructed multiple realities of SME operators in a meaningful manner, fieldwork is required, and consequently the subjectivist epistemology is therefore embraced (Denzin & Lincoln, 2005). There is a need to personally interact with the collectivistic Maori, Asian and Pacific groups in order to access their views, as they value trust and relationship building compared to the Europeans.

Maori research protocols require researchers to show respect to the participants, to meet them face-to-face, to listen and to observe, in order to develop understanding and share information (G. Smith, 1997; L. Smith, 1999, 2006). According to Mataira (2000), these protocols are standard rules for researching Maori participants according to Maori customs. Furthermore, Bishop (1996) suggests that researching Maori participants requires researchers to be more than simply telling the stories as subjective voices, but they also need to have a “connectedness with the participants and promote a means of knowing in a way that denies distance” (pp. 23-24). Hence, close interaction with Maori participants is a necessity to secure their views on tax compliance.

Similarly, Pacific Peoples have a preference for face-to-face instead of written communications (A. Brown, Tower, & Taplin, 2005). Lucas (2009) warns researchers that Pacific Peoples are not used to seeing and completing questionnaires and because of that, they are likely to view questionnaires as a test with right and wrong answers instead of their opinions. This may lead Pacific “responses on the questionnaire to be based less on their actual view and more on what they believe is correct” (Lucas, 2009, p. 31). Finally, the secretive nature of the Asian group (Bjerke, 2000) intensifies the relationship building and trust requirements in order to access their views. Trust and relationship building are formed when the researcher is introduced to and interacts with the Asian participants.

It is critical for the researcher to interact with SME operators in order to encourage frank and open communication regarding a sensitive topic such as tax compliance (Rapley, 2007; Seidman, 1991). The kind of detachment as suggested by quantitative research to achieve objectivity can “limit one’s openness and understanding of the very nature of what one is studying, especially of the meaning-making and emotion” associated with tax compliance (Patton, 2002, p. 48). Furthermore, in Chapter 2 section 2.3.4, Birch et al. (2003) encourage further data to be gathered in order to understand various ethnic groups’ tax attitudes. The researcher believes that further data could be gathered using different research methods in order to better understand the compliance dynamics of each ethnic group.

Fieldwork allows the researcher to get close to the people and to their situations, to personally understand the realities of business life. In particular, Frey and Fontana (2005) suggest that it is about “the establishment of a human-to-human relation with the respondent and the desire to understand rather than explain” (p. 706). Fieldwork also

“evokes real processes in the normal environment and helps to formulate practical advice on tax policy” (Torgler, 2007, p. 55). Unlike the experimental or survey studies which are concerned with causal relationships and correlation between variables, “field studies are more concerned with describing and modelling the complex patterns and interactions that comprise a particular process or phenomenon” (McKinnon, 1988, p. 36). In this case, the field study aims to find out how ethnicity may affect the tax compliance behaviours of ethnic SME operators by using Hofstede’s (2001) cultural dimensions.

As a result of the researcher’s interactions with the participants, the research findings are therefore contextually embedded, interpersonally forged, relational, spatial, and situational (Denzin & Lincoln, 2000; Wisker, 2008). The close interaction with the participants would mean replication in similar studies may generate different results, leading to subjective findings and undermining the reliability of the research (Silverman, 2000). However, Guba (1990) states that the constructivist-interpretivist does not only formally reject objectivity but celebrates subjectivity. This is because absolute objectivity cannot be achieved when undertaking human research, since the researcher cannot step outside his or her own humanity and traditions (Costantino, 2008; Gallagher, 1992; Guba, 1990). This subjectivity is further acknowledged by McKinnon (1988) in that each researcher has a unique set of viewpoints which are inextricably linked with their political, philosophical and background experiences. Hence, the way in which an event is seen, interpreted and recorded may differ from one researcher to another and “the individual cannot be separated from them or de-biased prior to his assuming the role of researcher” (McKinnon, 1988, p. 38).

5.4.2.1 Researcher - insider or outsider?

Since this research is about studying other ethnicities, the question remains as to whether the researcher needs be an insider or outsider of the ethnic groups under study. In order to answer this question, providing some background on the researcher may be useful. The researcher is of Asian origin and grew up in a Chinese family business environment for 14 years before studying accounting and economics in Australia. The researcher returned to work in Asia for three years and was seconded to New Zealand to work in one of the Big Four chartered accounting (CA) firms in Auckland. Three years in the CA firm exposed the researcher to a multitude of predominantly European-owned businesses. Subsequent to working in the CA firm, the researcher was employed as a

lecturer at AUT. The lectureship of nearly 20 years required much interaction with student groups from all ethnicities particularly Asian and European, and to a lesser extent Pacific and Maori. The researcher is a fully qualified chartered accountant and had a tax agency from 2000 to 2005. The researcher has been affiliated to a multicultural church in Auckland for the past 20 years and interacts with different cultures regularly every week. Given the above, the researcher has exposure to all major cultures but is more familiar with businesses owned by Asians and Europeans rather than the Maori and Pacific groups.

The advantages of research being carried out by a researcher of the same ethnicity includes accessibility, language, better understanding and appreciation of the cultural nuances with a greater ability to interpret the stories of the participants in an authentic manner (Merriam et al., 2001). However, there is also the possibility of the inherent bias of reporting only the positive aspects of the culture to which one belongs (Mataira, 2000; L. Smith, 1999). Some are reluctant to confront and ask contentious questions that may cast a negative image on the culture to which they belong (Bishop, 1996; Macpherson, 2001). This is especially relevant for collectivistic groups as negative comments may eventuate in shame for the participants within their communities. In order to minimise the effect of this potential problem, the confidentiality of the participants was given high priority by not asking for personal information about their age, education level and income. In addition, being an “outsider” is an added advantage for the researcher as the researcher is not part of their close knit community.

Another limitation of the researcher’s being of the same ethnicity as the participants relates to the lack of honesty and openness from the participants when researching on issues that may have adverse repercussions. This was found by Parameswaran (2001) in her study on the sexuality of Indian females, such that her Indian ethnicity caused some of her participants to be less honest and open with their accounts. Similarly, as tax compliance is a sensitive topic, the participants of the same ethnicity as the researcher may not admit to the challenges and problems faced because of fear that others within the community may come to know about it. The freedom to share more honestly about the problems and issues that participants may have to an outsider researcher is an advantage. Furthermore, the outsider researcher may offer alternative perspectives that may assist some ethnic taxpayers as the researcher is not faced with the problem of ethnocentricity (Gallhofer & Chew, 2000). Hence there are advantages and

disadvantages in being an insider and outsider researcher for studying different ethnic groups.

5.4.2.2 Acculturation to Maori, Pacific and Asian customs

To acculturate to the Maori and Pacific cultures, the researcher attended eight Te Puni Kokiri (TPK) and Pacific Business Trust (PBT) business functions from 2009 to 2011. The researcher is also on their mailing lists and is informed of business updates and functions relating to Maori and Pacific businesses. The ability to secure Maori, Pacific, and to a lesser extent Asian, business operators was the result of the researcher's close association with key informants. One of the key informants is AUT's equity manager who has access to and is familiar with Pacific and Maori businesses. Another is a Human Resource coordinator with wide contacts and networks with Maori, Pacific and European businesses. The third key informant is an employee of a multinational company who has wide contacts with Asian and European businesses in Auckland.

To better understand the underlying Maori, Pacific and Asian cultural values on business practices, the researcher spent considerable time with the key informants to familiarise herself with these cultures. Not only did they provide comparisons of Maori, Pacific and Asian business practices to mainstream European, but they also pin-pointed specific cultural values unique to these groups. For example, a common occurrence among Maori and Pacific businesses relates to tax payment difficulty, which is closely related to meeting collective demands from extended families and communities. On the other hand, the Asian key informant observes that Asians have cash reserves as evidenced by their asset ownerships including properties.

To further acculturate with Maori and Pacific cultures, the researcher had lengthy discussions with Maori and Pacific friends from church and social networks regarding some of their cultural practices and terminologies. These discussions are further corroborated with extensive reading on literature that deals with these cultures (Crocombe, 2008; J. Patterson, 1992). Overall, the researcher had reflected on the cultural literature to become sensitised to possible challenges in understanding the researcher's own and other ethnic groups' cultural values. The researcher had also taken advice from others who were knowledgeable of the ethnic groups and had put in place strategies to minimise the problems which are inherent in researching across both familiar and less familiar ethnic groups.

5.4.3 Naturalistic methodology

This research adopts the naturalistic methodology by studying ethnic operators' actions in their business lives without presuming what is important to them (Punch, 2005; Sarantakos, 2005). This methodology has two aspects, hermeneutic and dialectic. The hermeneutic aspect consists of "depicting individual constructions as accurately as possible" (Guba, 1990, p. 26) and the dialectic aspect consists of "comparing and contrasting the individual constructions [including the researcher's] so that each respondent must confront the constructions of others and come to terms with them" (Guba, 1990, p. 26). According to Guba (1990), the aim of the hermeneutic-dialectic methodology is to produce informed and sophisticated constructions by keeping the channels of communications open. Hence the intention is not to predict and control the "real" world (such as in quantitative research) or to transform it (like critical research) but to tell the "world" of the participants by using Hofstede's (2001) cultural framework to explain their worldview.

The hermeneutic aspect attempts to capture data "from the inside", through a process of attentiveness, empathetic understanding and interacting with the participants (Rapley, 2007). Semi-structured face-to-face in-depth interviews were used to unlock the mental constructions of ethnic SME operators to better understand their tax compliance behaviours and perceptions (Patton, 2002). The strength of interviews is in the richness and depth of the information gathered from the "real world" experiences of participants and therefore has high external validity (Fontana & Frey, 2000; Gaskell, 2000). It is acknowledged that interviewing the participants does lower the reliability of the findings as it is highly unlikely to get the same outcome if the research is replicated by another researcher (I. Hall & Hall, 2004; Silverman, 2000). The reliability concern is addressed in section 5.8.

The constructivist-interpretive paradigm emphasises the importance of capturing and honouring multiple perspectives and contemplating how individuals describe, explain, or account for the world in which they live (Berger & Luckmann, 1966; Blumer, 1969; Costantino, 2008). To the participants, realities are therefore continuously being constructed and reconstructed in a dialectic process by interacting with other individuals and their social world (D. Patterson & Keefe, 2006). Hence, the constructivist-interpretive paradigm allows for the richness of the data in identifying the complexities of human decisions, which are deeply rooted in past experiences, culture, and personal

factors (Bauer & Aarts, 2000; Denzin & Lincoln, 2000). This paradigm is therefore suited to gather understanding of how SME operators construct and act on their perceived realities which are based on their cultural, socio-economic, institutional and political factors (Ahmed & Braithwaite, 2005; Henry, 2007; Massey, 2005).

5.5 Research method and sample participants

Qualitative researchers generally use observations, interviews or focus group discussions to collect evidence for their studies (Neuman, 2006; Silverman & Marvasti, 2008). Of the three main qualitative methods, this thesis chose interviews for six reasons. First, a significant number of small business tax studies have adopted the interview method. Second, there are high non-response rates and low SME participants in tax surveys (Hanefah et al., 2001). Third, ethnic group surveys have generated abysmally low response rates, particularly from those ethnic groups with collectivistic traits (Chaganti & Greene, 2002). Fourth, there is a preference for face-to-face dialogues in some ethnic groups. Fifth, findings from focus groups may be skewed if conducted with poor representation from the ethnic groups. Sixth, the more dominant voices in the focus groups can deter others from actively participating in the discussion. These issues are further elaborated in the ensuing subsections.

5.5.1 Qualitative and quantitative research on SMEs

A significant number of tax compliance research projects on small businesses have been qualitative in nature (Adams & Webley, 2001; McKerchar et al., 2009; S. Morse et al., 2009). This is attributable to the perceived sensitivity of tax issues and a lack of willingness by business people to participate due to competing demands on their time (Hanefah et al., 2001). As this taxpayer group has lower tax morale than wage and salary earners (Torgler, 2007), many are unwilling to divulge their tax compliance activities to outsiders. Furthermore, due to time constraints and inadequate resources (Massey, 2005; Ministry of Economic Development, 2004; Sawyer, 1996), many SME operators chose not to participate in tax research, thus muting their voices in terms of the challenges and concerns they may have (Ministry of Economic Development, 2004). Consequently, New Zealand small businesses are often not represented at policy discussions at the governmental level (Sawyer, 1996).

5.5.2 Survey research and SMEs

Surveys on SME taxpayers have generally experienced low response rates. A New Zealand GST survey by Hasseldine (1995) has a 31 percent response rate, with poorer response rates from the smaller organisations. Low responses from SMEs are also common in Malaysia, Australia, Europe and the United States. Hanefah et al. (2001) received only 67 usable responses from a sample of 300 Malaysian SMEs. Australian tax surveys by Tran-Nam and Karlinsky (2008), Lignier (2009b), and Pope and Rametse (2002), had 8.6 percent, 23 percent, and 27 percent response rates, respectively. The actual numbers of usable responses from SMEs by Kirchler (1999), Evans et al. (2005) and McKerchar (1995) were 117, 129, and 200, respectively. Two nationwide research projects by Ahmed and Braithwaite (2005) and Saad (2011) received only 244 and 28 responses from SMEs.

Surveys on ethnic businesses had even lower response rates compared to the general SME research. A response rate of only eight percent was obtained from a random sample of 1430 Asian and Hispanic SMEs in the United States (Chaganti & Greene, 2002). A five percent response rate was obtained from ethnic entrepreneurs in Singapore with only 30 responses received from the 540 participants (Ray, 1994). More successful studies on collectivistic ethnic groups have used the face-to-face in-depth interview method, particularly for the Asians, Maori and Pacific Peoples (A. Brown et al., 2005; J. Patterson, 1992; Tsang, 2002). This is traceable to the high element of trust and relationship building required by collectivistic groups (Cahn, 2008; Ram et al., 2002). Given that collectivistic cultures differentiate people as distinctly in-groups or out-groups (Triandis, 1995), the researcher considers that written surveys would be inappropriate and would not be attended to by these groups, especially when the researcher is unknown to them.

5.5.3 Focus groups and ethnic SMEs

One of the qualitative research methods used on SMEs is the focus group (Neuman, 2011). Focus groups are suitable in identifying broad issues and gaining new insights into the phenomenon, that may not be evident initially to the researcher (Kitzinger & Barbour, 1999). However, there are certain limitations with focus groups that should be spelt out which deterred the researcher from adopting them for this study. First, the focus findings are dependent on the perceived status of the group representatives and

the group's representation (Finch & Lewis, 2003). Some ethnic groups may be reluctant to participate in focus groups especially those with collectivistic and high power distance values. Due to the distinctions made between in-groups and out-groups, collectivists will not express their opinions to those who are out-groups. For high PD groups, they are unlikely to openly challenge or disagree with the "experts" or authorities and therefore, the more dominant voices within the group will be heard and the quieter ones mute. Consequently, focus groups results can be skewed and the findings may not be representative of the ethnic groups (Arksey & Knight, 1999).

Second, the problem of poor representation from the group is compounded when dealing with sensitive topics such as tax compliance (R. Lee, 1993), especially for collectivists. Collectivists are unlikely to reveal personal tax matters to in-groups due to fear that others within the community might come to know of it which can tarnish their social standing within the community. Third, as focus groups need a physical coming together of participants (Finch & Lewis, 2003), SMEs having relatively few resources would be deterred from participating in tax research due to competing business demands (Scase & Goffee, 1980; Small Business Advisory Group, 2006).

Given the limitations of focus groups and surveys, face to face in-depth interviews were adopted for this study with three groups of participants as discussed in the next subsection.

5.5.4 Sample participants

Unlike quantitative research which seeks statistical significance through investigating randomly selected large samples, qualitative research usually investigates a purposive and information rich, small sample size that focuses on the context surrounding the knowledge the participants possess. The aim of qualitative research is to gain rich and in-depth information from the participants (Mason, 1996). To ensure the richness of the interview data, SME owner/operators from the four ethnic groups, and from a range of industries and business duration were chosen.

The ideal size of the sample in qualitative research is hard to define because the focus is to gain depth rather than frequency of occurrence. The operating guideline is to continue sampling until the point of redundancy, that is, the point at which no new information is forthcoming, or "saturation" point (J. Morse, 1995; Yates, 2004). Gay and Airasian

(2003) state that while qualitative studies could have participants ranging from one to 70, rarely did many studies have more than 20 participants; most had fewer.

The present study interviewed 59 participants from three groups. The first group comprised nine SME operators from each of the European, Asian, Maori and Pacific Island groups, totalling 36 ethnic operators. The second and third group comprised 15 business experts and eight tax practitioners who interacted with SMEs on an on-going commercial basis. Business experts and tax practitioners were included to corroborate the accounts of the ethnic SME operators as part of the triangulation process (discussed further in section 5.6.3) and to provide different perspectives of the tax compliance process of SME operators. This researcher felt that some data redundancy started to occur after seven interviews of each ethnic SME operator group. By the ninth interview, significant new data were not forthcoming and the researcher decided to conclude the section of the study using the operator groups at this point.

More importantly, the business experts and tax practitioners were included to give an “etic” account of culture, as Hofstede (2001) claims that individuals may not be aware of their own cultural values. Similarly, McKinnon (1988) observes that “many aspects of behaviours which may prove important to understanding what is happening in the setting may be so entrenched and taken-for-granted by people that they are no longer consciously aware of those behaviours and their underlying rationale” (p. 39). Given that, it would be desirable to use other sources of evidence to comment on the cultural factors influencing tax compliance.

The business experts were business employees/mentors/coaches, government representatives and advisors from the Inland Revenue Department, Enterprise New Zealand, the Chamber of Commerce, the Pacific Business Trust, Te Puni Kokiri, the Small Business Advisory Group, the Maori Women’s Development League, Business New Zealand and a Member of Parliament (also part of the current New Zealand Government). The tax practitioners chosen were sole practitioners, employees, managers and partners of small and medium sized accounting firms in Auckland whose clients were almost entirely SMEs. They were included to provide insights into the record keeping and tax filing practices of ethnic SMEs.

Four SME operators and three business experts requested a copy of the interview questions before consenting to participate in the research. Only two Pacific operators

turned down the request for an interview. They were willing to participate in the research but could not afford the time for an interview. Instead, they provided written comments on the interview questions.

5.5.5 Ethics approval and confidentiality

Approval to interview participants was sought and obtained from the AUT Ethics Committee (AUTEK) prior to the interviews, due to the potential sensitivity of the information being requested from the participants. AUTEK prohibited the researcher's tax agency clients from participating in this research due to conflicts of interest. However, this was a non-issue as the researcher's tax agency ceased to operate in December 2005 and the first interview took place in November 2006 with SME participants who were unrelated to the researcher's tax agency. AUTEK gave their approval to proceed with this research on 12 July 2006, with AUTEK reference number 06/92.

AUTEK required the following measures to protect the anonymity and confidentiality of subjects. Prior to the actual interview, the purpose of the research was verbally communicated with the participants. A copy of the research purpose and the consent form was sent for them to peruse before the actual interview, and a signed hard copy was obtained at the commencement of each interview. A copy of the research purpose and consent form can be found in Appendices 3 and 4, respectively. In the informed consent process, individuals were provided with explicit details about the project so that they could make an informed decision to participate or not.

In the consent form, advice was included on issues of voluntary participation, the option to withdraw any time without giving reason, the freedom to ask questions, and the contact details of AUTEK personnel in case of any problems. AUTEK also required the researcher to understand the protocols of the Treaty of Waitangi, especially when interviewing Maori participants. The researcher is mindful of the protocols relating to researching Maori participants, as discussed in section 5.4.2. One signed copy of the consent form was given to the participant and one was retained by the researcher for her records. With the participant's consent, all interviews were tape recorded and transcribed by the researcher. Tape recording was important as it provided a record for what was discussed, it allowed the researcher to concentrate, and showed respect to the participants (Rapley, 2007).

Confidentiality of participants was given the utmost priority, to encourage them to participate in this research. Given the sensitive nature of tax compliance and to encourage willingness of collectivistic groups to participate, “no demographic information such as age, education, and income was requested during the interview – a sacrifice made to further reassure the respondents that their answers could never be connected with them as individuals” (Hessing et al., 1988, p. 408). To further protect confidentiality, participants were assigned code names and only the researcher maintained the master identity list. All identifiers of the participants and their clients were edited. Only this researcher had access to the personal computer on which the data was stored and this was password protected. Back-up data on external memory drives was kept under lock in a private cabinet in the researcher’s home. Master identity lists and audio recordings were stored securely to prevent unauthorised access and use, including the use of password protection on the researcher’s computer, removing identifying information about participants, and preventing unauthorised access to data.

5.5.6 Sample selection process for this study

Participants were sought from business, personal networking and church contacts. Initially, the first few participants were those who were personally introduced by someone known to the researcher or who knew the researcher from previous associations. They provided the initial experience for conducting further interviews. This was important as tax compliance can be a sensitive topic and the ease with which these participants expressed themselves provided some valuable information as to what to expect from future participants. Limited demographic information about the participants, such as ethnicity, types of industry, business duration and number of employees of the ethnic SME operators, was obtained partly from personal disclosure and partly from sources such as key informants and persons who introduced the connections.

As each ethnic operator is considered in his or her own right, a random sample is less useful than a purposive and theoretical sampling process (Bryman, 1988; Silverman & Marvasti, 2008). According to Bryman (1988), theoretical sampling is about selecting participants whose experiences are typical of the broad class of issue(s) to which the theory refers. The SME operators were purposefully selected, based on their ethnicities and different industries, to reflect the multicultural and multi-industry profile of SMEs

in New Zealand. It is recommended that where interviews are used as the sole data collection method, the sampling must include categories or groups of people which, in combination, can “provide a comprehensive picture of the phenomenon under examination, and a variety of perspectives on that phenomenon” (McKinnon, 1988, p. 50). Hence, this research used three categories of sample participants to overcome the threat that the research would lack validity. Not only ethnic SME operators, but also business experts and tax practitioners were used. The business experts fitted the category of having “dual capacity” (McKinnon, 1988) as some were SME owners themselves and were advisors and regulators for SMEs. As such, they can provide insights into the major influences affecting tax compliance.

Purposive sampling requires careful selection of participants on the basis of their relevance to the research questions, rather than studying the population (Stone, 1978). Participants were selected as they were “information rich” (Arksey & Knight, 1999) and were able to provide insights as to how cultural attributes may influence their tax behaviours and perceptions (Gobo, 2007; Stake, 2000). After purposive sampling, additional participants were identified by referral or snowball sampling. The referral or snowball (Welch, 1975) sampling took place when participants introduced other participants who met the research criteria and felt they had something to contribute towards the study (Arksey & Knight, 1999). As the study was considering four ethnic groups, access to some ethnic groups, such as Maori, Pacific Peoples and Asian, was made possible only with the assistance of key informants.

5.5.7 Using key informants to access participants

It is unlikely that ethnic operators would freely volunteer their tax compliance information to a researcher unless the researcher is known to them or had been referred to them by someone whom they trust (Fontana & Frey, 2000; Fontana & Frey, 2005). To encourage participation, the assurance of anonymity was given (Dunbar, Rodriguez, & Parker, 2002; Patton, 2002). Despite that, access to some of them was made possible only with the use of key informants (Rapley, 2007), particularly for the Maori, Pacific Peoples and, to a lesser extent, the Asian groups. The purpose of the key informants is to act as intermediaries, to explain the purpose of the research to potential participants, and the contributions the participants could make towards the research.

Initially, key informants suggested certain participants to be included in the research and they provided vital information about the ethnic operator's past history and selected demographic information. The downside of using key informants was that they may have recommended participants who were less suitable for the research (Patton, 2002). This however was not the case in this study as key informants were fully aware of the research objectives and requirements.

5.5.8 Demography of the sample participants

In this sample, 88 percent of the ethnic operators were micro businesses (they had between zero to five employees) and 12 percent were in the small and medium sized businesses (they had between six to ninety nine employees). This is consistent with the averages of the New Zealand business demographics in 2007 and 2009. The participants were 44 percent male, 47 percent female and nine percent husband and wife teams. Seventeen percent of the businesses had been in existence for under two years, 14 percent were from two to five years, 36 percent were from six to ten years and 28 percent were more than ten years, and five percent did not disclose this information. The SME operators in this sample operated in 14 out of the 19 industrial sectors recorded in the 2006 Australian and New Zealand Standard Industrial Classification (ANZSIC) (Ministry of Economic Development, 2009), which represents 74 percent of all industrial sectors in the country. (See Appendix 5 for the full listing of the ANZSIC). All industrial sectors were represented in this sample except for categories A to D and O. The wide coverage reflects the diversity of SMEs in New Zealand.

In regard to the tax practitioner sample, an equal number of male and female practitioners participated in this research. Half of them were sole practitioners and the other half were from small and medium sized accounting firms. In terms of the business expert sample, there were more male participants than female participants. Eight of the business experts were from generic government agencies whereas seven were from ethnic specific government agencies and business associations such as TPK, PBT and the Maori Women's Development League. The relatively high number of business experts sampled from the ethnic specific government agencies enabled the researcher to be more familiar with and learn more about the Maori and Pacific businesses.

5.6 The interview research method

Interviewing is suitable in gaining different contextual factors from the participants and it provides researchers with the full advantages of being able to “explore topics in great depth, achieve a high degree of interviewer control and provide maximum interviewer’s flexibility for meeting unique situations” (D. Cooper & Schindler, 2003, p. 348). In order to unlock the mental constructions of the participants, a semi-structured in-depth face-to-face interview method was adopted. Punch (2005) claims that interviewing is suitable for gaining data from participants who have first-hand knowledge of the phenomenon under study, which here is tax compliance.

All interviews for this research were pre-arranged to accommodate the participants. Interviews ran, on average, for one hour 15 minutes, they ranged from twenty minutes to two and half hours. The participants were given the choice of the interview location, including the participants’ and researcher’s premises, AUT, with two participants preferring public places (e.g. cafés) due to convenience.

All interviews were conducted in English and transcribed in English. One Asian and one Pacific SME operator needed clarification of the term “tax compliance”, in question 2 from the interview schedule (see Appendix 6 for the list of interview questions). It required the researcher to simplify the terminology in order for them to understand and provide an answer. Subsequent to the interview, each participant was sent a full copy of the interview transcript for comment, correction and acceptance. Only five of the 59 participants returned with requests for amendments, due to commercially sensitive information. Opportunities were also given to the participants to contact the researcher if they had any concerns about the interviews.

Transcribing the interviews took place shortly after the interviews. It was undertaken in conjunction with the field notes written during the interviews. The average transcription took ten hours per interview, as it required the researcher to interact closely with the data and to comprehend the meaning of the participants (Rubin & Rubin, 1995). Nearly 700 hours was spent on transcribing all the interviews, which enabled the researcher to not only be familiar with the participants’ accounts but also to link the multiple perspectives to the tax compliance phenomenon. The transcriptions recorded data that were relevant to the topic discussed. Though English was not the first language of some participants, the researcher did not find significant difference in terms of their

responses, as there was the opportunity to clarify with the researcher of any questions which they did not understand.

5.6.1 Interview questions

Some introduction and self disclosure was made to participants who were not known to the researcher. This was particularly important for the Maori, Pacific Peoples and Asian participants. Often, the participants reciprocated by revealing some background information about themselves and their business at the start of the interview. This formed an ice-breaker and provided valuable demographic information, and also confirming information provided by the key informants. The interview schedule for the participants comprised some closed and some open ended questions. The closed questions were used to build rapport with the participants, and they were “warm up” questions before opinions were sought from the open ended questions (Gaskell, 2000).

There are two main advantages for adopting open-ended questions. First, they allow the researcher to enter the field without being constrained by predetermined categories of analysis (Patton, 2002) and second, they allow the researcher to explore the participants’ reactions, beliefs and perceptions (Warren & Karner, 2005). The interview enables the researcher to get a clearer understanding of events and clarify the meanings with the participants without presuming underlying reasons (McKinnon, 1988; Richey & Klein, 2007). This is particularly relevant when specific cultural factors are asked of ethnic operators as set out in question 4 in Appendix 6.

Specific questions for the ethnic SME operators explored a range of issues relating to the ethnic operators’ tax compliance experiences, decisions, practices, their interactions with the tax authority and their perceptions of tax regulations, as set out in Appendix 6. As tax compliance is a socio-technical activity, most of the interview questions relate to the process in which they gather tax information and pay their taxes on time. Specific questions for the business experts referred to their working experience with SME operators from different ethnicities, as set out in Appendix 7. The questions for the tax practitioners explored compliance practices of SME operators and their interactions and perceptions of the IRD, as set out in Appendix 8.

Instead of asking cultural value questions outright to ethnic SME operators and risk making them too “self aware” that culture is the theme of interest for this research, the

main focus was on their tax compliance processes and decisions made. Given the relatively limited number of questions on cultural values, as set out in question 4 in Appendix 6, the researcher intended to infer cultural differences from the participants' tax compliance behaviours and practices rather than directly asking them how cultural values might affect them. This is because cultural values are often taken for granted by the individuals as discussed in Chapter 2, section 2.5. Their tax compliance behaviours and practices were corroborated with the accounts given by business experts by asking question 1(c), question 2(a)(b) and question 4 (see Appendix 7 for business experts), and question 2(b)(ii) (see Appendix 8 for tax practitioners) to provide an "etic" view of ethnicity and tax compliance.

5.6.2 Limitations of the interview process

Although interviews are widely used in most qualitative research, this method does have some limitations. First, since the researcher knows the participant's identity, the participants may be cautious with their responses, particularly with the small sample size and despite the assurance of anonymity (Bauer & Aarts, 2000). They may be reluctant to share sensitive information particularly if it incriminates them (Gaskell, 2000). Of the 59 participants, one Asian operator and two business experts showed some reluctance in answering some questions. The Asian operator hurriedly terminated the interview by saying that he had nothing to add to the research and that his external accountant did all the tax compliance work. This is despite his agreeing to participate in the first place. One business expert spent considerable time complaining about the New Zealand Government and its policies before making comments on ethnic SMEs. Another business expert was mindful not to make race related comments pertaining to tax compliance. These were some examples of the participants' lack of openness and willingness during the interviews.

Interviews are time consuming and labour intensive (Douglas, 1985; Dunbar et al., 2002) as they involve arranging for an interview time and transcribing the interviews. Hence, a small sample was used for this study (Gubrium & Holstein, 2002; Silverman, 2000) with the aim to analytically generalise to other ethnic operators who are faced with similar contextual circumstances (Gobo, 2007).

Due to the personal and sensitive nature of tax decisions, some ethnic operators may not have reported all incidences of noncompliance especially those that were perceived as

socially undesirable (Lawrence, 2006). Acknowledging the sensitivity issues, the researcher utilised case scenarios to de-personalise the issues and to encourage participants to voice their own experiences (Douglas, 1985). To further reduce the sensitivity problem, the interview covered a variety of questions on different topics including their business, tax audit and tax payment experiences, their tax compliance perceptions, sources of tax help used, process in gathering tax information, and perceptions of cash jobs. The way these questions were framed was less sensitive, compared to direct questions asking whether or not they had complied with the tax regulations or not.

5.6.3 Triangulation

Triangulation is the most typically used method by qualitative researchers to check and establish validity in their studies. Merriam (1998) claims that triangulation helps qualitative researchers gain the most complete and detailed data possible. Robson (2002) states that triangulation involves the use of multiple sources, including data, researchers, informants, research designs, theories, or perspectives triangulation. This study uses informant triangulation (operators from different ethnicities, industries, business sizes and duration of business) and perspective triangulation (ethnic SME operators, tax practitioners and business experts) in data collection. Triangulation does not only enhance validity to data analysis but also adds depth and richness to analysis (Snape & Spencer, 2003). The evidence provided by the business experts and tax practitioners helped to clarify meanings, and verified the repeatability of accounts given by the ethnic SME operators (Silverman, 1993). In doing so, triangulation assisted with the trustworthiness of the inquiry (Patton, 2002) and validity of the qualitative research (Denzin, 1970).

5.7 Data analysis

Qualitative findings illuminate the people behind the accounts given by providing understanding and interpretation for their actions (Punch, 2005). The knowledge gained from this research and the underlying reasons which underpin this knowledge may subsequently inform policymakers and tax authorities to address any issues that ethnic SME operators may have in regards to tax compliance. The analysis of the transcripts follows a three stage process as suggested by O'Dwyer (2004), which is an adaptation

of the analytical process developed by Miles and Huberman (1984), involving data reduction, data display, and data interpretation and conclusion drawing. The full analytical procedure adopted for this research is shown in Figure 5.1 on the next page.

5.7.1 Data reduction

According to Miles and Huberman (1984), data reduction “refers to the process of selecting, focusing, simplifying, abstracting, and transforming raw data” (p. 21). It offers a general overview of the data collected and loosely classifies any emerging themes (O’ Dwyer, 2004). It requires the researcher to reflect on the data after some time, to identify any commonalities in the participants’ accounts. Three phases were applied to reduce the data into manageable amounts. First, it involved listening to the tapes and reviewing the field notes to get a general overview of the data. Second, the researcher made a comparison of each participant’s notes, which resulted in 15 loosely classified themes to be refined further at a later stage. While working with the data, the researcher continuously had to make decisions about the coding and themes, and to review some of the codes. Some codes were confirming existing theories while others were not. Third, the researcher had to reflect on the data to identify any commonality or deviant cases, by constantly comparing one account to another to build some themes and patterns. For example, the researcher found that most ethnic operators did not dispute their obligations to pay taxes but they questioned the extent, frequency and types of taxes paid. This was not very evident initially, until the researcher took a more “detached” view of the data.

5.7.2 Data display

Data display is “an organised assembly of information that permits conclusion drawing and action taking. It involves assembling the data into displays such as matrices, graphs, networks, and charts, which clarify the main direction (and missing links) of the analysis” (Miles & Huberman, 1984, pp. 21-22).

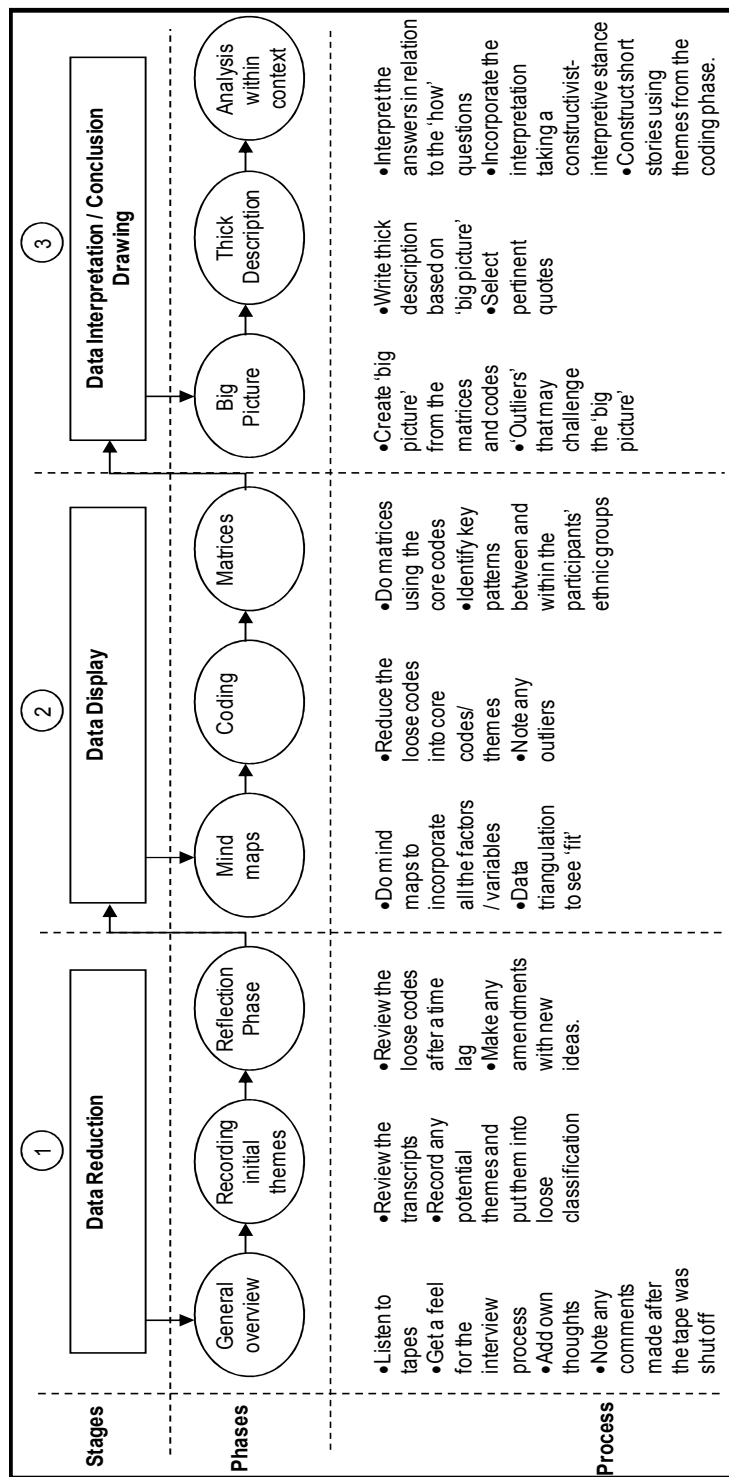


Figure 5.1: Summarised procedure for data analysis. An adaptation of O'Dwyer's (2004) method

Formal coding and comparative core codes using matrices takes place in this stage (O'Dwyer, 2004). At this stage, the researcher mind-mapped the interrelationship of factors identified from the data reduction stage, to help establish links that may provide some understanding of previous research. For example, the finding that none of the Asian operators had tax payment difficulty can be linked to their money management skill, as shown in previous research (see Chapter 3, section 3.7). Seven core codes were developed at this stage by reducing the 15 loosely classified themes found in data reduction stage. The themes were reflective of the research questions. Finally, matrices were used, where the core codes were laid out for comparison between and within the ethnic groups. This helped to build abstract propositions to be refined at the data interpretation stage.

5.7.3 Data interpretation and conclusion drawing

Data interpretation involves examining the data holistically to create the “big picture”, providing thick descriptions of the participant’s accounts and noting any outliers (O'Dwyer, 2004). Conclusion drawing means “beginning to decide what things mean, noting regularities, patterns, explanations, possible configurations, causal flows and propositions” (Miles & Huberman, 1984, pp. 21-22). It also involves testing the provisional conclusions for their plausibility, validity and confirmation of existing theories (Miles & Huberman, 1984).

Three phases were involved in interpreting the data towards drawing conclusions. First, the researcher examined the data holistically to create the “big picture”, to identify any inter-relationships between factors using Hofstede’s (2001) framework. For example, the collectivistic traits of the Maori and Pacific groups were closely related to their nurturing relationships, indicative of cultural characteristics of femininity (relationship focussed). The source for developing the “big picture” was data analysis across and within the matrix. Any “outliers” that may challenge the “big picture” were noted. For example, only one Asian of the 36 ethnic operators welcomed tax audits, and reasons were sought as to why this was so. Further analysis of his behaviour could be tied back to his cultural value of ensuring the tax authority viewed him as being law abiding to prevent future audits.

The second phase is to select pertinent quotations and providing “thick descriptions” of the participants. The “thick description” also reveals the participant’s depth of emotion, the ways they had organised their world, their thoughts about what was happening, their experiences and their basic perceptions (Loftland, 1971). Commonalities and differences between the practices, perceptions and decisions of the ethnic groups are highlighted and interpreted using Hofstede’s (1980, 2001) framework. The aim is not to generalise the findings across cases and time, but rather to make careful comparative case analysis and extrapolate patterns for possible transferability (Patton, 2002).

Developing a working hypothesis that may be relevant to other participants is the final stage. Unlike the quantitative approach, the researcher is striving for analytical generalisation and not statistical generalisations. Analytical generalisations allow for the case to be applied to other cases with similar conditions and circumstances. Hence this study is not generalisable as descriptions of what other ethnic operators do, but it is generalisable as descriptions of what any other ethnic operator can do if they have the same array of circumstances as the sample groups (Perakyla, 2005). Often quantitative researchers question the reliability, validity and trustworthiness of qualitative research due to the different ontological and epistemological assumptions. Their concerns and how this study addresses these issues are discussed in the next section.

5.8 Reliability, validity, and trustworthiness issues of qualitative research

Positivists often raise the concerns for reliability in qualitative research, due to the researcher’s direct participation in the fieldwork (Alm, 1991; Kirk & Miller, 1986). To address the reliability concerns of the inquiry, Arksey and Knight (1999) suggest providing evidence that the interview accounts are a fair representation of the participants’ accounts. Hence, participants’ verifications were carried out to enhance the credibility (validity) of the research (Bauer & Aarts, 2000; Patton, 2002) and to ensure that the participants’ accounts were correctly understood and interpreted by the researcher. A common comment received from the participants was that the transcription adequately reflects their account, with only five requesting amendments, due to confidential information.

Reliability and validity are common traditional maxims used in mainstream positivistic research, based on the assumptions that the phenomenon studied is regular and

unchanging (Lawrence, 2006; Shadish, 1995). This, however, is unattainable for the present study, as the views of the ethnic operators are changeable, contextual, and situational, which is common for qualitative research (Denzin & Lincoln, 1994; Guba, 1990). Instead of reliability and validity, qualitative researchers encourage field researchers to aim for and ensure that their research is credible, authentic, and has plausibility, criticality and trustworthy values (Baxter & Chua, 2008; Golden-Biddle & Locke, 1993; McKinnon, 1988; Patton, 2002). In-depth description of the duration of the fieldwork and the types of participants interviewed could assist in providing credibility and authenticity to the research (Baxter & Chua, 2008).

Hall and Hall (2004) suggest that the depth and transparency of the research design and process be explained to increase the trustworthiness of the research. Audit trails detailing the design processes, field notes and analysis enable readers to form their own conclusions based on their own social constructions (Patton, 2002), and to evaluate the plausibility of the researcher's thoughts and actions. The researcher for this study is not attempting to convince readers by claiming that there is one version of reality but rather that there are multiple versions of it (Mason, 1996). Hence detailed collection, sampling and analysis have been provided to facilitate the trustworthiness of the research. Baxter and Chua (2008) also suggest providing implications of the findings and suggestions for future research as a means to achieve criticality values and to encourage readers to envision new research possibilities. Details of implications and suggestions for future research from this research are set out in Chapter 9.

Other tactics used to overcome the threats to validity and reliability "is to use probing" (McKinnon, 1988, p.52). Probing has been used in this research with the three groups of participants for several reasons. First, it enables the researcher to ask the "why" and the "what happened" questions. Second, it allows the researcher to gather contextual data from the participants. Third, it allows participants to clarify their views so that assumptions are not made by the researcher. Fourth, it helps to keep the researcher's own biases at bay (McKinnon, 1988).

Arksey and Knight (1999) also suggest triangulation and providing "thick description" to further achieve trustworthiness and credibility in qualitative research. Triangulation with the use of multiple perspectives from business experts and tax practitioners, as discussed above in section 5.6.4, was adopted to not only add to the credibility of the findings, but also to corroborate, refute or enhance further understanding of ethnicity

and tax compliance (Lawrence, 2006). Thick descriptions are an important component of qualitative research in terms of achieving trustworthiness of the data and forming part of the findings (Patton, 2002; Rubin & Rubin, 1995). Thick descriptions are included in the research findings discussed in Chapters 6 to 8.

5.9 Summary

This chapter provides justification for choosing the qualitative approach and the constructivist-interpretative paradigm for the current study. The ontological roots, epistemology and methodology were discussed. Historically, most SME tax research has been qualitative in nature, due to the sensitivity of the topic as well as the generally poor response rates from surveys, and even lower response rates for ethnic SME surveys. More importantly, the rationale for choosing the qualitative approach is to gain some understanding of how ethnicities might affect SME operators' tax compliance practices and perceptions. The understanding and meaning-making by the ethnic operators regarding tax compliance is considered more important than determining the causal factors or correlation between tax compliance factors.

Reasons for choosing the face-to-face interview-based approach involved accessing the collectivistic ethnic groups. Certain measures were undertaken to address the reliability and validity concerns in qualitative research. These measures include triangulation, using informant and multiple perspectives, providing a detailed audit trail of the research process and analysis, participants' verifications, and providing "thick description" of the participants' accounts.

The diversity of the participants allowed the findings to be a "multi-vocal, multi-industry, multi-ethnic, multi-size" presentation of ethnic SME operators' tax compliance behaviours and perceptions. The independent accounts given by tax practitioners corroborate the record keeping practices and tax payment histories of ethnic operators. In addition, business experts were able to tell of their own experiences with SME operators which added to the cultural evidence on tax compliance in relation to demands from extended families, churches and communities. Furthermore, this study aims to provide a holistic view of how tax compliance may be influenced by cultural values which is shown in the findings chapters from Chapter 6 to 8.

CHAPTER 6: Tax Compliance Perceptions and Record Keeping Functions of Ethnic SME Operators

6.1 Introduction

This is the first of three chapters that present the findings of the study. As the New Zealand self assessment tax regime requires SME taxpayers to file accurate and timely tax returns and to pay their taxes on time, this chapter deals with the issues pertaining to filing tax returns. The key issues discussed in this chapter relate to tax compliance perceptions, accounting systems and record keeping functions. Other issues such as sources of tax assistance used, audit experiences and perceptions of the IRD as a source of tax assistance is discussed in Chapter 7, and tax payment issues are discussed in Chapter 8.

Tax compliance conjures up certain meanings to ethnic SME operators. This chapter details the interview accounts of the 36 ethnic SME operators, which are then corroborated by the tax practitioners and business experts to give a robust understanding of the findings. Hofstede's (2001) cultural framework is used to frame the discussion and to highlight the contribution this research makes toward the tax literature.

The chapter begins by examining the tax compliance perceptions of ethnic operators in section 6.2 and a discussion on the accounting systems adopted by them in section 6.3. Section 6.4 identifies the record keeping functions of ethnic businesses, and section 6.5 summarises the findings. For reasons of confidentiality, ethnic SME operators have been coded as Asian (A), European (E), Maori (M), and Pacific (P) with suffixes 1 to 9. Therefore Asian operator one is labelled A1 and European operator two is labelled E2. Similarly, a tax practitioner is coded as TP with suffixes 1 to 8 and a business expert is labelled as BE with suffixes 1 to 15. Appendices 9 to 12 set out selected demographics of the various ethnic operators to provide the contextual background for the discussions.

6.2 Tax compliance perceptions

Tax compliance conjures up different meanings to the different ethnic SME groups. For some it was a normal part of their business routine, whereas for others it was stressful, and involved considerable paperwork and cash payments. As seen in the interview in Appendix 6 (question 2(a)), ethnic operators were asked an open-ended question of what words or images they had of tax compliance. As tax compliance may conjure up more than one image or word, Table 6.1 summarises the ethnic SME operators' perceptions of tax compliance.

Words and concepts associated with tax compliance	European	Asian	Maori	Pacific	Total
Paperwork	5	9	6	4	24
Payment: cash outflows	3	4	1	4	12
No choice and having to meet an obligation	3	2	2	4	11
Headaches/Stress/Worry/Fear	2	0	4	4	10
Do everything right and have accurate tax returns	4	0	3	2	9
Penalties	2	2	3	1	8
Dealing with government department, IRD or a bureaucracy	1	1	3	1	6
Time involved	3	2	0	0	5
Unpaid tax collectors	0	2	0	0	2

Table 6.1: Words and concepts associated with tax compliance by ethnic SME operators

The two most common word associations with tax compliance were “paperwork” and “tax payments”. All the Asian operators and two thirds of the Maori operators in this sample viewed paperwork as their number one tax compliance issue. Much effort is required in gathering tax information such as recording, verifying and documenting business transactions as experienced by participants A1 and M6:

“I suppose it means that we have to comply with what they (IRD) want and we don’t have much of a choice. There is a lot of paperwork involved, and I have limited understanding of some of the paperwork. These involve a lot of time and it is part of the compliance that we had to do for the IRD. We are “slaves” in collecting and administering the taxes like the GST for the IRD. We are not paid for doing all these.” (A1)

“Being prepared for paperwork, and tax compliance, to me, is that the business is prepared, and have the tax returns done properly. It is about all the things you need to do to comply with running the business that has already been done. I also see the IRD in tax compliance as I have to be accountable to them.” (M6)

Other common words associated with tax compliance were “cash outflows”, an “obligation to comply”, “stress”, “worry”, and “doing everything right”. The seven top tax compliance perceptions were related to their accounting system and cash management skills, and twelve Asian and Pacific operators associated tax compliance with “cash outflow”. On the other hand, more European and Pacific operators viewed tax compliance as “obligations imposed upon them”. A significant number of Maori and Pacific operators associated tax compliance with “stress and despondency” brought about from their poor record keeping process and cash management skills:

“Money, paperwork, a lot of paperwork to get the figures and numbers right and one BIG headache” (P1)

“Fear of the IRD, and don’t get on the bad books with them as I have heard some horror stories about people who got behind on their tax and the IRD was unforgiving and nasty. Penalties come on quite heavy when you are filing late. There is no grace period and just dealing with them is quite difficult. They are not helpful and that you are dealing with the bureaucracy. The telephone operator that you get now is a little bit friendlier. I supposed in the past they have come from a position of having the ultimate power over you, and they are certainly not afraid to use it.” (M4)

Chapter 2, sections 2.6 and 2.6.1 discussed the importance of a good record keeping system for SMEs. In order to file tax returns, SME operators should be able to retrieve tax information easily from their accounting system. Consequently, a lack of a good record keeping system that provides inaccurate and untimely tax information can result in stress for SME operators:

“Tax compliance is part of a good accounting system. If they have good accounting system, tax compliance and getting the information for the tax returns will take less than 2 minutes.”(TP5)

In order to operate a good record keeping system, SME operators should have accounting knowledge and be disciplined with processing business information.

Other word association with tax compliance related to “meeting an obligation” and dealing with a bureaucratic department, as commented by participants P4 and E8:

“Compliance to me is like you have to do it and there is no choice. It is one of those things that are not a good thought and a big sigh, and I have to do it. I can see the IRD, see the money flowing out (how, where, what) and what and how are we going to pay that and paperwork.” (P4)

“Cost me a fortune and it will cost me money. It is something you want to avoid and put it on the back burner, and then you have the penalties for doing so. Tax compliance to me is like a dirty word. For me, it is about inefficiency, dealing with the government, bureaucracy. I just don’t like tax.” (E8)

In order to appreciate each ethnic group’s perceptions towards tax compliance, the next few subsections examine their specific perceptions and relating them back to their cultural values.

6.2.1 Record keeping systems and tax compliance - Asian group

All the Asian operators in this sample, with the exception of A1, were knowledgeable in tax, as shown in Appendix 10, and they were disciplined with their record keeping. This confirms the existing literature that Asians tend to be diligent in their business undertakings (see Chapter 3, section 3.7). Their record keeping discipline is reflective of their high to medium uncertainty avoidance trait, and long term orientation as discussed in Chapter 4, sections 4.5.3. and 4.5.4, respectively.

“I do it on the computer software. I collect all the receipts and invoices and I sit down once a month and input the data into the computer. I wait until I get the bank statement, and then I will record them in the computer system.”(A3)

“I do have an accounting package and every time when an invoice is paid, I input that in the computer and it will generate the GST and it is quite easy. I just make sure that it is up to date. It only takes a few hours for me to input the information as there are not many invoices and some of the regular information is from the bank statement.” (A8)

Asians, with higher levels of uncertainty avoidance, were more concerned with ensuring proper records and that their accounting systems were in place. Consequently, they associated paperwork with tax compliance but not with stress. Being meticulous and disciplined with record keeping involved time spent and ensuring the compliance tasks were completed, which reflects their culture of masculinity (see Chapter 4, section 4.5.5.). With their timely record keeping process, they were more informed of their cash position, necessary for timely tax payments. Their long term orientation and focus on cash accumulation as discussed in Chapter 3, section 3.7 also caused more of them to associate tax compliance with cash outflows.

6.2.2 Record keeping systems and tax compliance - European group

Like the Asian group, most European operators in this study showed discipline with their record keeping, and ensuring tax compliance tasks were completed, which reflected their medium term orientation and their cultural characteristics of masculinity:

“For the GST, just from our invoicing and we gather the information from the bank statement and input them in a spreadsheet and I do it monthly and everything has to be tallied up. It will be saved on a disc and I give that to the accountant. I used to do with someone else, but now I do them all myself. All the balances have to be cross checked and agreed with the total amount.” (E9)

Coming from a low power distance culture (see Chapter 4, section 4.5.1), Europeans did not like to be accountable to an authority figure such as the IRD. Hence, they felt an obligation to comply, and since they were accountable to the IRD, more of them, compared to the other ethnic groups perceived tax compliance to be associated with accurate records and doing everything correctly. Their individualistic traits (see Chapter 4, section 4.5.2) required them to ensure all tax information was correct to prevent tax audits and penalties.

The above comments from the Asian and European sample groups suggest greater confidence with their tax information which contrasts with the Pacific and Maori sample groups, who associated tax compliance with mental anguish.

6.2.3 Record keeping systems and tax compliance - Pacific group

Five Pacific operators in this study admitted to having basic or no tax knowledge as shown in Appendix 12. They also showed little priority for and interest towards record keeping, which reflects their short term time orientation and low uncertainty avoidance (see Chapter 4, sections 4.5.4 and 4.5.3 respectively). This confirms existing literature that Pacific operators tend to procrastinate in work related tasks until they become absolutely necessary (see Chapter 3, section 3.6). The short term oriented Pacific sample group showed less discipline and proficiency with their record keeping processes, which gave them less confidence with their tax information:

“You deal with earning money and in between time I do not look at tax to really study it. I haven’t taken the time nor am I interested because I would look at it and say “pass”. I rather do something else than to do that . . . I put all my jobs as a block in my book and I should be a lot more organised. I should have had it ready but because I am not in my organised state, it is sort of bits of papers here and there. Probably what I am not good at is to tally up all my expenses for tax and I haven’t sorted them out them to claim for taxes. I don’t think I have done it properly.” (P6).

“I typed all the information on the spreadsheet which was supposed to be every night which leads to every week and then every Sunday. I definitely do it every six weeks and I still have got two weeks. I know what is missing to catch up, and sometimes I am sending it at 11pm and I do that online and with online it still gets there on time.” (P7)

BE11, BE12 and TP7 (who were of Pacific ethnicity) observed that Pacific SME operators lacked discipline and were unsystematic with their record keeping, which heightened their tax related stress:

“The work ethics of the Pacific way, to be honest, discipline isn’t our greatest strength. When I say that, it is almost like we are a culture that we are not inclined to be very systematic or process driven when it is kind of whatever that is before us do what it is. It is kind of live day to day and live week to week. You know it isn’t common within the Pacific way to have a huge work ethics. Yes, we are hard workers but it is not a natural work ethics, and we have to do it because we have to do it, rather than being intrinsically motivated to do so.” (BE11).

“As for the Polynesian men, it is not surprising that they have everything a mess because their lives are a mess and therefore their taxes are also in a mess.” (TP7)

“The average Pacific Islander looks at tax compliance that as long as they do the minimum, they will be OK. They want to put the responsibility into someone else’s hands and they don’t want to take ownership of it.” (BE12)

The record keeping attitude of the Pacific group is very similar to the Maori group, as discussed in the next subsection.

6.2.4 Record keeping systems and tax compliance - Maori group

Only two Maori operators in this sample admitted to having basic tax knowledge and the remainder admitted to having a fair understanding of tax matters, as shown in Appendix 11. To the Maori group, their main perceptions of tax compliance were “tax penalties” and “bureaucracy” brought about by late/non tax filing and their perceptions of government departments in general. The late/non tax filing was closely related to their inability to retrieve timely tax information:

“My husband didn’t file a return for one year, and the IRD would not give us a diversion. We then owe a bill for quite a substantial amount with penalties, and it took us 7 months to clear the debt.” (M1)

“If the small businesses did not pay their GST on time, then they are done by the IRD with the penalties.” (M5)

Like the Pacific group, tax compliance was strongly associated with “stress” which was related to their lack of accounting proficiency and interest towards record keeping. They therefore outsourced the record keeping task, which increased their compliance costs:

“Financial is not my strong point. I would run my business pretty much without the financials and I don’t even worry about it. I would find out whether I have money or not by looking at the bank account balance.” (M3)

“I hate the paperwork and stress but I had to learn. Like this office lady charges me \$35 an hour for doing my paperwork.” (M7)

“In terms of the paperwork and administration, it is not one of my strengths and so it can be frustrating for me at times. I outsource all my tax stuff to the accountant and that saves me a lot of time.” (M5)

The predominant negative perceptions associated with tax compliance and the IRD revealed SME operators’ tax attitudes. In contrast, the expectations of tax compliance of

SME operators, as perceived by the tax practitioners and business experts, were consistent with the self assessment tax requirements.

6.2.5 Tax compliance perceptions of tax practitioners and business experts

To the tax practitioners, tax compliance was associated with filing accurate and timely tax returns and paying their taxes on time:

“To file all necessary tax returns on time and accurately. Compliance means form filling for tax returns, whereas the payment of taxes relate to budgeting and financial planning.” (TP1)

However, the above tax compliance requirements were beyond most SME operators as they were not proficient record keepers or money managers:

“Not many small businesses are excellent bookkeepers.” (TP2)

“Some small businesses do not keep separate bank accounts for personal and business and this can be problematic. If they don’t budget for GST, which can be substantial for those that only does the return every six months, this can be problematic.” (TP1)

“To SMEs, tax compliance is hard and they don’t know what to do and again they are busy running their business. They can’t be tax experts because there is so much for them to actually know which they can’t know it all.” (BE13)

In addition, there were several reasons contributing to the negative perceptions of tax compliance by ethnic SME operators. First, many SME operators under-estimated the amount of accounting knowledge, skills and time required to comply. Second, SME operators did not know how and from where to seek appropriate assistance required for compliance. For example, simple bookkeeping tasks could be undertaken by a bookkeeper instead of the accountant. Third, many did not have an appropriate record keeping system that matched their accounting skills. Fourth, some were not concerned or bothered with their record keeping. Fifth, a lack of financial literacy was evident in poor cash management, resulting in delays in tax payments. The following are some observations by tax practitioners and business experts regarding the tax compliance process of SMEs:

“Fifty percent of the small businesses do not really know about their tax obligations and 50 percent choose not to know about it. Some can’t be bothered. They need to know their tax obligations. They need

to have their finger in the pulse about cash, how much tax to pay and when to pay them.” (TP7)

“Often times it comes down to a number of things like lack of knowledge and lack of information. The other thing is lack of financial literacy skills, and the other thing too sometimes it is almost living in a state of denial that “yes OK the tax bill has come through and I will pay it next month or the month after and stuff like that.” (BE11)

The negative perceptions towards tax compliance by SME operators were a result of the lack of attention and importance given towards record keeping and cash management. These behaviours could be traced to their cultural values towards work, cash flow and time. In summary, having financial literacy, accounting proficiency, and discipline in record keeping are necessary to successfully file timely and accurate tax returns. The cultural values that enhance the ability to file timely tax returns are closely associated with long term orientation, medium to high uncertainty avoidance and masculinity values. It was due to these cultural traits that Asians and Europeans experienced less stress and penalties with tax compliance compared to the Pacific and Maori groups. Given that record keeping is critical for filing timely and accurate tax returns, the next section discusses the accounting system adopted by SME operators in this study.

6.3 Accounting systems of SME operators

Figure 6.1 shows that more SME operators used a computerised accounting package compared to a manual system or spreadsheet, which is consistent with the Australian findings (Evans et al., 2005). However, a significant number of Maori and Pacific operators were using computerised accounting packages despite admitting to having basic tax knowledge (see Appendices 11 and 12) and a lack of interest in accounting and record keeping (see sections 6.2.3 and 6.2.4). As they were neither familiar with nor proficient in using accounting packages, they experienced more difficulty in gathering tax information.

The main reason for adopting the manual-spreadsheet system for thirteen of the 36 SME operators in this research is its simplicity, and it is all they could cope with, as experienced by participant P2 and observed by BE2 and TP4:

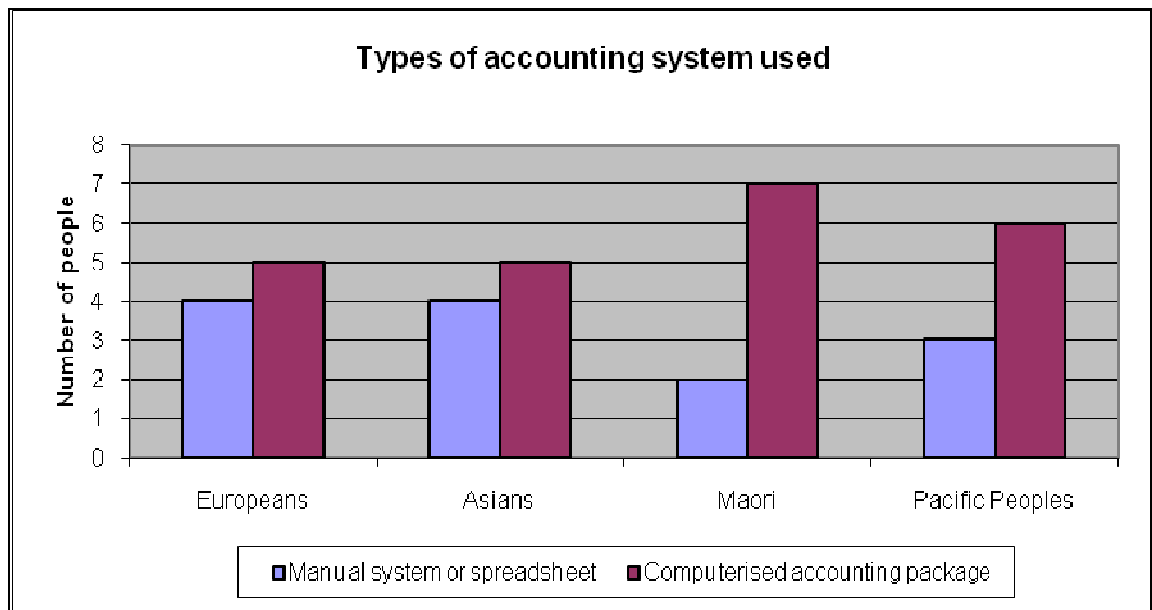


Figure 6.1: Types of accounting system used by the ethnic operators

“I have set up a spreadsheet to account for everything. In the spreadsheet, I have a breakdown of the expenses and the GST columns and I find accounting for GST is not that difficult if you keep it simple.” (P2)

“For them, they are not trained in tax and that it is not a business priority to file tax returns. Most of them have no concept of business bookkeeping at all. For example, if you ask them to record for the day the amount of income and expenses and even a task like that is challenging for them.” (BE2)

“For some of them, juggling between having to earn the income and finding time for administration and accounting stuff is a big issue. It depends on their level of computer literacy.” (TP4)

The ease with which tax information can be retrieved from their accounting system is dependent on SME operators’ accounting proficiency:

“The problem is when they do acquire the computer package they don’t understand how it works.” (TP8)

“For some who have just started the business, they bought this MYOB package but they do not know how to use it. Some may put stuff in the package wrongly, and then they get into a real mess and they don’t understand how to fix it.” (BE3 and BE4)

“Actually MYOB has caused a lot of work for the accountants. MYOB advertise the product but they do not tell the people that they need a lot of training to operate it as it can cause huge problems. I have come across companies with MYOB that does not reconcile their bank account for the last 18 months. They have un-deposited funds, they have bank account that were \$1 million overdrawn. Some of the

accounts tie up and some of them don't and I have to start again which increases the fees for the clients.” (TP3)

Closely associated with using the accounting system is the record keeping function. The next section discusses the person responsible for record keeping, as it affects their tax compliance costs.

6.4 Record keeping responsibility for SMEs

The record keeping function is important in determining the accuracy and timeliness of tax information. Figure 6.2 shows that more SME operators undertook the record keeping functions themselves, compared to those who used paid assistance and/or family members. The relatively high number using paid assistance indicates a low level of accounting proficiency and a general disinterest towards record keeping. The low number of family members used did not align with the high number of collectivistic Asian, Maori and Pacific operators in this study.

Comparatively more Asians in this research undertook the record keeping function themselves because they were fairly knowledgeable in tax (see Appendix 10). More Maori and Pacific operators in this sample used paid assistance due to their lack of knowledge and interest in record keeping, as discussed earlier in sections 6.2.3 and 6.2.4. More Europeans in this research shared their record keeping function with family members, as five of the nine businesses were jointly operated by both spouses. However, contrary to prior literature, collectivistic Maori in this sample could not access their family members to assist with their record keeping function.

Twenty eight of the 36 operators undertook the record keeping function for dual purposes to satisfy tax compliance requirements and for business management purposes (see Appendix 6, interview question 3b). More of the European and Asian operators in this sample were using accounting information to manage their business whereas the remaining eight operators (predominantly the Pacific and Maori operators) admitted to using the information solely for tax purposes as shown in the next page.

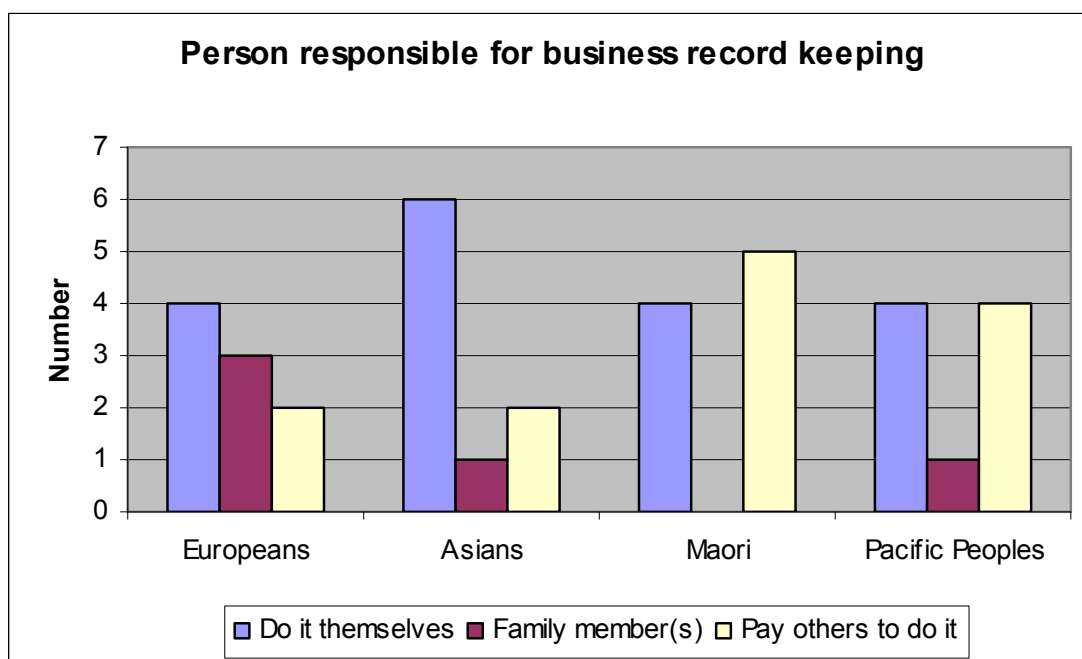


Figure 6.2: Person(s) responsible for the business record keeping function by ethnicity

“I definitely do it for management reports so that I can see what the business is doing. I look for trends and every month I have a one page report with all graphs. I will sit down with my manager and explain to him as to what is going on with the business. By doing that, we can make changes to the business where needed like the weak areas . . . We also use the financial statements as we are in the process of selling half of the business.” (E8)

“Like if we have generated income for the business, we will continue with the business and if we are running a loss, we will close down the business. I also look for trends.” (A3)

“To be honest, I do the bookwork mainly to get everything right for tax.” (M4)

“To be quite honest, I do all the record keeping to keep up with the tax compliance, but then again I know now as I get more business savvy that I need to know a lot more.” (P3)

The findings show that some SME operators under-valued the importance of accounting information, particularly those from the Maori and Pacific sample, and they did not take advantage of the many “managerial benefits” of tax compliance activities (Lignier, 2009b), nor are they interested in accounting information. Their disinterest towards accounting reflects their low uncertainty avoidance and short term time orientation, and they were willing to pay others to assist with their record keeping. They underestimated the long term benefits of having some accounting knowledge for compliance purposes. Using accounting information beyond tax requirements would greatly assist SME

operators with better business decision making and budgetary controls considered important for timely tax payments. To further understand the record keeping function of the various ethnic groups, the next few subsections detail their tax compliance activities and practices.

6.4.1 Accounting systems and the record keeping function - European group

Figures 6.1 and 6.2 show more Europeans using the computerised accounting system and having family members assist them with the record keeping function compared to other groups. Given the high number of joint businesses for the European sample, it was critical for the spouses to undertake the record keeping function to lower the compliance cost. This practice is commonly found in SMEs in New Zealand (Firkin, 2001):

“In the past, when my husband first started, he did most of the work. I worked with him as well like doing the sanding and painting and doing his accounts for him for a couple of years until quite recently.” (E3)

“As for the administration and paperwork for the business, it has always been messy because I am a technical person and I am not an administrative person. Most people in the IT are like that. You need to have someone to be on your side to handle it. My spouse has been good with this and she had brought a lot of order to it. If I do not have my spouse doing it, I would have to hire someone to do it without doubt.” (E8)

Being achievement oriented, brought about from their masculinity trait, European operators used their accounting information beyond tax purposes to grow and expand their businesses:

“We use the accounting information to grow our business. Tax is part of the business. It is mainly for the business. Tax is to ensure that all the ticks have been done and that we are complying with it.” (E4)

6.4.2 Accounting systems and the record keeping function - Asian group

Like the Europeans, more Asians in this sample used the computerised accounting system than the manual system to record their business transactions, as shown in Figure 6.1. Six of them (two thirds of the Asian sample) personally attended to the record keeping function themselves to monitor business expenses, cash flow management and to keep the information in-house. These practices reflect their long term orientation

(Chapter 4, section 4.5.4.), high uncertainty avoidance (Chapter 4, section 4.5.3.), and their secretive nature (Chapter 3, section 3.7). As they were knowledgeable in accounting, as discussed in section 6.2.1.1, record keeping was not an onerous task:

“I know the heartbeat of this business, and I know the cash flow of the business every day. Because I do the accounts myself, I do not need to ask my employees about it and I keep the accounting system as simple as possible. I am a “hands” on person and I look for the expenses and I always make sure that I have enough to cover my expenses for at least 6 months ahead of time.” (A2)

“I use the MYOB and it is very easy to use. Every time when I have to do the tax returns, I will read the tax guides for information. I have to be careful as when I collect \$90, I must set aside \$10 as this does not belonged to me. If not, I will spend it and will have cash flow problem.” (A9).

The Asians in this sample conducted the business on their own, while their spouses were employed elsewhere. They considered it imprudent for both spouses to rely solely on their business incomes, which reflect their higher uncertainty avoidance values. Unlike their European counterparts, whose spouses provided record keeping assistance, Asian families contributed financial and business assistance as observed by participant BE9:

“I see the Indian community very much work within their group, their own family, their own extended family and that is certainly a cultural thing. They seldom use banks, the family is the bank . . . That is also prevalent in other cultures, like the Chinese is similar but not as much as the Indian culture, but they certainly work in a similar way.” (BE9)

Their ability to access family finances reflects the collectivistic Asian traits (Bjerke, 2000; Morris et al., 1994). Avoiding delays in tax payments not only prevented tax penalties but also prevented the likelihood of business failures. This adds to the tax literature that accessing family’s financial resources by collectivistic groups can improve one’s ability to meet tax payments on time, thereby reducing tax penalties and avoiding business failures.

6.4.3 Accounting systems and the record keeping function - Maori group

There were more Maori in this research, compared to other groups, using computerised accounting packages despite showing lack of proficiency and interest in record keeping,

as mentioned in section 6.2.1.4. Consequently, they relied extensively on paid assistance, and their willingness to pay outsiders for their assistance to get the task done is a reflection of their short term orientation. They considered it more effective to relinquish the record keeping tasks to others (the experts), which reflects their high power distance values towards people with expertise:

“Actually in small businesses, like in my area, I have to multitask and the area that I am less skilled in is tax, the administration side and cash flow management. I can’t be bothered learning all the requirements and I hate doing them. I rather give it to someone else who knows what they are talking about and sort that out for me.” (M2)

“My personality is that I will get on and do things. I can do things on the run and I can think of doing different things. Because I have a number of different things all at one time and being a small business, I do not want to be troubled with the finicky things like paperwork. From my point of view, it is a lot easier to give the paperwork to the accountant. So I go out and make the business and the accountant takes care of the taxes and compliance stuff.” (M8)

Those Maori operators who undertook the record keeping function themselves found the process stressful because of their lack of proficiency, discipline and efficiency in utilising their accounting system:

“It was just the paperwork involved like going through the credit card and your bills, your invoices and receipts and sorting that out. But unfortunately rather than doing it once a week which was easier, I just do it in a rush in the last week before it was due. I run it on the MYOB and I probably don’t do it efficiently. Because I do the GST myself to supposedly save me money, it fact it cost me a lot of time and stress. When I was running this other company, honestly I was close to having a nervous breakdown from the stress. I used to wake up at 3 o’ clock in the morning and I couldn’t go back to sleep wondering how and when I am going to finish the returns.” (M9)

Due to their high power distance values, M2, M4 and M8 had adopted accounting packages based on their accountant’s recommendations, regardless of their own level of accounting proficiency. Their high regard and trust towards their accountant, as the authority figure, caused some Maori operators like M8 to allow their accountant full access to their business including their bank accounts:

“All the process of getting the information is done by the accountant. For the Income Tax, I give him all the receipts and he has access to the bank statements and he has control over the bank account.” (M8)

However, their excessively high level of respect towards their accountants can be detrimental, as observed by BE3 and BE4:

“Like we had clients who thought that their accountants had paid the taxes on their behalf. Instead they were not paid and the accountants were the ones who stole the money. The client’s PAYE was outstanding thinking that his accountant had paid them to the IRD, but hadn’t and therefore he got into trouble with the IRD. Some taxpayers really trust their accountants because they have no one to rely on and so they had to trust someone. Quite a lot of them do not know these people and like sharks, some of these accountants will take advantage of those who are new in business and not know much.” (BE3 and BE4)

Despite the collectivistic trait of Maori, they could not access family members who were skilful in record keeping. Consequently, short term oriented Maori had to pay others for their record keeping function, a decision which was reinforced by their high power distance values. Hence, in addition to the many reasons for employing accountants, as discussed in Chapter 2, section 2.8, the findings from this study show an alternative rationale for employing accountants, which is related to the high power distance and short term orientation cultural values of Maori.

6.4.4 Accounting systems and the record keeping function - Pacific group

Like the Maori group, a significant number of the Pacific sample group used a computerised accounting system, with four of them undertaking the record keeping function themselves. Another four operators used paid assistance and one had family members undertaking the record keeping, since that business was jointly operated by both spouses. The high number of Pacific operators using paid assistance reflects their short term orientation and their lack of accounting proficiency. A significant number did not understand how taxes were calculated, and consequently, they accepted the IRD’s assessments of their taxable liabilities without question, which reflected also their high power distance values:

“Like this year we are paying \$68,000 income tax and I don’t know how we get that. It is hard to get your head around it because you pay tax here and not pay tax there. Like we paid \$12,000 provisional tax and I don’t know what that is. For PAYE and GST I got my head around that and I understand that. But for Income Tax I still haven’t got my head around that.” (P1)

“It is still very much a mystery for me. Like when I got the tax pack in and I always sent it late and I finally got it in. It came back that I had to pay \$1,500 and I wonder how did that happened? It is still a mystery to me as to how they (the IRD) work out the tax even when I try to work out from the IRD guide book. There are so many things that I can minus off for the tax, but because I didn’t have that, I didn’t include that in my return.” (P6)

6.4.5 Accounting systems and the record keeping function of SME operators

From their interactions with SME operators, both tax practitioners and business experts in this sample observed that the general record keeping of SMEs (particularly the smaller businesses) was less than satisfactory. In addition, tax payments were seldom planned for by SME operators, thus causing stress when taxes were due. This finding confirms the existing literature that tax payments are one of the main stressors for SMEs, as discussed in Chapter 2, section 2.6.2. Having no supporting documents for business transactions was another record keeping weakness identified. As described by TP3, SME operators were not proficient in their record keeping and were overly fixated on their cash balance, which confirmed SME findings in Australia, New Zealand and the United Kingdom (Ashby & Webley, 2008; Evans et al., 2005; Prescott, 2009). Furthermore, some operators were misinformed by their peers regarding their tax compliance obligations as experienced by BE3 and BE4:

“They have no idea of what tax they should be paying as they do not know how well they are doing, other than relying on their bank account. When they pay something, that change the whole picture and they look at the tax payment as a cost of the business as almost completely disassociated from the business . . . In one case for a business start up, they have thrown all the receipts away as they did not think that they were important. I can see that they must have incurred the expenses but cannot substantiate them. They came to us after 18 months because they are getting more worried about the tax department to file tax returns on time. When we do the accounts, we found a substantial amount of cash drawings and very little expenses.”(TP3)

“Most of the small businesses have a problem with paying taxes as they struggle with it like everyone else. When they come into the business new, they thought that it was tax free for the first year but we told them that it is not. We told them that the taxman will tax them based on how the business does in the first year and then they will assess that. Their second year is when they had a double whammy problem because they have to pay the taxes for their first year as well as the provisional taxes. They have not saved for that and they can’t understand that. They go by what people say that they don’t have to

pay in the first year, thinking that it is free and that it is forever. A lot of that is misinformation. I think it is also a case of what they want to hear. They read into the bits that they want to hear.” (BE3 and BE 4)

Another common record keeping weakness of SMEs is mixing their personal transactions with business transactions to lower their tax liabilities. Due to fear of compliance and having to pay taxes, some deliberately operate below the GST registration threshold and/or operate in the cash economy, as observed by BE8:

“There is an unfortunate fear about taxation. We and far too many of us in the community are still operating in the black economy and that is fine provided you don’t become too successful. Well far too many of SMEs just don’t do anything because they operate below the radar. So long as they don’t operate above \$60,000, they don’t have to be registered for GST. It is not until they are audited, then they are in trouble.” (BE8)

Given the above observations, it is important for SME operators to have a suitable accounting system, and accounting proficiency in order to successfully comply with their tax requirements.

6.5 Interplay of cultural factors for filing timely tax returns

So far, the cultural factors impinging on the ethnic operators’ perceptions of tax compliance requirements, the types of accounting system adopted and the record keeping responsibility decisions, have been related to all five of Hofstede’s cultural dimensions. The interplay of high uncertainty avoidance, masculinity and long term orientation determines the emphasis placed on disciplined and meticulous record keeping process. The high uncertainty avoidance values and collectivism of the Asian group deter them from relying solely on their business incomes for tax payments. Their long term orientation and frugal attitudes encourage them to keep tax compliance costs down by undertaking the record keeping function themselves.

The medium uncertainty avoidance values of the European group, reinforced by their medium term orientation and masculinity traits, caused them to be relatively disciplined with their record keeping. They used unpaid immediate family members (mainly their spouses) for the record keeping tasks to lower tax compliance costs which reflect their individualistic trait. In contrast, the low uncertainty avoidance and short term oriented Pacific and Maori groups showed less confidence, interest and discipline with their record keeping. They experienced more difficulty with filing timely tax returns, which

resulted in higher stress and tax compliance cost. Hence, cultures with medium to high uncertainty avoidance, medium to long term orientation and masculinity traits were more able to file timely tax returns, compared to low uncertainty avoidance and short term oriented cultures. This is best summarised in Table 6.2 on the next page.

6.6 Summary

This chapter detailed the findings regarding three main issues, which are: the perceptions of SME operators towards tax compliance; the accounting system used; and their record keeping function. All 36 operators negatively associated tax compliance with paperwork, cash outflow, stress, penalties and dealing with government bureaucracy. Some of these perceptions were linked to the cultural values of uncertainty avoidance, long term orientation, individualism-collectivism, power distance and masculinity.

It was found that higher uncertainty avoidance, masculinity and medium to long term orientation contributed to a timely and more complete record keeping process. The Asian and European groups in this study showed more proficiency and confidence with their record keeping and therefore they relied less on paid assistance compared to the Maori and Pacific groups. Furthermore, the primary motivation for record keeping for the Maori and Pacific groups is to fulfil tax obligations.

This research also found that a significant number of SME operators, especially from the non-Asian backgrounds, were lacking pertinent accounting and record keeping skills necessary for tax compliance. Since tax compliance requires interactions with the IRD and/or tax practitioners, the next chapter details the sources of tax assistance used by ethnic SME operators.

Ethnic groups	Able to file timely and accurate tax returns	Specific record keeping issue	Cultural dimensions	Cultural values that enhance or deter ability to file tax returns on time
Asian sample	Yes	<ul style="list-style-type: none"> ▪ Disciplined with record keeping 	<ul style="list-style-type: none"> ▪ High uncertainty avoidance ▪ Long term orientation 	Enhance
		<ul style="list-style-type: none"> ▪ Record keeping undertaken by SME operator 	<ul style="list-style-type: none"> ▪ Masculinity trait ▪ Long term orientation 	
European sample	Yes	<ul style="list-style-type: none"> ▪ Disciplined with record keeping 	<ul style="list-style-type: none"> ▪ Medium to low uncertainty avoidance ▪ Medium term orientation 	
		<ul style="list-style-type: none"> ▪ Record keeping undertaken by SME operator or unpaid family members 	<ul style="list-style-type: none"> ▪ Masculinity trait ▪ Individualism ▪ Medium term orientation 	
Maori and Pacific sample	No	<ul style="list-style-type: none"> ▪ Less disciplined and interest in record keeping 	<ul style="list-style-type: none"> ▪ Low uncertainty avoidance ▪ Short term orientation 	Deter
		<ul style="list-style-type: none"> ▪ Record keeping undertaken by paid assistance 	<ul style="list-style-type: none"> ▪ High power distance, ▪ Short term orientation, 	

Table 6.2: Interplay of cultural factors on the ethnic SME samples and their inclination to file timely and accurate tax returns

CHAPTER 7: Sources of Tax Assistance Used, Perceptions of the IRD and Audit Experiences of SME Operators

7.1 Introduction

In Chapter 6, the issues of tax compliance perceptions, accounting systems and the record keeping functions of ethnic SME operators were discussed. These issues are important in establishing the timeliness and accuracy of tax information and the extent of tax compliance costs. This chapter extends the discussion by examining the sources of tax assistance used by ethnic operators, their perceptions of the IRD, and their tax audit experiences.

The chapter begins by examining the main sources of tax assistance used, in section 7.2, followed by perceptions of the IRD in section 7.3. Section 7.4 examines audit experiences and how these affect perceptions towards the IRD. Perception of the IRD is important in determining tax attitudes. Section 7.5 concludes with a summary of the chapter.

7.2 Sources of tax assistance used by ethnic operators

Ethnic SME operators used a variety of tax assistance sources with nearly half of the sample using a combination of sources from paid accountants/tax practitioners, unpaid family, friends and peers, and the IRD. Figure 7.1 shows the main source of tax assistance used by each ethnic group, with a significant number of them using a paid accountant. Few relied on their unpaid family and friends and even fewer used the IRD as their main source of tax assistance. It confirms existing literature that New Zealand SMEs operators considered their accountants as the most frequently used and the most helpful source of business advice, as discussed in Chapter 2, section 2.8.1. However, the use of unpaid family and friends was found only within the collectivistic groups. In particular, the high number of Asians using this source of tax assistance needs elaboration as this issue has not been given much attention in the tax literature. In

addition, discussion as to why the IRD fares so poorly amongst SMEs needs to be discussed further.

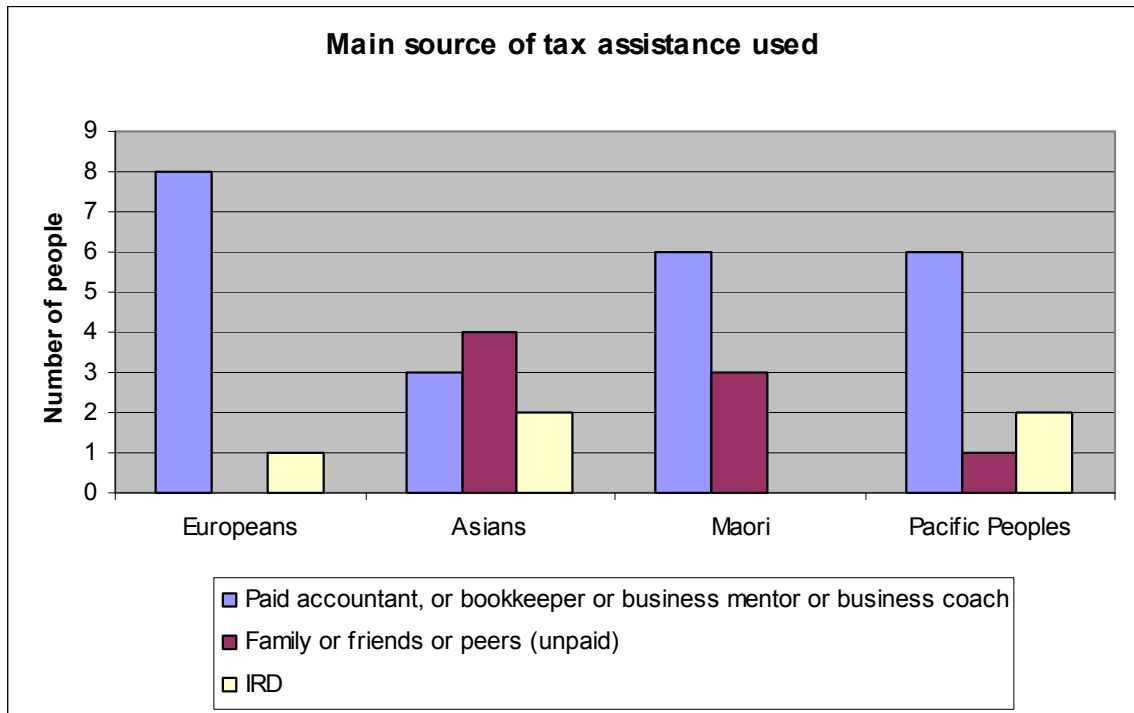


Figure 7.1: Main source of tax assistance used by ethnic groups

7.2.1 Tax help from unpaid friends and peers

Figure 7.1 shows that all the non-European groups had used their unpaid family/friends/peers to assist with their tax compliance, particularly the Asian group. More Asians in this sample had access to peers who were knowledgeable in business, compared to the Maori and Pacific groups (see Chapter 3, sections 3.5 to 3.7). The tax assistance provided by Asian peers not only reduced their compliance costs but also strengthened their business relationships, due to their collective culture. Asian SME operators trusted their peers because of their tax experience and/or knowledge:

“I ask my CA friend because I feel they have more up to date knowledge of what is going on.” (A8).

“My CA office and I would speak to my boss first as he is an accountant and has 30 years of experience. I would also speak to a lawyer as we share the same office who knows about trusts and stuff like that.” (A3)

Collectivistic Maori and Pacific operators also used unpaid peers and friends to help with their tax query but not as much as the Asian group, due to less access to business

networks as discussed in Chapter 3, sections 3.5 and 3.6. However, there was another reason for their low use of peers, which was their reluctance in seeking help as a result of the perceived “shame” of asking:

“In the Samoan culture there is the big pride thing about telling people that you need help, and there is nothing wrong with it. But when it comes to it, people can’t do it because it was too embarrassing. It is very shameful to receive help because it is admitting that you can’t do something which you are really proud of and have messed up.” (P4)

By not seeking help, they were unable to solve their tax problems, which led to mental anguish associated with tax compliance. Consequently, they either used paid accountants or they postponed their tax filing to some unknown later date (Prescott & Hooper, 2009) which increased their administrative and psychological compliance costs (Sandford, 1995).

Individualistic Europeans in this sample did not use their peers for tax matters, as they clearly delineate tasks (tax matters) from personal friendship. Their cultural value of individualism and masculinity caused them to not divulge their tax problems or queries to their peers because they perceived their peers were unable to help with their tax matters:

“We don’t have a group of peers where we can go to pick their brains if we have some business and tax problems. This is common for some SMEs because they are so caught up with their business. It is just so hard and the confusion and the stress of having to deal with it like wondering how are we going to deal with the tax issues?” (E1)

Most European SME operators in this research also felt that their peers did not have enough tax knowledge to assist them adequately. Consequently, they relied more on their paid accountants as their main source of tax help.

7.2.2 Tax help from paid accountants/tax practitioners

Figure 7.1 shows that all Europeans in this sample, except one, relied on their paid accountants as the main source of tax assistance. Their accountants assisted them with filing accurate tax returns and advised them on tax minimisation strategies which were consistent with prior literature as discussed in Chapter 2, sections 2.8 and 2.8.1. Europeans in this sample were more comfortable relating to their accountants than the

IRD as they perceived their accountants would look after their tax affairs more than the IRD would:

“I would speak to my accountant because she is more knowledgeable about our accounts. I feel that she can explain the accounts clearly and I can understand her even though I ask her several times of the same question. I still prefer to talk to my accountant than the IRD as the accountant will give us some solid advice on our business. I would feel more comfortable with my accountant and I can rely on my accountant to sort it out for us. Possibly also that the accountant is working for us but not necessarily the IRD” (E9).

However, the assistance provided by tax practitioners was varied and not all SME operators were happy with their services. The areas in which they complained most about tax practitioners related to: difficulty in understanding them; practitioners’ mistakes in their tax returns; inefficiency; incompetence; dishonesty; excessive charges; and provision of incorrect advice:

“The only issue for us is that he (the accountant) doesn’t do the returns on time for us. I don’t understand the provisional tax concept, and it seems that we are always paying provisional taxes all the time. I tried to talk to my accountant and he confuses me more. If I go and see the accountant, I will leave that place so depressed and it cost me as well.” (E1).

“But we found that our previous accountant (who had been with us for the last 10 years), had made some mistakes according to the present accountant and therefore we need to address it some time. He did not charge some of the business expenses, and I found that the accountants cannot be relied on. I thought that accountants can be trusted. I had to change the accountant and the last accountant charged me \$700 for three hours consultation fees!” (A1)

Despite their complaints, only two SME operators changed their accountants whereas the remainder did not take any action due to fear of retribution from their accountants. Given the above comments, it would be worthwhile gaining some understanding as to why there is a difference between the ethnic groups’ use of accountants.

7.2.2.1 Use of accountants by the non-Asian groups

In this research, more of the non-Asian operators used their paid accountants as their main source of tax assistance. However, the reasons for using their accountants varied between these groups. Individualistic Europeans in this sample trusted their accountants more than the IRD and their peers to solve their tax problems. The primary reason for

using accountants by the Maori and Pacific groups was their lack of tax knowledge. Given their high power distance values, they trusted and highly valued their accountants, regardless of the fees charged:

“Our (external) accountant charges us \$3,000 per month and he does a lot of things for us. He makes sure that we are GST compliant, he comes up and checked up on our business issues and make sure we had things in place. My mum is kicking up a fuss because the accountant is charging a lot of money. I don’t know, but he does quite a lot for us.” (P1)

Some Pacific and Maori operators in this sample perceived their accountants as paternalistic figures to guide them through their tax obligations in return for their unquestioning obedience (Meleisea, 1987). However this expectation was not always met by their accountants who sometimes charged excessively (in the view of ethnic operators) for undertaking simple accounting tasks. The high compliance costs reinforced their perception that fulfilling one’s tax obligations can be overwhelmingly difficult, thus heightening their fear towards any tax compliance requirements. In doing so, it confirmed their beliefs that tax compliance activities were best left to those with tax expertise. Consequently, many were deterred from undertaking the tax compliance functions themselves, such as record keeping and acquiring accounting and tax knowledge:

“The PIs (Pacific Islanders) look at authorities with high esteem, and that’s why they struggle with that as they always rely on others to tell them what to do, and how to do it, and they are followers.” (BE10).

According to the business experts, Maori and Pacific operators’ trusting attitude and dependence on their accountants resulted in some undesirable outcomes. These included: excessive accounting fees; incorrect advice given on business structures, technical matters and accounting systems; tax penalties resulting from errors made by the accountants; and embezzlement of business operators’ tax monies:

“Some accountants have also ripped some taxpayers off. Like we had clients who thought that their accountants had paid the taxes on their behalf but instead they were not paid and the accountants were the ones who stole the money.” (BE3 and BE4)

One Maori operator felt that her accountant did not give proper advice to minimise her taxes and another reported being incorrectly advised on the accounting package which was beyond his ability to understand and use. Though they perceived their accountants

were charging excessively, they were reluctant to take any action due to fear of retribution resulting from their high power distance values:

“Like some Polynesians we do not question the accountants and go back and ask them. I am always too scared to question my accountant too. It is kind of fear them as they will not look at you favourably and help you more in the future sort of thing. My attitude is that I try to stay away from them as much as I can, and also I don’t want to upset them or question them.” (P3)

The findings in this section showed that tax practitioners had taken advantage of some SME operators, especially those with a combination of high power distance values and with low levels of tax knowledge. Hence this adds to the tax literature that ethnic groups with high power distance values and low levels of tax knowledge may be easy targets by unscrupulous tax practitioners, who charge tax fees that are not commensurate with the level and difficulty of tax services rendered.

7.2.2.2 Use of accountants by the Asian group

There are several reasons why Asians in this sample used their accountants the least. First, it is due to their long term orientation and cost consciousness that accounting fees paid are minimised. Second, collectivist Asians had peers who could assist with their tax queries, as shown in section 7.2.1. Third, most of them were knowledgeable in taxation, or they sought out tax information themselves to reduce compliance cost. Due to the costs involved, Asians used their accountants infrequently and only for complicated technical tasks:

“But accounting and tax things, it would be harder to find the information from the IRD. You would have to talk to a tax accountant and it can be very expensive for a small business.” (A8)

“As for the income tax return, my accountant does it because there is some technical stuff which I need some expert help. Also I know the accountant can give me some good ideas and also he can warn me and give me some advice as to how to best to go about doing the accounts. He is used as a safety check in case there is an IRD query.”(A6)

Hence, the above tax practice by the Asian group contradicts existing New Zealand SME literature: that the most useful, most frequently used source of tax assistance is accountants, as discussed in Chapter 2, section 2.8.1. This adds to the existing tax literature that ethnic groups who are obsessed with costs may be less willing to use their

accountants, but instead use their peers and networks more, due to their collective traits and long term time orientation.

The next subsection examines the use of the IRD as a source of tax assistance by SME operators.

7.2.3 Tax assistance from the IRD

Only five out of the 36 ethnic operators used the IRD as their main source of tax assistance which confirmed the low interaction between government departments and SMEs as discussed in Chapter 2, section 2.8.1. The low number of SMEs using the IRD as a source of tax assistance is disconcerting, despite the considerable resources that have been invested in promoting a more customer focussed service to taxpayers since the inception of the New Zealand Taxpayer Charter in 2001 (Editor, 2001; Job, Stout, & Smith, 2007). The rationale for the low use of the IRD services is attributable to several factors. First, SMEs preferred to use their accountants, as discussed in sections 7.2.2 and 7.2.2.1. Second, the IRD's poor telephone response time deterred many from using them. Third, inconsistent and incorrect advice given by IRD staff caused much anxiety and uncertainty for SME operators. Fourth, some ethnic operators feared that the IRD may think adversely of them if they contact them. The comments made by E3 and A8 best sum up the general feelings towards the IRD by SME operators:

"I used to ring up the IRD, and they would give me the wrong information and it can be so frustrating. When you ring them up one year later, they would say that you have done it incorrectly. I would now speak to our accountant as I have been "burnt" by the IRD ages ago. Because we have an accountant, we just ring him up and it is so easy and the work gets done rather than having to wait on the telephone queues for ages." (E3)

"Small businesses prefer to deal with the CA and are willing to pay a lot of money to them. Not many people will be comfortable to deal with the IRD. This is because if you ask anything else, you will probably be lumped with more tax especially if you say the wrong things. There is always the perception that the IRD is always right. They perceived the IRD like a blood hound, more like a policeman." (A8)

All ethnic groups had used the IRD to assist with their tax queries with the exception of the Maori group in this sample. The motivating factors for using the IRD by non-Maori groups were cost savings and to clarify tax issues as experienced by P4, A4, and E4:

“IRD because they are free. I will try to get the free advice if I can and if I can't, I will go to the accountant. It has taken us a while to learn that the IRD is free and the accountant costs us money!” (P4)

“I used to ring them (IRD) up and ask them how to do certain things. They will say, go to the website and look.” (A4).

“I would go to the IRD and I have everything in writing so that I have a come-back if there is further query in the future.” (E4)

Given that the least used tax assistance source is the IRD, the next section discusses the ethnic operators' perceptions of the IRD.

7.3 Ethnic SME operators' perceptions of the IRD

Perceptions are antecedents to tax attitudes (Saad, 2009), and therefore understanding SMEs' perceptions of the IRD will provide some indication of their willingness to comply, as outlined in Chapter 2, section 2.7. The first subsection examines the Maori perceptions towards the IRD, as none of them used the IRD as their main source of tax assistance as shown in Figure 7.1.

7.3.1 Maori operators' perceptions of the IRD

According to SME operators and business experts, Maori would not contact the IRD willingly, due to historical reasons and the general perceptions they had towards government agencies. The historical colonial oppression and asset confiscation by the New Zealand Crown had perpetuated their fear in dealing with government agencies, including the IRD, because of their “big brother governance” mentality (Jayne, 2005). As the IRD is a tax collection agency, many incorrectly perceived them as taking resources from them. BE8 had encountered Maori operators who chose to operate in the cash economy to avoid any contact with the IRD. The accounts given by M6, M4 and business experts best described Maori perceptions of the IRD:

“It seemed to be to be very alien and very “white” process, and the IRD is a very faceless organisation. They portray themselves as a bureaucracy, people in suits and out there to take your money and they are not people to help you in any way.” (M6)

“Sometimes you are too scared to contact the IRD because they may think that you have broken the law. It is not the same like talking to your accountant. It is definitely not like talking to a friend.” (M4)

“They are terrified of the IRD or anything relating to compliance even with the local government and things like that. This has something to do with the history, and how the government has dealt with the people in terms of the land loss, the Crown and stuff like that. It still affects some people even though it is a historical event. The injustices relating to the historical events and the perceptions of the “big brother governance” still remain in some people.” (BE 3 and BE4)

“I know from my discussion with small businesses that they tend to talk negatively about the IRD. They see the paying of tax and the IRD as an ogre hanging around their shoulders and therefore they prefer to run the business at a loss to get a refund.” (BE5)

Hence for Maori operators, the fear of dealing with the IRD was largely attributable to historical reasons and not based on prior unfair tax procedural treatments received (Blissenden, 2002), as discussed in Chapter 2, section 2.7. Their fear of government authorities perpetuated by their high power distance values and lack of alternative funding (as discussed in Chapter 6, section 6.2.1.4) prohibited them from proactively addressing their tax payment problems with the IRD:

“Yes, I did have tax payment problems and I don’t do anything because I can’t pay them (the IRD). I wait for some money to come in, and then pay them. But personally, I have a \$10,000 tax bill that I had to pay by February. I do not know where the money is going to come from. I have not arranged payment with the IRD regarding this because I do not have a weekly income, and the people (clients) are not paying. I can’t really do anything because I can’t get money from the bank and therefore that is pretty hard. You hustle for money and because you have to pay all these bills, you do go round in circles sometimes. I might just have to wait for some money to come in, and then I will pay the taxes owing even though I know there are penalties for lateness.” (M2)

Their non-contact with the IRD, regarding difficulty with tax payments early enough, had led to adverse consequences, including tax penalties and compounded interest, which perpetuated their fear towards government authorities:

“Even though there is assistance available from the IRD to help with the payment, this must be arranged with them before the problem arises. I think that is a bit of their (business operators’) problem because people don’t look at the IRD as someone who will help them. They look at the IRD as somebody who will hurt them, and therefore they are afraid to go to the IRD. It is the perception that the people had, that the IRD is the big bad wolf. I don’t think anybody really had much of a favourable view of the IRD.” (M9)

In summary, Maori operators' high power distance, low uncertainty avoidance and short term time orientation were some of the cultural factors for their non-contact with the IRD. Since they had little to no contact with the IRD, any requests from, or contact with or by the IRD was perceived as problematic, or to punish them for their noncompliance behaviours. Their high power distance values, reinforced by historical oppressive colonial governments, made them view the IRD unfavourably, as they could wield excessive powers to enforce compliance. Their fear of the IRD forced some to operate below the registration threshold and in the cash economy. Hence this adds to the existing tax literature that for some ethnic groups the fear of tax authorities was related to historical factors, compounded by their high power distance cultural values. In addition, some operate in the cash economy to avoid interacting with the IRD, and not merely to evade taxes.

7.3.2 European operators' perceptions of the IRD

Like the Maori, European operators showed some apprehension towards the IRD but their apprehension was due to their low tax knowledge. Despite their low power distance values, only one European operator used the IRD as their main source of tax assistance. The reluctance of European operators to contact the IRD was attributable to their individualistic traits and their lack of trust towards the IRD:

"I have not used the IRD website as it is too scary and too crazy. You cannot find any information in layman's terms, and when you call them, they are like the police as they treat you like a criminal as if you have done something wrong." (E1)

"I would not like the IRD to come and visit me because their interest is not with my business. Tax is their core business and there would be a conflict of interest as they would advise me contrary to my business interest. I want the tax man to stay away." (E8)

"SME operators have mistrust towards the IRD that the IRD is not necessarily working for them. They perceived the IRD to be collecting taxes and that the IRD will not be proactive in showing them how to minimise tax for their business." (TP8)

Europeans, with their culture of masculinity traits (see Chapter 4, section 4.5.5.), perceived the IRD to undertake their tax collection function by collecting as much tax as possible from them. Their individualistic and cultural values of masculinity resulted in a greater dislike towards the IRD, as the IRD had the means to audit and penalise them for inaccurate tax returns. This is similar to the findings that SMEs in New Zealand and

Australia perceived an adversarial relationship with the tax authority (Coleman & Freeman, 1994; Noble, 2000). With this, it adds to the existing tax literature that cultural values can help explain the level of interaction SME operators choose to have with the tax authorities and their perceptions of them.

7.3.3 Asian operators' perceptions of the IRD

The main reason Asians in this sample were reluctant to contact the IRD was largely due to inexpedient telephone services offered by IRD staff, as experienced by A4, A6, A7 and A9. To them, it was more cost effective to seek help from peers and accountants than to wait for the IRD responses. Contact with the IRD by the two Asian operators in this sample related to clarifying tax issues with the IRD:

"I do not like to ring the IRD because there can be long queue. Sometimes I can get different answer from different people and this can also be a problem. I used to ring them up and ask them how to do certain things. They will say go to the website and look. But sometimes the website is not as clear. They should have people going out to help us who are having problems filing tax. Actually they should have this service where you can ring them up and ask them to come and tell you what to do, rather than to read up from the website especially for new migrant whose English is not good. The migrants may misunderstand what they have read." (A4)

"The IRD needs to attend the telephone calls quicker. Like my son called them last time and he had to wait for half an hour for a refund and ultimately he couldn't be bothered as he had to take time off to talk to the IRD. He had to wait a long time on the phone to speak to someone." (A3)

The Asians in this sample had some awareness of their tax obligations, and they experienced less fear in dealing with the IRD, despite their high power distance values. This suggests that having tax knowledge can moderate one's fear of dealing with authorities, despite one's cultural values, thus confirming power distance values are malleable as discussed in Chapter 4, section 4.3.3.

Being long term oriented, Asians were motivated to have a good tax filing and tax payment history so that the IRD would look favourably on them in the future. With their high power distance values, Asians viewed the IRD as a greater source of reward for compliance and a greater source of penalty for noncompliance, and therefore more of them sought to have a good tax compliance history with the IRD. This confirms existing

literature that Asian operators considered it more beneficial to comply and to avoid getting on the wrong side of the authorities, as discussed in Chapter 3, section 3.7. This adds to the tax literature that some ethnic groups, particularly those with high power distance values and with long term orientations, will more readily comply with the tax regulations because they view authority figures as having the power to bestow significant reward for doing so, and that they could reap future tax benefits from good relationships with the tax authorities.

7.3.4 Pacific operators' perceptions of the IRD

Due to their high power distance values, only two Pacific operators had used the IRD as their main source of tax assistance. Despite their reverence towards authorities, these two Pacific operators were unafraid to contact the IRD, which shows the malleability of the power distance values as discussed in Chapter 4, section 4.3.3. On the other hand, the remaining Pacific operators perceived the IRD as an authority figure to be obeyed and feared, which is reflective of their high power distance values:

“For us, we don't question the authority. It would be they are supposed to be the “enlightened” one you know. I kind of fear them, and you don't want to question them. It is also the sort of respect too like someone in authority and you have to respect them. You can't question them.” (P3)

“Polynesians are a very tribal people. We are very much from a layered system of hierarchy and have been for generations. So there is a great deal of respect for people who hold positions in terms of leadership, chieftainship, families' statuses and there is honour in that. It is almost patriarch or matriarch and it is very authoritative, and pretty much what they say goes in the culture.” (BE12)

“They have always considered that the IRD to be the bad boys, the bogeyman you know – truly. The reason why they see the IRD as the bad boy is because of the fear factor i.e. IRD wielding the big stick. They said that it is a bad thing that the IRD is the bogeyman wielding the big stick and taking money away from them. If they don't pay on time, or don't report on time – then there is all these penalties. It is a fear thing, absolute fear of the IRD.” (BE10)

Like the Maori group, the Pacific operators' perception of the IRD was largely out of fear and reverence and therefore they were more accepting of the IRD's tax assessment of them. This may be detrimental as errors made by IRD staff may go undetected. Furthermore, their low tax knowledge may prevent them from claiming church tax rebates and seeking costless tax assistance from the IRD. To corroborate the accounts of

the ethnic groups' perception of the IRD, the next subsection examines the observations of the tax practitioners and business experts of SMEs' perceptions towards the IRD.

7.3.5 SMEs perceptions of the IRD from the tax practitioners and business experts' perspectives

According to all tax practitioners and business experts in this research, the perceptions of the IRD by SME operators were generally negative and unfavourable which was consistent with SME findings in the OECD countries, as discussed in Chapter 2, section 2.7. The majority of their clients hated the IRD because of: the tax compliance burden; low tax knowledge; and the perceived tax unfairness towards SMEs. As tax compliance required effort, cost and tax knowledge, many found tax compliance to be costly and burdensome:

“IRD is not popular. People instinctively dislike the IRD just like some people dislike the police. They see them to be people with extensive power.”(TP4)

“They hate them. They think they are monsters and that they are there to eat their taxes, and that they don't give them a fair go. They just don't like them, particularly the men folk.” (TP7)

“The perception is that tax compliance is difficult and complex because of the barrier. We all hate paying tax and that is just a natural thing. Then there is the difficulty of filing the tax forms. So there is the lack of education, lack of understanding as to how to fill in the forms. When they strike the difficulty of filing the form, they have people to assist them fill the form but they still don't understand it. Most small business operators don't understand what they have signed on the forms.” (BE9)

“It is overwhelming to many of the small businesses to have to know the different types of taxes such as GST, ACC, PAYE, FBT and Income taxes. It is a bit of both in terms of the administration and the actual payment of taxes that is overwhelming most of these taxpayers.” (BE3)

These perceptions showed that ethnic SME operators lacked certain skills, capabilities and tax knowledge to comply. Some of these perceptions were attributable to cultural values of power distance, long term orientation and masculinity traits. The high power distance cultures tend to revere tax authorities with an element of fear towards them. However the effect of power distance can be moderated if the ethnic operator possesses tax knowledge and is long term oriented. This is because the perceived benefits of

having a non-adversarial role with the IRD may bring rewards, with future benefits such as less scrutiny from the IRD.

The negative views of the IRD by SMEs suggest that the IRD had not fulfilled its customer oriented services as proposed by the 2001 New Zealand Taxpayer Charter (Inland Revenue, 2008). In order for SMEs to have favourable tax perceptions towards the IRD, there ought to be some improvement in the IRD services for SMEs.

To summarise, this section discussed the perceptions of SMEs towards the IRD. This study found that high power distance Maori non-contact with the IRD was due to historical reasons and their perceptions of government authorities in general. On the other hand, Asians' infrequent contact with IRD was because they had other sources of tax help resulting from their collectivistic traits. Their long term orientation also deterred them from using the inefficient IRD's telephone services. The Europeans did not trust the IRD which resulted in almost no contact with the IRD for this sample group. Finally, the high power distance characteristic of the Pacific group caused them to revere the IRD without question.

This information contributes to the existing tax literature as most existing tax research suggests that taxpayers' infrequent contact with tax authorities was due to lack of trust in them (Feld & Frey, 2002), and prior unfair treatment taxpayers had received from tax authorities (see Chapter 2, section 2.7.). The findings in this study showed that the inefficiency of IRD services, other sources of tax help available, and the perception of the tax authority as an "authoritative" figure due to cultural and historical reasons, were other considerations for SME operators' infrequent contact with the tax authorities. Another reason for their lack of contact with the IRD was partly due to their tax audit experiences, which are discussed in the next section.

7.4 Tax audits and SMEs

Given the low tax audit probability in the OECD countries (Andreoni et al., 1998), not all SME operators in this research were tax audited. Only a quarter of the 36 ethnic operators had been tax audited: two Asians (A2 and A5), five Europeans (E4, EA5, E7, E8 and E9), one Maori (M6) and one Pacific (P1) operator. Overall, these operators found tax auditors varied from being helpful to being judgemental and ruthless. For the Asians, the audits confirmed their good record keeping system, but not so audits for the

Maori and Pacific operators. To the Europeans, audits confirmed their perceptions of the IRD's inflexibility and bureaucracy.

7.4.1 Audit experience and financial literacy of the Asian operators

Due to their good record keeping process as shown in Chapter 6, the Asian operators did not find the audits daunting, though one of them encountered judgemental auditors:

“No, the audit was not a frightening experience as we knew what we were doing and we had all the supporting documents. The tax auditors came expecting to find something. One of the officers had a disability and questioned us about access for a disabled person. However, I pointed out to them that we had wheelchair access and they were trying to intimidate us at first. But we know what we were doing, and they left here after half an hour. They came back to us the next day and were happy with our records.”(A2).

In addition, A2 was the only SME operator in the sample of 36 who welcomed the tax audits. Further discussion revealed his perceived future benefits from having a tax audit, which included less future scrutiny from the IRD if he could demonstrate a good record keeping process. In contrast, the audit experiences for the Maori and Pacific operators were not welcomed, as discussed in the next two subsections.

7.4.2 Audit experience and financial literacy of the Maori operator

Both Pacific and Maori operators found the IRD auditors to be more helpful, positive, and sympathetic than what they originally perceived and had heard prior to the audit. Subsequent to the audit, M6 changed her negative perception of the IRD as she found them helpful, and she admitted that her tax problems were attributable to poor record keeping and cash management. She observed that the IRD's forced closure of some businesses was legitimate as some business operators were not taking responsibility for their own record keeping and cash management processes. She observed that most tax problems faced by Maori were attributable to lack of financial literacy and the incorrect historical perception of wealth. This incorrect perception had led many to shun wealth accumulation:

“For a lot of Maori too, they may think that wealth and the pursuit of money could be seen as a colonial way of life. Like you are adopting the Pakeha (European) way and it is a very “white” way of chasing money. But there is nothing wrong with creating wealth for your

descendents. Once upon a time Maori can survive because of their whanau (family), but now families are really struggling especially in the cities.” (M6)

Several business experts claimed that Maori negative perception of wealth is traceable to their lack of financial literacy, brought on by their lack of interest in acquiring financial skills and knowledge at schools (see Chapter 3, section 3.5). Their lack of financial literacy often resulted in: indiscriminate spending; no financial planning to allocate funds for present and future use (which reflects their short term orientation as discussed in Chapter 4, section 4.5.4.); spending based on their emotions; and a lack of distinction between business and personal monies. These behaviours resulted in tax payment difficulties, tax penalties and stress:

“It is the gap of skills and knowledge. Like the Chinese and the Indians, they are the ones who are doing Business studies, they are the ones doing the Accounting and Economics whereas the Maori would go into kapa haka (cultural studies), which is great for cultural perspective, but long term it is not going to put food on the table.” (BE5)

“Some also started with not enough capital behind them and because of that, they get into cash flow problems. They get into trouble with the IRD because of the cash flow problem. That stems from not doing any forward planning. Some don’t know how to do the planning, and some were too busy to find time to do it. Some think that they can get away without doing it. Some don’t keep an eye on how their business is doing financially. Some cannot tell you how well they do in terms of sales and expenses. They are only interested in the money in the bank and they don’t know about when some money is due. They should have set aside some excess cash in order to make tax payments.” (BE3 and BE4)

To address their tax payment difficulties for Maori, BE12 suggested financial literacy be required for Maori and Pacific operators in order to comply:

“Maori had a deep need for financial literacy and so do Pacific Islanders. They have no understanding of short term and long term financial strategies. They have no understanding of savings, no understanding of apportioning income, and certainly no understanding about tax.” (BE12)

Contrary to popular thinking, M6’s audit experience was better than what she had originally anticipated and it created a greater awareness for her to be financially literate and to have a good record keeping system. She learned the adverse consequences of unplanned spending, poor record keeping and debt financing from the tax audit:

“I sold my house to pay off the IRD debt and to become financially debt free again which I haven’t been in since I was 20. These days I keep away from things that said interest free for 36 months. I haven’t bought anything on hire purchase for years. I don’t have a Visa card but I have a debit card with a Visa component. There is just too much out there to get you in debt.” (M6)

Coming from a high power distance culture, M6, like most other Maori in this sample, showed fear towards the IRD. They manifested their fear by not contacting or responding to any of the IRD’s requests over prolonged periods. BE3, BE4 and BE12 observed that most Maori operators with tax payment difficulties normally denied the existence of their tax problems which resulted in compounded tax debt and mental anxiety:

“Leading up to having difficulties paying the IRD the last time, I had mountains of envelopes and letters unopened from the IRD. I was in denial. The fear of having to deal with them and opening those letters and with the strong language used in those letters as well as huge amounts of money, you just think you can’t deal with them. But for me it accumulated for about 6 years. They were contacting me and I wasn’t opening my mail. I was hoping that the problem will just go away and I was in denial. I had a woman from the IRD ringing me up and said that if I do not contact her by such and such, I would be foreclosed. I force myself to ring her and she was awesome. She helped me through things and helped me to see that there was a solution and I had to work really hard to get out of the situation.”(M6)

“They leave it till too late and quite often they get into difficulty and they don’t get help early enough. We see them when they are in a dire straight and it is quite difficult to turn it around because they feel really bad about the whole situation. It is like putting their head in the sand type. Some of them do that because they hope that the problem will just go away. Some of them have the attitude that “I see nothing, I hear nothing” hence the problem has arisen.” (BE3 and BE4)

“So when I had my own business, I had to ring the tax agent to come and sort this tax out as I have stuffed it up something major and that happened. You just put the tax stuff away until it bite you at the backside and then it is too late to do anything.” (BE12)

Hence a closer examination as to why Maori operators had tax compliance problems indicates it was related to poor record keeping processes, and not paying their taxes on time by going into a state of denial. Similarly, a Pacific operator also had similar tax audit experiences as the Maori, as discussed in the next subsection.

7.4.3 Audit experience and financial literacy of the Pacific operator

P1 was the only operator in the Pacific sample that was tax audited. He had sympathetic tax auditors who ensured that a proper record keeping system and cash management was in place for his business. Instead of forcefully closing his business due to high tax debts, the tax auditors removed the tax penalties and gave him time to clear his tax debt. Like M6, P1 admitted that the audit exposed their record keeping weakness and their lack of cash planning:

“The IRD queried our GST, PAYE and Income Tax, everything. They queried us on how we calculate our GST. We got stung with a bill because we under-calculate our GST simply because we did not have our system in place. Our accountant disclosed our unintentional error to the IRD as to why it happened. We then were slapped with a \$350,000 GST tax bill that we didn’t pay. That was a mistake from our system that we didn’t had in place which was the second thing. The first thing was that we weren’t paying the GST simply because we didn’t have the money to pay. We went to the IRD and sat down with them regarding our tax problem. We find with the IRD that if we disclose everything to them, they are good to us. However, if you shut up and don’t disclose anything to them, they would come down hard on you. Our accountant were quite amazed that the IRD didn’t come down hard on us because the IRD made all our penalties nil and they accepted all our terms of how we were going to pay the debt off and basically they were good to us.” (P1)

Business experts who dealt with Pacific operators observed that a significant number of Pacific SME operators did not have any record keeping system or would delay the record keeping process until it was demanded by the IRD or other stakeholders. Their poor record keeping system resulted in high tax compliance costs:

“They don’t do it. I came across this woman who has been in business and goodness knows what she has been doing. For 18 months, the records arrived in a shoebox and all of a sudden she want to apply for a financial grant and she can’t do that unless she has the financial record and a business plan. We get bags and boxes of receipts and invoices for 18 months and we had to ask for her bank statements as some of them were missing. We were given receipts and cheque books and nothing was written on the cheque butts and then we don’t know what the payment is for. There are days when I just get so frustrated because there is no record and she has no apparent understanding of what she is doing. I don’t know how she can keep the business running for 18 months and have nothing, absolutely nothing in place.” (BE10)

The main issues with the Maori and Pacific SME operators from their audit accounts point to: their record keeping weaknesses; poor cash planning; poor financial literacy

and low tax knowledge. These weaknesses were more evident with these groups largely because of their lack of interest towards systematic and disciplined record keeping and their cultural predispositions towards risk, time, money, and work, as discussed extensively in Chapter 6. Their audit experiences proved the importance of having good record keeping systems and cash planning and that IRD auditors were sympathetic to the needs of SMEs. In contrast, the European operators encountered different tax audits as discussed in the next subsection.

7.4.4 Audit experiences and financial literacy of the European operators

The European operators who were audited in this sample had a range of positive to negative experiences with tax auditors, and they generally viewed the audit process as a business intrusion and a form of IRD checking on them, due to their low power distance values:

“I have been audited probably two or three times before for GST and there was no problem. The audit is to be expected from the IRD people. The IRD officer that dealt with us had no sense of humour or any personality at all. He was a bit inflexible as he wanted to check for every single invoice even though the invoice was stated in the supplier’s monthly statement. He was not willing to stretch anything at all and he didn’t find anything. He came to the store and stayed there for the whole day.” (E5)

“Two of the top IRD auditors in Auckland are fairly butch women. My mum and two other people have been audited by these two auditors before, and they treat people like dirt, like absolute dirt and they make people scared of them. I think if the IRD have auditors who are firm and yet able to communicate with people, I believe they will get better results.” (E4)

A range of positive and negative tax audit experiences were encountered by the tax practitioners sample, which confirmed existing research that auditors had varying skills and interactions with taxpayers (Andreoni et al., 1998). More of them had encountered helpful tax auditors (TP1, TP3, TP4, TP5, TP6, TP7) and fewer of them had difficult and vindictive auditors (TP2, TP8):

“The audits have been really good. The IRD has been really good as they have wipe off the GST debts of my old clients. My experience with the IRD has been really great. They have been professional but they can be hard and the one who caused the client to commit suicide, the tax auditor was hard. However there are also some who are nasty, and would not allow them to claim without the \$50 receipts.”(TP7)

“The audit experience varies. There can be incredibly good auditors and also some malicious, vindictive auditors who are on the mission and we have laid complaints. We had some auditors that were very good to deal with, but the length of the audit has been appalling. There is no doubt that there are some very good audit staff and they go in with the perception that errors found are genuinely made by the clients. Yet there are some who have the perception that the errors made by the clients are deliberate.” (TP8)

Most of the tax practitioners agreed that inconsistent treatment by tax auditors had caused much anxiety in their clients. In one case, TP7 claimed that the harsh treatment by the auditors towards one of her clients had led him to commit suicide.

In summary, it is important to understand the audit experiences of ethnic SME groups as it shows the interaction of the IRD with them, which influenced their tax attitudes. The relatively sparse audits encountered by SME operators reflect the low audit practices in the OECD countries. The predominant positive audit experiences encountered by some SME operators showed that the IRD was willing to work with SMEs by ensuring their record keeping systems and cash management processes were in place. Unfortunately, due to prior unproven rumours, most SMEs feared tax audits evidenced by the low use of the IRD as their main source of tax assistance.

7.5 Interplay of cultural factors for sources of tax assistance used

So far, the main cultural factors impinging on the ethnic operators' use of tax assistance, perceptions of the IRD and their audit experiences are related to cultural characteristics of individualism-collectivism, power distance, long term orientation, and to a lesser extent masculinity. The interplay of these four cultural values determines the compliance costs for the ethnic groups and the extent of their interactions with the IRD.

The collectivistic Asian group relied more on their peers for tax assistance, and their long term orientation discouraged them from using the inefficient IRD services. Their high power distance also caused some to not interact with the IRD. Similarly, the Maori and the Pacific sample also did not interact much with the IRD because of their high regard towards authorities.

Hence, in summary, collectivistic cultures that had access to peers knowledgeable in tax can lower their tax compliance costs. Long term orientation values also motivate ethnic groups to rely less on their paid accountants to further lower their compliance costs. In

contrast, short term oriented and high power distance cultures would incur higher tax compliance cost. Comparatively, individualistic, low power distance and medium term oriented cultures also incur higher compliance costs, but not as high as those with short term and high power distance cultures. This is best summarised in Table 7.1 as shown on the next page.

7.6 Summary

This chapter examined the accounting systems, sources of tax assistance used, perceptions of the IRD, and tax audit experiences of ethnic SME operators. The tax practitioners and business experts were able to give valuable insights as to why ethnic operators exhibited different perceptions of the IRD and some additional insights on the audit experiences. Their independent and “outside” observations corroborated the accounts of SME operators. Cultural factors, such as long term and short term orientations, individualism-collectivism, and power distance were pertinent in explaining some of the differences in the use of tax assistance, perceptions of the IRD and their audit experiences. The audit experiences also exposed the lack of financial literacy and cash management skills amongst Pacific and Maori operators.

The most common tax assistance used by European, Maori and Pacific operators was their paid accountant, compared to Asians who relied more on their friends and peers. Collectivism and reducing compliance costs were important factors for the Asians’ tax assistance decision, whereas power distance was more dominant in influencing Maori and Pacific’s tax decisions. Asians rely on their paid accountants least, whereas the Europeans relied on their accountants the most. A small number of Asians and Pacific operators used the IRD as their main source of tax assistance to save on compliance costs, despite their high power distance values. Hence, it suggests that ethnic groups with high power distance values can work with tax authorities when they are given strong motivation to do so, for example to reduce their tax compliance costs.

The different perceptions ethnic groups have towards the IRD suggest different approaches required to regulate them. For example, the Asian group would value faster telephone responses from the IRD to clarify tax issues. Being expedient with their telephone responses would benefit other ethnic groups and not just the Asians. Telephone dialogues with the IRD are preferred by the Asian and Pacific groups to

Ethnic groups	Main sources of tax assistance used, perception of IRD	Specific issue to tax compliance	Cultural factors affected	Cultural factors that reduces tax compliance costs or increase tax compliance and penalty costs
Asian sample	Used unpaid friends and peers	Reduce tax compliance costs	<ul style="list-style-type: none"> ▪ Collectivism ▪ Long term orientation 	Reduce
	Perception of IRD as inefficient and with some fear	Motivate them not to use the inexpedient IRD services, ensure records were kept	<ul style="list-style-type: none"> ▪ Long term orientation ▪ High power distance 	
European sample	Tax practitioners	Useful tax assistance because of their expertise	<ul style="list-style-type: none"> ▪ Individualistic ▪ Low power distance 	Increase
	Perception of IRD as not to be trusted to promote their tax affairs	Motivate them not to seek tax assistance help	<ul style="list-style-type: none"> ▪ Individualistic ▪ Masculinity 	
Maori and Pacific sample	Tax practitioners	Have high regard towards tax practitioners	<ul style="list-style-type: none"> ▪ High power distance ▪ Short term orientation 	Increase
	Perception of IRD as someone to be feared with unquestioning obedience	Discourage them from interacting with IRD	<ul style="list-style-type: none"> ▪ High power distance 	

Table 7.1: Interplay of cultural factors on the main sources of tax assistance used and perception of the IRD by the ethnic SME samples

clarify tax issues, which contrasts with the Australian findings that showed SME operators preferring written instead of verbal contact (see Chapter 2, section 2.7). Given the importance of record keeping and timely tax payments, it would be worthwhile examining how successful each ethnic group is in paying their taxes on time. This is further discussed in Chapter 8.

CHAPTER 8: Tax Payment Experiences and Tax Spending Perceptions of Ethnic SME Operators

8.1 Introduction

As mentioned in Chapter 2, the New Zealand self assessment tax regime requires business operators to file timely and accurate tax returns and pay their taxes on time. Chapters 6 and 7 discussed in depth the various issues pertaining to filing tax returns. This chapter will discuss the tax payment experiences of each ethnic group, and their perceptions of tax payments and tax spending.

The chapter begins by examining the tax payment experiences and tax spending perceptions of each ethnic group in section 8.2. Sections 8.3 to 8.6 examine the Asian, European, Pacific and Maori operators' tax payment experiences and tax spending perceptions, respectively. Section 8.7 discusses the interplay of the cultural factors in determining tax payment experiences and tax spending perceptions for ethnic operators. Section 8.8 concludes with a summary of the chapter.

8.2 Tax payment experiences and tax spending perceptions

SME operators are required to pay their taxes on time to avoid tax penalties and potential forced closure by the IRD. The ability to meet payment deadlines requires cash management and planning. Since tax payments constitute one of the main stressors for SMEs, as shown in Chapter 2, section 2.6.2, it is vital to know how the different ethnic groups manage their tax payments. As shown in Figure 8.1 below, more Maori and Pacific operators had tax payment difficulties compared to the European and Asian sample.

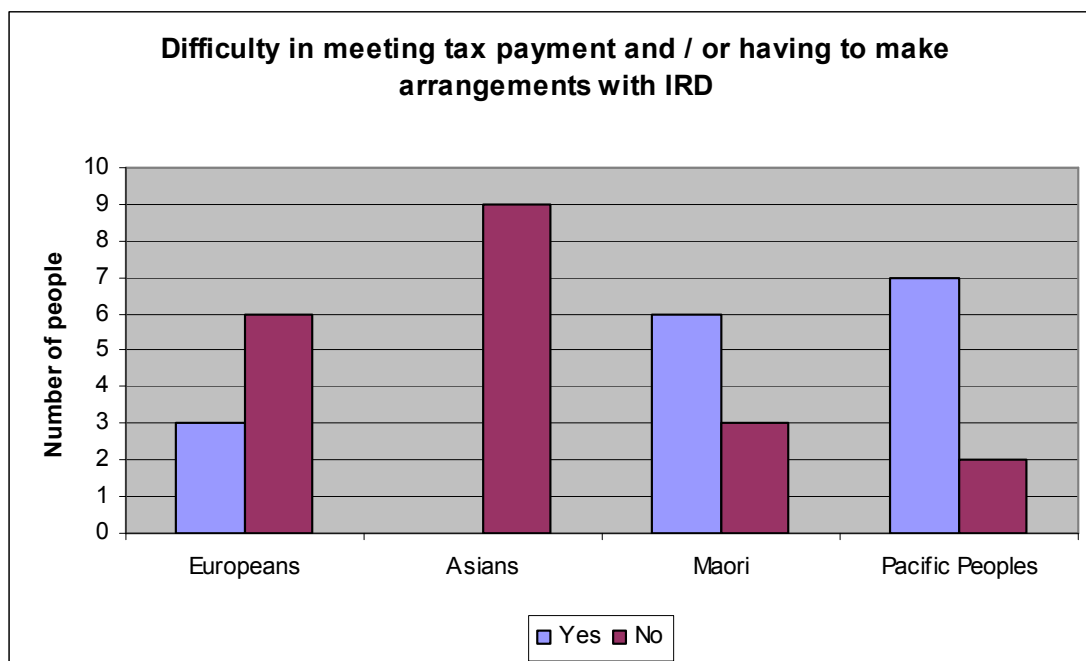


Figure 8.1: Tax payment difficulties by ethnicity

The tax literature shows that the willingness to pay taxes by taxpayers is partly related to how taxes are spent (Alm et al., 1993; Bagnoli & McKee, 1991) and who benefits from the tax spending (Li, 2010). Taxpayers are more willing to contribute towards taxes provided tax spending aligns with their wishes and benefits their ethnic groups, as shown in Chapter 2, section 2.3.3. Figure 8.2 records the low number of SME operators who were satisfied with the education and welfare tax spending. These two aspects of tax spending were chosen to contrast the stark differences between the four ethnic groups' preferences and perceptions.

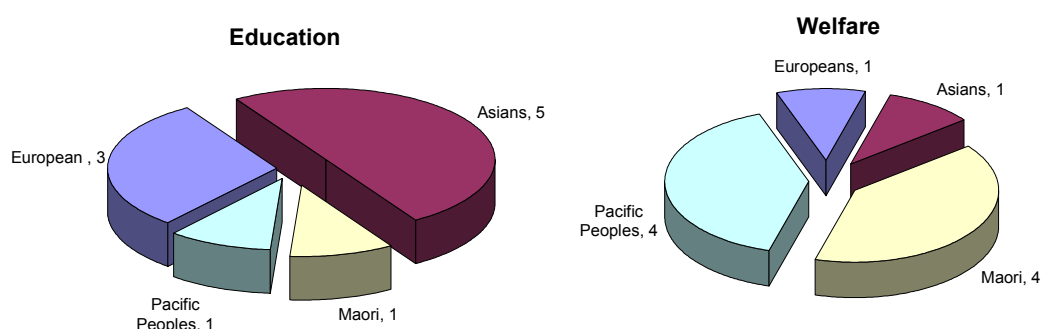


Figure 8.2: Number of operators, by ethnicity, who were satisfied with the education and welfare public spending

As shown in Figure 8.2, both the Europeans and Asians were least satisfied with welfare spending, but they were more satisfied with education spending, compared to the

Pacific and Maori groups. In direct contrast, the Pacific and Maori groups in this research were most satisfied with welfare spending and were least satisfied with the tax spending on education. This is because they had extended family members receiving financial assistance from the government.

8.3 Tax payments and tax spending perceptions of the Asian group

None of the Asians in the sample had difficulty meeting their tax payments. The importance placed on money management and financial support as shown in Chapter 3, section 3.7 enabled the Asian group to always pay their taxes on time. Being long term oriented, they disliked paying costly tax penalties for lateness. They were disciplined with their spending and their higher uncertainty avoidance traits led them to manage their cash carefully and pay their times on time:

“Oh I plan ahead. I make sure that I do not get into tax payment problem. I budget my cash flows as I know when the tax amounts are due and I see that I have enough liquid cash to pay that. We have never had the situation with inadequate cash flows.” (A3)

“No, I do not have any tax payment difficulties. I budget it well especially I make sure that I have enough money to pay taxes all the time.” (A9)

There are long term benefits for making timely tax payments as it generates a good tax payment history with the IRD, prevents business failures, and will “save face” (see Chapter 3, section 3.7). This is consistent with previous findings that Asians take measures to avoid getting on the wrong side with the authority, and it is more advantageous to be compliant (Gupta et al., 2008). Being long term oriented and with their high power distance values, Asians assumed that their good compliance behaviours may motivate the IRD to look favourably on them in the future. Closely related to tax payments are their perceptions of cash jobs.

8.3.1 Asians’ perceptions of and participation in the cash economy

Asian operators in this research supported the cash economy in terms of purchasing goods and services for personal use, though none admitted to be involved in their business. Most felt that some personal cash jobs were justifiable due to the high compliance costs and incentives for being in business:

“At times I have got some work maintenance done at home and I get some quotes from the tradesmen. I ask them directly whether that is the cash price, and they will tell you that if it is a cash job, then the amount is less GST which will be cheaper, and is very attractive to the customers.” (A3)

“I have people who come over to spray insects during the summer. They will say that if you need a receipt, I will charge you \$60. If you don't need a receipt, I will charge you \$35. They do this because they are trying to avoid the tax. Since there is no receipt, nobody knows about the job. This is a normal thing. But I have this person because this person is of an Asian origin. I think Kiwis will follow the law but the Asians may tend not to follow a little bit.” (A1)

“The small businesses do not earn a lot of money. The IRD is quite strict with the recording and small businesses have to make sacrifices in some ways and in order to compensate them for the sacrifices, cash jobs would help.” (A6)

A significant number of tax practitioners and business experts in this research also perceived the prevalence of cash jobs amongst Asian businesses. One of TP4's Asian clients was found guilty of tax evasion from cash jobs. Participants BE2, BE5 and TP6 claimed that Asians did not like paying taxes, which confirmed the existing literature (Pio, 2010), and Asian SMEs were proactive in finding alternative ways to conserve cash. They observed the Asian group to be the most upfront in offering cash jobs, but also the least transparent in their record keeping for cash jobs. Participant BE2, who was of Asian ethnicity, had the following comments about cash jobs and Asian businesses which were confirmed by other business experts and tax practitioners:

“A lot of Asians whether they come from China, India or Japan love money and that is for sure. They want to keep the money for themselves, and they do not like to pay taxes. They want to have the best of everything, but they want to keep their money. A lot of them are very good about wheeling and dealing, and they make a lot of money. They are good businesspeople which are no two ways about it. What they are very bad at is to conceal their sales. For example, if you go to the markets, who are the main sellers in the markets? They are mainly Asians regardless of where they come from India or China. They deal mainly in cash and do you think they will report these incomes?” (BE2)

“With the Asians, they have the issues with record keeping. My understanding is that they are very astute business people but they do not necessarily want to be 100 percent transparent so we will see what they want us to see (probably a nice way to put it). It is also compounded by the fact that a lot of their activities are within their own community, so we only see stuff at the border. Where we are now, there are a lot of small businesses and I know a lot of them are done

in cash, so cash reporting is an issue. How I know that they are doing cash is that I will go out and buy something and they don't go through the cash register.”(BE6)

“I suspect that some of the Asians are less likely to comply and they are more open about it. I suspect the other New Zealand businesses are also not complying but they keep their mouth shut. The Asian businesses are more straight-up on this. If you want cash jobs, it would be at this price, and if you want an invoice it will cost you more. I may find in Asian businesses, they will give you the quoted price and when you ask for the receipts they will say oh it will cost you more. But for the New Zealand businesses, they are not so open about it, but you know it is available to you if you ask to pay by cash.” (TP3)

The above observations point to the permissiveness of Asians towards cash jobs. Some Asians in this sample had participated and/or were aware of cash jobs activities which were prevalent among SMEs. The findings on Asians' participation in and permissiveness towards cash jobs is similar to the Australian findings: that Asians did not consider cash jobs to be unethical (Rothengatter, 2005a). Due to the Asians' participation in the cash economy for personal use, it may be difficult to curb this illegal activity, especially where there is strong collective support for each other (see Chapter 3, section 3.7). This adds to the existing tax literature on cash jobs: that collectivism and strong and close knit business connections may make it harder for tax authorities to curb this illegal activity, where the group's interest prevails over individual interests.

8.3.2 Perceptions of tax spending by Asian operators

The Asian sample understood the need to pay taxes but they complained about the high tax rates and the types of tax spending. Their achievement focus and their masculinity trait (see Chapter 3, section 3.7 and Chapter 4, section 4.5.5. respectively), caused them to view welfare tax spending unfavourably, as it was seen as wasteful:

“I feel it is very high. Every time I have to pay taxes, I would say my goodness, the tax amount is very high but we have no choice but to pay for it . . . When I was working, there were stories where the incomes of the people on the welfare benefit were slightly less than if they were working and because the difference is so small, there is no incentive for them to go out to work. These are abled people and it seems unfair why we have to fund them. I often ask why some of these people are not working, why are some of them having so many children and on the social welfare? I believe the money could be better spent to help people to help themselves and that is why education is money well spent.”(A8)

“I do not mind paying taxes but I do question the way in which the money is spent. Tax is a must wherever you live in the world as we get services like education, health, roads and these spending require money and it has to come from somewhere like the taxes. Most unfortunate is that the government had spent the money on social welfare and allowing new immigrants to be on the benefit straight away.”(A1)

As a significant number of welfare recipients were non-Asians (Mitchell, 2009) and Asians were not direct recipients, the Asian sample therefore exhibited greater dissatisfaction towards this spending. This confirms the prior literature that ethnic groups’ willingness to contribute to taxes is based on whether their ethnic group received any benefit from the tax spending (see Chapter 2, section 2.3.3.). Furthermore, their long term orientation equated high taxes with lower wealth accumulation and they preferred education spending due to its long term benefits:

“Education is a main part in growing the economy especially training the next generation. In terms of welfare spending, some are perhaps just lazy because it is so easy to take advantage of the social welfare and some manipulate and get around the system and bleed the working people. The present welfare system tends to make them dependent on the state.” (A1)

In summary, the Asian sample did not have any tax payment difficulties resulting from their higher uncertainty avoidance values, collectivism and long term orientation. Their meticulous cash planning contributed to their ability to always pay their taxes on time. They disliked paying taxes and had participated in the cash economy for personal use. Their long term orientation and masculinity traits caused them to prefer education spending but the majority did not support welfare spending. Hence, this research adds to the existing literature by incorporating cultural values in determining the types of public spending preferred by ethnic business groups. However, the IRD needs to educate the Asian group regarding the social benefits of taxes to prevent them from withholding their taxes just because they are dissatisfied with certain tax spending.

8.4 Tax payments and tax spending perceptions of the European group

Three European operators from this sample had experienced tax payment difficulties and two of them had had threats of forced closure from the IRD. Instead of paying their taxes, they had used the tax monies to finance their business to reduce borrowing costs.

On the other hand, the remaining six operators always pay their taxes on time to avoid penalties, which reflected their medium term orientation (see Chapter 4, section 4.5.4):

“I always make sure that we pay the taxes on time. I can’t stand having to pay for the penalties and that costs a lot of money.” (E9)

As more of the European businesses were jointly operated by both spouses compared to other ethnic groups, they avoided tax penalties and business failures resulting from delay in tax payments. They were self reliant, disciplined, and cash spending was planned since they did not have access to extended family resources. Their individualistic and medium to low uncertainty avoidance values caused them to seek out banks as additional and alternative sources of funding:

“No- we never had problems with the tax payments because I am pretty good in managing my money. Cash flow is not really an issue and I don’t waste money and I don’t spend a lot.” (E1)

“I believe that there should be enough cash to run the business. If I really run out of cash, I just ring my bank and I have a really good relationship with my bank. I just ring him up and there is no paperwork involved. I do not arrange for alternative payments with the IRD if we have a shortage of cash to pay the IRD.” (E4)

Individualistic Europeans had fewer financial obligations towards their extended families compared to collectivistic Maori and Pacific groups and therefore were more able to pay their taxes on time, according to the business experts:

“There are differences in the way the traditional European, Asians, Maori and Pacific Islanders run their businesses. In my view, the Europeans styles are less subjected to influences from family or from respect relationships because they are more individualistic in their outlook. Whereas the Maori are more influenced with the whanau and the family and there is the big thing about koha (giving in kind) and things like that.” (BE6)

Cultural values of individualism and medium to low uncertainty avoidance enhanced the European operators’ ability to pay their taxes on time. These cultural values are more compatible with the self assessment tax regime where taxpayers are expected to independently calculate their tax liabilities and pay their taxes when due. The next subsection details their perceptions and participation in the cash economy.

8.4.1 Europeans' perceptions of and participation in the cash economy

Unlike the Asian group, nearly all the European sample did not admit to participating in the cash economy, though they were aware of the practice amongst other SMEs. This confirms the findings that cash job practices are common among SMEs (McIntosh & Veal, 2001; Noble, 2000). The European sample rejected cash jobs, as they were unable to claim tax deductions for goods and services purchased without receipts. In addition, they felt that it was not beneficial for their business in the long run:

“But I personally would not do it, as I am against it totally. Someone offered me cash job the other day, and I refuse it.” (E8)

“Personally we will not do it, as we need all the deductions that we can claim for GST and deductions for our profits.” (E4)

“I don't know but I have a business partner and I made sure that everything is done through the books. Regardless of whether the amount is \$110, we would invoice the client because they have to feel that there is an element of trust, and therefore they want a receipt for that. If they feel that you are doing something dodgy, it flows over. I have been approached by people who want to do a cash job and I refused because I asked them how it would help them anyway because I still have to produce an invoice. With the invoice I also include the GST on it which I can claim it back.”(E2)

However, the tax practitioners sample perceived that cash jobs were widely practiced amongst SMEs especially in home maintenance type industries, where no documentation was required. They acknowledged the difficulty in combating cash jobs because of the public support for this practice. The public's support for cash jobs is cost saving for the purchaser, and GST and income tax evasion for the seller:

“Small businesses do participate in cash jobs. At the end of the day, the onus is on the small businesses to disclose the cash jobs themselves. If you don't disclose and there is no paper transaction, then nobody knows. It all comes down to the person who is discharging their money for services whether they are prepared to forego the documentation. If they are prepared to do that, then we can't stop them. As long as there is a willing buyer and seller, there is no paper trail.”(TP2)

“Anyone that deals with the public at their homes has more opportunity to deal with cash jobs. It would be harder if you take the car to the garage. They would find it difficult to dodge. It is those where they go to the public's homes where they do not have to answer to anyone other than themselves. They have no documentation or recording and when the customers do not ask for a receipt, you find

these businesses could get away with dodging tax payments. Anyone related to the maintenance, e.g. builders, plumbers and electricians are more prone to problems with tax compliance.” (TP1)

Though tax practitioners felt cash jobs may be more rampant than what the European sample believed to have happened, this may indicate the tolerance of cash jobs by some ethnic groups. This study found the Asian group to be more accepting and tolerant towards cash jobs than the European sample. However, it could also suggest that the Asian operators were more upfront with their views of cash jobs than the Europeans because the researcher was perceived to be part of their in-group, given her Asian ethnicity. On the other hand, the Europeans may not admit to participate in cash jobs because they viewed the activity as morally wrong and they feared adverse repercussions. This points to the sensitivity of the tax compliance topic and that people tend to represent themselves in a favourable light (Hessing et al., 1988).

8.4.2 Europeans’ perceptions of tax payments

Most Europeans in this sample acknowledged the need to pay taxes, but they were most dissatisfied with how taxes were spent, compared to other ethnic groups:

“I have no problem paying taxes to the government. I know that the tax is important for infrastructure etc. but some of the present taxes are not used for the right reason.” (E8)

“I don’t really have an issue at all for paying taxes as we can get some services back from the government . . . and the tax spending are all important and it is necessary to have those but I don’t always agree with how the money is being spent.” (E7)

Having to account for and remit different types of taxes confounded European operators in this research, and consequently they expressed greater resentment towards the tax system. There are several factors contributing to this behaviour. First, the Europeans in this sample showed relatively low tax knowledge, as four of the nine operators admitted to having basic tax knowledge (see Appendix 9). Second, some did not mentally differentiate between provisional taxes and GST, as a third of them considered GST as part of their mark-up. This lack of mental differentiation between the different types of taxes is not new amongst SME operators (Adams & Webley, 2001). Third, their individualistic and masculinity traits caused them to view the progressive tax rates to be penalising them for their hard work:

“I feel absolutely sick. We get so excited about getting the work and by the time we pay all the taxes like GST and Income Tax, it is all gone. We have been paying all these taxes and it took me one and a half weeks to understand. I almost burst into tears when I had to pay my provisional and terminal taxes because all of that hard earned money is just gone. It is just crazy and it is a horrible feeling because you feel that you are basically working for the government. I feel being ripped off and tax is a dirty word.” (E1)

Their lack of tax understanding suggests some serious underlying business problems. For example, with GST collected and treated as part of their income meant that their business mark-up may be too low, and using the GST and PAYE monies to fund their working capital implies that the businesses may be under-capitalised.

8.4.3 Perceptions of tax spending by European operators

The Europeans in this research were least satisfied with the overall government spending, particularly on welfare, as most of them had witnessed welfare abuse and beneficiaries’ irresponsibility. Their masculinity trait made them less tolerant of law-breakers and they viewed punishment as the solution to the problem, as discussed in Chapter 4, section 4.5.5. Being dependent on government assistance when not working contradicted their masculinity and individualistic traits, as they value self reliance and achievement through hard work:

“There are certain sectors of our community in particular that is using the taxes heavily like the unemployment, health system, the prisons and that’s where the money is being spent. It is like being short sighted and band aiding the problem instead of addressing it. The present social welfare system is creating some kind of dependency on the state for help.”(E5)

“I think the DPB (domestic purpose benefit) should be completely wiped out because too many people are using it as an excuse for not going to work. As for the dole (unemployment benefits), it should be wiped out completely. The social welfare is causing an absolute dependency on the government for help. For example, the Auckland Mission next door is an example. These people are drinking away their welfare benefit and yet the Auckland Mission is going on TV asking the public to help feed and clothe them. It is a management of money problem.” (E4)

The above accounts showed that cultural underpinnings can help explain an ethnic group’s preferences for certain types of tax spending. In this case, the strong dissatisfaction towards welfare spending by the European sample reflects their cultural

values of individualism and masculinity, where they prize achievement obtained through hard work and self reliance. This adds to the existing literature that taxpayers' willingness to contribute to taxes may be linked to their preference for tax spending brought about from their cultural traits. Notwithstanding, the government should be mindful of the ethnic groups' preferences towards the different types of tax spending. Given the cultural diversity of the New Zealand population, the government has to manage their tax spending to satisfy the different ethnic groups' needs. In addition, the New Zealand government needs to promote the social benefits of the different tax spending to the European SME operators, so that they are less inclined not to pay taxes despite their dislike towards welfare spending.

8.5 Tax payments and tax spending perceptions of the Pacific group

Figure 8.1 shows that more Pacific operators had tax payment difficulties compared to any other groups in this study. Their tax payment difficulty was related to their poor accounting systems (see Chapter 6, section 6.4.4), lack of cash-flow management and planning, and contributions made to extended families and churches (see Chapter 3, section 3.6):

“Managing cash flows was an issue for us. At the start we did not have any budget, and what we did was money was coming in and money was going out and we didn't track where the money was going. Like we didn't keep money for PAYE, or keep money for tax or for GST and then cash flow suffered. You then had to inject some of the family money into the business to keep going . . . We were just naïve because we put all the tax payments on the back burner. We did not know about the cash flow analysis and no one actually told us and we were just thumbing in as best as we can.” (P1)

“Pacific businesses are similar like the Maori like the family ties. Family pressure, sending money home and the church impacts on their cash flows does put pressure on a lot of them.” (BE6)

“I guess historically in the Pacific way, a lot of that is based on “gifts” in the society. We have been told that it is better to give than to receive and often times it will be done at your own expense. The church giving at the expense of the family going without also does encroach in the Pacific business. If you look at it as a wheel, often within the Pacific culture, part of running a business and you are brought up in a culture where church is a big element of that.” (BE11)

Short term-oriented Pacific operators spent significant resources for “gifting” to nurture relationships (Cowley et al., 2004) and assisting family members (Meleisea, 1987).

These behaviours were symptomatic of their collectivism and femininity cultural traits where they nurtured relationships and gave priority to community and church commitments over those of the family and the business (Prescott & Hooper, 2009), which led to financial strain:

“The culture to give to your family is ingrained in you the minute that you are born. Your whole existence is to give to the church and to give to the family. Because if you don’t give to God, you won’t be blessed and if you don’t give to your mother, she will curse you and it has been ingrained in us when we are brought up . . . People even take out loans in order to compete in the church giving because the family’s name is being announced for the church giving.” (P7)

“The church giving and announcing the name is a competition and it is a ridiculous scenario like people want to outshine the others and want to do better than the others, even if they don’t have the money. It is ridiculous for them to put up this show even if they suffered personally.” (P3)

“The family and the church also encroach in the business for a Pacific person. As soon as a Pacific person starts a business there is a perception from all the other Pacific Islanders (since there are not many of us in business) that they are millionaires (they got to be). So now all the pastors will come to you and they expect you to give more money in the church offerings. Your family will come to you because if they need a loan, they will talk to you since you are in business. It is worst if you are in business and you are a leader in that community. That is twice as hard because there is a huge expectation both internally and externally from other people.” (BE12)

Not only do church and family giving erode Pacific operators’ ability to meet tax payments, but their lack of cash planning resulting from their low uncertainty avoidance values is a contributing factor for their tax payment difficulties, as discussed in the next subsection.

8.5.1 Pacific operators’ cash management and planning skills

Existing literature shows that most Pacific business spending is not planned but ad hoc (McCoy & Havea, 2006). In particular, there is no resource allocation for the future as they are accustomed to the bountiful natural resources in their home countries (Crocombe, 1976). Future planning, such as for tax payments, is uncommon as their focus is on living for the present moment, which reflects their low uncertainty avoidance and short term orientation:

“The lack of cash-flow management is also symptomatic of the Island culture as money is considered very fluid - easy come, easy go and in the Islands you do not need to earn your keep. We are very spontaneous decision makers I guess. When I see something, I want it now. It is probably no planning and it is instant gratification, and live for now because the future is too far ahead. There is lack of discipline in finance because you are so loose with money and money comes and goes and it is very transient.” (P3)

“The Pacific is kind of whatever that is before us do what it is. It is kind of live day to day and live week to week.” (BE12)

Business experts observed that spontaneous spending and instant gratification were common traits of the Pacific group brought about from their lack of financial literacy. As a result, many incurred high borrowing and tax compliance costs:

“To the Pacific, money is kind of an annoying aspect of their lives in most cases. It is never seen as a priority and it is only seen as a priority if they do not have enough money or when something drastic happens in the family and they need money. Typically the clients that I have dealt with the last six months, there seemed to be a never ending queue of people who wants to do things on credit.” (BE12)

“I know what it is from my past and prior to being in business, I was always in debt. It is probably not having the discipline . . . and you are so loose with money . . . you are not accountable for your own actions and you think someone is going to bail you out. Those who are going to bail you out may probably be your family and your friends.” (P3)

8.5.2 Pacific operators’ perceptions of tax payments and cash jobs

Like the Asian group, Pacific operators also complained about the high taxes with significant cash outflows with tax payments. Like the European sample, they too did not mentally differentiate the different types of taxes, which made them believe that their tax payments were excessive. This was partly caused by their low tax knowledge and with poor financial literacy:

“There are also a lot of different taxes and that is confusing. For a small business owner, it is like you are paying taxes upon taxes and then you pay yourself and that gets taxed. When you pay somebody and by the end of the day there is not much left for the dollar.” (P4)

Since Pacific operators had given much to their in-groups, they resented having to contribute to an authoritative, out-group institution such as the IRD. Due to their high power distance values, many felt that the government was able to function without further contributions from them:

“I see tax as a burden as we have to collect all these GST and then pay the government. Then we have to collect all these PAYE and KiwiSaver, and then pay to the government and we are all one big tax collection place.” (P1)

“Um . . . it is like my goodness, do I have to pay this much all the hard earned money? I remember in my early days and when you are making a lot of money, you have to pay so much to taxes and you know it was certainly a hard one. I remember making the transfers and I say oh my goodness all these money I could certainly do something with it.” (P3)

Their view of the tax authority is that it should assist instead of taking from them (via high taxes) in return for their unquestioning obedience (Tiatia, 1998). Due to their misperception of excessive taxes, some felt justified to evade taxes through cash jobs. Benefit fraud was another form of tax evasion used by the Pacific group:

“Of course people would want to cheat the government because they don’t get anything from them back other than the fear, penalty, and stress. People would be more encouraged if they are given incentives to want to do work for the IRD, and it would be slightly more positive towards the IRD. It is like a big brother who is bullying, bullying all the time and you don’t want to do anything nice for him but you want to take as much from him when they are not looking sort of thing.” (P3)

“I have dealt with Pacific Islanders relating to self employed but they mainly relate to fraud. I am not saying that the vast majority of the Pacific Islanders are involved with these kinds of activities. But from those that I have dealt with, they relate mainly to child support fraud, donations fraud, those small things. They tend to create documents like having multiple identities and birth certificates so that they can claim certain things.” (BE2)

Hence the Pacific group viewed taxes as being high due to their low tax knowledge, and their high power distance values caused them to perceive the government as taking cash flows from them via taxes instead of assisting them.

8.5.3 Pacific operators’ perceptions of tax spending and business decisions

The Pacific sample acknowledged the strong cultural influences on their business decisions particularly collectivism and femininity (relationship focussed). These values manifested in their business including retaining non-productive staff and giving discounted goods and services to extended families, and a consensus style decision making process:

“Culture definitely played a part in the running of the business as business decisions are not made based on productivity and profitability, but rather due to cultural reasons of not sacking non-performing staff as they are part of an extended family . . . My mother (the co-owner) does not make a decision lightly and she consults with all the managers and service coordinators and asked whether it is a good decision that we are making.” (P1)

Cultural values affect not only their business decisions but also their level of satisfaction towards tax spending. The Pacific group in this study was the most satisfied with welfare spending as shown in Figure 8.2. due to their cultural values of collectivism, femininity (relationship focussed) and short term orientation. Most Pacific operators and/or their extended family members had received or were receiving welfare assistance at the time of the interviews. As their group benefits from welfare spending, it therefore confirms the existing literature that ethnic taxpayers are more willing to support taxes that contribute to welfare spending for their ethnic group (Luttmer, 2001) (see also Chapter 2, section 2.3.3). The Pacific operators in this study were welfare oriented, as they preferred their collective members to enjoy a reasonable standard of living in New Zealand by receiving New Zealand government assistance. Depending on the individual, some considered receiving welfare benefits as their entitlement:

“I think in our culture it is quite acceptable to be on the welfare to a certain extent. I also think it depends on your upbringing as well and your family. If your family is doing that, then why would you do anything different? Like my husband’s family, they were brought up to work and they worked hard even if there is no pay as they will put everything in it. And then you see others just think as to why should they do that and think that it is their right to get the welfare.” (P4)

Even though they were satisfied with the welfare spending, they acknowledged the welfare abuse amongst individuals within their community. Despite that, they showed more tolerance towards the law-breakers (welfare abusers) compared to the European group, due to their cultural value of femininity, as discussed in Chapter 4, section 4.5.5:

“I have seen people abusing the system. What they do is that they work and take care of their family members, and we pay them and they also earn a benefit. They get the benefit and they don’t tell WINZ (Work and Income New Zealand- a government institution that pays welfare benefits) that they are working.” (P1)

“Oh yeah I have seen the welfare abuse. They lied about how many children and they will have someone come and stay with them for a while and then go away. They said that they are not living with

partners when they are living with their partners. Their partners have got a full time job, and they are also getting the benefits as well.” (P7)

In summary, the Pacific operators had more tax payment difficulties and they viewed taxes paid to be excessive. Tax payments difficulties were caused by their low uncertainty avoidance, short term orientation and collective giving to extended families and churches and poor cash management for the business. Their cultural values of collectivism and femininity led to a greater satisfaction in welfare spending compared to the Asian and European groups. With the interplay of the various cultural values, the Pacific operators in this study had more tax payment difficulties and challenges under the self assessment tax regime, which is similar to the experience of the Maori group.

8.6 Tax payments, tax spending and the Maori group

More Maori operators in this study had tax payment difficulty relative to those that did not, with participant M6 receiving threats of forced closure from the IRD. Their plight with tax payments was mainly related to lack of financial literacy and tax knowledge with poor cash management skills:

“It is mainly out of ignorance and lack of financial literacy. There needs to be more awareness to know how to treat money with respect.”(M6)

“The common thread is the financial literacy for the Maori and Pacific Islanders. First it is the lack of financial literacy in terms of basic financial functionality, and the other side is an understanding of the function in terms of their whole lifestyle. It is kind of an annoying aspect of their lives in most cases.” (BE12)

Other inter-related factors for their tax payment difficulties were: financially supporting family members; poor collection from customers and in-groups; inability to borrow from mainstream finance; gifting of goods and services; seasonality in incomes; general disinterest in tax matters; and their under-appreciation of money. These factors led to financial shortages and non tax payments were common occurrences. The Maori sample claimed that money and money management were relatively new concepts as they had historically transacted in non-monetary terms, which led to poor cash planning:

“We have this thing of koha (like giving a gift) and aroha (doing something for love) and on the marae (meeting place), you go and work there for free. The returns you might get are food, like after the funeral and there is lots of food left over and you might be given that

and usually not in monetary terms. Money is not indigenous or native to our culture at all.”(M6)

“I think it can be difficult for some Maori operators because to some, they see money or too much money can be evil. They are quite good in giving away things like they may visit a client. One of the women that I deal with has a skin care business and she would ask people to take some of the products for free.”(BE4)

Despite that their businesses were seasonal (see Appendix 11), many did not have alternative incomes or financing, which reflected their cultural values of low uncertainty avoidance (see Chapter 4, section 4.5.3.) and short term time orientation (see Chapter 4, section 4.5.4.). In spite of having tax payment difficulty, M2 did not aggressively pursue debt owing from *whanau* (family) members. As most did not have alternative solutions to address their tax payment problem, many chose to ignore it until the problem became insurmountable. Maori inability to borrow from mainstream finance due to their collective land ownership, considered unsuitable collateral, contributed to their low cash reserves in Maori businesses (De Bruin & Mataira, 2003; Warriner, 2007):

“Mainly is because they do not have the collateral for borrowings. For example, they may be living on the land but often the land is not theirs, but it is jointly owned by the iwi (family) or hapu (sub-tribe). And therefore you cannot use the land as collateral against the loan.”(BE5)

8.6.1 Maori perceptions of tax payments and cash jobs

All Maori operators in this study acknowledged the need to pay taxes but like the Europeans, they were dissatisfied with having to account and pay for the different tax types and felt that taxes were not spent on SMEs:

“I don’t mind paying taxes if it is spent well. What I feel is that we don’t get that. Particularly from a business point of view, there is no real incentive for business in New Zealand either in start up or for ongoing business. They claim there are but it is only for the big boys. I know of big businesses that have paid zero tax across an extended period of time. They understand about getting around loopholes in taxation that supports big businesses and not the small businesses, and yet the country is built on small businesses.” (M3)

“I don’t mind paying taxes to the country. Actually it needs money for the infrastructure of this country. I just wish that before it gets to my hands, the tax is taken out first like the GST and other taxes like the provisional taxes and sometimes it is difficult to survive. Because of

that, I rather earn less than more, so that I don't have to pay so much tax. I am lucky in the sense that I have not been paying a lot of taxes like provisional taxes except for this year. I earn a lot more last year than previous years. It is my lack of consistent way of handling taxes and then you have the ACC and other taxes, and why can't they just have one tax to make it easier for us?" (M2)

M2's perception of taxes was generally felt by most Maori operators in this study. Low tax knowledge and poor financial literacy caused M2 to perceive that it was more beneficial to pay less tax by generating low taxable incomes (or a loss), a common perception amongst SMEs as observed by the business experts:

"Most people would rather make a loss than paying taxes which is common here. I encounter that sometimes as people would rather go out and buy a car because they do not want to pay tax." (BE6)

Notwithstanding that Maori in this study acknowledged the need to pay taxes, some business experts encountered a minority who were alienated from the mainstream tax system because of their bartering and trading in non-monetary terms:

"In the Maori businesses, unlike the classic business model, there is more cash and more in-kind business transactions like bartering. It is also harder to keep good records. Also there is an element in some of the areas that they are not part of the New Zealand tax system, and that they are not taxpayers and therefore they do not want to be brought into the fold. We deal with those situations with a lot of court activities like the high profile ones, though there are not a lot of them. There is also the media coverage of those who challenge the court system who do not want to succumb under the tax system."(BE6)

Cash jobs and in-kind transactions such as bartering are not unique to Maori businesses but are common business practice amongst SMEs (see Chapter 2, section 2.3.1). Cultural values not only affected Maori perception of tax payments but also their level of satisfaction towards government spending, especially welfare.

8.6.2 Perceptions of tax spending by the Maori operators

Like the Pacific group, the Maori in this research were more satisfied with welfare spending than were the European and Asian groups as more of their extended families benefitted from this tax spending, despite the welfare abuse witnessed by most Maori in this study. Their short term orientation, and receiving sickness and unemployment

financial benefit caused them to be satisfied with welfare spending. Their level of tolerance towards welfare abusers reflected their cultural values of femininity as discussed in Chapter 4, section 4.5.5. However, Maori operators suggested that welfare spending promoted laziness and dependency on the State by some welfare recipients:

“Like some of my own family have lived off the dole (unemployment benefit) for three generations, and have not worked before. They can work, but they don’t want to work and they come up with all sorts of excuses for not working. Like the sickness benefits, I know of guys who have five different names and they are earning five lots of income out of my tax money and they are useless.” (M2)

“I have seen other people who are abusing the welfare system. They would be on study loans and then they are on the unemployment benefits for a couple of years at the same time. I have seen people who had trump up their employment so that they can get their sickness benefits and stuff, and they are on extended sickness benefits and they are absolutely fit to work.” (M3)

“I see the welfare abuse all the time. I am very familiar with it and the typical situation is like the young Maori women. A lot of the girls got knocked up and they just go on the DPB (domestic purpose benefit for single parents) forever and a day.”(M9)

In summary, Maori operators in this study experienced tax payment difficulties due to their high collectivism, short term orientation and low uncertainty avoidance values. This was compounded by their low level of financial literacy and incorrect perception of money, and they placed little value on cash management. Consequently, Maori operators in this study experienced more difficulties and challenges with tax compliance under the self assessment tax regime. This adds to the existing literature that for some ethnic groups, an inability to pay taxes on time could be traced to their historical perceptions of money, and cultural values that do not emphasise future planning or allocation. In particular, indigenous Maori, who had historically transacted without money, and who have collectivistic, short term orientation reinforced by low uncertainty avoidance values, have a greater likelihood of tax payment difficulty.

8.7 Interplay of cultural factors for tax payment and tax spending perceptions

The impact of the cultural factors on the ethnic SME operators’ tax payment experiences is best summarised in Table 8.1 as shown on the next page. From the discussion so far, the main cultural factors impinging on the ethnic operators’ tax

payment experiences and tax spending perceptions are related to long term orientation, individualism-collectivism, uncertainty avoidance, and masculinity-femininity. The interplay of these four cultural values determines the extent of tax payment difficulties and the associated penalty costs for tax payment delays. The long term oriented, high uncertainty avoidance, collectivistic Asians, with their cultural values of masculinity, ensured that their taxes were always paid on time to avoid tax penalties. Similarly, medium term oriented, medium to low uncertainty avoidance, individualistic Europeans with their cultural values of masculinity were able to pay their taxes most of the time. In contrast, short term oriented, low uncertainty avoidance, collectivistic Pacific and Maori with their cultural values of femininity, have had more tax payment difficulty.

Ethnic groups	Tax payment difficulties	Specific tax compliance issues	Cultural factors affected	Cultural factors that enhance or deter ability to pay taxes on time
Asian sample	No tax payment difficulties	Have cash reserves, financial support from families	<ul style="list-style-type: none"> ▪ Collectivism ▪ Long term orientation 	Enhance ability to pay taxes
European sample	Some but not many had tax payment difficulty	Have cash reserves or alternative funding sources	<ul style="list-style-type: none"> ▪ Individualism ▪ Masculinity 	
Maori and Pacific sample	Lots of difficulties with tax payments	Have few cash reserves and lack of alternative funding sources	<ul style="list-style-type: none"> ▪ Collectivism ▪ Short term orientation ▪ Non-masculinity (femininity) 	Deter ability to pay taxes

Table 8.1: Interplay of cultural factors on tax payment difficulties and ethnic groups

In terms of tax spending perceptions, the interplay of masculinity-femininity and long term orientation play significant roles in the tax spending preferences by the ethnic groups. With cultural traits of masculinity and medium and long term orientations,

Asian and European groups preferred education spending that was perceived to generate long term benefits. They were most dissatisfied with welfare spending, as they perceived the benefits to be of a temporary nature. In contrast, Pacific and Maori groups, with cultural values of femininity and short term orientation, valued tax spending that addressed a present need of unemployment, sickness and maintenance of some equality in living standards between the rich and the poor.

8.8 Summary

This chapter examined the ability of each ethnic group to pay their taxes on time. The study showed that the Asian and European operators had fewer difficulties with their tax payments relative to the Maori and Pacific operators. Cultural values of individualism-collectivism, uncertainty avoidance, long term and short term orientations, impact on the way SME operators view cash, wealth accumulation and tax payments. Due to the diverse interplay of cultural factors on compliance behaviours, the tax authority needs to adopt different regulatory approaches and assistance to meet these needs. To assist SMEs with their tax compliance, there is a need for the various government agencies, tax practitioners and the business operators themselves to address tax compliance, which is further discussed in the next chapter.

CHAPTER 9: Conclusions, Contributions, Recommendations and Future Research

9.1 Introduction

SMEs are recognised internationally for their economic contributions and their tax collection functions for the government. Tax compliance research on SMEs has been undertaken overseas in Australia, the United Kingdom, Europe, the United States, and Malaysia (Adams & Webley, 2001; Ahmed & Braithwaite, 2005; Hanefah et al., 2001; Kirchler, Maciejovsky, & Schneider, 2003; McKerchar et al., 2009; S. Morse et al., 2009) but is relatively sparse in New Zealand (Hasseldine, 1995; Lynch, 2002; Noble, 2000; Sandford & Hasseldine, 1992; Tan, 1997). Previous studies on New Zealand SMEs have concentrated on: tax compliance costs (Business NZ-KPMG, 2008; Hasseldine, 1995; Lynch, 2002; Sandford & Hasseldine, 1992); tax evasion behaviours (Noble, 2000); and the use of tax practitioners (Attwell & Sawyer, 2001; Tan, 1997). However, prior research has not acknowledged the effects of ethnicity on SME operators' tax compliance behaviours. With the changing demographics of the New Zealand population and SME ownership (Ministry of Economic Development, 2009; Statistics New Zealand, 2010c), it is therefore important to consider how cultural diversity may affect SME operators' views towards tax compliance, and the process undertaken to discharge their tax obligations.

With the growing significance of culturally diverse SME groups and non-western European taxpayers in most OECD countries, cultural diversity is gaining importance. As the New Zealand tax regime for business taxpayers does not consider cultural differences of the taxpayers, it therefore is an ideal environment for investigating how ethnic business operators perform in terms of filing timely tax returns and paying their taxes on time.

New Zealand is culturally diverse with four major ethnic groups and it is the most populous Pacific nation in the world. It has one of the highest incidences of SMEs (IFAC 2010) with high involvement from indigenous Maori. Few studies (with the

exception of some Malaysian studies such as (Hanefah et al., 2001; Saad, 2009)) have considered indigenous taxpayers and their tax compliance behaviours. This thesis specifically considers indigenous Maori (who are not the dominant group in New Zealand) and how their tax compliance behaviours may differ from other ethnic groups whilst regulated by a Western-based tax regime.

At present, most tax policies adopt a tax authority-centric perspective of what tax compliance should be and the expected behaviours from business taxpayers (Inland Revenue, 2007, 2008). In order to effectively regulate the culturally diverse SMEs, it is vital for tax authorities to understand what SME operators do to comply, and how they comply with the tax regulations. The answers to these questions can be obtained more appropriately from qualitative research, which can provide rich and in-depth data about tax compliance practices and perceptions. Qualitative research enables one to “study things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of the meaning people bring to them” (Denzin & Lincoln, 2005, p. 3). To corroborate the accounts of SME operators and to gain different perspectives of the tax compliance phenomenon, tax practitioners and business experts were included in the research. The broad central research question for this thesis was how cultural values can be inferred from the tax compliance behaviours and perceptions of SME operators in New Zealand.

Fifty nine ethnic SME operators, tax practitioners and business experts participated in a series of in-depth, semi-structured, face-to-face interviews from 2006 to 2010. Discussions were also carried out with key informants to access Maori, Pacific and Asian participants. The accounts of the participants were recorded and analysed against seven themes which were: perceptions of tax compliance; types of accounting system used; record keeping responsibility; tax assistance used; perceptions of the IRD; perceptions of tax spending; audit experiences; and tax payment experiences. This study found that Hofstede’s (2001) five cultural dimensions could be used to explain the differences in the tax compliance behaviours and perceptions of ethnic SME groups within a country.

The chapter begins by examining the significance of the study in section 9.2 followed by the contributions made towards the tax literature on SMEs in section 9.3. Section 9.4 discusses how this study contributes to qualitative tax research and section 9.5 details the policy and practice recommendations. Section 9.6 details the limitations of this

study. Section 9.7 offers some suggestions for future research, with the conclusion in section 9.8.

9.2 Significance of the study

Tax researchers have only recently begun to account for ethnicity in tax compliance due to the increasing cultural diversity in most OECD countries. This study is relevant because, as most Western countries have changing demographics due to globalisation, it is increasingly important that both business taxpayers and tax authorities adapt to these changes to ensure successful compliance and that fair amounts of taxes are collected from all groups. Failure among SMEs to comply can lead to high tax compliance costs, disenfranchisement and business failures (Prescott & Hooper, 2009).

Researchers as yet do not have critical knowledge of specific problem areas of tax compliance. If the tax authorities have knowledge of the cultural implications of the ethnic groups, they would understand why some ethnic groups are less predisposed to successful tax compliance, instead of making assumptions about the taxpayers. Given that, this study could assist the tax authorities and ethnic operators by giving them insights into the cultural factors influencing tax compliance. These insights could help the tax authorities to contextualise their communication, assistance, monitoring programmes and audit strategies towards ethnic SME groups, to enhance voluntary compliance.

The contribution to the literature that this study makes can be divided into three categories. The first is its empirical contribution to the SME tax compliance literature, by application of an intra-cultural study on ethnicity, using Hofstede's (2001) framework. The second is to add to the currently sparse qualitative tax research on SMEs by incorporating the constructivist-interpretivist perspective. The third contribution is towards policy and practice recommendations for government agencies, the business community, tax practitioners, and ethnic operators to identify ways to improve SMEs' tax compliance.

9.3 Contributions to tax compliance research on SMEs

The empirical contribution this research makes towards the tax literature is to include ethnicity as a contextual factor to explain the differences in SME operators' tax

compliance behaviours and perceptions. Instead of concentrating on the tax evasion perceptions, this thesis examines what ethnic SME operators do to comply and the process they undertake to discharge their tax obligations. Understanding the cultural values brought about by ethnicity has provided another facet of compliance and helps to inform tax regulators, the business community and tax practitioners how best to assist culturally diverse taxpayers, as they differ in their approach, priority and intensity towards tax compliance. With this knowledge, tax authorities are better informed of the cultural nuances that can influence tax compliance behaviours and can find ways to meet the needs and expectations of the ethnic groups.

This intra-cultural study is relevant not only for New Zealand but also for other tax jurisdictions with culturally diverse taxpayers such as Malaysia, Australia, United Kingdom, Western Europe, Canada and the United States of America. With self assessment tax regimes, it is likely that similar tax compliance issues will arise in these countries, given their multicultural taxpayers. The findings from this study will help inform these international tax jurisdictions of the process with which to acculturate, assist, regulate and encourage compliance. This study found that some noncompliance behaviour of the ethnic groups is not always in order to cheat on their taxes but because they do not understand the tax compliance requirements, due to their belief systems and low tax knowledge. For some, external pressures from extended families, churches and collective groups can also hinder their ability to comply successfully.

9.3.1 Cultural values and tax compliance of SME operators

As shown in the findings (see Chapters 6 to 8), the tax compliance behaviours of the ethnic groups reflected their cultural values and the way they organised themselves socially. Cultural values acted as a powerful and invisible hand in shaping their record keeping responsibility, sources of tax help used, perceptions towards taxes, tax spending, and IRD and audit experiences. For some ethnic groups, their cultural values were more compatible with tax compliance, whereas for others their cultural values posed significant barriers for effective tax compliance, especially when benchmarked against the requirements to file timely tax returns and pay their taxes on time. The influence of cultural values on ethnic operators' compliance behaviour is summarised using Hofstede's (2001) five cultural dimensions.

High power distance Asians, Maori and Pacific viewed authorities as having significant powers to punish them for noncompliance. Instead of taking a consultative role, they assumed a subordinate role to the authority figures. They looked to the IRD for approval and direction and were receptive to the suggestions/advice given by the authority figures. Unlike low power distance Europeans, they were less inclined to question and challenge the decisions made by the authorities. Given this situation, different modes of interaction are required by the tax authorities and tax practitioners when dealing with the ethnic groups. These organisations should adopt a paternalistic role for high power distance cultures and a more consultative role for low power distance cultures, to encourage compliance.

Asians and Europeans displayed higher uncertainty avoidance, were more disciplined and were motivated to undertake measures to mitigate tax compliance uncertainty, resulting in fewer tax compliance difficulties compared to the lower uncertainty avoidance Maori and Pacific groups. The Maori and Pacific samples showed less interest and discipline in their record keeping tasks and in paying their taxes on time. Given that, higher uncertainty avoidance cultures are more suited to the self assessment tax regime. Targeted assistance by providing training in record keeping, accounting and cash management skills is therefore more applicable to lower uncertainty avoidance cultures.

Mid to long term time orientations resulted in more regularly updated record keeping and fewer tax payment problems for the European and Asian samples. In addition, the Asian group was frugal with their compliance costs by undertaking the record keeping process themselves, seeking tax assistance from peers, and paying their taxes on time. The short term oriented Pacific and Maori sample had more obligations towards traditions, resulting in more tax payment difficulties. They were less cost conscious as more of them relied on paid tax assistance. To assist short term oriented cultures to comply effectively, assistance with cash management skills and record keeping is needed from the tax authorities, tax practitioners and business experts.

The collectivistic Asian sample had access to their families' financial resources and peers' tax knowledge to reduce tax compliance difficulties. However, collectivistic Pacific and Maori samples placed their group obligations over their personal interests, resulting in more tax compliance difficulties. Individualistic Europeans in this research were more self reliant and relied less on their extended families and peers for tax

assistance. Hence, the individualism-collectivism values could enhance or hinder successful tax compliance depending on whether the benefits of belonging to the group outweigh the costs of membership. Targeted education in terms of financial literacy and cash flow management is needed for collectivistic groups who are obliged to fulfil group requirements but do not have access to in-group's resources to assist with their tax compliance. Finally, business networks with mentors who are knowledgeable in tax issues should be encouraged for both collectivistic and individualistic cultures, to help reduce their reliance on paid tax assistance.

The Europeans and Asians in this study, as cultures displaying characteristics of masculinity, were more committed to completing the tax compliance tasks required of them, whereas the Pacific and Maori sample, with less masculine cultural values, emphasised relationship building and therefore tax compliance activities were not given the priority or interest. Europeans and Asians with more masculine cultural values were performance oriented and showed greater dissatisfaction towards welfare spending, compared to the Pacific and Maori samples that were more welfare oriented. Given that, those with masculinity cultural values are more predisposed to completing their tax compliance obligations and therefore there is a greater need for government intervention in terms of accounting training for the non-masculinity cultures to improve their ability to complete tax compliance activities.

9.3.2 Theoretical and empirical contributions of this research

While Hofstede's (2001) framework was based on a quantitative methodology, the qualitative design of this study aimed to validate and understand Hofstede's (2001) dimensions in the tax compliance context of ethnic SMEs. This study contributes to theory in intra-cultural research, as this study shows that Hofstede's (2001) framework can be used to explain the tax compliance differences intra-culturally (within one tax jurisdiction), instead of cross-culturally (between tax jurisdictions). This qualitative intra-cultural study provides insights into the complex social processes which constitute the contextual variability for tax compliance, which is often overlooked in quantitative tax research. It also suggests that tax compliance activity cannot be seen as culturally neutral, as has previously been assumed by most tax researchers and regulators.

The qualitative study uncovers more specific information about the ethnic groups' ability to comply with the tax regulations, especially in the area of family and

community obligations. This could provide a basis from which to improve existing training programmes, allowing trainers to target specific concerns and compliance issues. The relationship between the ethnic operators and their extended families, networks and community, is another area with robust potential for future tax compliance research. Determining the types of influences and how they affect the ethnic operators' compliance decisions could help tax authorities to monitor those groups whose allegiance towards extended families and communities may override their obligations towards the government.

The knowledge gained from the ethnic operators' tax compliance behaviours and perceptions may be significant in expanding the tax literature on SMEs in several ways. First, this intra-cultural study adds to the current sparse research on ethnicity and tax compliance. The findings could be valuable in developing models for designing further research on tax compliance or related topics, such as tax evasion and tax morale. Second, this study brings to the fore the effects of cultural values on tax compliance. Prior studies, other than cross-cultural tax research, have overlooked the significance of culture on the tax compliance behaviours of taxpayers within a country. Instead, they have concentrated on the technical aspects of compliance, but overlooked the cultural aspects of the taxpayers which influence decision making. This study shows that culture plays a significant role in one's inclination to file timely tax returns and to pay one's taxes on time.

Third, this study brings attention to the unmet tax compliance needs of ethnic groups who have a history of high business failures. Understanding the cultural elements that impede successful tax compliance reveals a need for ethnic SME operators to modify and adapt their cultural values in order to comply. Furthermore, the findings could assist tax authorities, tax practitioners and business experts to design interventions and assistance to reduce noncompliance amongst SMEs. By addressing tax compliance difficulties, the likelihood of business failures for SMEs is also reduced.

9.3.3 Interplay of cultural factors and tax compliance behaviours of SMEs

This thesis examines the tax compliance behaviours and perceptions of ethnic SME operators, and their ability to discharge their tax compliance obligations, in terms of filing accurate and timely tax returns and paying their taxes on time. In order to gather information for filing tax returns, issues of the accounting system adopted, record

keeping responsibility, tax assistance used, and perceptions of the tax authority are important considerations. In terms of tax payments, issues concerning tax payment difficulties, their view of tax payments, and tax spending perceptions are important considerations. This section details the interplay of all the cultural dimensions on each ethnic group's tax compliance behaviours and perceptions.

The Asian group in this research possessed cultural values which enhance their ability to file tax returns and pay their taxes on time. In particular, their high uncertainty avoidance and long term orientation were the main factors that enabled them to successfully comply, and therefore they did not associate tax compliance with stress or tax penalties. Other cultural values that contributed towards successful compliance were collectivism and masculinity. Collectivism allowed them greater access to free tax information and financial resources to comply. Their masculinity traits motivated them to expend considerable efforts on record keeping and completing their tax compliance tasks. Their high power distance values ensured they complied in order to get approval and favours from the tax authority. Their masculinity cultural values and long term orientation influenced them to prefer education over welfare tax spending.

The European group possessed cultural values of medium term orientation, masculinity and low to medium uncertainty avoidance, which enabled them to file their tax returns and pay their taxes on time. Compared to the Asian group, they incurred higher compliance costs because of their individualistic and low power distance traits, where they relied more on their accountants for tax assistance. Their cultural characteristics of individualism and masculinity influenced them to view taxes as high and they were more dissatisfied with welfare spending. They did not trust the IRD to assist them with their tax compliance obligations due to their low power distance values.

The Maori and Pacific groups possessed cultural values of short term orientation, collectivism, low uncertainty avoidance, and femininity, which hindered their ability to file timely tax returns and pay their taxes on time. In particular, their low uncertainty avoidance, collectivism and short term orientation played more significant roles in terms of generating accurate tax information. The obligations to satisfy group commitments, and expending resources to nurture relationships had resulted in tax payment difficulties. Their high power distance values led them to revere their tax practitioners and the IRD, thereby incurring higher tax compliance costs. Their lack of

financial literacy and low tax knowledge also caused many to view tax compliance as stressful and involving tax penalties.

Hence, in summary, the Asian group in this sample had the least difficulty with tax compliance, whereas the Maori and Pacific groups had the most difficulties, attributable to their cultural values. The Europeans were similar in their tax compliance behaviours to the Asians, though they experienced some problems with their tax payments and incurred higher compliance costs. The interplay of the various cultural values did impact on the way each ethnic group approached their tax compliance obligations. For some, the tax compliance requirements presented few challenges, whereas for others tax compliance issues resulted in stress and high costs.

9.4 Contribution to qualitative tax research on SMEs

As mentioned in Chapter 5, prior tax compliance research on SMEs has been both qualitative and quantitative in nature. Research on ethnic and cultural groups using qualitative research has been undertaken in Australia (Coleman & Freeman, 1994; Rothengatter, 2005a) and Malaysia (Kasipillai & Abdul-Jabbar, 2006). Coleman and Freeman (1994) and Kasipillai and Abdul-Jabbar (2006) adopted the interview method, and Rothengatter (2005a) used focus groups to seek SMEs' views on the tax evasion perceptions and practices. As these issues have been extensively researched, this thesis considers, instead, the processes and decisions SME operators undertake to comply with the tax regulations.

Other attempts to study culture and tax compliance have been quantitative and experimental using cross-cultural analysis on general taxpayers (Alm & Torgler, 2006; Frey & Torgler, 2007; G. Richardson, 2007). Intra-cultural research on ethnicity and tax evasion perceptions was undertaken by Birch et al. (2003) using New Zealand students. However, SME taxpayers cannot be equated to general taxpayers or students, as they have regressive compliance costs; have some tax withheld at source but not all the time; have greater opportunity to evade taxes; and are tax collectors for consumption and employment related taxes, as discussed in Chapter 1, section 1.2.1 and Chapter 2, section 2.3. This research therefore aims to study SME operators' tax compliance behaviours and how their tax decisions can be inferred from their cultural backgrounds.

The methodological approach used for this research is qualitative due to the reasons given in Chapter 5, sections 5.2 to 5.4. This research adds to the currently sparse qualitative tax research on SMEs in two ways. First, it incorporates the constructivist-interpretivist paradigm in acknowledging the multiplicities and uniqueness of each participant's constructions. As collectivistic groups are uniquely different from individualistic Europeans, this study provides some insights of how they may differ from the norm in their approach, priority, and intensity towards tax compliance. Second, the use of business experts to corroborate the accounts of ethnic operators adds another perspective of tax compliance which has largely been overlooked in most of the tax literature on SMEs. This perspective shows that tax compliance activity for ethnic groups is more than record keeping and cash management, but is also about managing uncertainty, demands from networks, extended families and churches, and about how taxpayers view authorities, time and relationship building.

9.5 Policy and Practice recommendations

This research shows that different ethnic operators perceived tax compliance differently and therefore adopt different approaches and priorities to discharge their tax compliance obligations. The findings from this research can help tax authorities to identify compliance problems and challenges at the grass roots level and to take corrective measures to improve compliance and increase tax revenues. To strategically encourage voluntary compliance from the ethnic groups, the tax authorities, tax practitioners and business experts need to adopt a suite of monitoring and assistance measures, instead of the "one-size fits all" approach, as shown in the next few subsections.

9.5.1 Monitoring and assisting Asian business taxpayers with tax compliance

Asians in this study had been found to be collectivistic, had high to medium uncertainty avoidance, high power distance, masculinity traits and were long term orientated. They: had well kept record keeping systems; had no tax payment difficulties; undertook record keeping functions themselves; were more reliant on peers and in-group networks for tax assistance; were willing to seek IRD assistance, but declined to do so because of the inefficient telephone services; and were more permissive of the cash economy.

Strategies for monitoring Asian operators need to ensure that their networks and peers are also complying, by increasing the IRD presence within the Asian community. The

IRD could offer tax compliance seminars and training targeted specifically for Asian businesses, both in English and Asian (such as Mandarin, Tamil and Korean) languages. These services should be undertaken by Asian and European IRD officers for three reasons. First, Asian officers have a better understanding of the cultural underpinnings for Asian tax behaviours. Second, it signals to the Asian community that the IRD is willing to understand and assist them, which is important for relationship building. Third, to maintain their high power distance values, European officers symbolise the authoritativeness of the IRD. Increasing the IRD presence may help change the cash job practices and perceptions of the Asian community.

Currently, the IRD does not provide specialised services to any ethnic groups other than for Maori with their Maori Community Officers. For the rest, language interpretation services are provided and assistance from 100 liaison officers nationwide is provided to service all other ethnic groups, business structures and tax entities. The percentage of Asian staff employed by the IRD is currently at 8 percent, and not all of them have direct interactions with taxpayers (Inland Revenue, 2011).

As Asians value time and expediency, the IRD could improve on providing prompt, accurate and reliable phone services. This not only provides a mechanism to interact with the Asian operators but it can also lessen their dependency on their networks and peers as sources of tax assistance. By reducing their dependency on these networks, Asian operators may be less influenced by some of their undesirable tax practices, including undeclared cash jobs. More interaction between the IRD and Asian operators implies greater indirect monitoring of this group.

“Saving face” is important to the Asians due to their collective and tight-knit business networks. To address the permissive culture of cash jobs, information needs to be provided about the consequences of noncompliance, especially for those who are relatively new to the country. Using the shaming mechanism as a deterrent for evading taxes and heralding those who had complied could possibly help reduce the frequency of cash jobs among Asian businesses. However, the IRD needs to use these measures strategically in order to gain the trust of the community, as using these measures indiscriminately can be counter-productive, given the collective mentality of the Asian community.

9.5.2 Monitoring and assisting Maori and Pacific business taxpayers with tax compliance

This subsection discusses the regulatory strategies for Pacific and Maori operators, since they exhibited very similar cultural values. They: were collectivistic; had low uncertainty avoidance values; had high power distance values; emphasised relationship building (femininity); and were short term oriented. They also: had reasonable record keeping systems; had more tax payment difficulties; used paid tax assistance; were willing to seek the IRD's assistance to save cost (for two Pacific operators but not the Maori group); had high regards for the tax authority and tax practitioners; and exhibited relatively low tax, financial management and accounting knowledge.

Government agencies including the IRD, Pacific Business Trust (PBT), Te Puni Kokiri (TPK) and the Ministry of Economic Development (MED) should strongly suggest and offer Maori and Pacific operators accounting, financial management and tax training. These critical skills need to be acquired, and given their lack of interest towards record keeping and cash management, they might take longer to be proficient in these skills. The training must first and foremost demystify the level of difficulty and skills required to comply. It should be supplemented with financial literacy training on the high cost and adverse long term repercussions of tax penalties and non mainstream finance. The training ought to be practical, since they are generally kinaesthetic learners (Henry, 2007) and they learn better through visual means rather than text. The training should also incorporate relevant examples, such as family and community obligations to which they could identify, and they should be made conscious of the adverse financial repercussions of noncompliance.

In addition, subsequent follow ups are needed from the trainers, as these newly acquired skills do not come naturally to these SME operators, because they are less predisposed to record keeping and cash management. Once they are equipped with these skills and are knowledgeable with the tax requirements, they could undertake the record keeping function themselves, to reduce both the "psychological costs" (Sandford, Godwin, & Hardwick, 1989) and administrative cost (Business NZ-KPMG, 2008) of tax compliance.

Their high regard for tax authority means that the IRD needs to be more proactive in dealing with these groups. This can be done via PBT and churches (for Pacific

operators) or via TPK and *maraes* (meeting houses- for Maori operators) instead of individually, to lessen their fear of authority. Furthermore, the IRD could proactively assist Pacific and Maori operators with claiming tax rebates for donations and church giving, to lessen their fear towards the IRD. They could also proactively assist them with practical help such as tax filing and cash management. For example, the IRD could encourage them to make tax payments immediately when they receive their GST and PAYE deductions, to reduce the temptation to use the tax monies to satisfy group obligations. The IRD should reward them with monetary incentives and recognition for their efforts. Given their high power distance values, these forms of reward and recognition would compel them to view IRD more favourably. There are incentives for the IRD to adopt this approach as discussed in Chapter 2, section 2.7. The IRD must be seen to assist them with compliance and not just be an enforcer of tax laws.

Another measure to which government agencies including the IRD could undertake is to herald and provide exemplars of those Maori and Pacific operators who have successfully complied and explain how they overcame tax compliance challenges and difficulties. Due to their collective cultures, information on their success stories ought to be publicised. These measures also provide a platform for networking with other SME operators with similar experiences and concerns. Demystifying tax compliance helps to integrate the tax compliance activity as a core part of their business.

9.5.3 Monitoring and assisting European business taxpayers with tax compliance

Europeans in this study were found to: be individualistic; have medium to low uncertainty avoidance; have low power distance; have masculinity traits; and be medium term oriented. They: had good record keeping systems; had some, but not too many tax payment difficulties; were reliant on their tax practitioners for tax assistance; and were unwilling to seek IRD assistance.

As the European, Maori and Pacific operators in this research showed greater reliance on their tax practitioners, it is important for the IRD to work alongside tax practitioners to ensure that their clients' accounting systems are in place for tax compliance purposes. Tax practitioners can exert significant influence on compliance levels, as discussed in Chapter 2, sections 2.8 and 2.8.1, and, therefore, the IRD should work cooperatively with tax practitioners to address noncompliance issues.

To improve and equip European operators' record keeping skills, training seminars could be provided by the Chamber of Commerce, NZTE and Business New Zealand. To gain their trust, there is a need for the IRD to provide tax minimisation seminars and to provide efficient, accurate and consistent advice to reduce compliance costs for SMEs. Any legitimate business deductions ought to be made known to SMEs.

9.5.4 Practice changes required of the IRD

Section 9.5.1 to 9.5.3 discussed the different regulatory requirements for the different ethnic groups. The discussion so far shows that the New Zealand government and the IRD should use a variety of strategies to promote greater tax compliance by ethnic SME operators. Recognising the importance of cultural values and how they affect SME operators' compliance behaviours, they need to adopt measures beyond economic deterrence and audit strategies to improve tax compliance. This is because "methods that reinforce and encourage taxpayers' devotion to their responsibilities as citizens play an important role in the tax collection process" (Slemrod, 1992, p. 7). To encourage compliance from ethnic SME operators, the IRD needs to adopt strategies to motivate ethnic taxpayers to comply, rather than force them to comply. This requires monitoring and assistance measures with understanding of what is important and relevant to each ethnic group.

The way taxpayers are treated by the IRD does affect their willingness to cooperate with the tax authority (Tyler, 2006). IRD officers need to be not only technically competent and helpful to SMEs, but to offer services customised to the cultural needs and expectations of the ethnic groups. This is because "communications of a different sort, delivered in a different way, or with greater frequency might still produce a compliance effect" (Blumenthal, Christian, & Slemrod, 2001, p. 135). For example, as Asian operators in this sample were more knowledgeable in taxation than the other groups, they would be greatly assisted with more difficult tax queries. On the other hand, the low tax knowledge of the Maori and Pacific samples requires assistance with more fundamental issues, such as record keeping and the determination of taxes. The Europeans would like to be given assistance to minimise the overall tax paid.

It is also important for government agencies to identify certain impediments for effective compliance for certain ethnic groups. Ethnic groups that exhibit a combination of cultural values of low uncertainty avoidance, short term orientation, femininity and

collectivism are particularly at risk of noncompliance. They therefore need more assistance to ensure that tax compliance does not become overly burdensome for them. On the other hand, groups that have a combination of high uncertainty avoidance, long term orientation and masculinity traits require less assistance as they are likely to comply successfully. Given that, the tax authorities could allocate their resources strategically to assist the different groups to comply based on their needs.

To assist SMEs with their tax compliance, the IRD needs to have a balance of strategies that deter cash job practices, and some to promote tax compliance, by providing customer focussed services to SMEs. The IRD officers need to be culturally aware and be sensitive to the notion that not all ethnic groups have the same cultural characteristics of individualism, masculinity, low power distance, and medium term orientation as mainstream Europeans do, to assist compliance with the tax regulations. The IRD officers can no longer be culturally neutral, as “culture permeates everything, making neutrality impossible” (B. Allen, 2011, p. 8), and in order to effectively regulate ethnic groups, it is “no longer business as usual” (Mitroff, 1987).

In addition, the IRD needs to acculturate, educate and induct ethnic groups into the New Zealand tax system, so that ethnic taxpayers understand that paying taxes is part of the fabric of this country. These measures are also applicable to other western tax jurisdictions that regulate culturally diverse taxpayers, such as the United Kingdom, the United States, Australia, Canada, and countries in Western Europe, as these countries are likely to face similar regulatory challenges as New Zealand, due to their multicultural population.

9.6 Limitations of this research

Social scientists have long recognised the limitations of any research, indicating that it is impossible to create a perfect study that can be considered the final answer to a research problem (Scandura & Williams, 2000). Limitations of this study include the following aspects. First, the interview method requires close interaction with the participants and a common criticism associated with this method relates to researcher’s subjectivity (Lawrence, 2006; Punch, 2005). To reduce the subjectivity concern, a detailed analytical trail, and triangulation from multiple perspectives have been adopted for this study.

Second, the small sample size and purposive sampling method do not allow for statistical generalisation to the wider population. However the statistical generalisability issue is not limited to interview and purposive sampling but also to laboratory experimental method with student participants (for further discussion see (Alm, Jackson, & McKee, 1992)). Furthermore, qualitative research does not strive for statistical generalisations but analytical generalisations. Maxwell (2002, p. 52) states that “qualitative studies are usually not designed to allow systematic generalisation to some wider population.” The aim of this study was to gain rich and in-depth insights on the tax compliance dynamics of ethnic SME operators and consequently, analytical generalisations were developed that are transferable to other ethnic operators with similar circumstances and cultural contexts (Patton, 2002; Perakyla, 2005; Punch, 2005). The arguments put forth can be used in subsequent research for future validation and by incorporating different industries and/or using different research methodological approaches.

Third, this study was based on Auckland SME operators for various reasons (see Chapter 1, section 1.2.1 for further discussion). Further study would benefit from a range of perspectives provided by participants from other New Zealand regions and other Western world tax jurisdictions. As this is a New Zealand study, the ability to generalise to other tax jurisdictions needs to be tested for relevance, especially to those countries with a different cultural mix and with different tax regime.

This research found that cultural elements affect the tax compliance behaviours of SME operators. The analysis has been limited to the European, Asian, Maori and Pacific groups. This research is not attempting to generalise the findings to the ethnic populations, as these broad categories could be further broken down into subgroups. For example, the Asian group can be subdivided into the Chinese, Indians, Koreans, Malaysians, Singaporeans, Vietnamese, Cambodians and others. Likewise the Pacific group can be broken down to fourteen island subgroups. The research also acknowledges that tax compliance may affect these subgroups differently from those who have participated in this research.

The interviewees were also limited to those who were willing to participate in the research. Those who were unwilling to participate were either too busy or perhaps feared the adverse repercussions of discussing tax related matters. This limitation however is common in tax research (Kirchler, 2007; McIntosh & Veal, 2001; Song &

Yarbrough, 1978; Tran-Nam, 2003; Trivedi, Shehata, & Lynn, 2003). As the majority of the participants were able to give accounts of both their good and bad experiences, they provided valuable insights into their tax practices and decisions. This is because the focus of the research is not solely on tax evasion perceptions and practices but on what is done to discharge tax compliance obligations and experiences thereof.

As all research, including this present study is not without limitations, the next section offers some suggestions for future research.

9.7 Suggestions for future research

As this study has shown the effects of ethnicity on SME operators' tax compliance behaviours and perceptions, other research proposed should extend the findings and confirm or refute the present findings. There are several suggestions that follow. First, increase the sample size of the four ethnic groups in Auckland to verify and validate the present findings. Second, the sample participants should be drawn from other regions outside of Auckland, such as Christchurch and Wellington where there are large concentrations of SMEs. Third, participants from different industries that were not covered in this study, such as farming and mining, should be included to verify the findings from this study. This is to determine whether industries play a role in ethnic operators' tax compliance behaviours, in replacement of, or in addition to the influence of ethnicity.

Fourth, subgroups within the four ethnic groups can be included to determine the relevance of the present study to these subgroups. This is relevant when the tax authority or business community are specifically targeting a subgroup in terms of regulation and assistance. Fifth, the ethnic SME operators from other international tax jurisdictions with multicultural taxpayers and regulated under a self assessment tax regime such as Australia, Malaysia, United Kingdom, United States, Canada and Western Europe should be included to test the analytical generalisations developed from this study. This would also confirm whether the findings from this present study are applicable to their tax jurisdictions and whether ethnicity plays any role in the tax practices, decisions and experiences for multicultural taxpayers. Sixth, other demographic factors such as level of tax knowledge, length of business experience, and the perception of tax fairness of SME operators should be included in subsequent

research, by using interview or survey methods to identify their effects on tax compliance.

Seventh, since this study validated Hofstede's (2001) cultural framework for an intra-cultural study, future research could use GLOBE (House et al., 2004) and Schwartz's (1999) frameworks with different cultural elements. This is to identify what other cultural elements of ethnicity can influence tax compliance behaviours. At present, the GLOBE and Schwartz's frameworks have been used in other disciplines including education, leadership, management, marketing and psychology (House, 2004; Schwartz, 2004; Schwartz et al., 2000).

Eighth, focus groups from the tax practitioners and business experts could be undertaken to identify other broader issues that have been overlooked in this present study. However the use of focus groups for ethnic operators is not feasible, as discussed in Chapter 5, section 5.5.1.2. Ninth, future research should increase the mix of business experts and tax practitioners to include representatives from Asia Foundation, the Ministry of Economic Development, the Maori Accountants (part of NZICA), and the four large CA firms. Tenth, laboratory experimental methods with quantitative approach can be used to determine whether ethnicity plays a role in the individuals' tax practices, and decisions.

Eleventh, future research should apply Hofstede's (2001) theoretical framework in the tax literature for New Zealand and other international tax jurisdictions intra-culturally and cross-culturally to determine the effects of collective networks, orientation of time, risk and money towards tax compliance. The research could either study one or all five Hofstede's (2001) cultural dimensions at the same time. This will help provide some insights into the determining factors for tax compliance perceptions and practices both intra-culturally and cross-culturally.

9.8 Conclusions

Given that cultural values affect business operators' tax behaviour and perceptions, it is important for any government agency and tax authority to be aware of the changing cultural landscape of SMEs. It would be inappropriate for these institutions to disregard the strong traditional cultures influencing the tax decisions among the non-European

groups. They should also be aware of those culturally based factors that could hinder successful compliance by some ethnic groups.

Given the cultural influences on tax compliance, it is important for ethnic operators to be mindful of cultural values that hinder or enhance successful tax compliance. Since all ethnic operators in New Zealand are regulated under the Western tax regime, it is imperative for non-European groups to modify their own cultural values in the long run and to adapt to the Western world requirements (Kerr, 1995) to improve their tax compliance. Those who are adaptable have a better chance of succeeding, and the classic example is shown by the Asian group in this study. This requirement is also applicable to all non-Western ethnic groups residing in other Western OECD countries because it is likely that their tax regimes will be based on Western cultural values.

There are other measures that ought to be considered by government agencies, tax practitioners and the IRD to assist ethnic operators with their tax compliance requirements. This includes providing training on basic accounting, finance and tax knowledge and record keeping processes. Tax practitioners could recommend a suitable accounting system which is commensurate with the ethnic operator's capability. The business experts could provide assistance, networking, and mentorship to ethnic operators to successfully comply. The IRD could be more culturally aware of the different ethnic groups' tax compliance needs and expectations, and provide customer-focused services towards SMEs. It is only by developing a working cooperation between the business operators, the tax authority, tax practitioners, the business community and the government that there will be improved tax compliance for SMEs.

In conclusion, the impact of cultural values on tax compliance behaviours and perceptions is clearly evident among ethnic SME operators because culture controls the taxpayers' actions, behaviours, and interpretation of the world (Adler, 2000). In particular, the "intangible resources such as values, tradition, informal community networks, knowledge, and culture are vital aspects of ethnic businesses" (Bhalla, Henderson, & Watkins, 2006, p. 530). The results of this study indicate that tax theory and practice should focus not only on the technical factors of tax compliance, as has been suggested in the past, but they should also focus on the cultural aspects of the tax decision maker, the taxpayer.

REFERENCES

- Adams, C., & Webley, P. (2001). Small business owner's attitudes on VAT compliance in the UK. *Journal of Economic Psychology*, 22(2), 195-216.
- Adler, N. (1991). *International dimensions of organisational behaviour (2nd ed.)*. Boston: PWS-Kent Publishing Company.
- Adler, N. (2000). *International dimensions of organizational behavior (4th ed.)*. Cincinnati: OH: South-Western.
- Agha, A., & Haughton, J. (1996). Designing VAT systems: Some efficiency considerations. *Review of Economics and Statistics*, 78, 303-308.
- Ahlstrom, D., Chen, S., & Yeh, K. (2010). Managing in ethnic Chinese communities: Culture, institutions, and context. *Asia Pacific Journal of Management*, 27, 341-354.
- Ahmed, E., & Braithwaite, V. (2005). Understanding small business taxpayers: Issues of deterrence, tax morale, fairness and work practice. *International Small Business Journal*, 23(5), 539-568.
- Aldrich, H., & Waldinger, R. (1990). Ethnicity and entrepreneurship. *Annual Review of Sociology*, 16, 111-135.
- Alesina, A., Baqir, R., & Easterly, W. (1999). Public goods and ethnic divisions. *The Quarterly Journal of Economics*, 114, 1243-1284.
- Alesina, A., & Ferrara, E. (2005). Ethnic diversity and economic performance. *Journal of Economic Literature*, 43, 762-800.
- Allen, B. (2011). *Teaching across borders: Business as usual?* (Doctor of Philosophy). Utah State University, Logan, Utah.
- Allen, W. (2000). Social networks and self-employment. *Journal of Socio-Economics*, 29(5), 487-502.

Alley, C., Maples, A., Veal, J., & Polson Higgs & Co. (2004). *New Zealand taxation* (1st ed.). Wellington: Brookers Ltd.

Allingham, M., & Sandmo, A. (1972). Income tax evasion: A theoretical analysis. *Journal of Public Economics*, November, 323-338.

Alm, J. (1991). A perspective on the experimental analysis of taxpayer reporting. *The Accounting Review*, 66(3), 577-593.

Alm, J. (1999). Tax compliance and administration. In W. Hildreth & J. G. Richardson (Eds.), *Handbook on taxation* (pp. 741-768). New York: Marcel Dekker.

Alm, J. (2011). Measuring, explaining, and controlling tax evasion: Lessons from theory, experiments, and field studies. *International Tax and Public Finance*, 18, on line version.

Alm, J., Bloomquist, K., & McKee, M. (2010, November). *On the external validity of tax compliance experiments*. presented at the meeting of the National Tax Association Annual Conference, Chicago IL.

Alm, J., Jackson, B., & McKee, M. (1992). Estimating the determinants of taxpayer compliance with experimental data. *National Tax Journal*, 45, 107-114.

Alm, J., Jackson, B., & McKee, M. (1993). Fiscal exchange, collective decision institutions, and tax compliance. *Journal of Economic Behaviour and Organisation*, 22(3), 285-303.

Alm, J., & Jacobson, S. (2007). Using laboratory experiments in public economics. *National Tax Journal*, LX(1), 129-152.

Alm, J., Sanchez, I., & De Juan, A. (1995). Economic and noneconomic factors in tax compliance. *KYKLOS*, 48, 3-18.

Alm, J., & Torgler, B. (2006). Culture differences and tax morale in the United States and in Europe. *Journal of Economic Psychology*, 27, 224-246.

Andreoni, J., Erard, B., & Feinstein, J. (1998). Tax compliance. *Journal of Economic Literature*, XXXVI, 818-860.

Ao, X. (2008). *The cross-cultural leader: A comparative study of leadership behaviours in China and New Zealand* (Master of Philosophy). Auckland University of Technology, Auckland.

Arksey, H., & Knight, P. (1999). *Interviewing for the social scientists*. London: Sage Publications.

Armstrong, R. (1996). The relationship between culture and perception of ethical problems in international marketing. *Journal of Business Ethics*, 15(November), 1199-1208.

Arruda, C., & Hickson, D. (1996). Sensitivity to societal culture in managerial decision-making: An Anglo-Brazilian comparison. In P. Joynt & M. Warner (Eds.), *Managing across cultures: Issues and perspectives* (pp. 179-201). London: International Thomson Business Press.

Ashby, J., & Webley, P. (2008). "But everyone else is doing it": A closer look at the occupational taxpaying culture of one business sector. *Journal of Community & Applied Social Psychology*, 18, 194-210.

Attwell, R., & Sawyer, A. (2001). The ethical attitudes of New Zealand tax practitioners - Still "barely passing"? *New Zealand Journal of Taxation Law and Policy*, 7(2), 111-146.

Australian Taxation Office. (1996). *Small business attitudes to tax compliance: A pilot research study for the ATO*: Danger Research Group.

Bagnoli, M., & McKee, M. (1991). Voluntary contribution games: Efficient private provision of public goods. *Economic Inquiry*, 29, 351-366.

Bajada, C. (2002). *Australia's cash economy: A troubling time for policymakers*. Aldershot: Ashgate Publishing.

Baker, G. (2007). Pacific pathways. *New Zealand Business*, 10-11.

Baldry, J. (1987). Income tax evasion and the tax schedule: Some experimental results. *Public Finance*, 42(3), 357-383.

Baskerville, R. (2003). Hofstede never studied culture. *Accounting, Organizations and Society*, 28(1), 1-14.

Basu, A. (2006). Ethnic minority entrepreneurship. In M. Casson, B. Yeung, A. Basu, & N. Wadeson (Eds.), *The Oxford handbook of entrepreneurship* (pp. 580-600). New York, US: Oxford University Press.

Basu, A., & Altinay, E. (2002). The interaction between culture and entrepreneurship in London's immigrant businesses. *International Small Business Journal*, 20(4), 371-393.

Bauer, M., & Aarts, B. (2000). Corpus construction: A principle for qualitative data collection. In M. Bauer & G. Gaskell (Eds.), *Qualitative researching with text, image and sound: A practical handbook* (pp. 19-37). London: Sage Publications.

Baxter, J., & Chua, W. (2008). The field researcher as author-writer. *Qualitative Research in Accounting and Management*, 5(2), 101-121.

Begley, T., & Tan, W. (2001). The socio-cultural environment for entrepreneurship: A comparison between East Asian and Anglo-Saxon countries. *Journal of International Business Studies*, 32(3), 537-553.

Bellah, R. (1985). *Habits of the heart*. California: University of California Press.

Berger, P., & Luckmann, T. (1966). *The social construction of reality*. New York: Anchor Press/Doubleday.

Beron, K., Tauchen, H., & Witte, A. (1992). The effects of audits and socioeconomic variables on compliance. In J. Slemrod (Ed.), *Why people pay taxes* (pp. 67-94). Ann Arbor, MI: The University of Michigan Press.

Bhalla, A., Henderson, S., & Watkins, D. (2006). A multiparadigmatic perspective of strategy: A case study of an ethnic family firm. *International Small Business Journal*, 24(5), 515-537.

Birch, A., Peters, T., & Sawyer, A. (2003). New Zealanders' attitudes towards tax evasion: A demographic analysis. *New Zealand Journal of Taxation Law and Policy*, 9(1), 65-109.

- Bird, S. (1992). *Small business and the ATO: Moving towards a market based approach*. Canberra: ATO Publications.
- Bishop, R. (1996). *Collaborative research stories: Whakawhanaungatanga*. Palmerston North Dunmore Press.
- Bjerke, B. (2000). A typified, culture-based, interpretation of management of SMEs in Southeast Asia. *Asia Pacific Journal of Management*, 17(1), 103-131.
- Blissenden, M. (2002). Procedural fairness and non-assessing decisions of the Federal Commissioner of Taxation. *Journal of Australian Taxation*, 5(3), 466-484.
- Blumenthal, M., Christian, C., & Slemrod, J. (2001). Do normative appeals affect tax compliance? Evidence from a controlled experiment in Minnesota. *National Tax Journal*, 54, 125-138.
- Blumer, H. (1969). *Symbolic interactionism: Perspective and method*. Englewood Cliffs: NJ: Prentice-Hall.
- Bond, M., Leung, K., & Wan, K. (1982). How does cultural collectivism operate? *Journal of Cross-Cultural Psychology*, 13, 186-201.
- Boswell, K., Brown, D., Maniopoto, J., & Kruger, T. (1994). *Grassroots II: community development initiatives at the grassroots, MAF Policy Technical Paper 94/10*. Wellington: Ministry of Agriculture and Fisheries.
- Braithwaite, V. (2003a). Dancing with tax authorities: Motivational postures and non-compliant actions. In V. Braithwaite (Ed.), *Taxing democracy: Understanding tax avoidance and evasion* (pp. 15-39). Aldershot: Ashgate Publishing Limited.
- Braithwaite, V. (2003b). A new approach to tax compliance. In V. Braithwaite (Ed.), *Taxing democracy: Understanding tax avoidance and evasion* (pp. 1-11). Aldershot: Ashgate.
- Braithwaite, V. (2007). Responsive regulation and taxation: Introduction. *Law and Policy*, 29(1), 3-10.

Braithwaite, V., Reinhart, M., & Job, J. (2005). *Getting on or getting by? Australians in the cash economy*. Working Paper 83 - November 2005. Centre for Tax System Integrity, Research School of Social Sciences, Australian National University. Canberra.

Brown, A., Tower, G., & Taplin, R. (2005). The importance of oral communication in a Pacific Island countries' context. *Journal of American Academy of Business, Cambridge*, 7(2), 133-140.

Brown, R. (1994). Migrants' remittances, savings and investment in the South Pacific. *International Labour Review*, 133(3), 347-367.

Bryan, N., Ephraim, R., & Smits, S. (1995). Work perceptions among Hong Kong and United States I/S workers: A cross-cultural comparison. *Journal of End User Computing*, 7(Fall), 22-29.

Bryman, A. (1988). *Quantity and quality in social research*. London: Unwin Hyman.

Business New Zealand. (2008). *Business NZ to the Inland Revenue Department on reducing tax compliance costs for small and medium-sized enterprises - Part one (Thresholds)*. Wellington: Business New Zealand.

Business NZ-KPMG. (2008). *Summary report of the Business New Zealand - KPMG compliance cost survey October 2008*.

Cahn, M. (2008). Indigenous entrepreneurship, culture and micro-enterprise in the Pacific Islands: Case studies from Samoa. *Entrepreneurship & Regional Development*, 20, 1-18.

Cameron, A., & Massey, C. (1999). *Small and medium-sized enterprises: A New Zealand perspective*. Auckland: Pearson Education

Cash Economy Task Force. (2003). *The cash economy under the new tax system: Report to the Commissioner of Taxation*. Canberra: Commonwealth of Australia.

- Chaganti, R., & Greene, P. (2002). Who are ethnic entrepreneurs? A study of entrepreneurs' ethnic involvement and business characteristics. *Journal of Small Business Management*, 40(2), 126-142.
- Chan, C., Troutman, C., & O'Bryan, D. (2000). An expanded model of taxpayer compliance: Empirical evidence from the United States and Hong Kong. *Journal of International Accounting, Auditing & Taxation*, 9(2), 83-103.
- Chen, C., Peng, M., & Saporito, P. (2002). Individualism, collectivism, and opportunism: A cultural perspective on transaction cost economics. *Journal of Management*, 38, 567-583.
- Chew, I., & Putti, J. (1995). Relationship on work-related values of Singaporean and Japanese managers in Singapore. *Human Relations*, 48, 1149-1170.
- Chittenden, F., Kauser, S., & Poutziouris, P. (2003). Tax regulation and small business in the USA, UK, Australia and New Zealand. *International Small Business Journal*, 21(1), 93-115.
- Chu, C. (1991). *The Asian mind games*. New York: Macmillan Publishing Company.
- Chu, P. (2000). The characteristics of Chinese female entrepreneurs: Motivations and personality. *Journal of Enterprising Culture*, 8(1), 67-84.
- Chua, W. (1986). Radical developments in accounting thought. *Accounting Review*, 61(4), 601-632.
- Clydesdale, G. (2007). Cultural evolution and economic growth: New Zealand Maori. *Entrepreneurship & Regional Development*, 19, 49-68.
- Cohen, A. (2007). One nation, many cultures: A cross-cultural study of the relationship between personal cultural values and commitment in the workplace to in-role performance and organisational citizenship behaviour. *Cross-cultural research*, 41(3), 273-300.

- Cohen, J., Pant, L., & Sharp, D. (1995). An exploratory examination of international differences in auditors: ethical perceptions. *Behavioural Research in Accounting*, 7, 37-64.
- Coleman, C., & Freeman, L. (1994). The development of strategic marketing options directed at improving compliance levels in small business. *Australian Tax Forum*, 11, 347-367.
- Coleman, C., & Freeman, L. (1997). Cultural foundations of taxpayer attitudes to voluntary compliance. *Australian Tax Forum*, 13(3), 311-336.
- Collins, J., & Jarvis, R. (2002). Financial information and the management of small private companies. *Journal of Small Business and Enterprise Management*, 9(2), 100-110.
- Commerce Committee. (1998). *Inquiry into compliance costs for business: Final report of the Commerce Committee*. Wellington: New Zealand Government.
- Committee of Experts. (1998). *Tax compliance: Report to the Treasurer and Minister of Revenue by a Committee of Experts on tax compliance*. Wellington: New Zealand Government.
- Connell, J., & Conway, D. (2000). Migration and remittances in Island microstates: A comparative perspective on the South Pacific and the Caribbean. *International Journal of Urban and Regional Research*, 24, 52-78.
- Cooper, D., & Schindler, P. (2003). *Business research methods (8th ed.)*. Boston: McGraw-Hill Irwin.
- Cooper, G. (1998). Small business, big burden. *Australian CPA*, 68(13), 10.
- Costantino, T. (2008). Constructivism. In L. Given (Ed.), *The SAGE encyclopedia of qualitative research methods* (Vol. 1, pp. 116-119). Los Angeles: Sage Publications.
- Cowley, E., Paterson, J., & Williams, M. (2004). Traditional gift giving among Pacific Island families in New Zealand. *Journal of Family and Economic Issues*, 25(3), 431-444.

Cox, T., Lobel, S., & McLeod, P. (1991). Effects of ethnic group cultural differences on cooperative and competitive behaviour on a group task. *Academy of Management Journal*, 34, 827-847.

Crocombe, R. (1976). *The Pacific way: An emerging identity*. Suva, Fiji: Lotu Pasifika Productions.

Crocombe, R. (2008). *The South Pacific (7th ed.)*. Suva: IPS Publications: University of the South Pacific.

Cuccia, A. (1994). The economics of tax compliance: What do we know and where do we go? *Journal of Accounting Literature*, 13, 81-103.

Cullen, M., Swain, P., & Wright, J. (2001). *More time for business: Tax simplification for small business - A government discussion document*. Wellington: Inland Revenue Department.

Cullis, J., & Lewis, A. (1997). Why people pay taxes: From a conventional economic model to a model of social convention. *Journal of Economic Psychology*, 18, 305-321.

Cummings, R., Martinez-Vazquez, J., McKee, M., & Torgler, B. (2004). *Effects of culture on tax compliance: A cross check of experimental and survey evidence*. Working Paper Series, 2004-13. CREMA. Basel.

Cunningham, J., & Lischeron, J. (1991). Defining entrepreneurship. *Journal of Small Business Management*, 29(1), 45-61.

De Bruin, A., & Mataira, P. (2003). Indigenous entrepreneurship. In A. De Bruin & A. Dupuis (Eds.), *Entrepreneurship: New perspectives in a global age* (pp. 169-184). Aldershot: Ashgate Publishing Limited.

de Mooij, M. (2001). *Convergence and divergence in consumer behaviour: Consequences for global marketing and advertising* (Doctoral dissertation). Universidad de Navarra, Pamplona (Spain).

Deakins, D., Smallbone, D., Ishaq, M., Whittam, G., & Wyper, J. (2009). Minority ethnic enterprise in Scotland. *Journal of Ethnic and Migration Studies*, 35(2), 309-330.

- Denzin, N. (1970). *The research act*. Chicago: Aldine.
- Denzin, N., & Lincoln, Y. (1994). Introduction: Entering the field of qualitative research. In N. Denzin & Y. Lincoln (Eds.), *Handbook of qualitative research* (pp. 1-17). Thousand Oaks: Sage Publications.
- Denzin, N., & Lincoln, Y. (2000). Introduction: The discipline and practice of qualitative research. In N. Denzin & Y. Lincoln (Eds.), *Handbook of qualitative research* (Second ed., pp. 1-29). Thousand Oaks: Sage Publications.
- Denzin, N., & Lincoln, Y. (2005). Introduction: The discipline and practice of qualitative research. In N. Denzin & Y. Lincoln (Eds.), *The Sage handbook of qualitative research (3rd ed.)* (pp. 1-32). Thousand Oaks: Sage Publications.
- Department of Labour. (2010). *Workforce 2020 - demographic shift: A critical part of current and future labour*. Wellington: Department of Labour.
- Devos, K. (2006). The attitudes of Australian and New Zealand tertiary students towards tax evasion: A comparative study and demographic analysis. *New Zealand Journal of Taxation Law and Policy*, 12(4), 293-323.
- Donthu, N., & Yoo, B. (1998). Cultural influences on service quality expectations. *Journal of Service Research*, 1(2), 178-186.
- Dornstein, M. (1976). Compliance with legal bureaucratic rules: The case of self-employed taxpayers in Israel. *Human Relations*, 29(11), 1019-1034.
- Douglas, J. (1985). *Creative interviewing*. Beverley Hills, CA: Sage Publications.
- Dunbar, C., Rodriguez, D., & Parker, L. (2002). Race, subjectivity, and the interview process. . In J. Gubrium & J. Holstein (Eds.), *Handbook of interview research: Context and method* (pp. 279-298). London: Sage Publications.
- Duncan, B. (1994). *A hierarchy of symbols: Samoan religious symbolism in New Zealand* (Doctor of Philosophy). University of Otago, Dunedin.
- Duncan, R. (2008). Cultural and economic tensions in Pacific Islands' futures. *International Journal of Social Economics*, 35(12), 919-929.

- Dunfee, T., & Warren, D. (2001). Is guanxi ethical? A normative analysis of doing business in China. *Journal of Business Ethics*, 32, 191-204.
- Earley, P. (1997). *Face, harmony and social structure: an analysis of organizational behavior across cultures*. New York: Oxford University Press.
- Earley, P., & Gibson, C. (1998). Taking stock in our progress on individualism-collectivism: 100 years of solidarity and community. *Journal of Management*, 24, 265-304.
- Editor. (2001, 8 March). Hide slams IRD's "feel-good" charter. *Evening Post*, p. 3.
- Elffers, H. (2000). But taxpayers do cooperate! In M. Van Vugt, M. Snyder, T. Tyler, & A. Biel (Eds.), *Cooperation in modern society: Promoting the welfare of communities, states and organizations* (pp. 184-194). London: Routledge Research International Series in Social Psychology.
- Erard, B. (1993). Taxation with representation: An analysis of the role of tax practitioners in tax compliance. *Journal of Public Economics*, 52(2), 163-197.
- Erard, B., & Feinstein, J. (1994). The role of moral sentiments and audit perceptions in tax compliance. *Public Finance*, 49, 70-89.
- Erez, M. (1993). Toward a model of cross cultural industrial and organizational psychology. In M. Dunnette & L. Hough (Eds.), *Handbook of industrial and organizational psychology* (Vol. 4, pp. 559-607). Palo Alto, CA: Consulting Psychologists Press.
- Erez, M., & Earley, P. (1993). *Culture, self-identity, and work*. New York: Oxford University Press.
- Evans, C., Carlon, S., & Massey, D. (2005). Record keeping practices and tax compliance of SMEs. *eJournal of Tax Research*, 3(2), 288-334.
- Fan, Y. (2002). Guanxi's consequences: Personal gains at social cost. *Journal of Business Ethics*, 38, 371-380.

- Fehr, E., Fischbacher, U., Rosenblatt, B., Schupp, J., & Wagner, G. (2003). *A nationwide laboratory: Examining trust and trustworthiness by integrating behavioural experiments into representative surveys*. Working paper no. 954. CESifo. Munich.
- Feld, L., & Frey, B. (2002). Trust breeds trust: How taxpayers are treated. *Economics of Governance*, 3, 87-99.
- Fernandez, D., Carlson, D., Stepina, L., & Nicholson, J. (1997). Hofstede's country classification 25 years later. *The Journal of Social Psychology*, 137(1), 43-54.
- Finch, H., & Lewis, J. (2003). Focus Groups. In J. Ritchie & J. Lewis (Eds.), *Qualitative research practice: A guide for social science students and researchers* (pp. 170-198). London: Sage Publications
- Firebrace, R. (1999, 7 April). Small business still saddled with yoke of tax compliance. *The Independent*, p. 22.
- Firkin, P. (2001). *"Doing the books" - Social capital between spouses in business-owning families*. Albany and Palmerston North: Massey University.
- Fontana, A., & Frey, J. (2000). The interview: From structured questions to negotiated text. In N. Denzin & Y. Lincoln (Eds.), *Handbook of qualitative research* (2nd ed., pp. 645-672). Thousand Oaks: Sage Publications.
- Fontana, A., & Frey, J. (2005). The interview. In N. Denzin & Y. Lincoln (Eds.), *Handbook of qualitative research* (pp. 695-727). Thousand Oaks: Sage Publications.
- Frederick, H., & Chittock, G. (2006). *Global Entrepreneurship Monitor Aotearoa New Zealand: 2005 executive report*. Auckland: UNITEC.
- Frederick, H., & Henry, E. (2004). Innovation and entrepreneurship amongst Pakeha and Maori in New Zealand. In C. Stiles & C. Galbraith (Eds.), *Ethnic entrepreneurship: Structure and process* (Vol. 4, pp. 115-140). Oxford, UK: Elsevier.
- Frey, B. (1997). *Not just for the money. An economic theory of personal motivation*. Cheltenham, UK: Edward Elgar.

- Frey, B. (2003). *The role of deterrence and tax morale in taxation in the European Union*. Jelle Zijlstra Lecture. Netherlands Institute for Advanced Study in the Humanities and Social Sciences (NIAS).
- Frey, B., & Foppa, K. (1986). Human behaviour: Possibilities explain action. *Journal of Economic Psychology*, 7, 137-160.
- Frey, B., & Torgler, B. (2007). Tax morale and conditional cooperation. *Journal of Comparative Economics*, 35, 136-159.
- Frey, B., & Weck-Hannemann, H. (1984). The hidden economy as an "unobserved" variable. *European Economic Review*, 26, 33-53.
- Fulop, L., & Richards, D. (2002). Connections, culture and context: Business relationships and networks in the Asia-Pacific region. In C. Harvie & B. Lee (Eds.), *Globalisation and SMEs in East Asia* (pp. 274-297). Cheltenham, UK: Edward Elgar Publishing.
- Gallagher, S. (1992). *Hermeneutics and education*. Albany: State University of New York Press.
- Gallhofer, S., & Chew, A. (2000). Introduction: Accounting and indigenous peoples. *Accounting, Auditing and Accountability Journal*, 13(3), 256-267.
- Gaskell, G. (2000). Individual and group interviewing. In M. Bauer & G. Gaskell (Eds.), *Qualitative researching with text, image and sound: A practical handbook* (pp. 38-56). London: Sage Publications
- Gay, L., & Airasian, P. (2003). *Educational research: Competencies for analysis and applications* (7th ed.). Upper Saddle River: Merrill Prentice Hall.
- Geertz, C. (1973). *The interpretation of cultures*. New York: Basic Books.
- Gerxhani, K., & Schram, A. (2006). Tax evasion and income source: A comparative experimental study. *Journal of Economic Psychology*, 27, 402-422.
- Giles, D., & Caragata, P. (1999). *The learning path of the hidden economy: The tax burden and tax evasion in New Zealand*. Wellington: University of Victoria.

Glover, J., & Tran-Nam, B. (2005). The GST recurrent compliance costs/benefits of small business in Australia: A case study approach. *Journal of the Australasian Tax Teachers Association*, 1(2), 237-258.

Gobo, G. (2007). Sampling, representativeness and generalizability. In C. Seale, G. Gobo, J. Gubrium, & D. Silverman (Eds.), *Qualitative research practice* (pp. 405-426). London: Sage Publications.

Golden-Biddle, K., & Locke, K. (1993). Appealing works: An investigation of how ethnographic texts convince. *Organisation Science*, 4(4), 595-616.

Gray, S. (1988). Towards a theory of cultural influence on the development of accounting systems internationally. *Abacus*, 24, 1-15.

Guba, E. (1990). The alternative paradigm dialog. In E. Guba (Ed.), *The paradigm dialog* (pp. 17-27). London: Sage Publications.

Guba, E., & Lincoln, Y. (1990). Can there be a human science? *Person-Centred Review*, 5(2), 130-154.

Gubrium, J., & Holstein, J. (2002). From individual interview to interview society. In J. Gubrium & J. Holstein (Eds.), *Handbook of interview research: Context and method* (pp. 3-32). Thousand Oaks: Sage Publications.

Gupta, V., & Hanges, P. (2004). Regional and climate clustering of societal cultures. In R. House, P. Hanges, M. Javidan, P. Dorfman, & V. Gupta (Eds.), *Culture, leadership, and organisations: The GLOBE study of 62 cultures* (pp. 178-215). Thousand Oaks: CA: Sage Publications.

Gupta, V., Levenburg, N., Moore, L., Motwani, J., & Schwarz, T. (2008). Conclusions: A culturally-sensitive analysis of Confucian family businesses. In V. Gupta, N. Levenburg, L. Moore, J. Motwani, & T. Schwarz (Eds.), *Culturally-sensitive models of family business in Confucian Asia: A compendium using the GLOBE paradigm* (pp. 223-245). Hyderabad, India: The Icfai University Press.

Gupta, V., & Moore, L. (2008). Overview. In V. Gupta, N. Levenburg, L. Moore, J. Motwani, & T. Schwarz (Eds.), *Culturally-sensitive models of family business in*

Confucian Asia: A compendium using the GLOBE paradigm (pp. 1-18). Hyderabad, India: The Icfai University Press.

Hall, E. (1976). *Beyond cultures*. New York: Anchor Press/Doubleday.

Hall, I., & Hall, D. (2004). *Evaluation and social research: Introducing small-scale practice*. New York: Palgrave Macmillan.

Hampden-Turner, C., & Trompenaars, F. (1996). A world turned upside down: Doing business in Asia. In P. Joynt & M. Warner (Eds.), *Managing across cultures: Issues and perspectives* (pp. 275-308). London: International Thomson Business Press.

Hanefah, M., Ariff, M., & Kasipillai, J. (2001). Compliance costs of small and medium enterprises. *Journal of Australian Taxation*, 4(1), 73-97.

Harrison, G., & McKinnon, L. (1999). Cross-cultural research in management control systems design: A review of the current state. *Accounting, Organizations and Society*, 24, 483-506.

Hasseldine, J. (1995). Compliance costs of business taxes in New Zealand. In C. Sandford (Ed.), *Tax compliance costs measurement and policy* (pp. 126-141). Bath: Fiscal Publications.

Hebert, R., & Link, R. (1989). In search of the meaning of entrepreneurship. *Small Business Economics*, 1, 39-49.

Helu-Thaman, K. (1995). Concepts of learning knowledge and wisdom in Tonga, and their relevance to modern education. *Prospects*, 25(4), 723-733.

Henry, E. (2007). Kaupapa Maori entrepreneurship. In D. Leo-Paul & R. Anderson (Eds.), *International handbook of research on indigenous entrepreneurship* (pp. 536-548). Cheltenham, UK: Edward Elgar.

Hessing, D., Elffers, H., & Weigel, R. (1988). Exploring the limits of self-reports and reasoned action: An investigation of the psychology of tax evasion behaviour. *Journal of Personality and Social Psychology*, 54(3), 405-413.

- Hill, J., & McGowan, P. (1999). Small business and enterprise development: Questions about research methodology. *International Journal of Entrepreneurial Behaviour & Research*, 5(1), 5-18.
- Ho, C., & Redfern, K. (2010). Consideration of the role of Guanxi in the ethical judgements of Chinese managers. *Journal of Business Ethics*, 96, 207-221.
- Ho, D., & Wong, B. (2008). Issues on compliance and ethics in taxation: What do we know? *Journal of Financial Crime*, 15(4), 369-382.
- Hofstede, G. (1980). *Culture consequences: International differences in work-related values*. Beverley Hills: Sage Publications.
- Hofstede, G. (1984). National cultures revisited. *Asia Pacific Journal of Management*, September, 22-28.
- Hofstede, G. (1991). *Cultures and organizations: Software of the mind*. London: McGraw-Hill.
- Hofstede, G. (2001). *Culture consequences: Comparing values, behaviours, institutions, and organizations across nations* (2nd ed.). Thousand Oaks: Sage Publications.
- Hofstede, G., & Bond, M. (1988). The Confucius connection: From cultural roots to economic growth. *Organizational Dynamics*, Spring, 5-21.
- Hofstede, G., & Hofstede, G. (2005). *Cultures and organizations: Software of the mind* (2nd ed.). New York: McGraw Hill.
- Hofstede, G., & Soeters, J. (2002). Consensus societies with their own character: National cultures in Japan and the Netherlands. *Comparative Sociology*, 1(1), 1-16.
- Hofstede, G., & Usunier, J. (2003). Hofstede's dimensions of culture and their influence on international business negotiations. In P. Ghauri & J. Usunier (Eds.), *International business negotiations* (2nd ed., pp. 137-148). Oxford, UJ: Elsevier Ltd.
- Honig, B. (1998). What determines success? Examining the human, financial and social capital of Jamaican microentrepreneurs. *Journal of Business Venturing*, 13, 371-394.

- Hoppe, M. (1990). *A comparative study of country elites: International differences in work-related values and learning and their implications for management training and development*. University of North Carolina, Chapel Hill.
- House, R. (2004). Introduction. In R. House, P. Hanges, M. Javidan, P. Dorfman, & V. Gupta (Eds.), *Culture, leadership, and organizations: The Globe study of 62 societies* (pp. 1-8). Thousand Oaks: Sage Publications.
- House, R., Hanges, P., Javidan, M., Dorfman, P., & Gupta, V. (2004). *Culture, leadership, and organizations: The GLOBE study of 62 societies*. Thousand Oaks: Sage Publications.
- Hui, C. (1988). Measurement of individualism-collectivism. *Journal of Research in Personality, 22*, 17-36.
- Hui, C., & Triandis, H. (1985). Individualism-collectivism: a study of cross-cultural researchers. *Journal of Cross-Cultural Psychology, 17*, 225-248.
- Hutchinson, J., & Smith, A. (1996). *Ethnicity*. Oxford: Oxford University Press.
- IFC, & The World Bank. (2010). *Doing business 2010: Reforming through difficult times - comparing regulation in 183 economies*. Retrieved 13th October, 2010, from <http://www.doingbusiness.org/documents/fullreport/2010/DB10-full-report.pdf>
- Inland Revenue. (1998). *Strategic business plan 1998-2001*. Wellington: New Zealand Government.
- Inland Revenue. (2007). *Annual Report 2007*. Wellington: New Zealand Government.
- Inland Revenue. (2008). *Statement of Intent 2008-11: Part three - Strategic overview*. Wellington: New Zealand Government.
- Inland Revenue. (2011). *New Zealand Inland Revenue: Annual report 2011*. Wellington: Inland Revenue.
- Jackson, B., & Milliron, V. (1986). Tax compliance research: Findings, problems and prospects. *Journal of Accounting Literature, 5*, 125-165.

- James, S., & Alley, C. (2000). Tax compliance, self-assessment and tax administration. *Journal of Finance and Management in Public Services*, 2(2), 27-42.
- Jayne, V. (2005). Economic renaissance: The Maori challenge. *Management*, 23-30.
- Job, J., Stout, A., & Smith, R. (2007). Culture change in three taxation administrations: From command-and-control to responsive regulation. *Law and Policy*, 29(1), 84-101.
- Johnston, W. (1991). Global workforce 2000: The new world labor market. *Harvard Business Review*, 69(2), 115-127.
- Joulfaian, D. (2000). Corporate income tax evasion and managerial preferences. *Review of Economics and Statistics*, 82(4), 698-701.
- Joulfaian, D. (2009). Bribes and business tax evasion. *The European Journal of Comparative Economics*, 6(2), 227-244.
- Joulfaian, D., & Rider, M. (1998). Differential taxation and tax evasion by small business. *National Tax Journal*, 51(4), 675-687.
- Joynt, P., & Warner, M. (1996). Introduction: Cross-cultural perspectives. In P. Joynt & M. Warner (Eds.), *Managing across cultures: Issues and perspectives* (pp. 3-6). London: International Thomson Business Press.
- Kasipillai, J., & Abdul-Jabbar, H. (2006). Gender and ethnicity differences in tax compliance. *Asian Academy of Management Journal*, 11(2), 73-88.
- Kasipillai, J., Aripin, N., & Amran, N. (2003). The influence of tax education on tax avoidance and tax evasion. *eJournal of Tax research*, 1(2), 134-146.
- Kasper, W., & Streit, M. (1999). *Institutional economics, social order and public policy*. Northampton, MA: Edward Elgar.
- Kerr, R. (1995). *Growing pains*. Wellington: New Zealand Business Roundtable.
- Kirchler, E. (1999). Reactance to taxation: Employer's attitudes towards taxes. *Journal of Socio-Economics*, 28, 131-138.

- Kirchler, E. (2007). *The economic psychology of tax behaviour*. Cambridge: Cambridge University Press.
- Kirchler, E., Hoelzl, E., & Wahl, I. (2008). Enforced versus voluntary tax compliance: The "slippery slope" framework. *Journal of Economic Psychology*, 29, 210-225.
- Kirchler, E., Maciejovsky, B., & Schneider, F. (2003). Everyday representations of tax avoidance, tax evasion, and tax flight: Do legal differences matter? *Journal of Economic Psychology*, 24(4), 535-553.
- Kirk, J., & Miller, M. (1986). *Reliability and validity in qualitative research*. London: Sage Publications.
- Kitzinger, J., & Barbour, R. (1999). Introduction: The challenge and promise of focus groups. In R. Barbour & J. Kitzinger (Eds.), *Developing focus group research: Politics, theory and practice* (pp. 1-20). London: Sage Publications.
- Klepper, S., Mazur, M., & Nagin, D. (1991). Expert intermediaries and legal compliance: The case of tax preparers. *Journal of Law and Economics*, 34(1), 205-229.
- Klepper, S., & Nagin, D. (1989a). The criminal deterrence literature: Implications for research on taxpayer compliance. In J. Roth & J. Scholz (Eds.), *Taxpayer compliance: Social science perspectives* (pp. 126-155). Philadelphia: University of Pennsylvania.
- Klepper, S., & Nagin, D. (1989b). The role of tax practitioners in tax compliance. *Policy Sciences*, 22, 167-192.
- Koch, B., & Koch, P. (2007). Collectivism, individualism, and outgroup cooperation in a segmented China. *Asia Pacific Journal in Management*, 24, 207-225.
- Kogut, B., & Singh, H. (1988). The effect of national culture on the choice of entry mode. *Journal of International Business Studies*, 19(Fall), 411-432.
- Kramer, H., & Herbig, P. (1994). Cultural differences in doing business: Germany and the South Pacific. *Review of Business*, 16(2), 33-36.
- Kueh, K., & Voon, B. (2007). Culture and service quality expectations. *Managing Service Quality*, 17(6), 656-680.

- Lasserre, P., & Schutte, H. (1995). *Strategies for Asia Pacific*. London: McMillian Press.
- Law, J. (2004). *After method: Mess in social science research*. Abingdon: Routledge.
- Lawrence, N. (2006). *Social research methods: Qualitative and quantitative approaches* (6th ed.). Boston: Pearson Education.
- Lee, R. (1993). *Doing research on sensitive topics*. London: Sage Publications
- Lee, S., & Peterson, S. (2000). Culture, entrepreneurial orientation, and global competitiveness. *Journal of World Business*, 35(4), 401-416.
- Levitt, S., & List, J. (2007). What do laboratory experiments tell us about the real world? *The Journal of Economic Perspectives*, 21(2), 153-174.
- Lewis, K., Ashby, M., Coetzer, A., Harris, C., & Massey, C. (2005). *Family, friends and government agencies: A report on SMEs and the support infrastructure*. Wellington: New Zealand Centre for SME research.
- Li, S. (2010). Social identities, ethnic diversity, and tax morale. *Public Finance Review*, 38(2), 146-177.
- Licht, A., & Siegel, J. (2006). The social dimensions of entrepreneurship. In M. Casson, B. Yeung, A. Basu, & N. Wadeson (Eds.), *The Oxford handbook of entrepreneurship* (pp. 511-539). Oxford, UK: Oxford University Press.
- Lignier, P. (2009a, 19-21 January). *Are managerial benefits making tax compliance costs more sustainable for small businesses?: An investigation of managerial benefit perception by small business taxpayers*. presented at the meeting of the Australasian Tax Teachers' Association Conference, University of Canterbury, Christchurch.
- Lignier, P. (2009b). Measuring the managerial benefits of tax compliance: A fresh approach. *Australian Tax Forum*, 24, 117-150.
- Lincoln, Y., & Guba, E. (2000). Paradigmatic controversies, contradictions, and emerging confluences. In N. Denzin & Y. Lincoln (Eds.), *Handbook of qualitative research* (2nd ed., pp. 163-188). Thousand Oaks: Sage Publications.

- Loftland, J. (1971). *Analyzing social settings*. Belmont, CA: Wadsworth.
- Long, S., & Swingen, J. (1991). The conduct of tax-evasion experiments: Validation, analytical methods, and experimental realism. In P. Webley, H. Robben, H. Elffers, & D. Hessing (Eds.), *Tax evasion: An experimental approach* (pp. 128-138). Cambridge: Cambridge University Press.
- Loo, E., & McKerchar, M. (2011, 18-21 January). *Tax fairness, risk personality, demographic variables and tax compliance: The case of individual taxpayers in Malaysia*. presented at the meeting of the Australasian Tax Teachers' Association Conference, University of Melbourne, Australia.
- Lucas, N. (2009). *The impact of westernisation on Tongan cultural values related to business* (Master of Arts). Western Kentucky University Bowling Green.
- Luczak, C. (2009). *Network derived benefits and cultural roots: Study of Indian and Western service SMEs* (Doctor of Philosophy). University of Illinois, Chicago.
- Luttmer, E. (2001). Group loyalty and the taste for redistribution. *Journal of Political Economy*, 109, 500-528.
- Lynch, R. (2002). Reducing small business tax compliance costs: A review. *New Zealand Journal of Taxation Law and Policy*, 8(3), 253-279.
- Macpherson, C. (2001). One truck sends out too many branches: Pacific cultures and cultural identities. In C. Macpherson, P. Spoonley, & M. Anae (Eds.), *Tangata O Te Moana Nui: The evolving identities of Pacific Peoples in Aotearoa/New Zealand* (pp. 66-80). Palmerston North: Dunmore Press.
- Macpherson, C. (2004). Transnationalism and transformation in Samoan society. In V. Lockwood (Ed.), *Globalization and cultural changes in the Pacific Islands* (pp. 165-181). New Jersey: Pearson Prentice Hall.
- Macpherson, C., & Macpherson, L. (2004, December 3-5). Churches and the national economy of Samoa: Preliminary analysis. In K. Jackson, N. Lewis, S. Adams, & M. Morten (Chair), *Centre for Development Studies, University of Auckland*. Symposium conducted at the meeting of the Fourth Biennial Conference of the Aotearoa New

Zealand International Development Studies Network, The Mira Szaszy Research Centre for Maori and Pacific Economic Development.

Mahuika, A. (1992). Leadership: Inherited and achieved. In M. King (Ed.), *Te Ao Hurihuri: Aspects of Maoritanga* (pp. 86-114). Auckland: Reed.

Mahuta, R. (1989). *Towards sustainable development: A Maori perspective*. Centre for Maori Studies and Research, University of Waikato. Hamilton.

Manstead, A. (1997). Situations, belongingness, attitudes, and culture: Four lessons learned from social psychology. In C. McGarty & S. Haslam (Eds.), *Social psychology* (pp. 239-251). Cambridge: Blackwell Publishers.

Marshall, R., Armstrong, W., & Smith, M. (1998). The ethical environment of tax practitioners: Western Australian evidence. *Journal of Business Ethics*, 17, 1265-1279.

Mason, J. (1996). *Qualitative researching*. Thousand Oaks: Sage Publications.

Massey, C. (2005). The size and significance of the small business sector. In C. Massey (Ed.), *Entrepreneurship and small business management in New Zealand* (pp. 3-16). Auckland: Pearson Education.

Massey, C., & Quin, P. (2001). *Final report to the Ministerial Panel on business compliance costs: Review of responses from business*. Palmerston North: New Zealand Centre for SME Research, Massey University.

Mataira, P. (2000). *Maori entrepreneurship: The articulation of leadership and the dual constituency arrangements associated with Maori enterprise in a capitalist economy* (Doctor of Philosophy). Massey University, Auckland.

Maxwell, J. (2002). Understanding and validity in qualitative research. In A. Huberman & M. Miles (Eds.), *Qualitative researcher's companion: Classic and contemporary readings* (pp. 37-64). Thousand Oaks: Sage Publications.

McCoy, M., & Havea, S. (2006). *Making sense of Tonga: A visitor's guide to the kingdoms rich Polynesian culture*. Nuku'alofa, Tonga: South Pacific: Training group of the Pacific.

- McGee, R., Ho, S., & Li, A. (2008). A comparative study on perceived ethics of tax evasion: Hong Kong vs the United States. *Journal of Business Ethics*, 77, 147-158.
- McGrath, R., MacMillan, I., & Scheinberg, S. (1992). Elitists, risk-takers, and rugged individualists? An exploratory analysis of cultural differences between entrepreneurs and non-entrepreneurs. *Journal of Business Venturing*, 7, 115-135.
- McGrath, R., MacMillan, I., Yang, E., & Tsai, W. (1992). Does culture endure, or is it malleable? Issues for entrepreneurial economic development. *Journal of Business Venturing*, 7, 441-458.
- McIntosh, R., & Veal, J. (2001). Tax evasion and New Zealanders' attitudes towards it. *New Zealand Journal of Taxation Law and Policy*, 7(2), 80-110.
- McKerchar, M. (1995). Understanding small business taxpayers: Their sources of information and level of knowledge of taxation. *Australian Tax Forum*, 12(1), 25-41.
- McKerchar, M. (2001). Why do taxpayers comply? Past lessons and future directions in developing a model of compliance behaviour. *Australian Tax Forum*, 16, 99-134.
- McKerchar, M., Hodgson, H., & Walpole, M. (2009). Understanding Australian small businesses and the drivers of compliance costs: A grounded theory approach. *Australian Tax Forum* 24(1), 151-178.
- McKinnon, J. (1988). Reliability and validity in field research: Some strategies and tactics. *Accounting, Auditing and Accountability Journal*, 1(1), 34-54.
- McSweeney, B. (2002). Hofstede's model of national culture differences and their consequences: A triumph of faith - a failure of analysis. *Human Relations*, 55, 89-118.
- Mead, H. (2003). *Tikanga Maori: Living by Maori values*. Wellington: Huia Publishers.
- Meleisea, M. (1987). Ideology in Pacific studies: A personal view. In A. Hooper, S. Britton, R. Crocombe, J. Huntsman, & C. Macpherson (Eds.), *Class and culture in the South Pacific* (pp. 140-153). Suva: Institute of Pacific Studies of the University of the South Pacific and Centre for Pacific Studies of the University of Auckland.

- Merriam, S. (1998). *Qualitative research and case study: Application in education*. San Francisco: Jossey-Bass.
- Merriam, S., Johnson-Bailey, J., Lee, M., Kee, Y., Ntsean, G., & Muhamad, M. (2001). Power and positionality: Negotiating insider/outsider status within and across cultures. *International Journal of Lifelong Education*, 20(5), 405-416.
- Merritt, A. (2000). Culture in the cockpit: Do Hofstede's dimensions replicate? *Journal of Cross-Cultural Psychology*, 21, 283-301.
- Miles, M., & Huberman, A. (1984). *Qualitative data analysis*. London: Sage Publications.
- Ministry of Economic Development. (2004). *Characteristics of SMEs*. Retrieved 2006, from http://www.med.govt.nz/templates/MultipageDocumentPage_____2698.aspx
- Ministry of Economic Development. (2009). *SMEs in New Zealand: Structure and dynamics*: Ministry of Economic Development: New Zealand Government.
- Ministry of Pacific Island Affairs & Statistics New Zealand. (2002). *Pacific progress: A report on the economic status of Pacific Peoples in New Zealand*. Wellington: Ministry of Pacific Island Affairs & Statistics New Zealand.
- Mitchell, L. (2009). *Maori and welfare*. Wellington: New Zealand Business Roundtable.
- Mitroff, I. (1987). *Business not as usual: Rethinking our individual, corporate, and industrial strategies for global competition*. San Francisco: Jossey-Bass.
- Morris, M., Davis, D., & Allen, J. (1994). Fostering corporate entrepreneurship: Cross-cultural comparisons of the importance of individualism versus collectivism. *Journal of International Business Studies*, 25(1), 65-89.
- Morris, M., & Schindebutte, M. (2005). Entrepreneurial values and the ethnic enterprise: An examination of six subcultures. *Journal of Small Business Management*, 43(4), 453-479.

- Morse, J. (1995). The significance of saturation. *Qualitative Health Research*, 5(2), 147-149.
- Morse, S., Karlinsky, S., & Bankman, J. (2009). Cash businesses and tax evasion. *Stanford Law and Policy Review*, 20(1), 37-68.
- Mouritzen, P., & Svara, J. (2002). *Leadership at the APEX: Politicians and administrators in Western local governments*. Pittsburgh, PA: University of Pittsburgh Press.
- Mueller, S., & Thomas, A. (2001). Culture and entrepreneurial potential: A nine country study of locus of control and innovativeness. *Journal of Business Venturing*, 16(1), 51-75.
- Murphy, K. (2003a). An examination of taxpayers' attitudes towards the Australian tax system: Findings from a survey of tax scheme investors. *Australian Tax Forum*, 18(2), 209-241.
- Murphy, K. (2003b). Procedural fairness and tax compliance. *Australian Journal of Social Issues*, 38(3), 379-407.
- National Urban Maori Authority. (2010). *Government media release, Friday 29 October 2010*. Retrieved 8 November 2010, from <http://www.numa.org.nz/>
- Naylor, L. (1996). *Culture and change: An introduction*. Portsmouth: Greenwood.
- Neuman, W. (2006). *Social research methods: Qualitative and quantitative approaches* (6th ed.). Boston: Pearson Education.
- Neuman, W. (2011). *Social research methods: Qualitative and quantitative approaches* (7th ed.). Boston: Pearson Education.
- Newman, K., & Nollen, S. (1996). Culture and congruence: The fit between management practices and national culture. *Journal of International Business Studies*, 27, 753-778.
- Noble, P. (2000, 4-5 December). *Qualitative research results: The New Zealand cash economy - A study of tax evasion amongst small and medium businesses*. presented at

the meeting of the CTSI 1st International Conference, Australian National University, Canberra.

NZIER. (2003). *Maori economic development: Te Ohanga Whanaketanga Maori*. Wellington: New Zealand Institute of Economic Research.

NZIER. (2007). *A time for change in Maori economic development*. Wellington: Te Puni Kokiri.

O' Dwyer, B. (2004). Qualitative data analysis: Illuminating a process for transforming a "messy" but "attractive" "nuisance". In C. Humphrey & B. Lee (Eds.), *The real life guide to accounting research: A behind-the-scenes view of using qualitative research methods* (pp. 391-407). Amsterdam: Elsevier B. V.

Ockenfels, A., & Weimann, J. (1999). Types and patterns: An experimental East-West German comparison of cooperation and solidarity. *Journal of Public Economics*, 71, 275-287.

OECD. (2004). *SME statistics: Towards a more systematic statistical measurement of SME behaviour. Background report for the 2nd OECD Conference of Ministers responsible for small and medium enterprises (SMEs)*.

Ogden, D., Ogden, J., & Schau, H. (2004). Exploring the impact of culture and acculturation on consumer purchase decisions: Toward a microcultural perspective. *Academy of Marketing Science Review*, 3, 1-22.

Oosterbeek, H., Sloof, R., & van de Kuilen, G. (2004). Culture differences in ultimatum game experiments: Evidence from a meta-analysis. *Experimental economics*, 7, 171-188.

Pacific Business Trust. (2010). *About us*. Retrieved 22 June 2010, from <http://www.pacificbusiness.co.nz/pbt/aboutus/>

Parameswaran, R. (2001). Feminist media ethnography in India: Exploring power, gender and culture in the field. *Qualitative Inquiry*, 7(1), 69-103.

Patterson, D., & Keefe, R. (2006). Using social construction theory as a foundation for macro-level interventions in communities impacted by HIV and addictions. *Journal of Sociology & Social Welfare*, XXXV(2), 111-126.

Patterson, J. (1992). *Exploring Maori values*. Palmerston North: Dunmore Press.

Patton, M. (2002). *Qualitative research & evaluation methods* (3rd ed.). Thousand Oaks: Sage Publications.

Perakyla, A. (2005). Analyzing talk and text. In N. Denzin & Y. Lincoln (Eds.), *The Sage handbook of qualitative research* (3rd ed., pp. 869-886). Thousand Oaks: Sage Publications.

Pfeifer, D. (2005). *Leadership in Aotearoa New Zealand: Maori and Pakeha perceptions of outstanding leadership*. Massey University, Wellington.

Pinnegar, S., & Daynes, G. (2007). Locating narrative inquiry historically thematics in the turn to narrative. In J. Clandinin (Ed.), *Handbook of narrative inquiry mapping a methodology* (pp. 3-34). Thousand Oaks: Sage Publications.

Pio, E. (2007). Ethnic entrepreneurship among Indian women in New Zealand: A bittersweet process. *Gender, Work and Organization*, 14(5), 409-432.

Pio, E. (2010). *Longing and belonging: Asian, Middle Eastern, Latin American and African peoples in New Zealand*. Wellington: Dunmore Publishing.

Pope, J., & Rametse, N. (2002). Small business start-up compliance costs of the Goods and Services Tax: Estimates and lessons from tax reform. *Journal of Australian Taxation*, 5(3), 382-412.

Popper, M., & Sleman, K. (2001). Intercultural differences and leadership perceptions of Jewish and Druze school principals. *Journal of Educational Administration*, 39(3), 221-232.

Prescott, S. (2009). *Pacific business sustainability in New Zealand: A study of Tongan experiences* (Doctor of Philosophy). Auckland University of Technology, Auckland, New Zealand.

- Prescott, S., & Hooper, K. (2009). Commons and anti-commons: Tongan business experiences in New Zealand. *Pacific Accounting Review*, 21(3), 286-303.
- Pugh, D., & Hickson, D. (1993). *Great writers on organizations*. Dartmouth: Aldershot.
- Punch, K. (2005). *Introduction to social research: Quantitative and qualitative approaches* (2nd ed.). London: Sage Publications.
- Putnam, L. (1983). The interpretive perspective: An alternative to functionalism. In L. Putnam & M. Pacanowsky (Eds.), *Communication and organizations: An interpretive approach* (pp. 31-55). London: Sage Publications.
- Pyle, D. (1991). The economics of taxpayer compliance. *Journal of Economic Surveys*, 5, 163-198.
- Pyle, D. (1993). The economics of taxpayer compliance. In P. Jackson (Ed.), *Current issues in public sector economics* (pp. 58-93). Houndsmills: Macmillan.
- Ram, M. (1994). Unravelling social networks in ethnic minority firms. *International Small Business Journal*, 12(3), 42-54.
- Ram, M., Smallbone, D., & Deakins, D. (2002). *Ethnic minority businesses in the UK: Access to finance and business support*. London: British Bankers' Association.
- Rapley, T. (2007). Interviews. In C. Seale, G. Gobo, J. Gubrium, & D. Silverman (Eds.), *Qualitative research practice* (pp. 15-33). London: Sage Publications.
- Rawlings, G., & Braithwaite, V. (2003). Voices for change: Australian perspectives on tax administration. *Australian Journal of Social Issues*, 38(3), 263-268.
- Ray, D. (1994). The role of risk taking in Singapore. *Journal of Business Venturing*, 9, 157-177.
- Redding, S. (1993). *The spirit of Chinese capitalism*. New York: Walter de Gruyter.
- Redding, S., & Ng, M. (1982). The role of "face" in the organizational perceptions of Chinese managers. *Organization Studies*, 3, 201-219.

- Reinhart, M., Job, J., & Braithwaite, V. (2004). *Untaxed cash work: Feeding mouths, lining wallets*: Australian National University.
- Richardson, G. (2005). An exploratory cross-cultural study of tax fairness perceptions and tax compliance behaviour in Australia and Hong Kong. *The International Tax Journal*, 31(1), 11-24.
- Richardson, G. (2007). The influence of culture on tax systems internationally: A theoretical and empirical analysis. *Journal of International Accounting Research*, 6(1), 57-79.
- Richardson, G. (2008). The relationship between culture and tax evasion across countries: Additional evidence and extensions. *Journal of International Accounting, Auditing & Taxation*, 17, 67-78.
- Richardson, M., & Sawyer, A. (2001). A taxonomy of the tax compliance literature: Further findings, problems and prospects. *Australian Tax Forum*, 16(2), 137-320.
- Richey, C., & Klein, D. (2007). *Design and development research - method, strategies, and issues*. New Jersey: Lawrence Erlbaum Associates.
- Robben, H., Webley, P., Weigel, R., Warneryd, K., Kinsey, K., Hessing, D., ... Scholz, J. (1990). Decision frame and opportunity as determinants of tax cheating. *Journal of Economic Psychology*, 11, 341-364.
- Robie, D. (2009). Diversity reportage in Aotearoa: Demographics and the rise of the ethnic media. *Pacific Journalism Review*, 15(1), 67-91.
- Robson, C. (2002). *Real world research: A resource for social scientists and practitioner-researchers* (2nd ed.). Malden: Blackwell.
- Roth, J., Scholz, J., & Witte, A. (1989). *Taxpayer compliance: An agenda for research* (Vol. 1). Philadelphia: University of Pennsylvania Press.
- Rothengatter, M. (2005a). Social networks and tax (non-) compliance in a multicultural nation: Emerging themes from a focus group study among ethnic minorities in

Australia. *International Journal of Entrepreneurial Behaviour & Research*, 11(4), 280-314.

Rothengatter, M. (2005b). "Sticks, carrots or sermons?" - Improving voluntary tax-compliance among migrant small-business entrepreneurs of a multi-cultural nation. Working paper 82 Centre for Tax System Integrity, Research School of Social Sciences, Australian National University. Canberra.

Rubin, H., & Rubin, I. (1995). *Qualitative interviewing: The art of hearing data*. London: Sage Publications.

Saad, N. (2009). Fairness perceptions and compliance behaviour: The case of salaried taxpayers in Malaysia after implementation of the self-assessment system. *eJournal of Tax research*, 8(1), 32-63.

Saad, N. (2011). Fairness perceptions and compliance behaviours: New Zealand evidence. *New Zealand Journal of Taxation Law and Policy*, 17(1), 33-82.

Saffu, K. (2003). The role and impact of culture on South Pacific island entrepreneurs. *International Journal of Entrepreneurial Behaviour & Research*, 9(2), 55-73.

Sakurai, Y., & Braithwaite, V. (2003). Taxpayers' perceptions of practitioners: Finding one who is effective and does the right thing? *Journal of Business Ethics*, 46(4), 375-387.

Sandford, C. (1995). The rise and rise of tax compliance costs. In C. Sandford (Ed.), *Tax compliance costs measurement and policy* (pp. 1-14). Bath: The Institute for Fiscal Studies.

Sandford, C., Godwin, M., & Hardwick, P. (1989). *Administrative and compliance costs of taxation*. Bath: Fiscal Publications.

Sandford, C., & Hasseldine, J. (1992). *The compliance costs of business taxes in New Zealand*. Wellington: Institute of Policy Studies, Victoria University.

Sarantakos, S. (2005). *Social research* (3rd ed.). Basingstoke: Palgrave Macmillan.

- Sawyer, A. (1996). Broadening the scope of consultation and strategic focus in tax policy formulation: Some recent developments. *New Zealand Journal of Taxation Law and Policy*, 2(1), 17-39.
- Scandura, T., & Williams, E. (2000). Research methodology in organizational studies: Current practices and implications for future research. *Academy of Management Journal*, 43(6), 1248-1264.
- Scase, R., & Goffee, R. (1980). *The real world of the small business owner*. London, UK: Croom Helm.
- Schein, E. (1985). *Organisational culture and leadership*. San Francisco: Jossey-Bass.
- Schmolders, G. (1970). Survey research in public finance: A behavioural approach to fiscal theory. *Public Finance*, 25, 300-306.
- Schuler, R., & Rogovsky, N. (1998). Understanding compensation practice variations across firms: The impact of national culture. *Journal of International Business Studies*, 29, 159-177.
- Schwartz, S. (1999). A theory of cultural values and some implications for work. *Applied Psychology: An International Review*, 48, 23-47.
- Schwartz, S. (2004). Mapping and interpreting cultural differences around the world. In H. Vinken, J. Soeters, & P. Ester (Eds.), *Comparing cultures: Dimensions of culture in a comparative perspective* (pp. 43-73). Leiden: Brill.
- Schwartz, S., Sagiv, L., & Boehnke, K. (2000). Worries and values. *Journal of Personality* 68, 309-346.
- Seidman, I. (1991). *Interviewing as qualitative research*. New York: Columbia University, Teachers College Press.
- Sekaran, U. (1983). Methodological and theoretical issues and advancements in cross-cultural research. *Journal of International Business Studies*, 14(Fall), 61-73.
- Shadish, W. (1995). Philosophy of science and the quantitative-qualitative debates: Thirteen common errors. *Evaluation and Program Planning*, 18(1), 63-75.

- Shane, S. (1993a). Cultural influences on national rates of innovation. *Journal of Business Venturing*, 8, 59-73.
- Shane, S. (1993b). The effect of cultural differences in perception of transaction costs on national differences in the preference for international joint ventures. *Asia Pacific Journal of Management*, 10(1), 57-69.
- Shane, S. (1995). Uncertainty avoidance and the preference for innovation championing roles. *Journal of International Business Studies*, 26, 47-68.
- Sigala, M., Burgoyne, C., & Webley, P. (1999). Tax communication and social influence: Evidence from a British sample. *Journal of Community & Applied Social Psychology*, 9, 237-241.
- Silverman, D. (1993). *Interpreting qualitative data*. London: Sage Publications.
- Silverman, D. (2000). *Doing qualitative research: A practical handbook*. London: Sage Publications.
- Silverman, D., & Marvasti, A. (2008). *Doing qualitative research: A comprehensive guide*. Thousand Oaks: Sage Publications.
- Sivakumar, K., & Nakata, C. (2001). The stampede toward Hofstede's framework: Avoiding the sample design pit in cross-cultural research. *Journal of International Business Studies*, 32(3), 555-574.
- Slemrod, J. (1992). *Why people pay taxes. Tax compliance and enforcement*. Ann Arbor: University of Michigan Press.
- Small Business Advisory Group. (2006). *Small and medium businesses in New Zealand: Report of the Small Business Advisory Group, March 2006*. Wellington: Ministry of Economic Development.
- Small Business Advisory Group. (2008). *Growing competitive SMEs: Report of the Small Business Advisory Group March 08*. Wellington: Minister for Small Business.
- Smith, G. (1997). *The development of Kaupapa Maori: Theory and praxis*. Auckland: University of Auckland.

- Smith, K. (1992). Reciprocity and fairness: Positive incentives for tax compliance. In J. Slemrod (Ed.), *Why people pay taxes - Tax compliance and enforcement* (pp. 223-258). Ann Arbor, Michigan: University of Michigan Press.
- Smith, K., & Kinsey, K. (1987). Understanding taxpaying behaviour: A conceptual framework with implications for research. *Law and Society Review*, 21(4), 639-663.
- Smith, K., & Stalans, L. (1991). Encouraging tax compliance with positive incentives: A conceptual framework and research directions. *Law and Society Review*, 13, 35-53.
- Smith, L. (1999). *Decolonizing methodologies: Research and indigenous peoples*. Dunedin: Zed Books.
- Smith, L. (2006). Researching the margins: Issues for Maori researchers - a discussion paper. *ALTERNATIVE Special Supplement*, 4-28.
- Smith, P. (2006). When elephants fight, the grass gets trampled: The GLOBE and Hofstede projects. *Journal of International Business Studies*, 37, 915-921.
- Snape, D., & Spencer, L. (2003). The foundations of qualitative research. In J. Ritchie & J. Lewis (Eds.), *Qualitative research practice* (pp. 1-23). London: Sage Publications.
- Sondergaard, M. (1994). Hofstede's consequences: A study of reviews, citations and replications. *Organization Studies*, 15, 447-456.
- Song, Y., & Yarbrough, T. (1978). Tax ethics and taxpayer attitudes: A survey. *Public Administration Review*, 38, 442-457.
- Spicer, M., & Becker, L. (1980). Fiscal inequity and tax evasion: An experimental approach. *National Tax Journal*, 33(2), 171-175.
- Stahl, G., Miller, E., & Tung, R. (2002). Toward the boundaryless career: A closer look at the expatriate career concept and the perceived implications of an international assignment. *Journal of World Business*, 37(3), 216-227.
- Stake, R. (2000). Case studies. In N. Denzin & Y. Lincoln (Eds.), *Handbook of qualitative research* (2nd ed., pp. 435-454). Thousand Oaks: Sage Publications.

Starmer, C. (1999). Experiments in economics: Should we trust the dismal scientists in white coats? *Journal of Economic Methodology*, 6, 1-30.

Statistics New Zealand. (2001). *Census 2001: National Summary - Tables*. Retrieved 7 November 2010, from <http://search.stats.govt.nz/search?w=2001%20census>

Statistics New Zealand. (2010a). *2006 census data - QuickStats About Maori - Tables*. Retrieved 5 July, 2010, from <http://www.stats.govt.nz.ezproxy.aut.ac.nz/Census/2006CensusHomePage/QuickStats/quickstats-about-a-subject/maori.aspx>

Statistics New Zealand. (2010b). *2006 census data - QuickStats About Pacific Peoples*. Retrieved 5 July, 2010, from <http://www.stats.govt.nz.ezproxy.aut.ac.nz/Census/2006CensusHomePage/QuickStats/quickstats-about-a-subject/pacific-peoples.aspx>

Statistics New Zealand. (2010c). *2006 census data – QuickStats-about-culture-and-identity-tables.xls* Retrieved 9 September, 2010, from <http://www.stats.govt.nz.ezproxy.aut.ac.nz/Census/2006CensusHomePage/QuickStats/quickstats-about-culture-and-identity-tables>

Statistics New Zealand. (2011). *Definition of ethnicity*. Retrieved 24 November 2011, from <http://www.stats.govt.nz/surveys> and [methods/methods/classifications-and-standards/classifications-related-stats-standards/ethnicity/definition.aspx](http://www.stats.govt.nz/surveys/methods/methods/classifications-and-standards/classifications-related-stats-standards/ethnicity/definition.aspx)

Stone, E. (1978). *Research methods in organizational behavior*. Glenview: Scott, Foresman.

Tan, L. (1997). Coping with tax obligations: A preliminary study of some small firms in New Zealand. *Australian Tax Forum*, 13, 337-360.

Tan, L. (1999). Taxpayers' preference for type of advice from tax practitioner: A preliminary examination. *Journal of Economic Psychology*, 20, 431-447.

Taras, V., Kirkham, B., & Steel, P. (2010). Examining the impact of Culture's Consequences: A three-decade multilevel, meta-analytic review of Hofstede's cultural value dimensions. *Journal of Applied Psychology*, 95(3), 405-439.

- Taule'ale'ausumai, F. (1994). *The Samoan face of God* (Master of Arts in World Religions). Victoria University, Wellington.
- Te Puni Kokiri. (2010). *Maori business facilitation service*. Retrieved 22 June 2010, from <http://www.tpk.govt.nz/en/services/business/>
- Tiatia, J. (1998). *Caught between cultures: A New Zealand-born Pacific Island perspective*. Auckland: Christian Research Association.
- Tipton, F. (2009). Southeast Asian capitalism: History, institutions, states, and firm. *Asia Pacific Journal of Management*, 26, 401-434.
- Tisdell, C. (2000). Poverty in the Pacific Islands. *The International Journal of Sociology and Social Policy*, 20(11/12), 74-102.
- Torgler, B. (2002). Speaking to theorists and searching for facts: Tax morale and tax compliance in experiments. *Journal of Economic Surveys*, 16(5), 657-683.
- Torgler, B. (2003). Tax morale, rule-governed behaviour and trust. *Constitutional Political Economy*, 14, 119-140.
- Torgler, B. (2005). Tax morale and direct democracy. *European Journal of Political Economy*, 21, 525-531.
- Torgler, B. (2007). *Tax compliance and tax morale: A theoretical and empirical analysis*. Cheltenham: Edward Elgar Publishing.
- Torgler, B., & Schneider, F. (2007). What shapes attitudes toward paying taxes? Evidence from multicultural European countries. *Social Science Quarterly*, 88(2), 443-470.
- Tran-Nam, B. (2003). Tax compliance research: An economic perspective. *New Zealand Journal of Taxation Law and Policy*, 9(4), 455-468.
- Tran-Nam, B., Evans, C., Walpole, M., & Ritchie, K. (2000). Tax compliance costs: Research methodology and empirical evidence from Australia. *National Tax Journal*, 53(2), 229-252.

Tran-Nam, B., & Karlinsky, S. (2008, 7-9 April). *Small business tax complexity in Australia*. presented at the meeting of the International Tax Administration conference, University of NSW, ATAX.

Triandis, H. (1995). *Individualism and collectivism*. Boulder: Westview Press.

Triandis, H., Bontempo, R., Villareal, M., Asai, M., & Lucca, N. (1988). Individualism and collectivism: Cross-cultural perspectives on self-ingroup relationships. *Journal of Personality and Social Psychology*, 54, 323-338.

Trivedi, V., Shehata, M., & Lynn, B. (2003). Impact of personal and situational factors on taxpayer compliance: An experimental analysis. *Journal of Business Ethics*, 47(3), 175-197.

Trompenaars, A., Hampden-Turner, C., & Trompenaars, F. (1994). *Riding the waves of culture: Understanding diversity in global business*. Burr Ridge: Irwin Professional Publications.

Tsakumis, G., Curatola, A., & Porcano, T. M. (2007). The relation between national cultural dimensions and tax evasion. *Journal of International Accounting, Auditing & Taxation*, 16, 131-147.

Tsang, E. (2002). Learning from overseas venturing experience: The case of Chinese family businesses. *Journal of Business Venturing*, 17(1), 21-40.

Tsui-Auch, L. (2004). The professionally managed family-ruled business: Ethnic Chinese business in Singapore. *Journal of Management Studies*, 41(4), 693-723.

Tsui-Auch, L. (2005). Unpacking regional ethnicity and the strength of ties in shaping ethnic entrepreneurship. *Organization Studies*, 26(8), 1189-1216.

Tu'inukuafe, E. (1996). Tongans in New Zealand: A brief study. In P. Herda, J. Terrell, & N. Gunson (Eds.), *Tongan culture and history* (pp. 206-233). Canberra: Department of Pacific and Southeast Asian History.

Tung, R. (1996). Managing in Asia: Cross-cultural dimensions. In P. Joynt & M. Warner (Eds.), *Managing across cultures: Issues and perspectives* (pp. 233-245). London: International Thomson Business Press.

Tung, R. (2008). The cross-cultural research imperative: the need to balance cross-national and intra-national diversity. *Journal of International Business Studies*, 39, 41-46.

Tung, R., & Verbeke, A. (2010). Beyond Hofstede and GLOBE: Improving the quality of cross-cultural research. *Journal of International Business Studies*, 41, 1259-1274.

Tyler, T. (2006). *Why people obey the law*. Princeton: Princeton University Press.

United States Census Bureau. (2010). *2010 census data*. Retrieved 14 June 2011, from <http://2010.census.gov/2010census/data/>

van Nimwegen, T. (2002). *Global banking, global values: The in-house reception of the corporate values of ABN AMRO*. Nyenrode University, Delft: Eburon.

von Glinow, M., Shapiro, D., & Brett, J. (2004). Can we talk, and should we? Managing emotional conflict in multicultural teams. *Academy of Management Review*, 29(4), 578-592.

Wagner, J. (1995). Studies in individualism and collectivism: Effects in cooperation in groups. *Academy of Management Journal*, 38, 152-172.

Wagner, J., & Moch, M. (1986). Individualism-collectivism: Concept and measure. *Group and organization studies*, 11, 280-304.

Walliman, N. (2001). *Your research project: A step-by-step guide for the first time researcher*. London: Sage Publications.

Wallschutzky, I., & Gibson, B. (1993). *Small business cost of compliance project*. Canberra: ATO/ Department of Industry, Technology and Regional Development.

Wallschutzky, I., & Gibson, B. (1994). Taxing small business. *Australian Accountant*, 64(2), 14-22.

- Wang, Y., Zhang, X., & Goodfellow, R. (1998). *Business culture in China*. Singapore: Butterworth-Heinemann Asia.
- Warren, B., & Karner, X. (2005). *Discovering qualitative methods: Field research, interviews and analysis*. California: Roxbury Publishing
- Warriner, V. (2007). The importance of traditional Maori values for necessity and opportunity: Maori entrepreneurs-iwi-based and individually owned. In D. Leo-Paul & B. Anderson (Eds.), *International handbook of research on indigenous entrepreneurship* (pp. 558-564). Cheltenham: Edward Elgar.
- Webley, P., Adams, C., & Elffers, H. (2002). *VAT compliance in the United Kingdom*. Centre for Tax System Integrity Working Paper No. 41. The Australian National University. Canberra.
- Webley, P., Robben, H., Elffers, H., & Hensing, D. (1991). *Tax evasion: An experimental approach*. Cambridge: Cambridge University Press.
- Weidenbaum, M. (1996). The Chinese family business enterprise. *California Management Review*, 38(4), 141-156.
- Welch, S. (1975). Sampling by referral in a dispersed population. *The Public Opinion Quarterly*, 39, 237-245.
- Williamson, D. (2002). Forward from a critique of Hofstede's model of national culture. *Human Relations*, 55(11), 1373-1395.
- Wisker, G. (2008). *The postgraduate research handbook* (2nd ed.). New York: Palgrave Macmillan.
- Yang, B. (1991). *The ugly Chinaman and the crisis of Chinese culture*. St Leonards: Allen & Unwin.
- Yates, S. (2004). *Doing social science research*. London: Sage Publications.
- Yeh, Q., & Xu, X. (2010). The effect of Confucian work ethics on learning about science and technology knowledge and morality. *Journal of Business Ethics*, 95, 111-128.

- Yeung, I., & Tung, R. (1996). Achieving business success in Confucian societies: The importance of guanxi (connections). *Organizational Dynamics*, 25(2), 54-65.
- Yong, S. (2005, 1st December). *Investigating the tax compliance of small businesses in New Zealand*. presented at the meeting of the Auckland Regional Accounting Conference, Manukau Institute of Technology, Auckland.
- Yong, S. (2006). A critical evaluation of the economic deterrence model on tax compliance. *New Zealand Journal of Taxation Law and Policy*, 12(2), 95-116.
- Zapalska, A., Dabb, H., & Perry, G. (2003). Environmental factors affecting entrepreneurial activities: Indigenous Maori entrepreneurs of New Zealand. *Asia Pacific Business Review*, 10(2), 160-177.
- Zapalska, A., Perry, G., & Dabb, H. (2003). Maori entrepreneurship in the contemporary business environment. *Journal of Developmental Entrepreneurship*, 8(3), 219-235.
- Zheng, V. (2002). Inheritance, Chinese family business, and economic development in Hong Kong. *Journal of Enterprising Culture*, 10(4), 287-312.

LIST OF ACRONYMS

Acronyms	Explanation
ANZSIC	Australian and New Zealand Standard Industrial Classification
AUT	Auckland University of Technology
AUTEC	Auckland University of Technology Ethics Committee
CA	Chartered Accounting
IRD	Inland Revenue Department
LT and ST	Long term and Short term
MED	Ministry of Economic Development
MYOB	Mind Your Own Business (accounting package)
NZICA	New Zealand Institute of Chartered Accountants
NZTE	New Zealand Trade and Enterprise
OECD	Organisation for Economic Co-operation and Development
PBT	Pacific Business Trust
PD	Power distance
SBAG	Small Business Advisory Group
SME	Small and medium sized enterprise
TPK	Te Puni Kokiri (Maori Development Incorporation)
UA	Uncertainty avoidance
VAT	Value added tax

Appendix 1: New Zealand population by ethnicity from 1996 to 2006

Ethnic group	1996	2001	2006
New Zealander	N/A	N/A	429,429
European	2,879,085	2,871,432	2,609,592
Maori	529,371	526,281	565,329
Pacific	202,233	231,801	265,974
Asian	173,502	238,176	354,552
MELAA (Middle Eastern Latin American and African)	N/A	N/A	34,743
Other ethnicity	16,422	24,993	1,491
Total	3,800,613	3,892,683	4,261,110

Table 1: Total number of people by ethnic groups in New Zealand from 1996 to 2006

Source: (Statistics New Zealand, 2010c)

Ethnic groups categories and explanation (Statistics New Zealand, 2011):

Ethnicity is the ethnic group or groups with which people identify, or to which they feel they belong. It is measure of cultural affiliation, as opposed to race, ancestry, nationality or citizenship. Ethnicity is self perceived and people can record affiliation to more than one ethnic group or have mixed ethnicity for example Cook Island Maori.

Statistics New Zealand uses a coding software to ensure each individual is recorded in only one of the above categories for the seven broad ethnic groups: New Zealander, European, Maori, Pacific, Asian, MELAA and other. For those with mixed ethnicity, the lower coding number for the ethnic group recorded by the individual is dropped off so that only the ethnic group with the higher code number is captured.

The 2006 census recorded a New Zealander category for the first time which includes Kiwi. Individuals perceive ethnicity as nationality rather than cultural affiliation. For time series purposes, this group can be added to the European group according to Statistics New Zealand.

Appendix 2: Cultural diversity by regions in New Zealand

Regional council	European	Maori	Pacific Peoples	Asian
Northland Region	93,354	43,527	3,702	2,580
<i>Auckland Region</i>	<i>698,622</i>	<i>137,136</i>	<i>177,933</i>	<i>234,219</i>
Waikato Region	257,325	76,572	11,796	18,204
Bay of Plenty Region	165,012	67,662	6,465	7,821
Gisborne Region	22,677	19,761	1,299	741
Hawke's Bay Region	97,728	33,555	5,265	3,513
Taranaki Region	77,166	15,798	1,365	2,151
Manawatu-Wanganui Region	157,341	42,288	5,892	8,121
Wellington Region	302,973	55,434	34,752	36,477
Tasman Region	35,715	3,063	336	567
Nelson Region	33,504	3,612	708	1,065
Marlborough Region	32,022	4,275	642	639
West Coast Region	24,024	2,916	282	345
Canterbury Region	393,219	36,669	10,926	29,169
Otago Region	148,974	12,270	3,141	7,779
Southland Region	69,558	10,422	1,461	1,149
Area Outside Region	381	369	6	3
Total	2,609,589	565,326	265,974	354,552

Table 2: Statistics about ethnic group concentration by region, 2006 Census

Source: (Statistics New Zealand, 2010c)

Appendix 3: Purpose of the research as given to the participants



Information for Participants

Date: 2nd November 2006

I am a Senior Lecturer in Accounting at the Auckland University of Technology's Business Faculty and am currently undertaking research towards my doctorate (PhD). I am writing to request your participation in this research project. My primary supervisor is Professor Keith Hooper and my secondary supervisor is Professor Deryl Northcott, both from the Business Faculty at the Auckland University of Technology. Please note that participation in this research is entirely voluntary.

The aim of this project is to understand the tax compliance decision making processes among small businesses in New Zealand in terms of how and in what ways they comply with the tax requirements. The research study seeks to determine the causal factors and their effects on the taxpayers' compliance behaviours. The outcome of this research will provide a voice for small and medium sized enterprises (SMEs) in terms of taxation policy as well as to inform the taxing authority on the challenges and issues faced by this sector in complying with the tax requirements. A clear understanding of the factors that can alleviate tax compliance problems is beneficial to all parties - both the taxpayers and the taxing authority. The long term outcome is to gain a better understanding of SMEs and to foster a more cooperative relationship between them and the taxing authority.

It would be much appreciated if you could participate in a discussion regarding the tax compliance processes for SME business with a view to better understand the challenges and issues encountered. With your permission the researcher will aim to collect information through audio tape and note taking by the researcher from which a case study can be developed. Should you as the participant feel uncomfortable about answering any of the interview and/or case scenarios questions, you have the option to withdraw at any time as well as choose not to answer the question. Your participation is entirely voluntary and there is no obligation to participate in this research.

Although the target number of cases to be studied for this research is between 20 and 60, confidentiality of each case will be assured. The proposed duration of the interview is about 1 to 1.5 hours.

As a follow up to this letter, I will be in contact with you over the next three weeks to arrange for a suitable time should you decide to participate in the project. If you would like further information about this research, you could contact the two supervisors; Professor Keith Hooper, keith.hooper@aut.ac.nz, 9219999 ext 5758, Professor Deryl Northcott, deryl.northcott@aut.ac.nz, 9219999 ext 5850 and myself using the contact details as shown below.

Should you be happy to offer your comments, you are assured of complete confidentiality. Raw data will be kept secure. The research data will be available only to me and my two supervisors. Results of the study will be published in aggregate form via the doctoral thesis, academic papers and conference presentations. The identities of the participants will be masked and they will be identified only by code numbers without disclosing the participant's name or business affiliations unless specifically requested by the participants. A copy of any publications arising out of my research will be sent to you for your comment prior to submission for publication. This study has ethical approval from the Auckland University of Technology Ethical Committee (AUTEC reference no: 06/92 dated 12th July 2006).

Any concerns regarding the nature of this project should be notified in the first instance to the Project Supervisor, Professor Keith Hooper, keith.hooper@aut.ac.nz, 9219999 ext 5758.

Concerns regarding the conduct of the research should be notified to the Executive Secretary, AUTEC, Madeline Banda, madeline.banda@aut.ac.nz, 921 9999 ext 8044.

Yours sincerely,

Sue Yong

MMS, B.Econs(Hons), CA
Senior Lecturer in Accounting
School of Business
Auckland University of Technology (AUT)
Private Bag 92006
Auckland 1020
New Zealand

Email: sue.yong@aut.ac.nz
Phone: 09-921 9999 ext 5721
Mobile: 021-1874039

Approved by the Auckland University of Technology Ethics Committee on 12th July 2006 final ethics approval was granted, AUTEC Reference number 06/92.

Appendix 4: Participants' consent form



Consent to Participation in Research

Title of Project: **An Investigation into the Tax Compliance and Experiences of Small Business Taxpayers in New Zealand**

Project Supervisor: **Professor Keith Hooper**

Researcher: **Sue Yong**

- I have read and understood the information provided about this research project (Information Sheet dated 2nd November 2006)
- I have had an opportunity to ask questions and to have them clarified and answered.
- I understand that the interview will be audio-taped and transcribed.
- I understand that I may withdraw myself from participating in the project at any time prior to data collection completion and that this decision will not disadvantage me in any way.
- I understand that my participation is entirely voluntary and there is no obligation for me to participate in this research.
- If I withdraw, I understand that all relevant tapes and transcripts, or parts thereof, will be destroyed.
- I agree to take part in this research project.
- I wish to receive a copy of the final report from the research: tick one: Yes [] No []
- I understand that published data will not report the names or business affiliations of the participants unless I specifically request so. All identifying information will be masked.

Participant signature:

Participant name:

Participant Contact Details:.....

Date:.....

Approved by the Auckland University of Technology Ethics Committee on 12th July 2006, AUTEK Reference Number 06/92.

Note: The Participant should retain a copy of this form.

Appendix 5: Listing of the 2006 Australian and New Zealand Standard Industrial Classification (ANZSIC)

A. Agriculture, Forestry and Fishing
B. Mining
C. Manufacturing
D. Electricity, Gas, Water and Waste Services
E. Construction
F. Wholesale Trade
G. Retail Trade
H. Accommodation and Food Services
I. Transport, Postal and Warehousing
J. Information Media and Telecommunications
K. Financial and Insurance Services
L. Rental, Hiring and Real Estate Services
M. Professional, Scientific and Technical Services
N. Administrative and Support Services
O. Public Administration and Safety
P. Education and Training
Q. Health Care and Social Assistance
R. Arts and Recreation Services
S. Other Services

Table 3: Australian and New Zealand Standard Industrial Classification

Source: Ministry of Economic Development (Ministry of Economic Development, 2009)

Appendix 6: Interview schedule for ethnic SME operators

A. Pre-interview questions: asked by researcher or key informant while arranging for a time for the interview:

- Ethnicity of the operator
- Type of business and number of employees in the business

B. Interview questions: asked by researcher

1. Personal circumstances:

- a. What kind of business are you in and how long have you been in the business?
- b. Tell me what is like to be a small business operator in New Zealand? (Ask about staffing if pre-interview question 2 was not asked):

Probes: customers, staffing, competition, regulatory requirements, cash flows, multi-tasking, administration

c. Background:

- i. Is the level of tax in New Zealand comparable to other countries of similar background?
- ii. What are some of your views on the government's spending of the tax revenues in terms:
 - a. *Health*
 - b. *Education*
 - c. *Infrastructure*
 - d. *Welfare*

(If participants show strong feeling towards any of the above government spending, probe and ask why)

iii. How do you feel when you have to pay taxes to the government?

Why?

2. Tax compliance factors – what they are and how they interrelate

- a. When the phrase “tax compliance” is mentioned, what kind of image(s) or word(s) come to mind?

(Probe: record keeping, payments, IRD, tax returns?)

- b. How would you rate your level of understanding of tax requirements in this country?
- i. Very knowledgeable
 - ii. Fairly knowledgeable
 - iii. Not very knowledgeable

Can you please elaborate on this?

- c. If you are unsure about any tax issue, to whom do you speak? Why?
- d. What do you think the average businessperson will do if they are offered a cash job of less than \$100? Will they declare it as part of the tax liability? Why and why not?
- e. Would they behave differently if the amount is larger say \$500-1000?
(Probe: can you give me some examples?)

3. Tax compliance process, experiences and attitudes

- a. Tell me the process you follow in gathering information for filing your tax returns (PAYE, GST and Income Tax). Do you use the following?
- Manual, use of notebook or simple spreadsheet
 - Accounting packages
- b. Are you doing the bookwork just to satisfy the tax requirements or are you doing it for some other reasons such as for business decision making? Why is that? *(Probe: Give some examples of how the information is used)*

- c. What was your response when you are being queried by the IRD on how you calculate the tax/refund? Why is that? OR have you or your peers experience an audit from the IRD?
- d. Have you ever found yourself in a situation where you have inadequate cash to meet tax payments? How do you respond to the situation?

4. Cultural factors

- a. Can you please tell me something about your culture in relation to:
 - i. Supporting your immediate and extended families
 - ii. Contribution to the church and community
 - iii. Your view of the IRD to assist you with tax compliance
 - iv. Your view of staff and employees
 - v. You acquiring accounting and tax knowledge

(These questions were asked when the participants had not given the information prior to question 4. These questions did not apply to some ethnic groups. For example, support for extended families is less applicable to Europeans than to Maori and Pacific groups. Another example is that most Asians admitted to having accounting knowledge in question 2 and therefore part v. was not asked of them. Much discretion is applied in asking parts i. to v. given the time constraint and the willingness to share the information with the researcher).

Appendix 7: List of questions for business experts

1. Personal circumstances

- a. Can you please tell me your role and your involvement with small businesses in New Zealand?
- b. What do you think are some of the challenges and issues faced by small businesses in New Zealand?
- c. Do you think culture plays a part in the way small businesses are run? How and why? Can you please provide some examples from your experience with SME operators?

2. Tax compliance factors

- a. From your involvement with small businesses, what do you think is the general perception of small businesses towards tax compliance?
- b. Why do small businesses perceive it as such?
- c. How do small businesses manage their compliance process? (*Probe: do they pay others to do it or do it themselves or a combination of both?*)

3. Suggestions for improvement to services and information

- a. If you were in a position to make policy changes that would help small businesses with their tax compliance process, what would they be and why?
- b. What strategies do you think are required of small businesses in order to comply efficiently and effectively?

4. Other issues (only when the questions 1 and 2 are not answered)

- a. Can you please tell me your observation of small businesses and how they address these issues:
 - i. Managing competing demands on their business resources from families and communities
 - ii. Interacting and their perceptions of the IRD
 - iii. Managing their business cash flow and employees (where applicable)

Appendix 8: List of questions for tax practitioners

1. Personal circumstances

- a. How long have you been in the accounting business and what types of services do you offer?
- b. Tell me some of the reasons why small businesses come to you.

2. Tax compliance factors

- a. What do you think “tax compliance” entails for the SME operators?
- b. From your experience, are there any tax compliance issue(s) that is/are unique to small business taxpayers?
 - i. Main factors influencing small business taxpayers’ compliance decisions? (*Probe: Types of taxes, administration and record keeping, not understanding their tax obligations*)
 - ii. Is there any particular type of taxpayer (culture, demographic, types of business) within the small business community for whom you find compliance to be more of a concern than the others? Why is that so?
- c. What is the proportion of your client’s tax returns is filed manually or using computer packages? Why is this so? Can you please elaborate on this?
- d. What kinds of tax would the majority of your clients have some difficulty understanding or coming to grips with? Why is that?

3. Tax compliance process, experiences and attitudes

- a. Where do you see yourself in the tax compliance equation/process?

Probes:

- i. To look after the welfare of the clients
 - ii. To uphold the tax law
 - iii. Combination of i. and ii.
- b. Do you think most of your clients are generally honest in declaring their tax liability? How do you come to this conclusion?
- c. Have you been in a position whereby the client disagrees with your tax liability calculation? What happen?
- d. Do you handle any IRD audit inquiries relating to your clients and why? Tell me your experience with the IRD audit.

4. Suggestions for improvement to services and information

- a. Can you offer some recommendations that would promote a more cooperative relationship between SMEs and the IRD?
- b. We have covered a lot of interesting issues. Is there anything we have left out or is there anything else you would like to add?

Appendix 9: Demographics of European SME operators

Participant	Gender of respondent or a husband and wife team interview	Business type	Business duration (number of years)	Industry description and ANZSIC classifications	Types of accounting system used	Self rating of tax knowledge
E1	Female	Micro	10	Music composer, property investments (M, L)	Spread-sheet	Fairly knowledgeable
E2	Female	Micro	3	Jewellery retailing and manufacturer (G)	Spread-sheet	Fairly knowledgeable
E3	Female	Micro	10	Commercial painter and decorating (E)	Quickbooks	Basic knowledge
E4	Female	Medium	16	Private education provider (P)	MYOB	Very knowledgeable
E5	Husband and wife	Small	6	Gourmet restaurant (H)	MYOB	Fairly knowledgeable
E6	Female	Micro	5	Yoghurt retailing (H)	MYOB	Fairly knowledgeable
E7	Male	Micro	18	Flooring retailing (G)	Spread-sheet	Basic knowledge
E8	Male	Small	6	IT and computing services, property investments (M, L)	Accounting package	Basic knowledge
E9	Female	Micro	20	Carpet retailing (G)	Spread-sheet	Basic knowledge

Table 4: Demographics of European SME operators

Appendix 10: Demographics of Asian SME operators

Participant	Gender of respondent or a husband and wife team interview	Business type	Business duration (number of years)	Industry description and ANZSIC classifications	Types of accounting system used	Self rating of tax knowledge
A1	Husband and wife team	Micro	12	Automotive repair (I)	MYOB	Not knowledgeable
A2	Male	Micro	7	Mortgage broking and property investment (K, L)	Spread-sheet	Very knowledgeable
A3	Female	Micro	3	Exporter and wholesaler of equestrian products (F)	Accounting package	Fairly knowledgeable
A4	Female	Micro	3	Bakery (H)	Manual cash book	Fairly knowledgeable
A5	Male	Micro	Less than 1	Food retailing (H)	Manual cash book	Fairly knowledgeable
A6	Female	Micro	8	Early childhood centre (P)	Spread-sheet	Basic knowledge
A7	Male	Micro	15	Restaurant, property investments (H, L)	Accounting package	Basic knowledge
A8	Female	Micro	11	IT consultancy and property investments (M, L)	MYOB	Fairly knowledgeable
A9	Male	Micro	1	Electronic equipment retail (G)	MYOB	Basic knowledge

Table 5: Demographics of Asian SME operators

Appendix 11: Demographics of Maori SME operators

Participant	Gender of respondent or a husband and wife team interview	Business type	Business duration (number of years)	Industry description and ANZSIC classifications	Types of accounting system used	Self rating of tax knowledge
M1	Female	Micro	1	Building and construction (E)	Spread-sheet	Fairly knowledgeable
M2	Male	Micro	5	Film and TV production, writing and teaching (J,P)	MYOB	Fairly knowledgeable
M3	Male	Micro	12	TV production, web design, printing and communication (J,M)	Xero accounting package	Fairly knowledgeable
M4	Male	Micro	13	Exporter honey products, TV production, property investment and fitness center (A,J,L,S)	MYOB	Basic knowledge
M5	Female	Micro	1.5	HR and recruitment agency (N)	Xero – accounting package	Basic knowledge
M6	Female	Micro	8	Media and public relations, journalism (J)	Spread-sheet	Fairly knowledgeable
M7	Female	Micro	11	Arts and craft (R)	MYOB	Fairly knowledgeable
M8	Male	Micro	6	Communications and media, property investments, journalism and broadcasting, Crown relations for the Treaty of Waitangi (J,L, S)	Accounting package	Fairly knowledgeable
M9	Male	Micro	10	Radio and TV production, PR and marketing consultant (J, M)	MYOB	Fairly knowledgeable

Table 6: Demographics of Maori SME operators

Appendix 12: Demographics of Pacific SME operators

Participant	Gender of respondent or a husband and wife team interview	Business type	Business duration (number of years)	Industry description and ANZSIC classifications	Types of accounting system used	Self rating of tax knowledge
P1	Male	Medium	10	Healthcare provider (Q)	MYOB	Basic knowledge
P2	Male	Micro	1.5	Beachwear designer (R)	Spread-sheet	Basic knowledge
P3	Male	Micro	6	Food catering (H)	Banklink accounting package	Not knowledgeable
P4	Husband and wife	Micro	9	Funeral support service, Music and DJ service (S)	MYOB	Fairly knowledgeable
P5	Male	Small	9.5	IT servicing and host provider (M)	MYOB	Fairly knowledgeable
P6	Female	Micro	27	Dressmaking (R)	Manual cash book	Not knowledgeable
P7	Female	Micro	1	Arts and craft (R)	Spread-sheet	Basic knowledge
P8	Female	Not disclosed	Not disclosed	Sea freight and air freight, importers of fresh produce (A, I)	Accounting package	Fairly knowledgeable
P9	Male	Not disclosed	Not disclosed	Bar restaurant, entertainment (H, R)	Accounting package	Fairly knowledgeable

Table 7: Demographics of Pacific SME operators