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**Analysis on Implementation of Standard Operating Procedures
(SOP) in the Directorate General of Taxes (DGT), the Ministry of
Finance (MoF) of the Republic of Indonesia**

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Agus Irawan
(Indonesia)

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Members of the Examining Committee:

Dr. Sunil Tankha
Dr. Sylvia I. Bergh

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This document represents part of the author's study programme while at the Institute of Social Studies. The views stated therein are those of the author and not necessarily those of the Institute.

Inquiries:

Postal address:

Institute of Social Studies
P.O. Box 29776
2502 LT The Hague
The Netherlands

Location:

Kortenaerkade 12
2518 AX The Hague
The Netherlands

Telephone: +31 70 426 0460

Fax: +31 70 426 0799

for the love of my life, *ambu* Nindya Paramitha Nurvitasari,
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for the child that I am expecting
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List of Acronym

DGT Directorate General of Taxes

DoF Department of Finance

LTO Large Taxpayers Office

MoF Ministry of Finance

MTO Medium Taxpayers Office

RTO Regional Taxpayers Office

SOP Standard Operating Procedures

STO Small Taxpayers Office

TIU Technical Implementing Units

TSDCO Tax Services, Dissemination, and Consultation Office

Abstract

This research paper critically analyze implementation of standard operating procedures (SOP) in Indonesian Directorate General of Taxes (DGT) as part of their agenda in bureaucracy reform and tax administration reform. The concept of standardization and street-level bureaucracies are used in this research paper, where this two concept stand in opposite side. This research paper focused on the perspective of DGT employees toward SOP implementation, and how it brings changes in their jobs. The findings of this research show that SOP are being implemented in SOP to reduce uncertainty, variety as well as reducing corruption in DGT. Furthermore, DGT employees admit that SOP make their jobs become easier and more productive. They also see that SOP give assurance and protection for their jobs. However, interesting remarks in this research where DGT employees feel that SOP prevent their ability to use professional discretion as compensation of standardization of working procedures.

Relevance to Development Studies

Bureaucracy reform and tax administration reform has been important issues for developing counties. In Indonesia, MoF and DGT try to reform their bureaucracy system and tax administration through application of SOP as important part of their reform agenda. Implementation of SOP in public sector as a method for reforming the bureaucracy may improve the performance of public sector in delivering their public services. As a result, the lessons learned from DGT may be useful for the future bureaucracy reform in Indonesia.

Keywords

Bureaucracy reform, tax administration reform, standardization, street-level bureaucracy, discretion, taxes, Indonesia

Chapter 1 Introduction

1.1. Background

“Rome was not built in one day, nor is a full-fledged modern tax system to be set up within a year or two.”

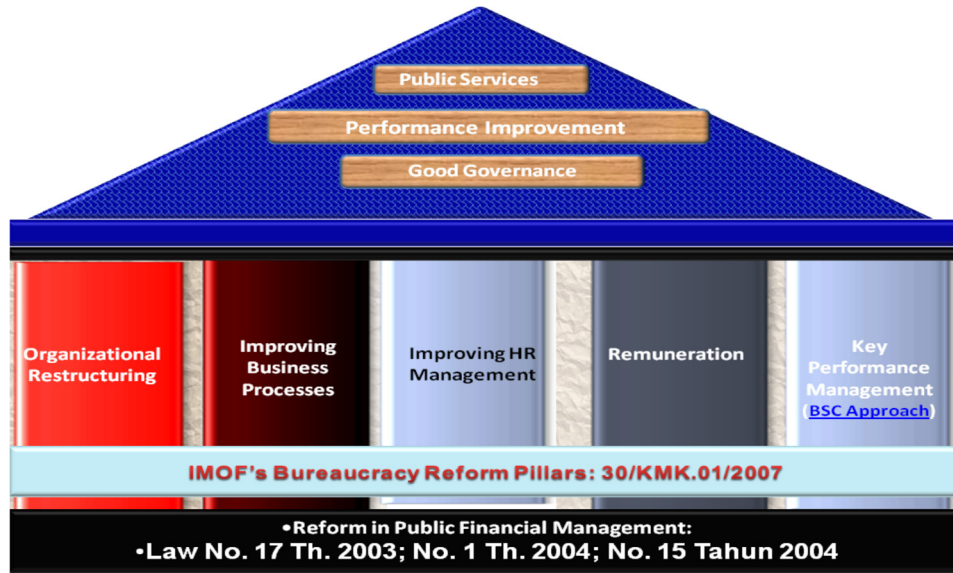
Lief Muten (1992: 187) as cited in Bird (2004: 150)

Ministry of Finance (MoF)¹ of the Republic of Indonesia have a poor reputation for delivering their public services in the past as stated by LaForge (2016). Interaction with this ministry, particularly for business and regular citizens consume more times and involving extra payments (ibid.). It is a fact that MoF is a huge organization and have a wide range of authorities over taxation, customs, treasury, budgeting, state assets management, debt management, inter-governmental transfer and macroeconomic policy in Indonesia (ibid.). Furthermore, overlap between administrative and policy functions that possessed by this ministry create confusion and inefficiency that should be tackled first to improve their performance.

In 2007, Minister of Finance issue Minister Decree No.30/KMK.01/2017 that become the milestone in reforming the bureaucratic system of the ministry. Before launching bureaucratic reform program, MoF already conducts state financial management reform. In order to overhaul the ministry, there are three areas that identified as the focus of reform. These areas are organizational structuring, improvement of business process and improvement of employees' discipline and human resources management. The organizational structuring is carried on by restructuring the organization, segregation, merging and sharpening the function of the organization. The business process improvement includes job analysis and evaluation, workload analysis and establishment of standard operating procedures (SOP). Improvement in discipline and human resource management was being done through competency-based training and education, development of assessment center, compilation of displacement patterns and integration of human resources management system. Later on, remuneration for MoF employees and implementation of performance management system was introduced as the complement of the prior focused areas. All of these focused areas is well known as the pillars of bureaucracy reform of the MoF of the Republic of Indonesia.

¹ Before Presidential Regulation No. 47/2009 on Establishment and Organization of State Ministries, Ministry of Finance use terminology *Departemen Keuangan (Depkeu)*/Department of Finance (DoF).

Figure 1. Ministry of Finance Bureaucracy Reform Pillars



Source: Budiarmo (2014: 64)

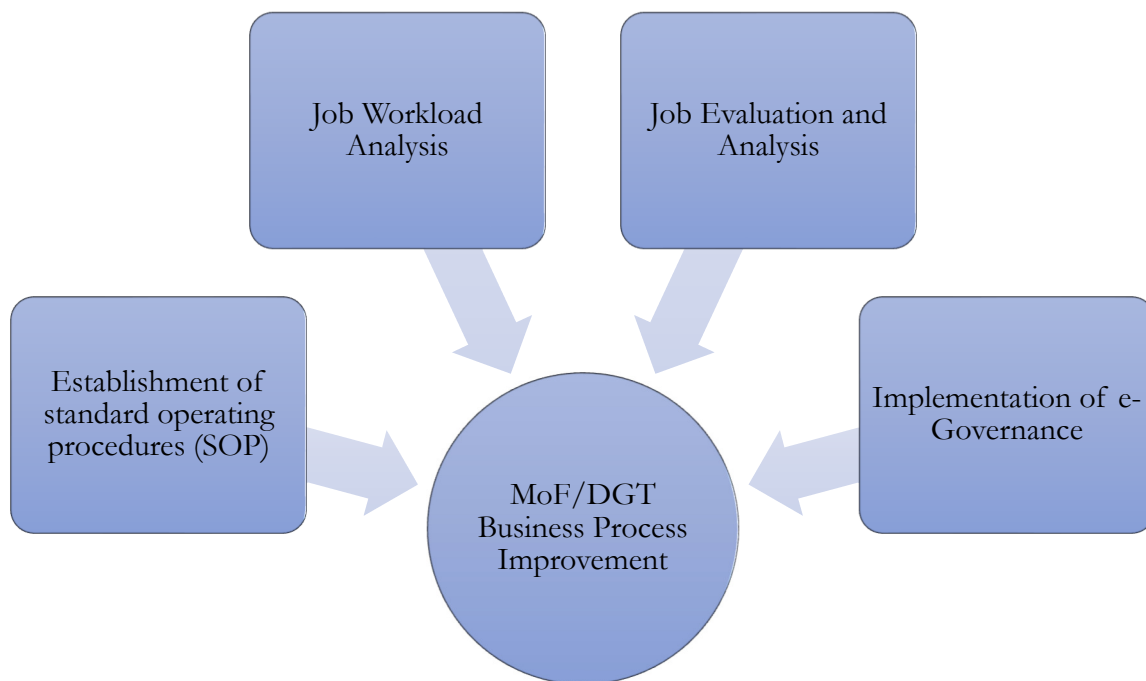
Directorate General of Taxes (DGT) as a unit under the structure of the Ministry of Finance (MoF) of the Republic of Indonesia have the main objective to collect state revenue from taxation as the main source of income in Indonesian state budget. Indonesia could not depend on their oil and gas as well as other natural resources for their source of state income like they did in the past. More than half of Indonesian state revenue collected by this organization and even more in 2017, approximately 78% of Indonesian state revenue comes from taxation. pertaining to this situation, it can be concluded that DGT have critical role for the government of the Republic of Indonesia.

DGT also took part in the bureaucratic reform strategy that designated by the ministry. The focused areas of bureaucracy reform from the ministry were translated by DGT through several strategies. With support from international donors, including the World Bank and the International Monetary Fund (IMF), DGT carried massive overhaul of its organization. Weak organizational structures, poorly trained tax officers, integrity and non-compliances issues become principal problems that should be answered (Arnold 2012: 27). Brondolo et al. (2008: 14) identify that “poor legal and governance frameworks, shortcomings in organizational and staffing arrangements, ineffective taxpayer services and enforcement programs, and outdated information systems” as a combination that reduces the efficiency and effectiveness of DGT in collecting taxes. These problems should be addressed as the central of DGT’s reform strategy align with the bureaucratic reform strategy of the ministry.

DGT through reorganization change their narrow focused tax-by-tax approaches towards function-based structures and size based segmentation of taxpayers. Before reorganization, DGT has 3 types of tax office: land and property tax office, tax audit and examination office and tax office. It was later merged into one type of tax office that designed to give public services for all type of taxes in Indonesia. DGT also categorized their operating office based on the size of their taxpayers into three types: large taxpayers office (LTO), medium taxpayers office (MTO) and small taxpayers office (STO).

Improvement in business process was being done by an establishment of standard operating procedures (SOPs), workload analysis and job analysis and evaluation also implemented. Later on, it is also followed by several technological improvements such as e-registration, e-filing, e-invoice and e-billing. For human resources management, there was an establishment of system information and management of human resources, improvement in employees discipline and job assessment. Tax employees also receives better compensation through remuneration in order to compensate their effort and to prevent the corrupt behavior. Last but not least, Balance Score Card (BSC) and Key Performance Indicator (KPI) also introduced as a tool to measure the performance of the organization.

Figure 2. Business Process Improvement in DGT



Source: Budiarmo (2014), adapted by the author

Several studies have been conducted to depict tax administration reform in Indonesia with various findings. Most of these studies focused on the reform of the tax regulations in order to increase the state revenue, while studies in the administrative perspective of tax reform itself are still limited.

Rizal (2011) find that DGT tax administration reform successfully achieves its target. It was proven by several parameters such as: high taxpayers compliance, high tax employees integrity and High taxpayers compliance, and high productivity.

Arnold (2012) states that key element in Indonesia's tax reform so far is the establishment of large taxpayers' office that enables DGT to focus their resources and attention toward taxpayers with large potential to obtain state revenues.

Majeed (2012) find that implementation of SOP in MoF, where DGT is part of it, can be considered as a success story of implementation of standardization in public sector. Customers' satisfaction

increased as well as a radical change in the completion time of services by MoF. She finds that the leadership of the minister become the critical factors of this reform.

1.2. Indication of Problem

Depkeu (2007) identifies that “sub-standard public services” as one of the biggest challenges in the process of reform in Department of Finance (DoF). This image perceived by societies because of several factors. The public services within this ministry were too bureaucratic, not transparent, and complicated steps. Public services must be processed through so many desks with unclear information about the process. For example, before bureaucracy reform, to obtain taxpayer registration number will take 1 to 3 day to complete the process.

The development of clear, concise and sensible SOPs are critical to the success of overall reform effort. A well-written guidance will give employees direction to do their jobs properly and eliminate the uncertainties (Majeed 2012). Without a clear written guidance, it almost not possible for employees to work on the right path. SOP has a critical role in overall reform effort in DGT along with the other areas of reform. Because of that reason, it is important for the researcher to find out more about the implementation of SOP as one of the way of reforming the organization. This research will find the story behind the implementation and how the implementation of SOPs bring major change within the organization, especially for employees in delivering their public services.

1.3. Significance of the Study

This research is significant in three ways:

- a. Empirical research that explores the implementation of working protocols in public sector in Indonesia was limited. As a result, this research will bring a valuable contribution to an understanding of working protocols in this context.
- b. Implementation of SOP within a government organization in Indonesia is relatively new. Therefore, findings from this research will enrich our understanding of the implementation of SOP.
- c. The results from this research will add our knowledge on how the employees in DGT react towards change in their working environment.

1.4. Research Objective

This research conducted to depict the implementation of SOP as part of business process improvement in DGT. This study will highlight lessons from the experience of DGT as one of the earliest adopters for implementation a set of SOP in their daily business to collect taxes and provide public services for taxpayers in Indonesia. Furthermore, by doing this research hopefully this paper can contribute to improving the future performance of DGT especially in the area of SOP implementation.

1.5. Research Question

The main question of this research is how the implementation of standard operating procedures (SOP) can bring improvement on the way of DGT delivering their public services. In addition, this main research question will be divided into several sub-questions:

- a. What is the background of establishment of standard operating procedures (SOP) in Directorate General of Taxes (DGT)?
- b. How does the tax employees in operating level react to this establishment of standard operating procedures (SOP) and how does this SOP filtered through the organization?
- c. How does standard operating procedures (SOP) change practices, workflow patterns and productivity of tax employees in operating level?

1.6. Scope and Limitation

1.6.1. Scope

This research will sketch the implementation of standard operating procedures (SOP) in Directorate General of Taxes (DGT) from 2007 where SOP firstly introduced in DGT until 2017 as part of their business process improvement. This research will try to focused on the background and the actors behind the implementation of SOP in DGT. This research will also try to focus on the perspective of DGT's employees, especially in operating level regarding their feeling and reaction toward the SOP itself.

The existing number of SOP in DGT is more than 2000 SOP. As a result, it is not possible for researcher to discuss and use all of them in this research. Researcher will only discuss and use selected SOP as examples. Those selected SOP are usually carried on in DGT daily business in operating offices.

1.6.2. Limitation

There are some limitations in conducting this research mainly because of some restriction in accessing and using the data and information that belong to DGT. The researcher should ask for formal permission to access the unpublished official documents from DGT. Moreover, formal permission also needed in order to interview the DGT employees as the key informant of this research. Approval from Directorate of Dissemination, Services and Public Relations is needed for both situations. Due to confidentiality of data and information that might be included in these reports, the researcher will ensure that none of data and information that presented on this research violate the regulation. As the consequences, there are possibilities that this research will not fully disclose all the collected information from the organization. Furthermore, the researcher should use their professional judgment regarding the possibilities of slip of tongue from the informant that might be dangerous for their career. Thus, the researcher has to decide whether the information should be included or not included in this paper.

This research paper might face an ethical issue because the researcher also an employer of DGT for the last 10 years. To overcome this ethical issues, the researcher will try to act in professional behavior toward this research. The researcher will try to keep distance and minimize personal involvement that

can hamper the research itself. By keeping professionalism and minimizing personal involvement, it can reduce potential problems related to ethical issues in this research.

There are also possibilities of bias from the interviewees to give positive perspectives about their organizations instead of giving the reality of the situation. Both of interviewees and researcher are employees of the organization for years. As a result, the researcher will try to ensure that the set of questions for interviewees can bring the real answers by formulating clear questions for them. The researcher will explain to them that this research is only for educational purpose, and will not being used for another purpose to build their trust. The researcher will ensure that any information that gathered from this interview will not be given to another party. Furthermore, the researcher will give possibilities to answer the questions anonymously if they feel uncomfortable with the questions and possibilities not to answer the questions if they feel that the questions may lead to violation against the code of conduct as a government official, especially as a DGT employees. By doing this, hopefully researcher can have an honest answer from the interviewees.

1.7. Methodology

This research is an exploratory research that combines secondary data source by doing a literature review and primary data source by conducting the semi-structured interview. For secondary data, researcher use variety of official documents, published and unpublished to provide relevant data toward bureaucracy reform where implementation of SOP is one of the focused areas. Primary data were retrieved from a semi-structured interview with DGT's employees in the head office and operating office and also the personal observation of the researcher as the employees of DGT for last 10 years.

The published and unpublished documents which are used in this research include but not limited to:

- a) annual reports of DGT from 2007 until 2015;
- b) book of service excellence of MoF 2007;
- c) reports from bureaucracy reform and institutional transformation program 2010, 2011, 2012 and 2016;
- d) reports for taxpayers satisfaction survey toward DGT's tax services 2012, 2013 and 2016;
- e) reports for stakeholders satisfaction survey toward MoF's public services from 2013 until 2015;
- f) laws and government regulations regarding MoF's and DGT's bureaucracy reform program.

To add official documents, the researcher uses academic literature, reports, books, journals and articles that related to the topic of this research. Researcher conduct data and information gathering through ISS library, Erasmus University Rotterdam library as well as data and information that available from several organizations like IMF or World Bank. These gathered materials were both in electronic format or printed format.

The semi-structured interview are involving two categories of DGT employees. First categories are for those who work in DGT head office, particularly in Directorate of Business Process Transformation and Directorate of Internal Compliance and Human Resources Transformation. These two directorates are among of several units in DGT who are in charge to implement, develop,

evaluate and improve existing SOP. Some of those informants may not work at that place when SOP firstly introduced in DGT. Nevertheless, their knowledge about the business process, background and future development of SOP can be valuable information for this research. The second categories are DGT's employees in operating level as the executor of SOP in daily business. Most of them have been working for DGT for at least 10 years as a front officer, staff or account representative. They are being interviewed to gain their perception of implementation and dynamic change of SOP through their experiences. Furthermore, the researcher also using his personal observation and his experience as an employee of this organization to understand the situation. The researcher has experienced the change of SOP and may use his experience to be added in this research paper.

The list of interviewees are attached in Annex C. All interviewees from DGT head office agree to disclose their name while DGT employees from operating offices choose to be anonymous. For DGT head office employees, interviews were conducted in DGT head office in Jakarta, Indonesia while others were conducted in Amsterdam, the Netherlands.

1.8. Organization of the Research Paper

In order to develop our understanding regarding the implementation of SOP in DGT and to address the research questions, this research paper will be structured as follows. Chapter one sets out the background of the study, the significance of the study, research objectives, research questions, methodology and scope and limitation of this research. Chapter two provides conceptual framework and literature review on standard and standardization, street-level bureaucracy and discretion and relation between those concept to the research itself.

Chapter three will provide contextual background regarding tax administration reform, DGT organizational structure as well as the DGT functions to give image of this organization and the correlation with SOP implementation. Chapter 4 discusses findings and analysis to answer the questions of this research. Lastly, the conclusions of this research will be presented in chapter 5.

Chapter 2 Conceptual Framework

2.1. Introduction

This chapter will sketch conceptual frameworks and literatures review related to the topic of this research. Concepts that being used in this research are the concept of standard and standardization as well as the concept of street-level bureaucracies and discretion. For each concept, prior research related to the concepts will be provided to allow the development of a conceptual framework which supports the questions of this research paper.

2.2. The Concept of Standardization

The idea of standard and standardization grew rapidly in the topic of engineering area, but now spreading into multidisciplinary areas such as: business, organization and social studies. Standard has been regarded as “a rule for common and voluntary use, decided by one or several people or organizations” (Brunsson et al. 2012: 616). Standard, as defined by ISO (2004: 17) is

“document, established by consensus and approved by a recognized body, that provides, for common and repeated use, rules, guidelines or characteristics for activities or their results, aimed at the achievement of the optimum degree of order in a given context.”

According to Brunsson et al. (2012), there are three types of standard based on its distinction:

1. technical and non-technical standard
2. process and outcome standard

It is based on a situation where standard regulate the process or the outcome from particular activities. Process standard only “regulate the process within and between organizations” (p.616), without measurement on the quality of output (goods or services), while outcome standard requires “the existence of clearly identifiable and measurable outcomes’ (Power 1997 as cited in Brunsson et al 2012: 617).

3. de jure and de facto standard

It is based on how the standard being adopted by the organizations. When a standard being adopted by a process of decision making, it will be a de jure standards. On the other hand, de facto standards “refers to processes that lead to uniformity” where adopters have consensus to use the same model (p.617).

Standardization, according to ISO (2004: 4) is defined as:

“activity of establishing, with regard to actual or potential problems, provisions for common and repeated use, aimed at the achievement of the optimum degree of order in a given context”

ISO (2004) added that standardization is important to improve products suitability, process as well as services for designated goals, avoidance of trade barrier and stimulate cooperation.

Brunsson et al. (2012) explain varieties of interaction between standard and organization: standardization of organizations, standardization by organizations and standardization as an organization. Standardization of organizations is a perspective that rule which already establishes by individual organization adopted by other organizations even though there is no legal sanction for those who are not following that standard (ibid.). For example, industry standard or accounting standard that adopted by an organization from other organizations. Meanwhile, the standard by organizations is a standard, where formal organizations establish a standard and other organizations follow their standard with equal rights to contribute to the development of standards such as ISO 9001 or ISO 9002 (ibid.). Standardization as an organization happens when standardization is considered as a means in organizing the advance society where application a set of rules are important inside and outside of the organization (ibid.).

Mintzberg (1979: 5) argued that work can be standardized as a way for controlling organizations. Three basic ways to do standardization within the organization are the inputs to the work, the process and the output of the work which can be pre-determined beforehand. Standardization of process can happen when the contents of each activity are programmed or specified. For the input, it is related to the skill that was needed to perform specified activities. Furthermore, standardization of output means that the results of each activity were specified. The organization can control the input, the process and the output of their work.

Seidl (2007) analyze the effectiveness of code as a specific type of standard in corporate governance and conceptualized code as “schemas of observation that structure the mutual observations between the various actors involved in the code regime” (p. 721). He also added that effectiveness of code depends on whether or not the code has a supplemental schema of observation.

Wüllenweber et al. (2008) in his research regarding the effect of standardization of business process toward business process outsourcing found that standardization is quite related to the success of business process outsourcing. Trkman (2010) find in his research that company, to enhance its competitive advantage should establish the key business process and determine where standardization should be applied and certain flexibility for employee toward the particular business process.

Brunsson et al. (2012) find that relationship between standardization and organization can be seen in three ways. First, organization was affected by standard because activities within the organization are regulated by many standards. Second, standards were mostly produced by the organization itself and can be seen as the product of an organization. Third, in modern societies, the standard can be considered as a way of organizing them.

Ponnert and Svennson find that standardization often being used as “a way to reduce uncertainty and unpredictability for professionals and clients” (2015: 95). They argue that standardization can be used as a tool for evaluation, creating prediction, uniformity and transparency as well as reducing uncertainty since its ideal conditions are well connected with the logic from the bureaucrats and the markets but with the expense of professional discretion (Ibid.).

Based on the theory and literatures about standardization and their relation with organization, it can be concluded that standardization are important for organization like DGT. Standardization as an organization may help DGT to use their standard to manage their employees based on the regulations similarly with the findings from the research by Brunsson et al. (2012). Furthermore, Mintzberg (1979) confirms that standardization of working process can be used as a controlling mechanism of an organization. Standardization of working process, like the case of SOP implementation in DGT can help this organization to ensure their public services can be delivered equally for taxpayers. Standardization of working process by application of SOP is aimed to provide a clear written guidance for the employees to help them in doing their jobs.

As a control mechanism, SOP will make DGT employees have uniformity in handling their jobs based on standardized procedures. Moreover, in order to improve the quality of their public services, DGT may use SOP as a method to create competitive advantage in services delivery comparing with other public organizations in Indonesia. This is aligned with the findings of Trkman (2010) where he sees that standard can give competitive of advantage for organization.

2.3. The Concept of Street-Level Bureaucracy

According to Lipsky (2010: 3) street-level bureaucrat is defined as “public services workers who interact directly with the citizen in the course of their jobs, and who have substantial discretion in the execution of their work”. Lipsky (Ibid.) identifies places like schools, police station, lower courts and other agencies as street-level bureaucracies. Lipsky (Loc. cit.) also added that “public services agencies that employ a significant number of street-level bureaucrats in proportion to their workforce are called street-level bureaucracies”. Lipsky finds that discretion become important in the interaction between street-level bureaucrat and citizens and street-level bureaucrat have a similar structure in their job and can be compared even though their works are different and not related (Ibid.).

Street-level bureaucrats, according to Hupe and Buffat (2014) can be defined as ‘street level’ and bureaucrats’. They are called ‘street-level’ because they work directly with citizens including pupils, parents, patients etc. and ‘bureaucrats’ because they are doing their work in public services, even though in some cases they can be employed by private sectors who provide public services (ibid). Hupe and Buffat (2014) added that street-level bureaucrats are specifically trained to do specific jobs. Hupe and Buffat (2014: 551) stated that street-level bureaucrats “have inherent discretion while functioning as policy co-makers” because of those characteristics.

Tummers and Bekkers (2014) argued that street-level bureaucrat in their daily job developing their coping mechanism to overcome specific situations where existing regulations often not well connected. Moreover, the street-level bureaucrat has to deal with limited time and information in implementing public policies (Ibid.).

Lipsky argued that street-level bureaucrats have a high level of discretion to determine “the nature, amount, and quality of benefits and sanctions provided by their agencies” (2010: 13). Discretion, according to Carson et al. is “freedom within the workplace” (2015: 173). Carson et al. added that discretion appears when people have to make choices among confusing and uncomfortable with regards to the limitation of regulations and illogical policies.

Lipsky (2010) added that it is difficult to eliminate, even reduce the level of discretion due to certain characteristics within the work of street-level bureaucrats, so appropriate level discretion can be seen as necessary and solutions for them in doing their job. Lipsky also finds that street-level bureaucrat has different motivation where “workers have an interest in minimizing the danger and discomforts of the job and maximizing income and personal gratification” (2010: 18). Bureaucrats, as stated by Downs (1964) have different individual goals regarding their personal motivation. Downs (1964) identifies different types of bureaucrats as follows:

- a. climbers, for those who seek for maximizing their own power, income and prestige;
- b. conservatives, for those who look for their own security and convenience;
- c. zealots, for those who are loyal to particular policies which they are committed to;
- d. advocates, for those who are loyal to a broader set of policies or a broader range of organizations; and
- e. statesmen, for those who are loyal to the society as a whole.

According to Hupe and Buffat (2014) discretion have two aspects: as a mean of freedom being used which focused on the behavior of a given setting, and as a mean of how this freedom can be used as resolute by the policymakers. Lipsky (2010) also shared similar perspective regarding the high level of discretion and high amount of interaction among street-level bureaucrats with citizens. Furthermore, he also identifies other conditions that happen in their working environment such as: inadequate resources comparing to their assigned tasks, the difference between supply and demand of their services, ambiguous, vague or conflicting goal settings from the agencies, problems in measuring performance and condition of nonvoluntary clients (Ibid.)

Kelly (1994) sketch in her research what motivates street-level bureaucrat in exercises their discretion and how their organizational culture responded for employees discretion. She finds that organizational culture can encourage or discourage the ability of street-level bureaucrats to orchestrate discretion.

Professional discretion according to the research from Evans and Harris (2004) is a phenomenon that lies on assumption that professional discretion is a ‘good thing’. Control over professional will not automatically exist by the proliferation of rules and regulations, and even worse, more rules lead to more discretion. Professional discretion is neither ‘good’ or ‘bad’ because in some conditions discretion might be important attributes while in other conditions, discretion may provide an opportunity for professional abuse of power.

Keiser (2010) depicts his findings on how street-level bureaucrats use their discretion when they have lack physical interactions with clients to determine their eligibility for Social Security Disability program in the United States. He finds that decision they made was made were affected by their compliance toward the goals of the agency, while it can’t be proven how clients evaluation method through indirect contact affects their decision.

Tummers and Bekkers (2014) in their research toward policy implementation on Dutch mental health care professional suggest the importance of policymakers to give (perceived) freedom for street-level bureaucrats that can create effective and legitimate policy implementation. They also find that client

meaningfulness as other important factors besides of discretion because it will strongly influence the willingness of street-level bureaucrats to implement the policy. On the other hand, discretion enables street-level bureaucrats possibility to exercise their own judgment in dealing with citizen needs.

Carson et al. (2015) in their case study of an organizations that contracted by Australian Department of Correction find that substantial discretion about the implementation of the contract was made in managerial level as well as the exercise of discretion in front-level. The front-level workers also argue with a decision from management from the perspective of good practice.

Evans (2016) in his study about the relationship between senior managers' discretion toward policy implementation using front-line staff perspective find that discretion saturate within the organization including senior level manager and front-line staff. Discretion from senior manager significantly contributes to exercise of discretion from front-level staff.

The concept of street-level bureaucracies by Lipsky (2010) and Hupe and Buffat (2014) can be used to identify whether DGT employees are included in street-level bureaucrats criteria or not. They argue that street-level bureaucrats have high level of interactions with citizens and can exercise their professional discretion in doing their jobs. It is a fact that DGT employees have high level of interaction with their taxpayers, and before implementation of SOP they use their discretion in doing their jobs. However, by implementation of SOP as standardization of their working process it means that DGT employees may not exercising their discretion because they do their job based on this standard. It is a contrast situation where standardization will prevent discretion which embedded with the concept of street-level bureaucracies.

Evans and Harris (2004) research find that professional discretion can be 'good' or 'bad' things depend on how it being used by street-level bureaucrats. For some reasons it may be useful, but for other reasons it can lead to professional abuse of power. Using their research, this research paper try to see whether implementation of SOP in DGT is intended to eliminate all kind of professional discretion, or only 'bad' kind of professional discretion.

From research by Carson et al. (2015) and Evans (2016) where the findings admit that discretion are being exercised not only by the senior manager but also by front-line staff and saturated in the organization. Using their findings, this research paper try to look for fact if same things also happen in DGT after implementation of SOP.

2.4. Summary and Conclusions

This subchapter draws a table summarizing the discussed literature above and followed by a brief summary and conclusion of the theory that being used for this research paper, followed by conclusion related to the choice of methodology for doing this research. The summary of literature is shown in table below.

Table 1. Summary of Literatures

Author(s)	Theoretical Construct	Sample/ Respondent	Research Methodology	Outcome
Wüllenweber, K., D. Beimborn, T. Weitzel and W. König (2008)	Impact of standardization toward business process outsourcing.	335 BPO ventures in 215 German banks	partial least squares (PLS)	Standardization is quite related to the success of business process outsourcing.
Trkman, P. (2010)	Establishes a basis for the explanation of (un)successfulness of business process management efforts	A middle-sized Slovenian Bank	Case study	A company, to enhance its competitive advantage should establish the key business process and determine where standardization should be applied and certain flexibility for employee toward the particular business process.
Brunsson, N., A. Rasche and D. Seidl (2012)	Interaction between standardization and organization	-	Literature review	standards give effect to the organization because activities within the organization are regulated by many standards. Second, standards were mostly produced by the organization itself and can be seen as the product of an organization. Third, in modern societies, the standard can be considered as a way of organizing them.
Ponnert, L. and K. Svensson (2016)	Implementation of standardized working models in social work practice and how it might affect professional discretion	-	Literature review	standardization can be used as a tool for evaluation, creating prediction, uniformity and transparency as well as reducing uncertainty since its ideal conditions are well connected with the logic from the

Author(s)	Theoretical Construct	Sample/ Respondent	Research Methodology	Outcome
				bureaucrats and the markets but with the expense of professional discretion
Kelly, M. (1994)	Organizational culture can encourage or discourage the ability of street-level bureaucrats to orchestrate discretion	28 schoolteachers and 15 field office workers from California Employment Development Department (EDD)	Interview	Schoolteachers are able to exercise discretion while EDD field workers cant exercise their discretion due to boundary rule and organizational culture difference.
Evans, T. and J. Harris (2004)	Perspective on continuation and curtailment of discretion in social work	-	Literature Review	Professional discretion is neither 'good' or 'bad' because in some conditions discretion might be important attributes while in other conditions, discretion may provide opportunity for professional abuse of power
Keiser, L.R. (2010)	Factors that affected frontline bureaucratic decision making	Frontline workers in the Social Security Disability program	Mail survey	Decision made were affected by their compliance toward the goals of the agency, while it can't be proven how clients evaluation method through indirect contact affects their decision.
Tummers, L. and V. Bekkers (2014)	Client meaningfulness is important for street-level bureaucrats	5,199 respondent from Dutch mental health care professionals	Survey	Client meaningfulness strongly influence the willingness of street-level bureaucrats to implement the policy while discretion enables street-level bureaucrats to exercise their own judgment in

Author(s)	Theoretical Construct	Sample/ Respondent	Research Methodology	Outcome
				dealing with citizen needs
Carson, E., D. Chung and T. Evans (2015)	Shifts in public sector organization and significant development in policy implementation	Organizations contracted by an Australian State Department of Corrections	Case study	Substantial discretion toward implementation of the contract was made in managerial level as well as the exercise of discretion in front-level.
Evans, T. (2016)	The use of discretion at street level	10 practitioners and 5 local managers	Case study and interview	Discretion saturates within the organization including senior level manager and front-line staff. Discretion from senior manager significantly contributes to exercise of discretion from front-level staff.

After reviewing relevant concept for standard and standardization, and street-level bureaucracy and discretion, it is clear that this two theories can be used to examine the phenomenon of implementation of standard operating procedure in public sector. Discretion is embedded in the nature of street-level bureaucrats jobs, while standardization of working procedures will make street-level bureaucrats are not allowed to use their professional discretion. This research assess implementation of SOP in DGT as a standard and try to find out if DGT employees still use their discretion.

The summary table above shows different methods to assess the use of standardization and discretion. This research paper tries to answer the questions on how the implementation of standardized working procedures will improve the performance of public sector organization from the employees perspective. To examine this questions, the most possible and appropriate methods are by reviewing the literature and interviewing the employees.

Chapter 3 Contextual Background

3.1. Introduction

This chapter provides background information on Indonesian tax administration reform and DGT structure and functions. This contextual background are needed to provide information regarding the reform and information of organizational structure of DGT as the object of this research as well as the functions of DGT which supported by SOP.

3.2. Indonesian Tax Administration Reform

Reform in Indonesian tax system has been conducted since the 1980s. Rizal (2006) informs that first tax reform is initiated in 1984, where Indonesia change their tax system from official assessment system into self-assessment system and implementation of value-added tax in following year. It also remarks the change in the tax system that inherited tax law and tax types from Dutch colonial time through simplification of income tax, value added tax and sales on luxurious goods, land and building tax and stamp duty. Following the first reform in the 1980s, second tax reform in Indonesia initiated in 1994 by restructuring the tax brackets, increasing taxpayers numbers and closing the loophole. Furthermore, in 2000 Indonesia doing their third reform by broadening the taxable goods and tax areas.

Democratization becomes main agenda post-Soeharto regime, who lead Indonesia for 32 years. It also initiates implementation of good governance practices in public sector, including DGT as critical agenda. A modern tax administration that can satisfy taxpayers are needed in Indonesia and DGT need to adapt with that requirement. Effectiveness and efficiency of tax collection, tax law enforcement and tax services along with fairness, transparency and accountability in their governance support democratization process in Indonesia.

In 2000, IMF signed the Letter of Intent with Indonesia where one of the aspects that mentioned in this letter was reform in tax administration.

“The task of improving governance in fiscal management is vast and complex, and crucial to regaining public confidence as well as sustaining fiscal adjustment and public debt reduction. The tax system needs to be reformed to ensure that it is broad-based, non-distortionary, equitable, and transparent. Tax administration has to be overhauled to ensure that regulations are implemented faithfully and in an even-handed manner. The governance of spending programs must be greatly improved and the allocation of funds redirected toward poverty alleviation to promote interregional equity and increase efficiency in the provision of public goods. Fiscal transparency needs to be enhanced by identifying and auditing off-budget activities and bringing them under the consolidated budget. Wages to public servants need to be increased, in line with improved governance and within the government's fiscal capacity, so as to create a more professional civil service with high standards and integrity. (IMF 2000)”

The fourth tax administration reform in Indonesia started in 2001, led by tax modernization team with assistance from donors such as International Monetary Fund (IMF), Australian Agency for International Development (AusAID), Japan International Cooperation Agency (JICA) and other donors (Rizal 2011). Rizal (2006) claimed that the latest tax reform is intended to improve effectiveness and efficiency of tax authority by creating transparency, accountable system and integrity to obtain public trust toward DGT. Combating corruption also become agenda in this reform with the implementation of the code of conduct, where adequate incentives and disincentive are given to encourage positive behavior and mechanism for punishing violations of the code of conduct. Rizal (2011) believe that good governance was the soul of this reform. He also noted that the latest tax administration reform receives explicit and sustainable political support from the government of Indonesia. The tax modernization team were consist of professional and capable human resources with a well-defined program and strategies for the reform (Ibid.)

Tax administration reform in Indonesia includes 4 main points. First, restructures the organization based on the functions and segmentation of taxpayers. Second, improvement of the business process by optimizing communication and information technology that focused on full automation. Third, improvement in human resources system by the development of human resources management based on competence with the principle of transparency, fairness and performance-based. Fourth, implementation of the code of conduct in all level of organization to ensure good governance (DGT 2008).

Brondolo et al. (2008) claim several key success factors in the latest tax administration reform in Indonesia:

- a. Direct linkages with the fiscal adjustment program
To achieve fiscal sustainability, the government of Indonesia (GOI) need to increase their state revenue from non-oil and gas resources. Tax administration reform receives sufficient resources for reforming tax administration in Indonesia.
- b. Strong political support
Tax administration reform backed up by the minister of finance as well as senior government officials in MoF. Resources allocation, monitored developments and timely intervention is the recipe that being used by the minister to support tax reform program.
- c. Appointment of capable staff to lead the reforms
To design and implement tax reform, DGT officials with high motivation, progressive and have a strong leadership skill was appointed to lead the program. They show remarkable efforts and results in the reform program.
- d. Achievable targets to deliver early results
To build DGT confidence toward the future challenges in tax administration reform, the initial phase of tax reform were purposively restricted to a small number of initiatives which successfully achieved. By creating this condition, it creates enthusiasm and commitment to involving in tax administration reform from DGT employees.

e. Phased implementation

Tax reform initiatives were tested and piloted in several offices before commencing in broader scale in national level to facilitate better mechanism of monitoring and controlling as well as the learning experience. After the success of the program can be confirmed in the piloting offices, the program then being duplicated into other tax offices.

f. Private sector stakeholders involvement

DGT involve private sector stakeholder by conducting regular meeting with the business community to give them update regarding the progress of tax administration reform program. DGT also give opportunities for private sectors to give their perspective and feedback for the development of the reform program.

g. Appropriate use of policy conditionality and technical assistance

Indonesia receives some technical and financial assistance from donor to do their tax administration reform program. Indonesia can manage to use this assistance in combination with strong political commitment in advancing tax administration reform program.

In collecting state revenue from taxation, tax administration reform in Indonesia can be considered as a successful program. State revenue from taxation in 2007 is 425,373 trillion rupiah and within 5 years in 2012, tax revenue increase to 835,834 trillion rupiahs. It almost twice from 2007. The details for state revenue from taxation in Indonesia is shown in the table below.

Table 2. Tax Revenue 2007-2015 (in Trillion Rupiah)²

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Domestic Income	706,108	979,305	847,096	992,249	1,205,346	1,332,323	1,432,059	1,545,456	1,496,047
Domestic Tax Revenue	425,373	571,107	544,533	628,226	742,742	835,834	921,398	985,132	1,060,837
Income Tax	238,431	327,498	317,615	357,045	431,122	465,070	506,443	546,181	602,308
Value Added Tax	154,527	209,647	193,067	230,605	277,800	337,585	384,714	409,182	423,711
Land and Building Tax	23,724	25,354	24,270	28,581	29,893	28,969	25,305	23,476	29,250

² From *Laporan Keuangan Pemerintah Pusat* (LKPP)/Central Government Financial Report

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Land and Building Title Transfer Duty ³	5,953	5,573	6,465	8,026	(1)	-	-	-	-
Other Taxes	2,738	3,035	3,116	3,969	3,928	4,211	4,937	6,293	5,568
Percentage of Domestic Revenue to Domestic Income	60.24%	58.32%	64.28%	63.31%	61.62%	62.74%	64.34%	63.74%	70.91%

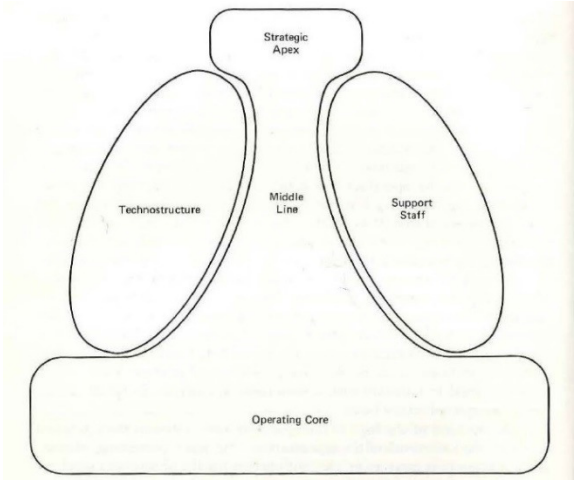
Source: DGT (2016) adopted by author

3.3. DGT Structure and Function

According to the Director General of Taxes Decree No. KEP-95/PJ/2015, the vision of Directorate General of Taxes is “to become the best state tax administration to ensure state sovereignty and autonomy. This vision then translated into four mission which is: “revenue collection based on high compliance on tax voluntarily and fair law enforcement, modern technology-based service to ease tax compliance fulfillments, tax officers with integrity, competency and professionalism, and competitive compensation based on performance management system” (DGT Decree No. KEP-95/PJ/2015).

In general, there are two major categories of DGT organizational structure which are head office and operational office. The organizational structure of DGT is provided in ANNEX A. Using the concept of basic parts of the organization by Mintzberg (1979) we can identify segregation of functions within the DGT organization.

Figure 3. Five Basic Parts of Organization



Source: Mintzberg (1979)

³ By Issuance of Laws of the Republic of Indonesia No.28/2009 regarding Local Tax and Local Retribution, authority to collect income from Land and Building Title Transfer Duty shifted to municipality by at most 1 January 2011, and for Urban and Rural Land and Building Tax by at most 1 January 2014.

The head office holds position as strategic apex of the organizations as well as technostructure and supporting staff while the operational office act as the middle line and operating core. DGT head office responsibility is not only limited in formulating tax regulations and tax policies but also facilitating technical assistance and give administrative support for the organization. On the other hand, operating office act as the operating core who runs the operation function.

In SOP formulation, the strategic apex give guidance for SOP establishment. The strategic apex consists of Director General and Director as the member of Board of Director (BoD). Directorate of Business Process Transformation as technostructure become the leader in business process transformation where implementation of SOP is one of their responsibility in coordination with other technical directorates in DGT. For supporting, secretariat of DGT and other directorates support the implementation of SOP in DGT.

Operating core as middle line and operating core applied the SOP that already formulated by DGT head office into their daily business. They also give their input and feedback for SOP development in the future based on their first-hand experiences in the field.

3.3.1. DGT head office

In DGT head office, there are 4 senior advisors, 1 secretariat of the DGT and 14 directorates who work hand in hand in doing their job as the strategic apex, technocrat and supporting staff. The DGT head office is consists of:

1. Senior Advisor for Tax Extensification and Intensification
2. Senior Advisor for Tax Supervision and Law Enforcement
3. Senior Advisor for Human Resources Development
4. Senior Advisor for Tax Services
5. Secretariat of the Directorate General
6. Directorate of Taxation Regulations I
7. Directorate of Taxation Regulations II
8. Directorate of Tax Audit and Collection
9. Directorate of Law Enforcement
10. Directorate of Tax Objections and Appeals
11. Directorate of Tax Extensification and Valuation
12. Directorate of Tax Potential, Compliance, and Revenue
13. Directorate of Dissemination, Services, and Public Relations
14. Directorate of Tax Information Technology
15. Directorate of Internal Compliance and Apparatus Transformation
16. Directorate of Information and Communication Technology Transformation
17. Directorate of International Taxation
18. Directorate of Business Process Transformation
19. Directorate of Tax Intelligent

The organigram of DGT head office is provided in the Annex A of this research paper.

3.3.2. DGT operational office

In the operating level, there are Kantor Wilayah (Kanwil)/Regional Tax Office (RTO), Kantor Pajak/Tax Office, Tax Service, Dissemination and Consultation Office and Unit Pelaksana Teknis (UPT)/Technical Implementing Units (TIU) are DGT unit who work in operational level. Regional Tax Office main function is to coordinate, control, analyze and evaluate tax office while Tax Office itself has main objective to deliver tax services, tax dissemination and tax supervision. There are 3 types of tax offices based on their segmentation, *Kantor Pelayanan Wajib Pajak Besar*/Large Taxpayers Office (LTO), *Kantor Pelayanan Pajak Madya*/Medium Taxpayers Office (MTO) and *Kantor Pelayanan Pajak Pratama*/Small Taxpayers Office (STO).

For the remote area, there is *Kantor Pelayanan dan Penyuluhan dan Konsultasi Perpajakan*/Tax Service, Dissemination and Consultation Office (TSDCO). Their job is to assist STO in doing their job. The function of this office is quite similar to STO but with limited responsibility. The last type of operational office is *Unit Pelaksana Teknis* (UPT)/Technical Implementing Unit (TIU), where 4 of these TIU are mainly concentrated in taxpayers data receiving, storing and providing data back-up and 1 TIU for information and complaint center that provide information for taxpayers and complaint management.

Indonesia is a large country from the west to the east, and from the north to the south. As a consequence, in order to do their job, DGT have hundreds of office all-around of Indonesia. Most of DGT offices are located in Java and Sumatera island because economic activity and taxpayers also concentrated in these islands. The number of DGT offices per island in Indonesia is shown in the table below.

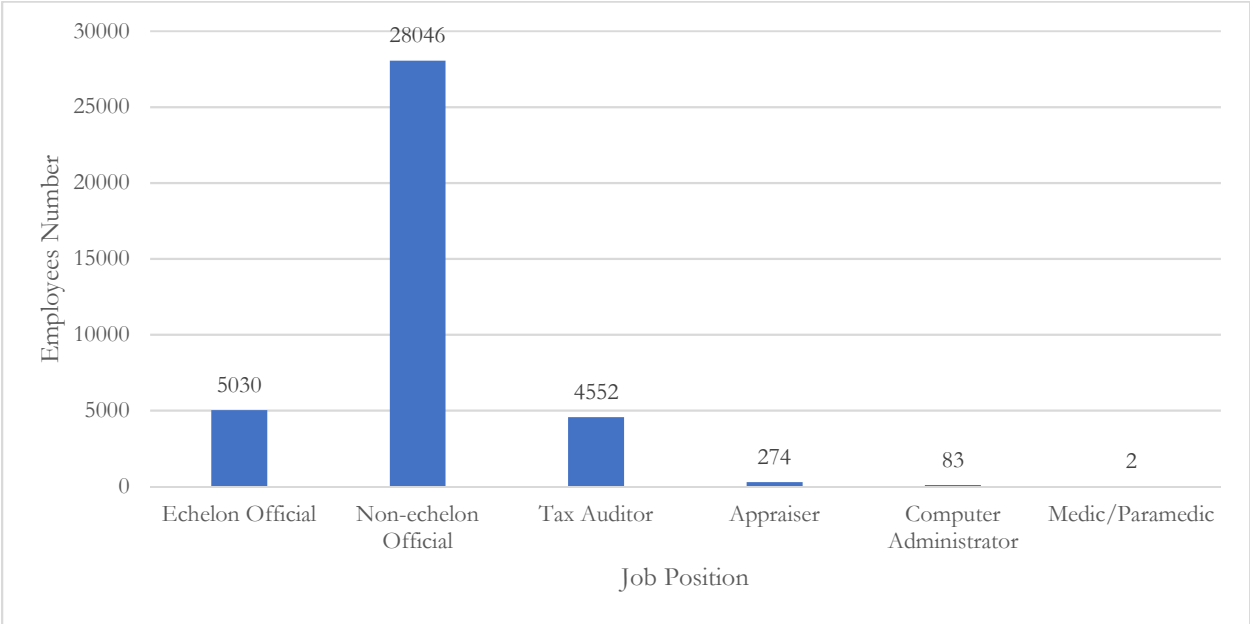
Table 3. DGT Offices per Island

Sumatera		Java		Kalimantan		Sulawesi and North Maluku		Bali and Nusa Tenggara		Papua and Maluku	
6,560		24,429		2,185		2,434		1,698		681	
Employees		Employees		Employees		Employees		Employees		Employees	
		1	Head Office								
7	RTO	18	RTO	3	RTO	2	RTO	2	RTO	1	RTO
69	STO	197	STO	23	STO	26	STO	19	STO	7	STO
78	TSDCO	31	TSDCO	31	TSDCO	37	TSDCO	15	TSDCO	15	TSDCO
1	TIU	3	TIU			1	TIU				
155	offices	250	offices	57	offices	66	offices	36	offices	23	offices

Source: DGT (2016) adapted by author

Based on their job position, DGT employees can be classified into 3 big categories. First, echelon official who possess structural position in the office. The lowest hierarchy for echelon official in DGT is echelon IV, and the highest is echelon I. For example, head of an STO is echelon III while head of a directorate is echelon II. Second, functional official that consists tax auditor, tax appraiser, computer administrator and paramedic. Their position is based on their special expertise, specific skills and specific job assignment. Lastly, non-echelon official who don't have either structural or functional job position in the office. The last categories have the biggest number of employees in DGT. Two third of total DGT employees are distributed into this category. This category consist of staff, account representative, tax objection examiner, tax bailiff, treasurer etc. the composition of DGT employees based on their job position is shown in the table below.

Chart 1. Employees Composition by Job Position



Source: DGT (2016) adapted by author

3.3.3. Functions of DGT

DGT has a responsibility in collecting state revenue from taxation as one of the sources for Indonesian state budget. DGT undertakes various activities such as: formulating tax policies, establish tax regulations, standardization of tax procedures and implementation of tax procedures. These various activities can be categorized into three categories: management function, core function and foundation and support function.

1. Management functions

Management functions are a number of processes that control or manage the main business processes of a system/process that ensures that key processes and supporters are operating well. Management functions aim to ensure the organization has a strategic plan that supports the achievement of organizational goals and ensures compatibility between key functions and support functions.

2. Core Functions

Core functions of DGT is a set of main functions that directly related to the core business of DGT as tax administration authority in Indonesia. The main functions of DGT are the function of service, development, supervision and law enforcement.

Services function ensure taxpayers can get a simple, secure, and accountable services from DGT. These functions include the process for tax registration, tax administrative services, tax payment, tax and objection and non-tax objection. Development Functions facilitate taxpayers to understand their right and obligations in taxation, while supervision function exists to ensure taxpayers compliance with tax laws and tax regulations. Supervision functions include tax extensification, tax supervision, tax audit, tax stipulation and tax intelligence. Last but not least, law enforcement function establish equal and fair treatment for taxpayers under the law by reducing non-collectible revenues and deal with criminal acts of taxation, initial evidence examination and investigation, tax collection, and tax intelligence

3. Supportive Functions

The four core functions of tax administration cannot stand upright without being supported by a foundation or support function as an enabler. Supporting function is a number of activities that aim to support the implementation of the main function properly. Whereas the foundation function is a business process related to resource management and organizational infrastructure.

Both of these functions support the core function of DGT directly or indirectly so it can help main functions of DGT running properly in accordance with the set. The main functions and support functions are reflected in the organizational structure Directorate General of Taxes at the central level and on the unit vertical underneath.

The core functions of DGT consist of services, development, supervision and law enforcement functions. Core functions is the fundamental functions of DGT in collecting taxes and mostly related to taxpayers as DGT clients. Because of the importance of this core functions, DGT should be able to ensure that they can do their job properly. They also need to convince the taxpayers that DGT can give public services for them in equal and certain method. SOP enable DGT to answer needs of taxpayers to receive equal and certain treatment from DGT.

For supporting functions, implementation of SOP give assurance that DGT is not only try to satisfy their taxpayers, but also their employees as their stakeholders. Supporting functions are intended for helping the core functions, by managing human resources and organizational infrastructure.

Chapter 4 Findings and Analysis

4.1. Introduction

Findings on research question are presented in this chapter. The first subsection provides the information regarding early implementation and history of SOP in MoF and DGT. The next subsection sketches the focus of SOP implementation and followed by the actors and their role in SOP development in DGT. The main focus of this research paper on the perception of DGT employees and how SOP change the work practice, workflow and productivity from DGT employees become the last subchapter of this chapter.

4.2. Early Implementation of Standard Operating Procedures (SOP)

In Indonesia, it has been argued that government employees often charged extra for their services and share some of them to the head of state and his inner circle during Soeharto regime (LaForge 2016: 2). Even after Soeharto stepped down from his presidency in 1998, the pattern of corrupt behavior was rooted in the system, and a lot of government employees depend on money that produced by this practice. It will need tremendous efforts to introduce a new way of workings, replacing existing pattern especially in every government organizations in Indonesia.

Ministry of Finance (MoF) has a bad image in delivering public services for their stakeholders. Public services provided by this ministry were too bureaucratic, not transparent and time-consuming (Depkeu 2007). Not to mention, the process of decision making within one unit is very depending on the central role of the top leader.

Standard operating procedures (SOP) were formally introduced in Ministry of Finance (MoF) of the Republic of Indonesia in 2007 as part of their bureaucracy reform agenda. All unit under the MoF, including Directorate General of Taxes (DGT) was ordered to develop and implement SOP in their unit. Majeed (2012: 1) told a story that when Minister of Finance in 2005, Sri Mulyani Indrawati asking her staff to provide existing employees guideline, and found a bitter truth that such working guidelines do not exist. This incident gives a clear evidence of lack of understanding about the importance of SOP in the ministry, and even more lack of check and balance system in the governance of public sector in the ministry.

For DGT, they already initiated tax administration reform program in 2001 with help from donors including the World Bank and the International Monetary Fund (IMF) (Arnold 2012: 27). This reform is aimed to deal with principle challenges: non-compliance issues, lack of competences from tax employees, tax employees integrity issues and weak organizational issues. At that time, DGT also began the process to clarify their working procedures for employees hand in hand with those principle challenges. However, the working procedures were quite different with the new SOP that later on introduced by the MoF as part of their reform agenda. As a result, DGT aligns their reform agenda with MoF bureaucracy reform agenda.

One of the respondents, Maraha Sufitra⁴ admit that “in the past, there is only job description (in DGT). For example, services section (in operational office) have their own job description but without step-by-step of how to do it. It was without a clear explanation of what to do and how long it will take (for completing the process). If (working procedures) was existed, it is only contained in tax regulations. The (old) tax regulations is not in detail as current tax regulations”

Haris Fauzan Mustofa⁵ gives information that that “before bureaucracy reform, there are (working procedures) like current SOP namely ‘*tata laksana*’. However, it has a different method of presentation. *Tata laksana* is being presented in a narrative way while SOP is not only have narrative dimension, but also have a visualization of the working flow.

According to Minister of Finance Regulation No.139/PMK.01/2006, standard operating procedures (SOP) is “a written stipulation of what to do, when, where, and by whom” (Depkeu 2006: 3) and it shared similar perspective with the common concept of standard and standardization. SOP can avoid variations in process that can disrupt overall performance of the organization and SOP can be drive mechanism for an organization to operate effectively and efficiently.

Depkeu (2006) categorize SOP into 3 (three) types; technical SOP, administrative SOP and cognitive SOP. Technical SOP is designed for technical or repetitive kind of jobs, such as registration of taxpayers identification numbers. Administrative works such as document reviewing, project reviewing, analysis of training needs or office mailing procedures are categorized as administrative SOP whereas cognitive SOP is a hybrid between technical SOP and administrative SOP.

SOP is believed as the answers to those problems. As a result, for 2008 all unit under MoF in Indonesia must implement SOP for their daily activities. By the end of 2008, DGT already established 1.948 SOP (DGT 2009: 18) and by the end of 2015, there is 2,619 existing SOP (2016: 123). From this thousand of SOP, 8 (eight) of them were selected to become part of SOP *layanan unggulan* (quick wins) program of MoF. This 8 (eight) SOP is listed in the table below.

Table 4. SOP for *Layanan Unggulan* (Quick Wins) of DGT in 2008

No.	Services	Before Reform	After Reform ⁶	
			Procedures	Completion Time
1.	Registration of <i>Nomor Pokok Wajib Pajak (NPWP)</i> /Taxpayers Identification Numbers (TIN) Registration Application	1 (one) to 3 (three) working days from the date of receipt of a complete application.	8 working process	1 (one) working day from the date of receipt of a complete application.

⁴ Staff of Services Development II Section, Directorate of Business Process Transformation

⁵ Head of Development for Institutional Design Section, Directorate of Internal Compliance and Apparatus Transformation

⁶ Based on first version of SOP in DGT

No.	Services	Before Reform	After Reform ⁶	
			Procedures	Completion Time
2.	Registration of <i>Pengusaha Kena Pajak (PKP)/VAT Taxable Entrepreneur</i>	3 (three) to 7 (seven) working days from the date of receipt of a complete application.	12 working process	3 (three) working days from the date of receipt of a complete application.
3.	Settlement for <i>Pajak Pertambahan Nilai (PPN)/Value Added Tax (VAT) Restitution</i>	12 (twelve) months from the date of receipt of a complete application.	8 working process	<p>a. 2 (two) months from the date of receipt of the complete application, in case the application submitted by a <i>PKP</i> conducting certain activities which has a low risk.</p> <p>b. 4 (four) months from the time of receipt of the complete application, in case the application submitted by a <i>PKP</i> conducting certain other than a <i>PKP</i> referred to in letter a;</p> <p>c. 12 (twelve) months from the date of receipt of the complete application, in case the application submitted by:</p> <ul style="list-style-type: none"> • <i>PKP</i> other than <i>PKP</i> with certain criteria and <i>PKP</i> conducting certain activities as referred to in letter a and letter b; or • <i>PKP</i>, including <i>PKP</i> as referred in letter a that has a low-risk based on prior audit is known to be at high-risk
4	Issuance of <i>Surat Perintah Membayar Kelebihan Pajak (SPMKP)/Letter of Order to Pay Overpayment Tax</i>	1 (one) month from the issuance of <i>Surat Ketetapan Pajak Lebih Bayar (SKPLB)/Notice of Overpayment</i>	16 working process	3 (three) weeks from the date of SKPLB or 3 (three) weeks from the date of receipt of complete application

No.	Services	Before Reform	After Reform ⁶	
			Procedures	Completion Time
		Assessment or 1 (one) month from the date of receipt complete application		
5	Settlement for Tax Objections Appeal	12 (twelve) months from the date of receipt of a complete application	18 working process	9 (nine) months from the date of receipt of a complete application
6	Exemption of PPh 22 Impor/Income Tax from Goods and Services Importation	1 (one) months from the date of receipt of a complete application	11 working process	3 (three) weeks from the date of receipt of a complete application
7	Issuance of <i>Surat Keterangan Bebas (SKB)</i> /Exemption Letter for <i>Pajak Penghasilan (PPh) Pasal 22 Impor/Income Tax Article 22</i> for Import	1 (one) months from the date of receipt of a complete application	11 working process	5 (five) working days from the date of receipt of a complete application
8	Settlement for <i>Pajak dan Bumi Bangunan (PBB)</i> /Land and Building Tax Reduction	3 (three) months from the date of receipt of a complete application	16 working process	2 (two) months from the date of receipt of a complete application

Source: Depkeu (2007), developed by author

Later on, SOP for quick wins for DGT was added into 16 (sixteen) SOP by the issuance of Minister of Finance Decree No.187/KMK.01/2010. In 2014, these services were reduced to 4 (five) SOP by the issuance of Minister of Finance Decree No.35/KMK.01/2014.

DGT not only standardized their working procedures but also standardize the quality of the output and facilities as enabling environment. They are fully aware that standardization of working process is meaningless if they could not create a standard for quality and facility. A standardized facility such as computers, network, offices etc. is a must in order to implement SOP.

4.3. Focus on SOP Development and Implementation

Critical factors that lead to MoF (including DGT) stakeholders dissatisfaction according to Depkeu (2007) were: abuse of power from employees toward the working process, lack of competence of human resources and practice of corruption, collusion and nepotism. Implementation of SOP does not necessarily can tackle all of this critical factors, but it can be used to fill the gap of existing situation with an ideal situation.

Roslinda Siagian⁷ explains that “SOP give legal certainty to taxpayers as well as working guidance for tax employees. SOP also give a translation for existing regulations and can be used for evaluation tools for assessing key performance indicator (KPI) of employees and working units”, while Novita Eri Kristanti⁸ added that “SOP create uniformity in working procedures for DGT employees in giving services for taxpayers”. Furthermore, she also added that “SOP is designated to be accessible for every DGT employees all over Indonesia”.

4.3.1. Reducing unnecessary and variety in DGT business process

The focus of SOP is to reduce unnecessary business process in DGT by the elimination of some part in the workflow of each business process. This is intended to create a shorter workflow as well as shorter completion time for a working process. However, it should take into account that some particular services are regulated by tax regulations, and DGT can't cut the workflow but able to reduce administrative requirements as well as completion time.

Rizal (2012) claims that to increase effectiveness and efficiency in the tax administration business process, it is important to simplify the rules and procedures. He added that simple procedures for registration of taxpayers identification numbers can reduce administration cost and taxpayers compliance cost (Ibid.).

For example, all settlement of VAT restitution working process will consume maximum 12 months before bureaucracy reform. After implementation of SOP, DGT divides the process for settlement of VAT restitution into several categories based on the risk assessment of the taxpayers. Taxpayers who have low risk will receive the decision maximum in 2 (two) months while taxpayers with high risk will receive the decision in maximum 12 (twelve months). There are also differences in the workflow for different categories because low-risk taxpayers don't have to be checked thoroughly comparing to high-risk taxpayers, and the workflow can be reduced. This condition enabled by revision of tax regulations, and the establishment of a new working process for VAT restitution.

A service that highly demanded by citizens –registration for taxpayers identification numbers (TIN)- only took 1 working days, even in fact it can be finished in approximately 30 minutes. It creates a huge leap in term of DGT services. This change becomes one of the most notable things for taxpayers in Indonesia.

Variety of working procedures can bring positive and negative effects toward the process and the output of a job. It can bring positive effect if it could lead to effective and efficient in working methods

⁷ Staff of Services Development I Section, Directorate of Business Process Transformation

⁸ Staff of Services Development I Section, Directorate of Business Process Transformation

as well as improving the quality of the output. Conversely, variety can bring negative effects when it reduces the quality of output and ineffective and inefficiency methods of working. SOP as standard force employees to follow the procedures as a response to the possibility of positive and negative effects if DGT allows discretion for their employees.

4.3.2. Reducing abuse of power and protecting the DGT's employees

Abuse of power behavior by the employees toward their working procedures can be reduced by implementation of SOP. SOP clearly define what to do and who does what so there will be no dominant persons or sections working with particular jobs. Haris Fauzan Mustofa confirms that "SOP distribute the working proses, and involving several parties". What taxpayers know is they submit their application and receive the results in the front office. But, within the process different employees with different authorities work hand in hand to make sure that this services can be completed.

SOP also prevent discretion from tax employees, where they have to follow the procedures as stated in SOP. Every SOP is established based on tax regulations and only minor things that not regulated by tax regulations. Since variety can hamper the quality of DGT services, therefore it was not recommended for DGT employees to use their creativity as well as create process bypass. Haris Fauzan Mustofa argues that "standardization is needed to eliminate varieties that will hamper the quality of the job". When a particular job is not clearly defined in SOP, as long as not violating tax regulations, tax employees can give their discretion, but it is a very rare situation.⁹

SOP can give guidance as well as protection for DGT employee. There is an opinion that employees tend to refuse to do the job which assigned to them because they don't have guidance on how to do that. With SOP, DGT employees do not only have guidance for their work but also protection for themselves. If in the future something happens with the result of their job, if they already comply with the SOP they could not be blamed because of that.¹⁰

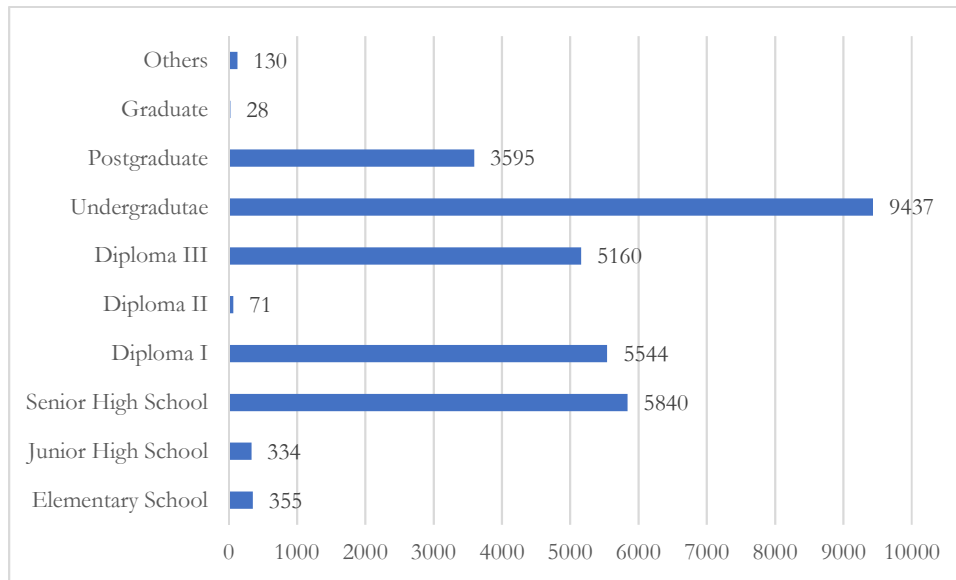
4.3.3. Fill the competence gap among the employees

By the end of 2008, 21.41% or 6529 out of 30494 total DGT employees education level are in senior high school (DGT 2009: 33). 355 employees were graduated from elementary school while 334 employees graduated from junior high school. 5840 employees were graduated from senior high school and it shows that these three categories have a large number of employees within DGT.

⁹ DGT Employee 1, DGT Employee 2, DGT Employee 3, DGT Employee 4, DGT Employee 5, DGT Employee 6

¹⁰ Dadang Setiana, Head of Services Development I Directorate of Business Process Transformation

Chart 2. Employees Composition by Educational Level 2008



Source: DGT (2009)

Bird (2004) find three essential factors that essentially needed for effective tax administration system: political will, clear strategy, and adequate resources. Adequate resources like well-trained people can arrange effective tax administration. Professional training is needed for tax officials, but retraining enormous number of employees was not easy and SOP be another way to fill the competency gap

DGT give training for their employees with help from *Badan Pendidikan dan Pelatihan Keuangan* (BPPK)/Financial Education and Training Agency (FETA) to improve the competence of their employees. DGT also receive training, short course, technical assistance from international organizations such as the Australian Agency for International Development (AusAID), the Australian Taxation Office (ATO), the Organization for Economic Co-operation and Development (OECD), the Japan International Cooperation Agency (JICA), The Swedish International Development Cooperation Agency (SIDA), and the International Monetary Fund (IMF) (DGT: 2009).

However, since DGT could not give professional training for all DGT employees at the same time to ensure the quality of their job, SOP can be used as a tool to fill the gap. With standardized procedures, employees only have to follow the standardized process so they can produce standardized output.

We can use an analogy which is used for fast food restaurant workers. None of them actually can cook. For example, they only have to follow the procedures and instruction about cooking fries. They do not have to think because all ingredients are there, all the kitchen utensils are therefore by following the standardized procedures they can produce meals with output that already specified by the owner of the restaurant.

4.3.4. Eradication of corruption, collusion and nepotism.

Some employees were looking for their own benefit by asking extra payment to the taxpayers. This situation happens because at least two factors. Employees did not receive sufficient compensation

from the government, so they look for extra income by from other sources. On the other hands, some people don't want to follow the procedures, and they ask for help from these employees to speed up the process and violating the regulations. Combination of this two factors with the absence of working procedures can create corruption, collusion and nepotism.

Bird (2014) confirms that “tax officials should have relatively little direct contact with taxpayers and even less discretion in deciding how to treat taxpayers” (2014: 141). The excessive interaction between tax officials and taxpayers can lead to corrupt behavior, while discretion can also contribute to corrupt behavior. Bird (2014) also added that tax officials should have adequate compensation for their jobs as well as receiving professional training, promotion and performance measurement. This research confirms that tax employees are supposed to have less discretion over their job, because a discretion in their job can trigger corrupt behavior.

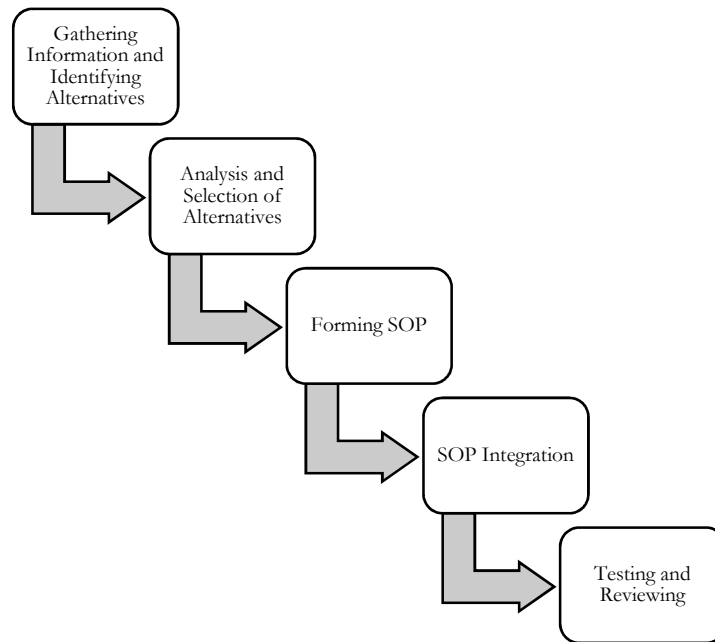
Implementation of SOP can prevent employees from doing rent-seeking behavior. The working procedures were being standardized and information of working procedures became available to every taxpayer. Moreover, after implementation of SOP, employees will hesitate to violate the SOP because they understand the consequences of every violation of SOP. Because of that condition, SOP will create a new barrier for employees to do corruption as individual unless they can cooperate with the entire system together to do corruption. However, implementation of SOP may be effective to reduce petty corruption such as asking for payment for TIN registration, but maybe not effective to prevent huge scale of corruption. Implementation of SOP, along with another program such as monitoring of internal compliance may reduce corruption, but could not totally reduce the corruption.

Even after tax reform, there still a case of corruption. The biggest tax fraud by DGT employees is being done by Gayus Tambunan and Bahasyim (Rizal 2011). Rizal (2011) informs that Gayus possess 25 billion rupiahs by doing tax manipulation. He had the capability to utilize the information and use this information for his interest and receiving the money from taxpayers for his help and information. Bahasyim, former head of Palmerah Tax Office was arrested by police because of his abnormal amount of money in his bank account. However, unlike Gayus he denied that this money is come from his business, instead of taxpayers.

4.4. Actors in SOP Development in DGT

SOP development is not an instant process. It needs adequate time and efforts to make SOP become valid and reliable to fulfill organization's needs. In general, the process cycle in SOP development can be seen in the figure below.

Figure 4. SOP Development Process



Source: Depkeu (2006) adopted by author

Development of SOP in DGT involves many actors from the internal and external side of DGT. Actors from internal are DGT head office, DGT operational office and DGT employees while actors from external are MoF and taxpayers. All of the actors have a role in SOP development.

1. Donors

International donors such as World Bank, IMF, AusAID, JICA have an important role in SOP application as part of their agenda to help Indonesia reforming their tax administration system and implementation of good governance in DGT. They also give technical assistance for DGT to develop human resources to make sure that DGT can achieve their reform objectives.

2. Ministry of Finance (MoF)

MoF has a role to lay the foundation of SOP implementation of SOP. MoF can exercise their political support to allocate adequate resources for DGT to develop and implement SOP in their organization. Furthermore, MoF has interest in DGT's SOP development because MoF uses DGT's services as one of their selling points to the citizens.

3. DGT Head Office

In DGT Head office, the establishment of SOP involves multiple directorates. In general, SOP was formulated based on the tax regulation. Directorate of Business Process Transformation is responsible for formulating the working procedures, while the content of tax regulations and other technical dimension is the responsibility of other directorates.

Because of this condition, SOP could not be initiated if there is no regulation that needs SOP to implement the rule. In DGT, SOP formulation depends on the topic of SOP. Other directorates

outside the Directorate of Business Process Transformation formulate the regulation, the IT support and human resources support.

For example, to develop one SOP for international taxation, Directorate of Business Process Transformation will coordinate with Directorate of International Taxation. If development and implementation of this new SOP need technological and information support they will ask for help from another directorate, which is Directorate of Information and Communication Technology Transformation.

Directorate of Internal Compliance and Apparatus Transformation have a function in evaluating and monitoring the application of SOP in DGT. They do periodical evaluation regarding the actual implementation of SOP to detect violation, fraud and flaws toward SOP. based on their evaluation, they can give inputs to Directorate of Business Process Transformation to modify the existing SOP or other directorates to modify the tax regulations.

Maraha Sufitra informs that “before issuance of tax regulations which will affect to existing SOP, there will be a formal discussion regarding implementation of this regulation that involved Directorate of Business Process Transformation”. He also added that “involvement of this directorate are included but not limited to approval, inputs, or study regarding this regulations”.

When DGT want to change or modify the regulations, they also conduct comparative studies to similar regulation in other countries based on international good practice. Furthermore, they also ask for inputs from their stakeholders such as taxpayers and government. They also try to accommodate request from the government to increase the rating of ease of doing business (EODB)¹¹.

4. DGT operational office

DGT operational office has a role in developing existing SOP. The operational office has the opportunity to give inputs for DGT head office regarding the application of particular SOP in the field. The operational office gives their formal feedback to DGT head office twice a year based on difficulties which they are encounter in the field.

DGT operational office also has a role as a place for piloting new regulations as well as a new SOP. based on their experience in pilot projecting, they can give valuable information to the head office as policymakers.

5. DGT employees

Every DGT employees have equal opportunities to give input regarding the implementation of SOP based on their experience in the field. They have first-hand experience in application of SOP in their office, and they are allowed to criticize by giving formal requests for changes or modifications.

¹¹ Roslinda Siagian, Staff of Services Development I Section

6. Taxpayers

Taxpayers as DGT's stakeholders have an important role in SOP development because they will affect the application of new SOP or change and modification of existing SOP. As a result, taxpayers perspective also important to identify their interest, and to make sure SOP can be accepted by taxpayers as the users of DGT services.

4.5. Employees Reaction Toward SOP Implementation

The success of implementation of SOP in DGT can't only depend on taxpayers perspective in receiving public services from DGT as found in the results of taxpayers satisfaction survey. The quality and motivation of employees, especially those who are working in operating level should also become consideration of the strategic apex as a constructive inputs for SOP development in the future.

Based on the results of observation and interview, DGT employees see SOP as a tool for helping them in their daily job. They believe that SOP is an important means to make their job easier and more productive than before. They also agree that SOP give them clear guidance and job allocation as well as eliminate uncertainty in their job. However, this research also find several surprising remarks regarding implementation of SOP in DGT.

From the interview and observation by researcher, the positive effect of SOP for DGT employees are as follows:

1. Reducing potential mistake and giving assurance of their work

DGT employees acknowledge that SOP can reduce the potential of error in doing their job. By following standardized workflow, they can ensure that every finished jobs is according to tax rules and regulations¹². They also admit that SOP is not only giving assurance for them as DGT employees but also for taxpayers as their clients. It create comfortable feeling for DGT employees in doing their daily jobs.

2. Protection for DGT employees in the future

One respondent admit that if employees completely follows the standardized procedures, it will protect them from potential troubles in the future. For example, if something wrong happen with their work, the first thing that would be examined is whether they already follow the procedures or not. Based on his experience, he believe that he would not be accused for doing error in working if he comply with the SOP. It is also regulated in Indonesian tax law that DGT employees can't be charged with law violation if they already work based on tax rules and regulations.

Both of this two perspectives are align with Lipsky (2010) argument where he stated that employees have interest in minimizing risk and discomforts of the jobs. SOP in DGT clearly give protection for employees from potential mistake as well as create comfortable environment for them. Moreover, it confirm the similar findings from Ponnert and Svensson (2015) where they find that standardization is a means to reduce uncertainty, for DGT employees and taxpayers.

¹² DGT Employee 2

When SOP firstly implemented in DGT, there were resistances from DGT employees to comply with SOP. At that time, they feel that SOP force them to leave their old way of working and change it to the standardized procedures. They are used to work in their method for years and need more time to adapt to the new method. All employees must follow training and education regarding modern tax administration system, where SOP is one of the ingredients of this modern system.

Some employees have several remarks regarding the implementation of SOP in DGT as follows.

1. Too many SOP to remember

In total, there is 2,679 existing SOP in DGT, and approximately every employee in the operating level have at least around 20 to 30 SOP which related to their job. It is hard for them to remember all the content of these SOP. Some employees confess that they couldn't remember all related SOP¹³ while other employees claim that they know every SOP related to their job¹⁴. In general, they claim that they can remember and understand SOP for routine jobs, and conversely for non-routine jobs they claim that they do not remember and have to check the SOP documents to ensure the protocols. It is understandable because if employees working with particular jobs every day, by the time they can be completely understood without recognizing.

A phenomenon found in observation and interview with respondent. One of the respondent mentions that there is a situation where for now, DGT employees will ask for SOP for every job assigned for them and if the specific SOP does not exist, or not provided they will refuse to do that job. From the perspective of the organization, it is not good because they don't have enough resources to create SOP for everything. One respondent claims that in the future DGT must reduce the number of SOP, instead of creating new SOP because too many SOP will hamper the human side of the employees.

2. SOP limit their creativity

As a street-level bureaucrat, they interact with taxpayers on a daily basis. Street-level bureaucrat usually able to exercise discretion in their job. However, since SOP is a standardization of working procedures, it eliminates the discretion of the employees in doing their job. It is not allowed to do something other than stated in SOP, such as adding or cutting the process, or even asking for additional documents from taxpayers even though employees think their creativity have potential to improve their productivity. Standardization by the implementation of SOP is effective as a working guide for the employees, in the expense of discretion of employees.

In every operational office, DGT has internal compliance unit. The main task of this unit is to make sure that every employee work patterns is in compliance with the standardized procedures. Periodically, they do evaluation and assessment toward employees job and give the results to the head office. They also can give inputs to DGT head office if they found that some process could not be implemented, outdated or need to be changed. In practice, DGT employees feel that internal compliance is only for corrective action instead of preventive action. Moreover, some

¹³ DGT Employee 2, DGT Employee 3, DGT Employee 5

¹⁴ DGT Employee 1, DGT Employee 4, DGT Employee 6

employees perceived that even though they giving inputs to DGT head office to change or modify the existing SOP, their inputs will not take into account by DGT head office. Another perspective is they don't have enough time to give inputs to the internal control and hoping that other employees will do this for them.

The internal control unit also ensures that current SOP is up to date, practical and the quality of job outputs can be controlled. Every event that not align with the SOP will be reported and evaluated. By doing this, they will find what is the main reasons behind the problems. There is a possibility that SOP violation happened because existing SOP is not sufficient and it triggered DGT employees to not working as regulated in the SOP. The evaluation by internal control unit can be used as the early detection of fraud prevention in DGT.

However, for some case where there is no SOP or there is SOP but insufficient to help them in processing their job, DGT employees can use their discretion. In this grey area, they can use their creativity based on the consensus in the office but it is a rare situation for them.

One of the respondents tells a story that he feels SOP make DGT employees work like a machine because everything is standardized and written in SOP. The assumption that is used for establishment of SOP is the easiness of the job. The job can be standardized if it is an easy job, and conversely, a complicated job could not be standardized.

This two findings is interesting because it confirms that standardization compensate abilities of street-level bureaucrats in using their creativity in their jobs. It also shows that DGT employees still demanding freedom in their job as mentioned in research from Tummers and Bekkers (2014) where they stated (perceived) freedom can create effective policy implementation.

4.6. Internalization of SOP

SOP needs to be internalized in order to make it embedded to every DGT employees. DGT internalizing SOP to their employees by conducting training such as in-house training or training of trainer for new SOP. Moreover, DGT creates SOP accessible for all employees by placing SOP in several channels through DGT internal network. For DGT new employees, they have on the job training where application and understanding of the SOP content become the menu of their training. New employees will be supervised by senior employees to make sure that can understand their future job. However, it have an inherent risk if the supervisor also does not have insufficient knowledge regarding SOP of their jobs.

One of the respondent says that “by the implementation of IT framework, it will drive employees to understand SOP related to their jobs”. Other factors that may help DGT to internalize their SOP is the application of job workload analysis. This analysis has been conducted for 8 years and this analysis is based on the implementation of SOP. These two factors may help DGT in internalizing their SOP.

However, employees find that learning by experience is more effective to understand SOP. Usually when they have a question in doing their job, they will try to find out by themselves by rechecking to SOP documents. Moreover, they can discuss with their colleagues or their superior if they have hesitation in understanding the protocols.

Other respondent hope in the future SOP can be presented in more interactive things, not like the current condition where SOP documents are consist of words and data flow diagram. For several employees they think that it is very bored for them to see the documents.

4.7. Change in Practices of DGT Employees

The objective of SOP is to improve productivity by changing the practices and the workflow patterns of tax employees. It is hard to measure what is the real difference between condition before implementation of SOP and after implementation of SOP. Findings from interview might have provides some interesting things related to the difference.

After implementation of SOP, every employee try their best to obey each available SOP. For example, in the past they treat every job that assigned to them by their common routines, without looking at the standard or the regulations. They learn how to do something based on what they have been taught by their superior or by senior staff before them without knowing the exact procedures as stated in the regulations.

Their workflow patterns also change after implementation of SOP. Since SOP shared the responsibilities of processing jobs to several related parties, none of the jobs become an obligation and centered on a particular person. It is different with what happened before when sometimes one employee must do everything because they have better understanding or expertise toward particular jobs and they bring their capability to do particular jobs when they move or rotated to another place.

In productivity perspective, SOP ensures that each job can be finished in designated time as stated in the SOP. For example, once taxpayers already submitted their application toward particular DGT services directly or indirectly by mail or online application, it supposed to be finished at most in the maximum time lime as stated in SOP. Finishing the job does not necessarily mean as approval for taxpayers application, but also mean rejection for taxpayers application. However, for some services such as VAT restitution or tax objection, if after designated processing time there are no decision from DGT, VAT restitution or tax objection will be automatically approved by DGT.

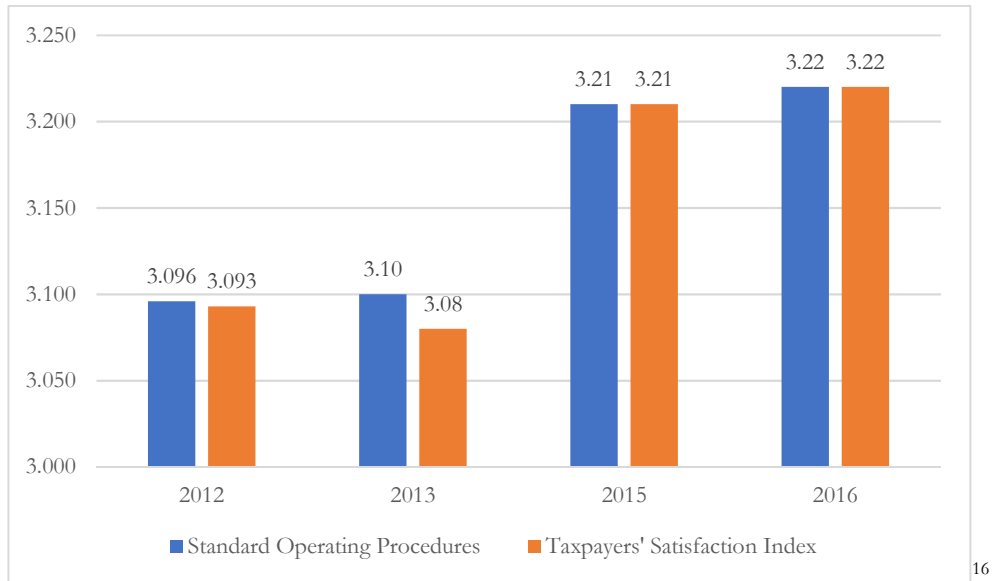
However, since each SOP have designated completion time it may bring another problems. It can bring a situation where DGT employees only aiming for completion time rather than following the complete procedures. They may cut the process in order to achieve the designated time in SOP. One of respondent admit that this problems happens even though no statistical data or information about this violation are available. The behavior of cutting the process in order to achieve the objective might be the results of discretion, but it is not allowed by the organizations. Furthermore, it is hard to determine the motive of this actions, whether purely as professional discretion or fraud attempt by the employees.

Implementation SOP also being used by DGT to measure taxpayers' satisfaction level toward DGT public services. There are 4 aspects to measure taxpayers' satisfaction level which is: application and access of information, human resources, standard operating procedures (SOP) and facilities. The maximum point for each aspect is 4.

For standard operating procedures, DGT use these criteria of measurement;

- a. compliance with the administrative procedures of the taxpayer under the applicable standard operating procedure (SOP);
- b. suitability of the imposition of tax sanctions with applicable tax laws;
- c. clarity of terms and procedures in each submission of the type of application and service; and
- d. the required form of taxation form is simple and easy to understand.

Chart 3. Comparison of SOP Implementation vs Average Taxpayers' Satisfaction Index¹⁵



From the chart above, it can be seen that in 2012 and 2013, taxpayers' satisfaction index toward implementation of SOP is higher than the average taxpayers' index. In 2012, for SOP the average is 3.096 higher than the total index (3.093) while in 2013 same situation also happens when implementation of SOP receive 3.10 higher than total index 2013 (3.08). For 2015 and 2016, the total index for taxpayers' satisfaction level is equal to the implementation of SOP while in 2015 is 3.21 and in 2016 is 3.22.

¹⁵ DGT Final Reports for Survey of Taxpayers' Satisfaction Level 2012, 2013, 2015, and 2016

Chapter 5 Conclusions

The primary objective of this research paper is to figure out how the implementation of standard operating procedures (SOP) can bring improvement on the way of Directorate General of Taxes (DGT) delivering their public services. In order to achieve this objective, this research using data and information retrieved from documents in combination with interview to several DGT employees. Based on this limited exploratory research, this research paper tries to answer three sub-research questions as follows.

First sub-research question on *what is the background of establishment of standard operating procedures (SOP) in Directorate General of Taxes (DGT)?* This research finds that SOP has been established as a complement of prior public finance reform and tax administration reform in Indonesia. DGT need to improve their bad image by giving public services for the taxpayer. SOP establishment is focused as an effort to reduce unnecessary and variety in DGT business process as well as reducing abusive behavior from DGT employees toward their power. Moreover, SOP is intended as a means for DGT to fill the competency gap of human resources because limited resources for DGT to give proper training and education for them. Lastly, the establishment of SOP can help DGT to eradicate corruption, collusion and nepotism that spread like a disease in public sector in Indonesia. These findings support the research by Ponnert and Svensson (2015) where they find that standardization as a method to reduce uncertainty and unpredictability for professional and clients, where in this case between DGT employees and taxpayers.

The actors of SOP establishment in DGT consist of internal actors and external actors. Internal actors are DGT head office, where Directorate of Business Process Transformation has leading role in SOP development. They work hand in hand with other directorates in formulating policy regarding SOP establishment as well as in SOP future development. Other internal actors are DGT operational office and DGT employees, where they can give their perspectives toward implementation of existing SOP based on their first-hand experience in applying SOP in their daily jobs. The external actors of SOP establishment and development are Ministry of Finance (MoF), donors and taxpayers. MoF allocates their resources and give political support as well as laying the foundation for DGT to establish and develop their own standard of work. Donors gave technical assistance for DGT in improving their capacity, including giving training and education for DGT employees. Lastly, taxpayers as one of the most affected parties have a role in SOP development.

Second sub-research question on *how does the tax employees in operating level react to this establishment of standard operating procedures (SOP) and how does this SOP being filter through the organization?.* DGT employees think that SOP helps them to make their job easier and more productive than before. DGT employees also admit that SOP give them clear guidance and job allocation as well as eliminate uncertainty in their job. Furthermore, they feel that SOP can help them reducing potential mistake, create assurance and protection from future problems.

However, there are some interesting remarks on SOP implementation. Employees think that the number of SOP is too much and difficult to memorized and understand. DGT need to reduce the number of SOP or find a way in presenting SOP in a more interactive way. The other things are SOP prevent tax employees to use their discretion, and this boundary rules sometimes make DGT employees feel uncomfortable with.

The reaction on DGT employees where they find that SOP limit their creativity require more in-depth research in the future to examine whether it is true that DGT employees are not able to exercise professional discretion or not. Future research also needed for examining the reasons why employees perceived that SOP limit their creativity and to determine is it necessary to give them professional discretion other than stated in the SOP.

In internalizing SOP, DGT chooses to give training and education in transition time when SOP introduced in national level. DGT also conduct in-house training and forum to communicating change or modification of existing SOP. For new employees, DGT gives them on the job training where they learn how to do their jobs based on SOP with supervision by their senior employees. However, for some employees they feel more comfortable with self-learning or discussion with their colleagues or their supervisor.

Lastly, the third sub-research question on *how does this new working protocols change practices, workflow patterns and productivity of tax employees in operating level?*. SOP change the working practice because the past jobs is based on what they know as common routines and not based on what is written in regulations. This change creates uniformity for DGT employees in their jobs. Beside, SOP implementation allocate responsibilities to several parties and not focused on one person like what happened in the past when jobs are being allocated and depended on one person. SOP improve productivity because there is designated for processing time in each SOP, and make DGT employees have to produce something within that time. However, there is probability of situation where DGT employees may only aiming at completion time objective rather than following the whole process. It is possible for them to cut the process in order to achieve the target. This finding also need to be examined in the future research because no available statistical data and information related to this situation even though DGT employees admit that it is happening. A further research might also find the motive of this behavior, whether purely as professional discretion or fraud attempt by the employees.

To summarize, the findings on the focuses of SOP establishment, actors in SOP development, the perception from DGT employees and the effect of SOP toward employees way of working demonstrate that standardization may be one of the alternatives in reforming public sectors. Stronger conclusions regarding the reaction of DGT employees in operating office are not possibly depicted due to a limited number of the respondent as well as personal bias from them in answering the questions. However, the results of this research indicate that standardization -in this case SOP- are useful for a government organization to improve their ability in providing public services.

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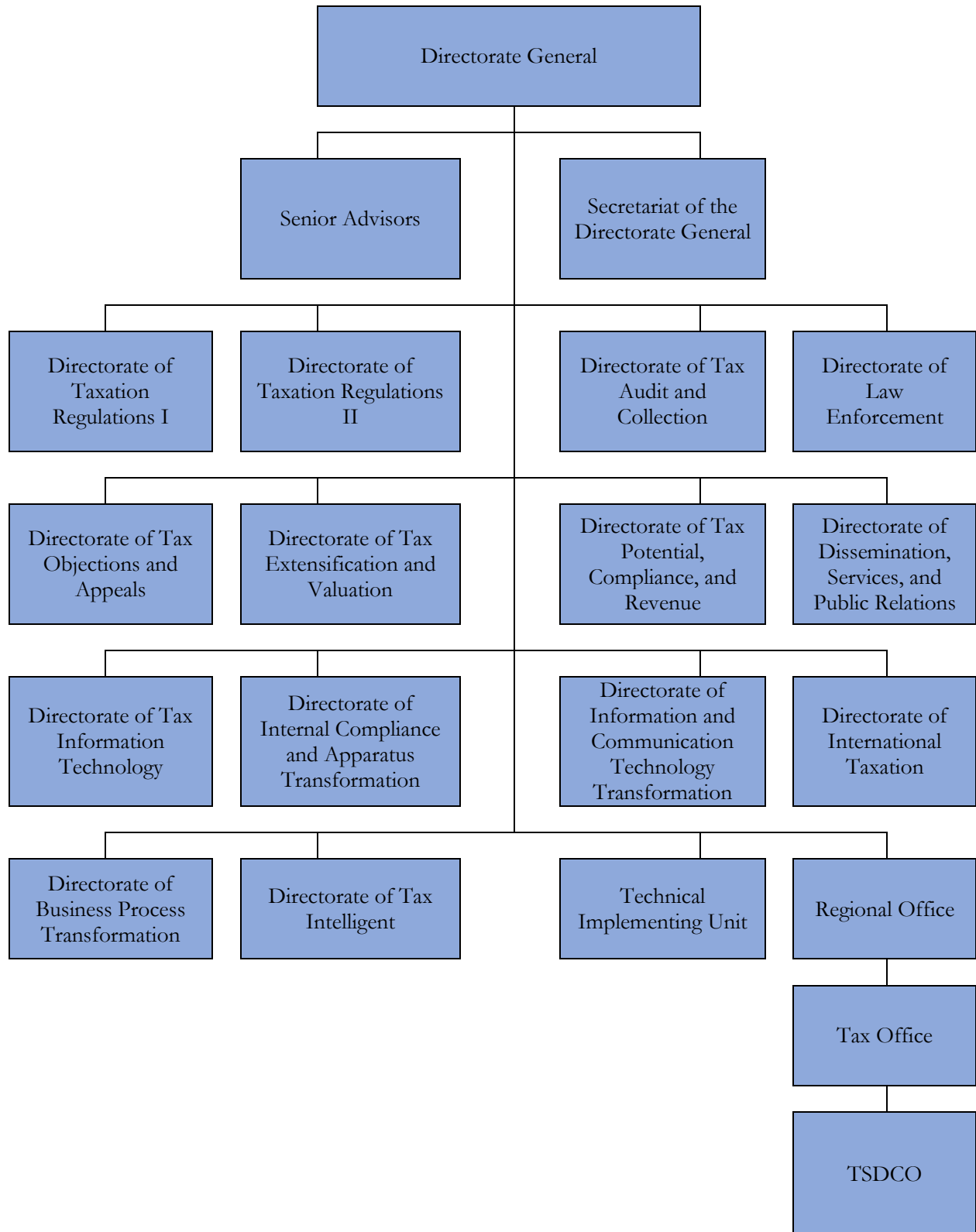
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Annex A
DGT Organizational Chart



Annex B

Questions for Semi-Structured Interview

Introduction

My name is Agus Irawan and I am a student in International Institute of Social Studies (ISS) of Erasmus University in the Netherlands majoring in Governance and Development Policy (GDP). Currently, I am doing my research paper in order to complete my master's study.

The topic for my research paper is business process improvement in Directorate General of Taxes (DGT) especially establishment of standard operating procedures (SOPs). I am interested with this topic to know the implementation of SOP and how this implementation help tax employees to improve their public services to taxpayers. I hope through this interview I can portray the process of implementation of SOPs in Directorate General of Taxes. I also want to know if there is a gap between formulation and implementation of this set of SOP.

This interview will take around 30 minutes of your time. Hopefully you can answer the questions from me. If you feel uncomfortable with my questions, or my questions have potential to make you violate your code of conduct, you can refuse to answer my question. Please let me know if you want to answer my questions anonymously. All the answer that you will be given to me will only being used for this research and not for other purposes. Furthermore, I am asking for your permission to record this interview with recorder to make sure that none of information that you give to me will be missed. Please allow me to record the

Questions for DGT Employees in Head Offices

1. One of the pillar of reformation in Directorate General of Taxes is business process improvement. Can you tell me how was the condition of business process within DGT before the reformation? What happen in that time so DGT need to improve their business process?
2. One of strategy related to business process improvement in DGT is establishment of standard operating procedures(SOPs). Can you tell me what happened with working protocols in the past? Which aspects were being emphasized and critical in SOPs development? Why?
3. How many SOPs until now that being established, modified or erased?
4. How did DGT develop their SOPs? What aspects become the criteria in establishing SOPs?
5. Who are the main actors in SOPs development? What is the role of each actors?
6. For each SOPs, how did you calculate the steps, workflow and completion time? Is there any formula that being used for this?
7. What else did you do after establishing SOPs? Was there any actions follow the establishment of this SOPs?
8. For SOPs that already being implemented, do you conduct evaluation for this SOPs?
If yes, what is happened after the evaluation?
If not, why you do not conduct evaluation?
9. Is there any significant improvement after DGT implement SOPs for each activities, particularly with SOPs that closely related with public services for taxpayers?

10. How did you ensure DGT employees in operating level understand this SOPs? Is there any problems?
11. Were tax employees, as the most affected parties of this SOPs involve in development of SOPs?
12. What is the future plan for improving existing SOP in DGT?

Questions for DGT Employees in Operational Offices

1. Do you know each SOP that related to your current job? Can you explain that?
2. Did you receive training/education/workshop for understanding SOP that related to your current job?
If yes, can you explain it to me?
If no, can you explain it to me?
3. What is your method to ensure that every finished job that you did were according to the SOP?
4. In your opinion, why SOP is necessary for DGT employees?
5. Do you think that SOP helping you in doing your job in daily basis?
If yes, can you explain it to me?
If no, can you explain it to me?
6. In your job, can you use your professional discretion and creativity to improvise other than stated in SOP? Can you explain that to me?
7. Do you feel that SOP is too rigid and difficult to apply in your job?
8. Do you think that the existing SOP is sufficient or still need improvement?
9. In your opinion, what is the biggest difference that you can feel since implementation of SOP in DGT?
10. Do you know that DGT give opportunity for its employees to give inputs for SOP improvement?
Have you use this opportunity?

Closing

I would like to say thank you for your time and information that you give to me. From this interview, we can conclude that....

Do you have any additional information that you want to add?

I really appreciated your time for this interview. If I have additional information from you or I want to clarify your answers, is it possible to contact you or your unit in the future?

Thank you very much.

Annex C

List of Interviewees

No.	Name	Position	Location	Date
1.	Maraha Sufitra	Staff of Services Development II Section, Directorate of Business Process Transformation	DGT Head Office, Jakarta	15 August 2017
2.	Novita Eri Kristanti	Staff of Services Development I Section, Directorate of Business Process Transformation	DGT Head Office, Jakarta	16 August 2017
3.	Roslinda Siagian	Staff of Services Development I Section, Directorate of Business Process Transformation	DGT Head Office, Jakarta	16 August 2017
4.	Dadang Setiana	Head of Services Development II Section, Directorate of Business Process Transformation	DGT Head Office, Jakarta	16 August 2017
5.	Yudhi Ariyanto	Head of Planning Development and Change Management Section, Directorate of Business Process Transformation	NH Carlton Amsterdam, Amsterdam	24 August 2017
6.	Haris Fauzan Mustofa	Head of Development for Institutional Design Section, Directorate of Internal Compliance and Apparatus Transformation	Holiday Inn Amsterdam Arena, Amsterdam	5 September 2017
7.	DGT Employee 1	Staff	Indonesia	15 August 2017

No.	Name	Position	Location	Date
8.	DGT Employee 2	Staff	Indonesia	23 September 2017
9.	DGT Employee 3	Staff	Indonesia	23 September 2017
10.	DGT Employee 4	Staff	Indonesia	24 September 2017
11.	DGT Employee 5	Staff	Indonesia	24 September 2017
12.	DGT Employee 6	Staff	Indonesia	24 September 2017

Annex D

Flow Chart for Registration of Taxpayers Identification Number (TIN)

