The Impact of Calculative and Normative Forces on Tax Compliance Behavior

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Title of Study: THE IMPACT OF CALCULATIVE AND NORMATIVE FORCES ON TAX COMPLIANCE BEHAVIOR

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Scope and Method of Study: This study measures the impact of various subvariables of normative and calulative restraining forces on compliance with tax legislation. The subvariables for normative forces are: acceptance of authority, need-determined expression vs. value-determined restraint, equalitarianism and individualism. The subvariables for calculative forces are: probability of getting caught, costs of compliance and benefits of non-compliance. Five hundred questionnaires were mailed to executives from Fortune 500 companies to obtain data analysis.

Findings and Conclusions: Two variables entered the regression analysis to explain compliance behavior. The first variable, cost of compliance, was positively related to non-compliance behavior and was significant at $p < .01$. Need-determined expression vs. value-determined restraint was the other significant variable. It was negatively related and had significant at $p < .10$.

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CHAPTER 1

INTRODUCTION

The social responsibility of business has become increasingly visible in today's society. These social responsibilities range from what charitable organizations to support, to more complex issues such as equal oportunity employment practices and compliance with environmental and other social legislation. Although public opinion is becoming an increasingly important factor in business decisions, it still does not guarantee that an organization will comply with all societal regulations.

This study will attempt to identify some of the forces which affect an organization's compliance behavior, by concentrating on one particular regulation, in this case, compliance with tax legislation. This type of legislation was chosen due to the large financial impact it has on business decisions. In fact, Sanden and Crawford (1975) claim that the U. S. tax system actually harms the economy by discouraging dividends, encouraging high debt-equity ratios, creating higher interest rates and hindering competition with international markets. If these claims are true, large variances in compliance behavior may exit, presenting the opportunity to study the various factors which affect this behavior.

Earlier studies of tax compliance by Ajibowu (1979) and Taylor (1980) have identified some of the factors which might explain the decision criteria associated with compliance behavior. However, the sample groups of these earlier works consisted primarily of college students. This group may not reflect the attitudes of the business community and therefore, the results from these studies may be limited in their general significance.

The present study will further investigate the tax compliance question by studying the behavior of business executives. As in the earlier studies, the model devloped by Downey and Greer (1977, 1982) to study compliance behavior will be used to identify those forces which might affect the decision making process.

The research will focus its attention on individual normative and calculative restraining forces and the various subcomponents which make up these forces. The ability to identify what factors are inherent in compliance behavior may lead to a better understanding on how compliance decisions are made and consequently, how to improve compliance systems within both the corporation and those agencies which govern compliance legislation.

CHAPTER 2

LITERATURE REVIEW

Most of the literature on corporate social responsibility is divided into two areas. The first area deals with the responsibilities that business has to improve society. These responsibilities include a broad range of activities. Steiner (1972) reports that a study by the Committee for Economic Development identified ten major categories for business to consider. They are: economic growth and efficiency, education, employment and training, civil rights and equal opportunity, urban renewal and development, pollution abatement, conservation and recreation, culture and the arts, medical care and government.

SOCIAL RESPONSIBILITIES

Cassell (1970, 1974) argues that "business is being called upon to commit itself to help solve the problems of society as one citizen among many, not as a corporation responsible for society".(p. 22) This committment, however, invokes a number of problems for organizations. Cassell identified three such problems. First, a degree of risk is involved which goes beyond the financial risk. This includes unexpected side effects or failure itself. For example, if an organization participates in a community venture that is not currently supported by local and federal agencies, a company may evoke negative reactions from political and economic institutions with which it currently interacts. This could result in lower sales, a reduced image or even adverse legal action for the firm. Second, there are a number of direct and indirect costs that a company must absorb. The organization must determine which of the results generated from these costs are considered worthwhile, either from the viewpoint of the community and/or the organization, or if the money could have been spent on a more profitable endeavor. Finally, a firm reduces its ability to control its environment as it reaches out into new territory, This results in new problems for personnel and policies which must be dealt with if the company is to be successful.

Other studies by Ackerman (1973) and Andrews (1973) show that the changing configurations of today's corporations pose a serious problem to an organization's societal responsibilities. They claim that this is the result of two factors: the increasingly larger corporations that are being created and the decentralization that accompanies these formations. As a company grows larger, more and more people who may not share the same moral convictions and values, are given control of the operations. This makes it difficult to enforce company policy.

Andrews notes another factor associated with low social responsiveness is the current method of evaluating employees. Managers are currently graded according to their performance. This performance is usually measured according to some short-term success criterion or project completion criterion within the organization. Since the rating process gives high marks for current accomplishments, managers may tend to take actions that create immediate results with little concern for future consequences. These consequences may range from quantitative problems such as legal action or costs associated with rectifying the situation to more long term qualitative elements such as "individual and management development, the steady augmentation of organizational competence, and the progress of programs for making work meaningful and exciting, and for making more than economic contributions to society". (Andrews, 1973, p. 60)

However, the consequences of social compliance are not always negative. Davis (1973) and Buehler and Shetty (1975) argue that there are many motivations for a company to initiate corporate responsiblity programs. Some of the most important motivators are long-run self interest and an improved public image. By improving the surrounding community and therefore, strengthening the company's reputation, the organization creates a better environment for doing business. This can only result in the enhancement of company welfare. Other cases for social reform include increased profits, the prevention of violence from special interest groups and the avoidance of more governmental regulations.

Although arguments exist for both sides of the social responsibility question, both society and business would probably agree that social responsibility should be one of the objectives used in corporate decision-making. The major conflict appears to emerge on what is the optimal social role of business. Spicer (1978) concludes that there are essentially three normative views of responsible corporate social performance.

The first view is defined as the "classical view". This view claims that the only responsibility of business is to make profits. The primary criterion for making decisions in a business environment is strictly economic. Any judgement made for the good of the organization is considered acceptable, even though a company may exhibit little social responsibility. In fact, this school maintains that society is served best when businesses attempt to maximize profits.

A long time advocate of this view has been Milton Friedman. Friedman (1962) claims that a business has only one responsibility, that is

> "to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud." (p. 133)

In addition, Friedman believes that corporations are an instrument of the stockholders. Any charitable contributions that a business might make prohibits the stockholders from making the decisions on how the money is to be spent and is therefore, an inappropriate use of corporate funds.

The second normative view has become known as the "activist view". All organizations are seen as large economic and political powers with broad social responsibility. Each company has a moral obligation to solve society's problems such as unemployment, inadequate educational systems, substandard housing for the poor, and jobs and training for the handicapped. Those individuals who support this view claim that radical social reform could be avoided if companies would respond to their duty of social responsbility.

The final view of social performance is known as the "managerial view". This view is perhaps the most widely accepted version of social responsibility. The common view held by this group is that all organizations have a responsibility not only to stockholders but also to others who have a connection with the organization, such as employees, customers, etc. Managers have enough power and control to introduce socially responsible reform into the plans of the corporation, without adversely affecting the organization. Limitations on managers' actions include among others, stockholder dissatisfaction, reduced earnings, labor unions and government action.

BEHAVIORAL INFLUENCES

In order for a manager to introduce social reform, something must provoke him or the organization to take action. These initiating influences represent the second area of social responsibility literature.

Simon (1950) claims that the organization is a major influence on an individual's behavior. The organizations "bear upon them strong influences that modify and redirect their behavioral tendencies". (p. 79) When this happens the following tendencies are exhibited:

> 1) value premises – the goals or objectives that employees base their decisions tend to be the same as the organization itself.
>
> 2) acceptance of influence – employees accept influences that are imposed upon him by other members of an organization. These influences are derived from training, orders, formal "lines of authority", standard practices and forms, etc.
>
> 3) expectations – employees form an understanding of their responsibilities and those of others, and that each individual or unit will take the correct action to remedy the situation.
>
> 4) organizational morale – employees play an active role in furthering an organization's objectives. Goals are not passively accepted, but in fact, employees attempt to find ways to further them. (pp. 80–81)

These influences are institutionalized, in part, through communication. Members of an organization induce a new member to behave in a particular way by rewarding desired behavior and punishing undesired behavior. Examples of commonly used rewards and punishments are the threat of dismissal, the promise of higher wages or promotion, praise and reprimand. In addition, the approval or disapproval of other organizational members is an important source of influence. Although influencing individ–

uals by persuasion is certainly not limited to the organization, there are numerous occasions for communication within an organization which reinforce these stimuli.

A final point is that organizational influences not only cause specific behavior, but induce a habit of accomplishing, with others, whatever is necessary to further the organizational goals. The employee develops what the author calls "cooperative behavior".

Sturdivant (1977) claims the major policies of an organization are reflected in the personal values of a small number of top managers. Lower level managers view top management as the source of all policy decisions and will reflect this attitude in all lower level decisions. Those individuals who have a "broad or liberal" attitude on business and social issues are more likely to accept and encourage social responsibility. Likewise, those individuals who assume a more conservative opinion on these issues are more likely to have a negative attitude toward corporate responsibility.

ETHICAL STANDARDS

Organizational influences are not the only criteria used in making decisions. Bock (1980) believes that ethics, values and morals play an important role in influencing corporate soical responsibilities. A review of the literature reveals four major conclusions based on these influences. First, ethics is purely a personal concept. Studies by Newstrom and Ruch (1975), England (1967), and Ostlund (1977) all suggest that each individual has his or her own personal set of ethical standards. The studies show that some managers see a particular behavior as highly unethical while others see the same behavior as acceptable. This is the result of personal value systems setting the determination of what constitutes ethical behavior. Furthermore, these value systems influence a manager's decision to accept or reject matters that deal with compliance behavior.

Second, the ethical beliefs of employees are similar to their perceptions of the ethics of top management. Top management serves as an important peer group for lower level managers and these managers usually pattern their beliefs after their superiors. This was supported by Dagher and Spader (1980) in a survey of 237 presidents and chief executive operating officers from <u>Fortune</u> 500 companies. Seventy percent of those polled thought that top management had a significant impact on a company's ethical behavior.

Likewise, Carrol (1975) has observed that lower managers experience strong pressure from their superiors to achieve results. This pressure may be real or perceived, but managers feel that they are sometimes forced to compromise their personal moral standards in order to satisfy organizational expectations.

These observations were supported in a study by Brenner and Molander (1977). Businessmen from 713 companies were polled to determine their observations on ethical behavior in business. Respondents stated that the primary cause of conflict was their superiors' pressure to support incorrect viewpoints, sign false documents or overlook their superiors' mistakes. Two-thirds of the respondents stated that unethical practices were a routine way of doing business.

Brenner and Molander concluded that following sound ethical practices in business has two shortfalls. First, ethical conduct is not necessarily rewarded by the organization, and two, competitive pressures from the outside push ethics into the background.

The third conclusion based on ethical stimuli, is that managers have a propensity to capitalize on opportunities to be unethical, if those situations arise. Newstrom and Ruch (1975) have concluded that a manager's behavior was usually more ethical than his or her beliefs. This indicates the potential for managers to act unethically if the ethical codes they base their decisions upon are removed.

Ermann (1979) believes one factor associated with unethical behavior is the pressure for a company to "innovate" during periods of strong competition or hard financial times. This is the time management should be setting a high standard of ethical behavior. Unfortunately, the opposite happens and fear and panic set in. The pressure for managers to produce higher profits becomes increasingly harder to bear. This results in a movement towards an atmosphere of rewarding unethical means of achieving the goals of the organization.

Boling (1978) states that the ethical problems that exist within an organization are the result of two outdated ethical systems. The first one is defined as "theistic individualism". Ethical practices are supposed to arise out of individual character shaped by a commitment to certain religious, social and philosophical beliefs. When a decision must be made, the individual is said to be guided by one's own "moral sense". Boling contends that the reason this system fails is that ethical norms are not an individual property but a reflection of group standards. Thus, the individual needs only to respond to those standards enforced by the group or organization. The second system is called "ethical legalism". Organizations must comply with laws which are rules to govern certain situations. But since laws cannot answer all the personal, social and cultural questions that can apply to that situation, the potential for problems exist.

Dahger and Spader (1980) have found that the primary problem with establishing a code of ethics is the wide diversity of problems associated with business. Although a formal code could serve as a guideline for business, the wide range of decisions found within business settings results in these codes becoming general and abstract.

Without the right attitude, these codes can be met without behaving in a truly ethical manner. For example, a manager may publicly announce that his department will uphold the company's ethical codes. If this manager then returns to his department and sets goals for his subordinates which cannot be followed except by deviating from these standards, the purpose for having the guidelines is lost.

Finally, managers believe their ethical standards are higher than those of their co-workers. Newstrom and Ruch (1975) contend the peer group "provides a strong reference model for individual behavior". (p. 36) If this is the case, a manager is constantly surrounded by a negative role model which might ultimately influence behavior.

CHAPTER 3

THEORY

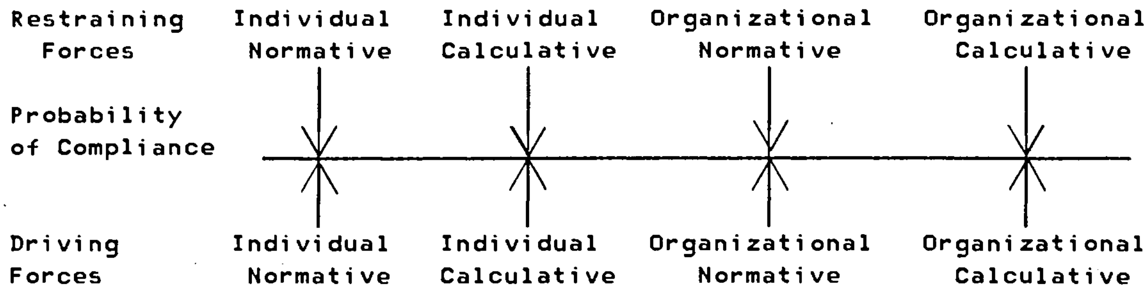
The theoretical basis for this study reflects the work of Kurt Lewin. Lewin hypothesized that social behavior within an organization is the result of two opposing forces. Those forces that increase the probability of compliance within an organization are classified as driving forces. Likewise, those forces which reduce the probability of compliance behavior are classified as restraining forces.

Using this framework, Downey and Greer (1977, 1982) have developed a model of compliance behavior consisting of the opposing forces described above further classified as to their source and type. The source of these forces can be identified as individual or organizational. Individual forces are personal convictions which affect an individual's behavior. Organizational forces are policies which are common to all member of an organization.

The two types of forces are derived from the decision criteria of the individual or organization. These forces are further classified as either normative or calculative. Normative forces are those beliefs or values which influence the decision-making process. These forces are not based on any specific stimuli but more on a "supraordinate" value system. Calculative forces are specific costs or benefits which are attributable to compliance behavior and are primarily the result of some particular decision stimuli. Figure 1 represents a complete illustration of the model.

Figure 1

Model of Compliance Behavior



A brief description of each variable is listed below.

INDIVIUAL NORMATIVE DRIVING FORCES

These are forces which represent the moral behavior, ethical values and political views of an individual. Due to these convictions, an individual may feel obligated to obey those regulations imposed by society. In this example, a manager may comply with the tax laws since it is one's 'duty' as a good citizen.

INDIVIDAL CALCULATIVE DRIVING FORCES

These forces result from the perceived benefits that an individual might receive for complying with the law. These benefits are strictly personal in nature and do not apply to the organization or managers in general. For example, an individual notes that the revenue generated from a particular tax law is being returned to his community. If this person perceives that this money is improving his standard of living through community programs and improvements, he may have a greater inclination to comply with the law.

ORGANIZATIONAL NORMATIVE DRIVING FORCES

These are forces that are shared by all members of an organization.

Organizations have certain policies and behavioral expectations that are common to all employees. A company that actually dedicates its time and personnel towards complete compliance with some new tax legislation would be exhibiting this kind of behavior.

ORGANIZATIONAL CALCULATIVE DRIVING FORCES

These forces are the result of specific, measurable benefits that are associated with an organization's compliance with social legislation. In this study, these benefits may range from strictly financial considerations, such as the avoidance of back taxes or penalties, to more abstract benefits such as a favorable public image.

INDIVIDUAL NORMATIVE RESTRAINING FORCES

These forces are based on the rights of an individual to make decisions. Constant changes in tax legislation may retrict a managers flexibility to make certain decisions. The individual may also philosophically disagree with the "fairness" of the tax or the "immorality" of the activity on which the tax revenues are applied, (i.e. war, nuclear weapons, abortions). This lack of freedom or conflict of interest may influence the individual's decison to resist compliance with the new law.

INDIVIDUAL CALCULATIVE RESTRAINING FORCES

These are forces which reflect the personal costs associated with an individual's decision to comply with the law. For example, a manager may be faced with the decision to comply with certain tax legislation. If the manager perceives that such compliance would have an adverse effect on his career (i.e. reduction in salary, lower performance rating), the individual may feel the pressure not to comply with the law.

ORGANIZATIONAL NORMATIVE RESTRAINING FORCES

These forces are the result of an organization establishing standard policies and procedures for its employees. These policies create a kind of corporate "climate" that dictates how its members must act. These guidelines play an important role in the compliance behavior of an organization. Although most companies would never encourage employees to actively avoid complying with the tax laws, established practices may make it difficult to conform to all such legislation.

ORGANIZATIONAL CALCULATIVE RESTRAINING FORCES

These forces measure the actual costs that an organization incurs which could reduce the probability of compliance. These costs may be finacial in nature such as the actual dollars expended on compliance or increased personnel costs due to the creation of administrative groups to monitor compliance behavior. They may also be less directly monetary in nature such as loss of flexibility or a reduction in the corporation's ability to compete in the marketplace.

As mentioned earlier, this study will concentrate its effort on exploring individual normative and calculative restraining forces. These were identified in the study by Ajibowu (1969) as being the two most significant forces in explaining compliance with tax legislation. Another study by Taylor (1980) developed a set of subvariables for these two forces. Taylor's survey of college students determined which of these subvariables explained compliance behavior.

This study will use seven independent variables in an attempt to explain compliance behavior (dependent variable). These seven variables are the same subvariables developed in the study by Taylor (1980). Three of these variables will measure individual calculative restraining forces and the remaining four will measure individual normative restraining forces. The seven variables are discussed in more detail below.

The first individual calculative restraining force to be evaluated was the probability of getting caught when evading tax laws. It is argued that low probabilities of getting caught are positively correlated with non-compliance. This force was measured by using such statements as "companies that avoid some taxes are rarely caught or punished".

The second calculative force to be measured concerned the costs associated with tax legislation compliance. "Managers who comply with every tax law are usually promoted slower than usual" was the type of statement used to measure the costs of compliance. Increasing costs would reflect a smaller chance of compliance, and therefore, this variable is argued to have a positive correlation with non-compliance.

The final calculative force concerned the benefits of non-compliance with tax regulations. Statements that measured this variable were of the type "Successful managers are usually those who find ways to help their company avoid taxes". The benefits of non-compliance are argued to have a positive correlation with non-compliance.

The first individual normative restraining force measured was the acceptance of authority or authoritarianism. It is characterized by the principle of blind obedience to an authority figure or group. Many of the questions used by Bales and Couch (1960) to measure this factor were taken from the study by Adorno (1950) on authoritarianism. Adorno theorized that the "potentially fascist" individual has a strong pattern of political, economic and social convictions which are a major factor in the makeup of his or her personality. It is argued that the probability of non-compliance has a negative correlation with the type of individual.

The need-determined expression vs value-determined restraint, the second normative variable, was measured by using statements such as "Let us eat, drink and be merry, for tomorrow we die". Need-determined expression is the desire to live life for the moment without being restricted by rules or the opinions of others. Conflicting with this ideal are valued-determined restraints. These restraints control compulsive behavior by relying on a particular value system to determine what is and is not acceptable behavior. Individuals who exhibit need-determined expression are assumed to have a positive correlation with non-compliance.

The third normative variable to be measured was equalitarianism. Rawls (1971) believes that equalitarianism is based upon two principles. They are:

> 1) each person is to have an equal right to the most extensive total system of equal basic liberties compatible with a similar system of liberty for all
>
> 2) social and economic inequalities are to be arranged so that they are both: (a) to the greatest benefit of the least advantaged and, (b) attached to offices and positions open to all under the conditions of fair equality of opportunity (p. 302)

Individuals who hold this belief of human equality are argued to be less likely to exhibit non-compliant behavior.

Individualism is the final normative variable measured in this study. This variable is defined by Hocking (1937) as simply "the belief in the human individual as the ultimate unit of social structure" and that "social groups and institutions are composed of him and exist for him, not he for them". (p. 3) This principle also implies that the individual has certain political or economic rights with which society has no right to interfere. Individuals who agree with this doctrine should be likely to exhibit non-compliant behavior.

This research will take Taylor's approach one step further by studying the responses of businessmen to determine what forces affect their compliance behavior. Since many of the business executives are a product of the theories and practices taught in today's colleges and university, it is assumed that the responses of this group will be similar to those of the college students. Based on this assumption, the following hypotheses are presented:

H1 – The most important variables to explain compliance with tax legislation for business executives are value-determined restraints.

H2 – The second most important variables to explain compliance with tax legislation for business executives deals with the benefits of non-compliance.

CHAPTER 4

METHODOLOGY

SAMPLE

A questionnaire (Appendix 2) was mailed to 500 executives chosen randomly from Dun & Bradstreet's Million Dollar Directory, Vol. I. This publication lists 49,000 of the top companies in the United States with an indicated net worth of over $500,000. This sample group was chosen in order to obtain the opinions of executives employed by firms ranging from large corporations to smaller businesses. It also provided a representative sample of both manufacturing and non-manufacturing industries.

Enclosed with the questionnaire was a letter (Appendix 1) explaining the purpose of the study and a stamped, self-addressed envelope for the convenience of the respondent. The time required to complete the questionnaire was approximately 10 minutes. The survey was conducted during the last three weeks of April, 1981.

QUESTIONNAIRE

The instrument chosen for use in this study was developed and used in an earlier study by Taylor (1980). Several questions were modified to prevent any misinterpretation of their meaning. In addition, the entire questionnaire was shortened in length. The shorter questionnaire reduced the time needed to answer the questionnaire and thus, increased its probability of being completed and returned. The entire questionnaire (Appendix 2) was comprised of three sections.

DEPENDENT VARIABLE

The first section measured the dependent variable of the study, the probability of complying with tax legislation. A short scenario presents a hypothetical case where a manager decides to overlook a recently discoverd tax violation. Respondents were then asked to judge the manager's actions. This was accomplished by using a semantic differential scale (Ajibowu, 1969) on six paired adjectives of the type, ethical-unethical, weak-strong, etc. The adjectives were coded so that a high score indicates agreement with the manger's decision in the tax scenario. The six items were then summed to establish an index for the dependent variable to be used in a regression analysis.

The semantic differential scale was developed by Osgood (1969) for measuring the connotative meaning of concepts in what he calls "semantic space". Osgood states:

> "This space which serves us as an operational definition of meaning has essentially two properties-direction from the origin and distance from the origin. We may identify these properties with the quality and intensity of meaning, respectively. The direction from the origin depends on the alternative polar terms selected and the distance depends on the extremeness of the scale positions checked". (p. 65)

This scale allows us to measure in a single answer, two qualitative concepts, direction and intensity, on a quantitative level. This enables us to measure a respondent's probability of compliance in similiar situations. The final two sections were used to measure the independent variables in this study.

INDEPENDENT VARIABLES

The second section (Part 2) consisted of 12 statements which were used to measure individual calculative restraining forces. The instrument consisted of three sets of four statements with each set representing a different force. Statements 2, 6, 9, and 12 represented the probability of getting caught variable. The costs of compliance variable was represented by statements 3, 7, 8, and 11. Finally, the benefits of non-compliance variable were reflected in statements 1, 4, 5, and 10. A five point Likert scale (strongly agree = 5 ... strongly disagree = 1) was used to measure these forces. The various statements for each of the calculative variables were added to determine a total score for each variable. The variables were coded so that a high score indicated agreement with non-compliance behavior.

The final section (Part 3) of the questionnaire measured individual normative restraining forces. These forces were sub-divided into four variables: acceptance of authority, need-determined expression vs value-determined restraint, equalitarianism and individualism. These variables were developed by Taylor (1980) based upon the work of Bales and Couch (1969) on interpersonal relations. In the Bales and Couch study, one hundred and forty-three value statments were analyzed using factor analysis. As a result, four orthagonal factors were derived from those statements. These factors were the normative variables used in the present study.

The instrument used to analyze normative behavior utilizes twenty of the value statements from the Bales and Couch study. Each variable is represented by the five value statements which best represented that particular behavior (as determined by factor analysis). The different variables were measured using a six-point Likert scale (strongly agree = 6 ... strongly disagree = 1). Statements 1, 5, 9, 13, and 17 represented the acceptance of authority variable. Need-determined expression was represented by statements 2, 6, 10, 14 and 18. The equalitarianism variable was reflected by statements 3, 7, 11, 15 and 19. Finally, statements 4, 8, 12, 16 and 20 represented the individualism variable. The five statements for each normative variable were added to determine a final score. These variables were coded so that non-compliance behavior would be reflected with a high score.

STATISTICAL PROCEDURES

Stepwise regression analysis was used to evaluate the functional relationships between the independent variables and the dependent variable. In the stepwise procedure, independent variables are entered into the equation based upon their relative importance in explaining the dependent variable. Limits for inclusion in the regression analysis were $F \geq 2.0$ and tolerance level $\geq .10$.

Coefficient alphas were calculated for the dependent variable and the seven independent variables. These values were measured to test the internal reliabilities for the different variables.

CHAPTER 5

RESULTS

Seventy-three questionnaires were returned and utilized in this study, for a response rate of 14.6%.

Internal reliabilities were determined by calculating coefficient alphas for the dependent and independent variables. The coefficient alpha for the dependent variable was found to be .82. The independent variables were also found to be highly reliable ranging in values from .67 (equalitarianism) to .88 (individualism). All but one of the coefficient alphas for the independent variables was higher than those calculated in the earlier study by Taylor (1980). This improvement is credited in part, to the slight changes made in the wording on several of the questions. Other changes included reducing the number of questions used to measure individual normative restraining forces from ten questions to the five questions which best represented each of the four normative variables. The values for all of the variables can be found in Table 1.

TABLE 1

Internal Reliabilities

Variable	Alpha Coefficient
Probability of Compliance	.82
Probability of Getting Caught	.74

Costs of Compliance	.80
Benefits of Non-compliance	.70
Acceptance of Authority	.87
Need-determined Expression	.70
Equalitarianism	.67
Indivdualism	.88

Once the instrument was found to be reliable, the next step determined which of the seven independent variables were most significant in explaining compliance behavior. This was accomplished by using stepwise regression analysis.

The stepwise regression analysis entered only two variables to explain compliance behavior. The first variable, the costs of compliance, was positively related and was significant at $p < .01$. Need-determined expression vs. valued-determined restraint was the other significant variable. This variable was negatively related with the dependent variable and was significant at the $p < .10$ level. The results of the regression anlysis are presented in Table 2.

TABLE 2

Regression Analysis
with Tax Compliance Behavior
as the Dependent Variable

Variable	Coefficient
Constant (intercept)	11.61

Probability of Getting Caught	—
Costs of Compliance	.77 (3.82)***
Benefits of Non-compliance	—
Acceptance of Authority	—
Need-determined Expression	- .21 (1.49)*
Equalitarianism	—
Indivdualism	—
R^2	.19
F	8.33***

— indicates variable did not enter
t-values indicated in parentheses
*** indicates significance at $p < .01$
** indicates significance at $p < .05$
* indicates significance at $p < .10$

CHAPTER 6

CONCLUSIONS

The results of this study do not support either of the hypotheses presented earlier. The most influential variable found to explain non-compliance behavior in this study was the variable measuring individual costs associated with compliance behavior. This variable was positively correlated with non-compliance behavior. It appears that the greater the cost, the less likely a manager will comply with the law. This seems to make sense based on the business environment. All managers attempt to achieve some level of success in their jobs. This may be represented by a promotion, a raise in salary or even the satisfaction that comes with a job well done. Any outside influence which might threaten the achievement of this success will be avoided.

The second variable introduced to explain non-compliance behavior was need-determined expression. Surprisingly, this variable was shown to have a negative correlation with non-compliance behavior. This seems to contradict the findings from the earlier study by Taylor (1980). Apparently, value-determined restraint also plays an important role in a managers' non-compliance decision process. Managers must evaluate each situation on its own merit and base their decisions on a particular set of criteria.

Finally, the benefits of non-compliance variable were not important influences in this study. Apparently managers view the personal costs associated with compliance and the value-determined restraint rationale as being more influential in their decisions than any perceived benefits they might receive.

IMPLICATIONS

Organizations interested in promoting compliance behavior among their employees must first, recognize the criteria for the decision and second, establish a set of policies to influence these criteria. Based on the results of this study, the following suggestions are presented. First, remove any costs or penalties associated with compliance behavior. This includes not only actual costs but any perceived costs. Managers who feel that complying with the law will have a detrimental effect on their careers, will tend to overlook the law.

Second, establish a "climate" that promotes compliance behavior. A manager's compliance decision criteria are apparently based upon a particular set of stimuli. It should also be noted that these stimuli can influence compliance behavior in either direction. If an organization can create an atmosphere that rewards or encourages positive compliance behavior, it may help influence a manager's final decision.

Although this study does provide some insight into compliance decision criteria, it was limited to just two variables, individual calculative restraining forces and individual normative restraining forces. It does, however, prove that compliance decision criteria can be identified and measured. This could prove useful for any organization or agency that wishes to influence compliance behavior. By determining what stimuli affect compliance decisions, these organizations can take the necessary steps to influence the behavior in the desired direction.

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Oklahoma State University

COLLEGE OF BUSINESS ADMINISTRATION

STILLWATER, OKLAHOMA 74078
(405) 624-5064

March 16, 1981

In recent years we have been conducting research on corporate compliance with legislation and regulation from a number of perspectives. The subject of this inquiry deals with disclosure to the Internal Revenue Service in the event that a previously undetected tax liability is subsequently discovered. We would like to ask you to take a few minutes to answer the brief questions on the enclosed questionnaire.

You may be assured that the results will in no way identify sources. We are both experienced in research of such a highly sensitive nature. As established academicians we pledge to you our complete discretion.

This inquiry is being simultaneously addressed to the presidents of other firms listed in the Fortune 2,000. At your request, we would be happy to share with you the results of our findings. Please send such a request separately from your completed questionnaire so that we will not know your identity.

Thank you for your cooperation.

Sincerely,

Charles R. Greer

Charles R. Greer
Associate Professor
of Management

Sincerely,

H Kirk Downey

H. Kirk Downey
Associate Professor
of Management

CRG/HKD:gm

Enclosure

QUESTIONNAIRE

PART ONE

For many years, Soso Cola has been a successful manufacturer of carbonated beverages and distributes its product both in the U.S. and overseas. Because of his record as a "mover and a shaker" in the organization, Howard K. Meghan was recently promoted to general manager of Soso's distribution office located in Kansas City. This area has been profitable in the past but, because of increasing competition, Howard will need to work hard if he is to keep the division office operating in the black.

Recently, a staff accountant in the Kansas City office discovered that the company had not been paying one type of income tax which the I.R.S. requires. Further, because of certain I.R.S. inefficiencies, this had gone on for a number of years without detection.

Howard was in a dilemma. He could either pay the tax which was legitimately due, or he could let the situation continue. After considerable thought, he decided to let the oversight stand and not pay the tax.

On each of the following six items, please make a check mark on one of the lines between the two adjectives which best represents your feelings about Howard. For example, if you feel that Howard is more ethical than unethical, but not totally ethical, place a check on the line labeled "2" on item A.

(A)	ETHICAL	___ 1	___ 2	___ 3	___ 4	___ 5	UNETHICAL
(B)	WEAK	___ 1	___ 2	___ 3	___ 4	___ 5	STRONG
(C)	REASONABLE	___ 1	___ 2	___ 3	___ 4	___ 5	UNREASONABLE
(D)	EFFICIENT	___ 1	___ 2	___ 3	___ 4	___ 5	INEFFICIENT
(E)	IRRATIONAL	___ 1	___ 2	___ 3	___ 4	___ 5	RATIONAL
(F)	FOOLISH	___ 1	___ 2	___ 3	___ 4	___ 5	INTELLIGENT

PART TWO

This questionnaire seeks your attitudes about a variety of topics. All of your responses will be strictly confidential. Please answer all questions.

Read each statement and circle the response which most closely reflects your feelings about the statement given. Responses are abbreviated as follows:

STRONGLY AGREE ------- SA

AGREE --------------- A

UNDECIDED ----------- UN

DISAGREE ------------ D

STRONGLY DISAGREE ---- SD

1) Successful managers are usually those who find ways to help their company avoid taxes.

SA A UN D SD

2) The I.R.S. has been very successful in enforcing tax laws.

SA A UN D SD

3) Managers who comply with all tax laws will usually receive low performance ratings from their superiors.

SA A UN D SD

4) By not complying with tax laws, the manager will be able to do his job better because he will be less restricted by tax laws.

SA A UN D SD

5) The manager who helps his company avoid taxes will compare favorably with other managers when he is evaluated by his superiors.

SA A UN D SD

6) Eventually, the I.R.S. will catch most companies who fail to comply with tax regulations.

SA A UN D SD

7) Tax laws are so complicated that it is usually a waste of time to attempt strict compliance with the law.

SA A UN D SD

8) The manager who obeys every little tax law is more likely to have trouble getting ahead in today's business world.

SA A UN D SD

9) Most companies can avoid paying some of their taxes rather easily.

SA A UN D SD

10) The manager who helps his company avoid taxes will have more time for profitable activities.

SA A UN D SD

11) Managers who comply with every tax law usually are promoted slower than usual.

SA A UN D SD

12) Companies that avoid some taxes are rarely caught or punished.

SA A UN D SD

PART THREE

<u>Directions</u>

This questionnaire is designed to measure the extent to which you hold each of several general attitudes or values common in our society. After each statement there is a set of possible responses as follows:

Strongly Disagree	Disagree	Slightly Disagree	Slightly Agree	Agree	Strongly Agree

You are asked to read each of the statements and then to check the line corresponding to the response which best represents your first reaction to the opinion expressed.

	Strongly Disagree	Disagree	Slightly Disagree	Slightly Agree	Agree	Strongly Agree
1. Obedience and respect for authority are the most important virtues children should learn.	___	___	___	___	___	___
2. Since there are no values which can be eternal, the only real values are those which meet the needs of the given moment.	___	___	___	___	___	___
3. Everyone should have an equal chance and an equal say.	___	___	___	___	___	___
4. To be superior a man must stand along.	___	___	___	___	___	___
5. There is hardly anything lower than a person who does not feel a great love, gratitude, and respect for his parents.	___	___	___	___	___	___
6. Nothing is static, nothing is everlasting, at any moment one must be ready to meet the change in environment by a necessary change in one's moral views.	___	___	___	___	___	___
7. There should be equality for everyone--because we are all human beings.	___	___	___	___	___	___

	Strongly Disagree	Disagree	Slightly Disagree	Slightly Agree	Agree	Strongly Agree
8. In life an individual should for the most part "go it alone," assuring himself of privacy, having much time to himself, attempting to control his own life.	___	___	___	___	___	___
9. What youth needs most is strict discipline, rugged determination, and the will to work and fight for family and country.	___	___	___	___	___	___
0. Let us eat, drink, and be merry, for tomorrow we die.	___	___	___	___	___	___
1. A group of equals will work a lot better than a group with a rigid heirarchy.	___	___	___	___	___	___
2. It is the man who stands along who excites our admiration.	___	___	___	___	___	___
3. You have to respect authority and when you stop respecting authority, your situation isn't worth much.	___	___	___	___	___	___
4. The solution to almost any human problem should be based on the situation at the time, not on some general moral rule.	___	___	___	___	___	___
5. Each one should get what he needs--the things we have belong to all of us.	___	___	___	___	___	___
6. The rich internal world of ideals, of sensitive feelings, of reverie, of self-knowledge, is man's true home.	___	___	___	___	___	___
7. Patriotism and loyalty are the first and the most important requirements of a good citizen.	___	___	___	___	___	___
8. Life is something to be enjoyed to the full, sensuously enjoyed with relish and enthusiasm.	___	___	___	___	___	___
9. No matter what the circumstances, one should never arbitrarily tell people what they have to do.	___	___	___	___	___	___
0. One must avoid dependence upon persons or things, the center of life should be found within oneself.	___	___	___	___	___	___

VITA

Robert G. Beck Jr.

Candidate for the Degree of

Master of Business Administration

Report: THE IMPACT OF CALCULATIVE AND NORMATIVE FORCES ON TAX COMPLIANCE BEHAVIOR

Major Field: Business Administration

Biographical:

Personal Data: Born in Port Chester, New York, June 20, 1956, the son of Robert and Jane Beck.

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