# CHAPTER 3

# RESEARCH METHODOLOGY

## 3.1 INTRODUCTION

This chapter presents the methodology used in conducting this research. The types of data used, the sampling selection and the technique used for data analysis are explained.

## 3.2 TYPES OF DATA

Both primary and secondary data are used in this study. The primary data were obtained by interviewing the Customs officers and from survey research. The secondary data were gathered from journals, magazines, newspapers, seminar papers, internet and sources from the library of the Royal Customs Malaysia.

The survey was designed to gain an understanding of taxpayers' views of the administration of the tax system and the reasons for non-compliance. Andreoni et.al (1998), survey provides an alternative source of information about non-compliance. The main advantage of survey data is that they often include many socio-economic, demographic and attitudinal variables that are not available with tax returns and audit data, allowing researchers to investigate a rich set of hypotheses about the factors associated with non-compliance. While the major disadvantage of survey data is that they are based on self-reports which often provide inaccurate information.

The methods of obtaining survey information have varied and include personal interviews, mail questionnaires, panel discussion groups and telephone interviews. Compliance survey researchers have studied beliefs, opinions, attitudes, motivations and behaviour by selecting a sample of people either to

learn the status quo or to discover interrelationships among variables of interest. (Kinsey, 1984)

## 3.3 SAMPLING DESIGN

A purposive selection or judgemental sampling approach has been used in this study. According to this approach, the sample is selected on the basis of one's knowledge of the population, its characteristics and the research question (Schloss and Smith, 1999). Under this method of sampling, the sample is selected to support the goal of the study rather than to find out the "representativeness" of the sample to the broader population.

In this study, 30 service providers located in Bangsar and Petaling Jaya were chosen randomly from the Yellow Pages. The samples consist of professional services (accountants and lawyers), restaurants, consultancy and telecommunication firms. The reason for the limited number of subjects and only restricted to Bangsar and Petaling Jaya area is due to the constraint of time involved in this study.

It must be noted that this sampling approach may introduce bias as it has a tendency to include people who are easily found, willing to be interviewed and middle class, but it also offers advantage, compared to other sampling methods, in terms of speed of data collection, lower cost and convenience.

## 3.4 DATA COLLECTION PROCEDURES

All information pertaining to the Customs is obtained from the Royal Customs Malaysia by interviewing the relevant Customs officers and the sources from the library of the Royal Customs Malaysia.

Since this study attempts to gauge the perceptions and awareness of service providers regarding the service tax, a survey has been conducted by using personal interview and self-administered questionnaire with a cover letter explaining the purpose of the survey. The cover letter also mentions that they are assured of anonymity and that all information will be kept in strict confidence and the information will be used for the research purposes only. The subjects involved in this study consist of a partner of a firm, manager or owner of the business. The subjects were asked the following questions:

1. What are the factors they think will contribute to evasion in service tax?

2. What are the strategies they think should be implemented by the government to encourage compliance in service tax?

3. Do they get enough information and assistance by the Customs authorities regarding the service tax?

4. Are they aware of any campaign conducted by the Customs?

The subjects are also encouraged to share their views regarding the service tax and services provided by the Customs authorities. The questionnaires were mailed to the chosen subjects enclosed with a self-addressed and stamped envelope and some of the questionnaires were sent by personal deliveries that will be collected later. It must be noted also that the use of questionnaire survey method has been subjected to heavy criticisms, namely poor response rates and poor quality of response. (Kerlinger, 1986)

For personal interviews, a selected number of subjects had been phoned and asked whether they could participate in an interview lasting a few minutes. An informal interview also was conducted during the visits to the business

premises (e.g. restaurant and consultancy). Westat (1980) offers persuasive evidence that personal interviews where the respondent has not been contacted in advance afford the highest response rate. A higher refusal rate and lower admitted non-compliance was found for telephone interviews as compared to in person interviews.

## 3.5 QUESTIONNAIRE DESIGN

The questionnaires are divided into three categories. The first category is the questions about the background information of the firm or business. The second part is on the perceptions about the factors that will contribute to non-compliance on service tax. The respondents are required to rank their perception according to a 5 Point Likert scale (1= not at all important, 2= not so important, 3= neutral, 4= fairly important, 5= very important).

The third category of questions is designed to get the views about the strategies that should be implemented in order to increase the compliance rate. The respondents are required to indicate in a 5 Point Likert scale their views on the statement. (1= Strongly disagree, 2= Disagree, 3= Uncertain, 4= Agree, 5= Strongly Agree)

Before the questionnaires were mailed to the respondents, 5 students from the MBA class and 5 external auditors were asked to test their understandability and wording of the questions. The pilot survey indicated that the questionnaire is understandable

## 3.6 DATA ANALYSIS TECHNIQUE

The survey data is analysed by using descriptive analysis. Descriptive analysis refers to the transformation of the raw data into a form that will make them easy to understand and interpret. Descriptive information is obtained by summarising, categorising, rearranging and other forms of analysis. The calculation of averages, frequency distributions and percentage distribution are the most common forms of the summarizing the data. The simple tabulation table is used to present the frequency from each question. Simple tabulation of the responses on question by question provides the most basic form of information for the researcher.

The responses from the respondents are grouped according to their type of business like professionals, restaurants and telecommunication services. Since the type of measurement in this study is the interval scale, the appropriate central tendency used is the mean. The mean from each question will be calculated and compared to identify the most significant factors. The Statistical Package for Social Science (SPSS) program is used to facilitate the analysis process.

## 3.7 CONCLUSION

This chapter describes the research methodology used in this study. The next chapter will discuss on the compliance issues in service tax as well as the findings from the survey.