

**EFFECT OF TAX NEGOTIATION ON OFFER,
PERCEIVED FAIRNESS AND AGGRESSIVENESS**

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**FACULTY OF BUSINESS AND ACCOUNTANCY
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KUALA LUMPUR**

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AGGRESSIVENESS**

ABSTRACT

This experimental study contributes to existing research on a tax authority-tax practitioner negotiation model during tax audits, by providing the first evidence that concession timing matters. Negotiations on tax audits facilitate the interaction between tax practitioners and tax authorities. The role of negotiation in tax audit is to align the different motivations of tax practitioners and tax authorities. This study permits a better understanding of the consequences of concession timing negotiation strategies adopted by the tax authorities on tax practitioners and their final proposed offer. This study extends the negotiation model in other disciplines to include a new variable, tax practitioners' level of aggressiveness and examines the role of fairness in tax audit negotiations. If tax practitioners perceive that the negotiation strategies adopted by the tax authorities are unfair to them, they may aggressively try to mitigate their tax payable by obtaining aggressive tax planning advice from tax practitioners. Thus, this study offers evidence of the influence of the negotiation strategies adopted by the tax authorities on the tax practitioners' final proposed offer, their perception of fairness (i.e., distributive justice and procedural justice) and their aggressive stance in the tax audit negotiations. From a practical perspective, this study provides insights to tax authorities in identifying the most appropriate negotiation strategy to collect underreported taxes and establish proper procedures to handle grey area or ambiguous tax issues found during the tax audit period. At the same time, this study also contributes to the extension of the reciprocity and anchoring effects in taxation and the effect of concession timing strategies adopted in taxation negotiations, especially in tax audit negotiations between tax audit officers and tax practitioners.

Keywords: Negotiation, Concession timing, Negotiation strategies, Level of Aggressiveness, Fairness

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ABSTRAK

Kajian eksperimen ini menyumbang kepada penyelidikan yang sedia ada ke atas sebuah model perundingan bagi pihak berkuasa cukai dan pengamal cukai semasa audit cukai, dengan menyediakan bukti melibatkan konsesi masa. Perundingan berlaku semasa audit cukai dijalankan agar memudahkan interaksi di antara pengamal cukai dan pihak berkuasa cukai. Peranan perundingan yang berlaku semasa audit cukai dijalankan adalah untuk menyelaraskan motivasi yang berbeza antara pengamal cukai dan pihak berkuasa cukai. Kajian ini membenarkan pemahaman yang lebih dalam tentang kesan strategi perundingan konsesi masa yang digunakan oleh pihak berkuasa cukai ke atas pengamal cukai dan tawaran akhir pengamal cukai terhadap audit cukai. Kajian ini melanjutkan model perundingan sedia ada dari bidang yang lain dengan satu pembolehubah yang baru, tahap sifat agresif pengamal cukai dan mengkaji peranan keadilan dalam perundingan audit cukai. Jika pengamal cukai berpendapat bahawa strategi perundingan yang digunakan oleh pihak berkuasa cukai adalah tidak adil kepada mereka, mereka akan bertindak agresif untuk cuba mengurangkan cukai yang kena dibayar dengan mendapatkan nasihat perancangan cukai yang agresif daripada pengamal cukai. Oleh itu, kajian ini boleh memberi bukti-bukti tentang pengaruh strategi perundingan yang diguna oleh pihak berkuasa cukai ke atas pengamal cukai dari segi tawaran akhir, pandangan keadilan (iaitu keadilan pengagihan dan keadilan prosedur) dan sifat agresif semasa perundingan audit cukai. Dari segi praktikal, kajian ini boleh menjadi panduan kepada pihak berkuasa cukai untuk memilih strategi perundingan yang paling sesuai demi memungut cukai kurang lapor dan menetapkan prosedur yang lengkap untuk mengendalikan isu-isu cukai yang kabur dan tidak jelas pada masa audit cukai. Pada masa yang sama, kajian ini juga menyumbangkan kepada lanjutan kesan '*reciprocity*' dan '*anchoring*' dalam percukaian dan pengaruh strategi

konsesi masa dalam perundingan percukaian terutamanya dalam perundingan audit cukai yang berlaku di antara pegawai audit cukai dan pengamal cukai.

Kata Kunci: Perundingan, Konsesi masa, Strategi perundingan, Tahap sifat agresif, Keadilan

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LIST OF SYMBOLS AND ABBREVIATIONS

ATO	:	Australian Tax Office
CEO	:	Chief Executive Officer
CFO	:	Chief Financial Officer
CPA	:	Certified Public Accountants
IRB	:	The Inland Revenue Board
MOF	:	Ministry of Finance
RA	:	Reinvestment Allowance
SAS	:	Self-Assessment System
YA	:	Year of Assessment

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CHAPTER 1: INTRODUCTION

This research thesis introduces an experimental study, which focusses on the interaction between the tax authority and taxpayers' representatives, the tax practitioners during tax audit negotiation. Taxpayers in this experimental study consist of corporate taxpayers. The first section of this chapter explains the background of this experimental study on tax audit negotiation. The following sections summarize how the tax audit negotiation takes place between the tax authority and the taxpayers or their representatives, the tax practitioners, as frequently happens both at the international level and in the Malaysian context. There is a lack of study on tax audit negotiation and this chapter highlights the underlying negotiation theories, reciprocity and anchoring, - which apply in this study. The upcoming section describes the research problem, followed by the development of the research questions and the research objectives to explore or investigate the influence of the timing of concession strategies, which are adopted by tax audit officers on tax practitioners' final proposed offer, perception of fairness and level of aggressiveness. Finally, the chapter illuminates the theoretical and policy contributions of this experimental study.

The remainder of this study is structured as follows: Chapter 2 reviews the literature on negotiation with respect of the four main variables, concession timing strategies, perception of fairness (i.e. distributive justice and procedural justice) and tax practitioners' aggressiveness. The actual model is developed in Section 3.1 of Chapter 3. In Chapter 3, the study elaborates a well-grounded model of the negotiation process that improves the existing model by including important variables, tax practitioners' final proposed offer, perception of fairness and level of aggressiveness which were previously not addressed in taxation research. From the model, a number of hypotheses

are then generated, which are explored further through a laboratory experiment. Chapter 4 explains and justifies the design and conduct of the experiment.

This chapter also offers an overview of how tax audit officers conduct their negotiations. Chapter 5 explains the analysis of the data collected from the experiment and Chapter 6 discusses the results and the findings of the study. Finally, Chapter 7 concludes by summarizing the study and outlining the implications for the tax authority and the tax practitioners and potential areas for future study.

1.1 Introduction

Negotiation is defined as “a form of decision making in which two or more parties talk with one another in an effort to resolve their opposing interests” (Pruitt, 1981). Davis and Smith (2003) mentioned that negotiation is a mechanism for interaction between negotiating parties. They conducted a study on negotiation and found three important components of problem solving in negotiation as follows:

- (i) negotiation is a two-way exchange of information;
- (ii) each negotiating party evaluates the information from its own perspectives;
- (iii) the final agreement is reached by mutual agreement.

In their study, they formed a few small groups who have experienced management tasks in relation to human resources, in order to examine the effects of negotiation, and found that negotiation is an effective tool to solve problems and tasks.

Negotiators may take their position before a negotiation process starts. The beginning of a negotiation involves an opening offer, an opening stance and initial concessions with counteroffers. Lewicki, Barry, and Saunders (2010) commented that concessions are central to negotiation in order to improve their outcome. Nevertheless, negotiators are advised to identify the target point (i.e., possible counteroffers) of other party in order to ensure enough room during the bargaining to make some concessions.

Final offers are presented when there are no further concessions for the negotiators to bargain with and the parties involved are expected to accept the result. Kwon and Weingart (2004) highlighted that the timing of concessions may affect the offers of the negotiating party. For instance, the negotiating parties may expect additional greater concessions if rapid concession making is apply but discourage the negotiation parties to make their own concessions at the same time. However, gradual concessions may encourage the negotiating parties to reciprocate and thus, gain more agreements.

Many researchers have conducted studies on the tactics of negotiation, negotiation behavior, and factors such as the negotiation process and judgment bias (Bame-Aldred & Kida, 2007; Bazerman & Chugh, 2005; Steinel, Van Kleef, & Harinck, 2008; Trotman, Wright, & Wright, 2005). These researchers focused on the negotiation between auditor-client, buyer-seller, and two or multi-party negotiations.

Frecknall-Hughes and Kirchler (2015) explored the developing of general theory for tax practices. They identified tax practitioners' roles and services in the interaction between taxpayers, tax practitioners and the tax authority. They commented that tax practitioners may influence their clients, the taxpayers' decision as taxpayers prefer to engage tax practitioners to represent them deal with the tax authority. Other than preparation and filing of tax return, there is a tendency to encourage taxpayers to engage tax practitioners to handle their tax affairs in order to reduce the mistakes in tax return, paying the least tax (if possible) in a legal way, avoiding substantial tax penalties, reducing the chance of being investigated, as well as dealing with the complexity of tax system and increasing in ambiguity of the tax laws. Therefore, they feel the need to understand tax practitioners' ethical influences especially the way tax practitioners advise their clients, taxpayers. They concluded that tax practitioners affect taxpayers' behavior to liaise with tax authority during tax audit period. This is also highlighted by

Doyle, Frecknall-Hughes, and Summers (2014) and Frecknall-Hughes, Moizer, Doyle, and Summers (2016). Frecknall-Hughes and Kirchler (2015) also mention the negotiation tactics adopted in tax practices and the influence of tax practitioners on taxpayers when dealing with the tax authority on tax affairs.

In taxation, a negotiation happens between taxpayers and government. Kangave and Katusiimeh (2015) mentioned that there are two types of tax negotiation, explicit and implicit. Explicit negotiation involves the government on one hand, and taxpayers and/or their representatives on the other hand. Implicit negotiation is the behavioral adjustment for taxpayers and the encouragement of tax compliance by government. In their research, they also mention that there is a lack of studies on how the tax negotiation takes place between the taxpayers and the government.

According to Smith and Stalans (1994), tax disputes happen between tax audit officers and taxpayers. Tax audit officers may adopt some negotiation strategies to convince or persuade taxpayers of the legal correctness and taxpayers prefer negotiation strategies that are cooperative. Otherwise, tax audit officers may proceed with their stance without considering the taxpayers' position. Therefore, in taxation, in negotiations between tax audit officer and taxpayers or tax practitioners, disputes are very common during a tax audit and need to be resolved.

According to Thanneermalai and Rosley (2010), a two-way communication between the tax authority and taxpayers or tax practitioners (i.e., representatives of the taxpayers) during the tax audit period is crucial to the achievement of a satisfactory result. This communication provides an avenue for taxpayers to understand the issues raised by the tax authority and should include the relevant supporting documents and laws, as well as guidelines, and can, thus, reduce disagreement between the parties. Although taxpayers may further appeal at court level if they are not satisfied with the notice of assessment

raised by the tax authority (i.e., additional tax payable and a penalty imposed), negotiation between taxpayers or tax practitioners can also reduce the litigation costs that could be incurred.

Some countries, such as the United Kingdom, the US and Malaysia, may resolve disputes between a tax authority and a taxpayer at the Alternative Dispute Resolution without the litigation or prior attendance in a courtroom. The Alternative Dispute Resolution is a trial court arrangement to handle the disputes between the tax authority and a taxpayer. In view of this, this study is focussed on the negotiation between the tax authority and tax practitioners during the tax audit period prior to the Alternative Dispute Resolution level.

The following sections explain how the tax negotiation in tax audits takes place between taxpayers, tax practitioners and government, both at the international level and in the Malaysian context.

1.2 Background

Niu (2011) commented that a tax audit has a positive impact on tax compliance behavior. Companies that have experienced a tax audit previously tend to report higher revenue, compared to those that have not been audited. His results were collected from the data of 6,886 firms from the Food and Drinking Places sector, as listed by the New York Department of Taxation and Finance. The results also show that tax auditing is a useful tool that can be used by tax authorities to generate more revenue for the country.

Various studies on tax audit (Hauptman, Horvat, & Korez-Vide, 2014; Kleven, Knudsen, Kreiner, Pedersen, & Saez, 2010; Sam, 2010; Sen & Bala, 2002) highlighted that tax auditing is an important tool for government to collect underreported tax and to enforce tax laws and regulations, resulting in improved compliance and a reduction in

tax evasion. During the tax audit period, negotiations occur between the tax authority and the taxpayers or tax practitioners, which help to resolve disagreements between the parties.

According to Aidinoff, Blum, Calkins, Chetkovich, Converse, Garibaldi, Heyman, Isaac, Mansfield, and Nolan (1988), tax preparers are those who only can prepare and sign a tax return on behalf of taxpayers. However, tax practitioners are qualified to represent their clients, the taxpayers to attend tax audit meetings, appeal to the audit decisions of the tax authority and the court, may liaise with the tax authority on the payment arrangement after finalization of the tax audit.

The following sections elaborate the various scenarios in tax audit at the international level and in the Malaysian context.

1.2.1 Negotiation in Tax Audit: International Scenario

In different countries, various forms of negotiations occur between taxpayers and the tax authorities. Smith and Stalans (1994) found that tax audit officers may apply different negotiation strategies to resolve tax disputes between the government and the taxpayers or tax practitioners during the tax audit period. Normally, the negotiation strategies to be adopted are affected by their own experience. Furthermore, they also found that tax audit officers prefer to hold firm to their decisions without considering the opinions of the taxpayers' or tax practitioners. However, the taxpayers or tax practitioners always hope that the tax audit officers will be cooperative and willing to reciprocate to achieve resolution of any disputes that may arise between the parties. Huang and Yu (1997) commented that negotiation with tax authorities inevitably occurs in China during the tax audit period. A written notice can only be issued based on the results of negotiation meetings between the tax audit officer and the taxpayers or tax

practitioners. Chan and Chow (1997) also mentioned the same situation occurs in China, based on their empirical research into negotiations between tax audit officers and taxpayers or tax practitioners during the tax audit period on transfer pricing in China. However, they found that negotiation can lengthen the time needed to resolve a tax audit case if it is not well handled.

Chan and Lan Mo (2000) found that guidelines for the provision of staff welfare in China are complicated, and taxpayers want to be able to negotiate with the tax authorities in order to claim larger expenses when tax rates are high during post tax holiday periods. In the United States, Antle and Nalebuff (1991) commented that the Government benefits from overstatements and incurs losses from understatements and the Internal Revenue Service (IRS) is given a mandate to perform an unbiased audit. If the IRS disputes any of the firm's representations, the IRS traditionally makes a settlement offer before going to tax court. Although these studies mention the existence of some form of negotiation between taxpayers and tax authorities during the tax audit period, nothing is mentioned about attempts to come to a settlement that is amicable to both parties from the tax practitioners' perspective.

In China, Huang and Yu (1997) commented that negotiation always occurs during a transfer pricing tax audit. The tax authority has established the transfer pricing guidelines for transactions between related parties and expects that corporate taxpayers will comply. The findings of the tax audit must be negotiated between tax authority and taxpayers before a written tax findings letter can be issued.

Frecknall-Hughes and Kirchler (2015) conducted a study on the negotiation process between the tax authority and tax practitioners. They found that there are three stages of negotiation process: (i) setting up the negotiation range; (ii) observing the negotiation range; and (iii) involvement in the dispute or achieving mutual agreement. They

provided an example of the negotiation process in inheritance tax and commented that the tax authority may not accept the calculations of wealth of the deceased (i.e., the negotiation range), which was prepared by the taxpayers or the tax practitioners. They realised that the negotiators in this case, the tax authority and taxpayers or tax practitioners started to observe where there were any possibilities for the opposing party to make concessions to reduce the negotiation range in stage (ii) before both parties moved into stage (iii) to achieve agreement.

The following section explains how a tax audit takes place between taxpayers, tax practitioners and the government of Malaysia.

1.2.2 Tax Audit: Malaysian Scenario

Negotiation is a pervasive feature of tax audits, especially tax field audits and investigations in Malaysia. Negotiation in taxation takes place during the tax audit period when the tax authorities offer their concessions, subsequent to their tax audit visits.

In Malaysia, after the letter on the tax audit findings is received by the taxpayers, the taxpayers compile the supporting documents and include them with their reply to the Inland Revenue Board of Malaysia (IRB). The taxpayers then contact the tax audit officers to discuss the findings, with or without the presence of the tax practitioners. This negotiation process may take place several times until both parties come into a conclusion. **The actual negotiation process is started after the tax audit visit and the tax audit officer normally contacts the taxpayers on the basis of the tax audit meeting with regards to his or her audit findings.** The negotiation process is similar to the three stages of the negotiation process in the international context, as explained by Frecknall-Hughes and Kirchler (2015) and the tax audit meeting is also conducted

between tax audit officers from the IRB and taxpayers or tax practitioners in Malaysia. The tax audit officers may adopt concession strategies during the tax audit negotiation process with tax practitioners and after the negotiation range (i.e., proposed tax adjustments) is ascertained, the opposing party (i.e., tax practitioners) may seek an opportunity to make a counteroffer in order to reduce the negotiation range. At this stage, tax audit officers make offer and allow reciprocation. Tax practitioners treat the latest offer made by tax audit officers as an anchor to make their counteroffers.

Taxpayers may negotiate with the tax authorities in the event that their potential tax liabilities are substantial. In normal circumstances, tax authorities may raise some tax issues subsequent to the tax audit visit, and taxpayers or their representatives who are tax practitioners respond to these issues with their justification, pursuant to the existing tax regulations or preceding case laws, together with the relevant supporting documents (if any) to substantiate their claims. If the tax audit findings subsequent to tax audit visits are conclusive and there has not been feedback from the taxpayers or tax practitioners (i.e., a tax negotiation did not take place), the taxpayers or tax practitioners are considered to be in a weak position. As a result, the taxpayers' or tax practitioners' perception of the fairness of the negotiation is low. Murphy (2004) mentioned that the current tax practice may affect the perception of fairness of taxpayers or tax practitioners as they may perceive that the tax authority has treated them unfairly and this increases the tendency to engage in an aggressive tax reporting style. In order to protect taxpayers' interests, tax practitioners may facilitate certain tax schemes to reduce the amount of the taxpayers' tax payable, which is deemed aggressive and may not be acceptable to the tax authority (Frecknall-Hughes & Kirchler, 2015).

In taxation, three types of fairness can be applied: distributive justice, procedural justice and retributive justice. However, according to Wenzel (2003), retributive justice

is rarely applied in taxation in view of the concern that it may overlap some areas in procedural justice. Retributive justice refers to consents and reactions in response to breaking social rules and norms. It focusses on fair and appropriate punishments for taxpayers who are involved in tax evasion.

According to Thanneermalai and Rosley (2010), several rounds of discussions should take place between the tax audit officer and the taxpayer in order to discuss the tax issues raised and provide a satisfactory response to the IRB. Thus, negotiation is a crucial part of any tax audit as it facilitates the interaction between these parties. The role of negotiation in tax audits is to align the different motivations of the taxpayers, the tax practitioners and the tax authorities. During the tax audit period, the taxpayers and tax practitioners are interested in lowering the reported taxable profits, while the tax authorities only want to ensure that the reported taxable profits of the taxpayers are calculated pursuant to the existing tax laws and regulations (Antle & Nalebuff, 1991). Negotiation minimizes the prospect of either the taxpayers or tax authorities resorting to tax litigation to resolve dissatisfaction with the audit findings. Hence, there is a need to improve our understanding of negotiation strategies from the point of view of taxpayers as well as their representatives, i.e., tax practitioners, in order to ensure the success of a tax audit negotiation.

Normally, a tax audit settlement involves a final evaluation of all the findings of the IRB. If there are no adjustments, a letter is issued by the IRB to inform the taxpayers that the audit has been finalized and no adjustments will be made. Otherwise, if there are adjustments, the IRB issues a letter with an amended tax computation, including the details of the proposed tax adjustments. This is usually done before an assessment is raised and the taxpayers normally have approximately fourteen days to respond to the issues raised in the tax computation (for which the negotiations took place). If taxpayers

fail to do so, the IRB assumes that taxpayers accept their proposed tax adjustments and a notice of assessment will be issued together with the appropriate penalty. If the taxpayer accepts the proposed tax adjustments, he or she is required to submit a letter of agreement. Otherwise, the taxpayer may appeal against the notice of assessment by submitting a Form Q to the Special Commissioners of Malaysia.

Table 1.1: Official Objection by Filing Form Q in Malaysia

Year	Number of Cases (Corporate)
2010	105
2011	87
2012	132
2013	207
2014	398

The outcomes of the negotiations affect the finalization of the tax adjustments subsequent to a tax audit. The objective of the IRB is to reduce the number of tax audit cases still in progress in the subsequent year and collect the tax on underreported income from taxpayers. This research is aimed at identifying the appropriate concession strategies that can lead to an optimum balance between the achieving objectives of the IRB and minimizing the aggressive negotiating style of taxpayers.

The following section elaborates the research problem of this experimental study.

1.3 Research Problem

Various negotiation studies have been conducted on the different perspectives of auditor-client (Brown & Wright, 2008; Kleinman & Palmon, 2000; Tan & Trotman, 2010), buyer-seller (Kwon & Weingart, 2004), and two or multi parties in negotiations (Kersten & Gimon, 2012; Trotman et al., 2005). These studies focused on the negotiation process, the negotiation outcomes, the negotiation decisions and the negotiation tactics.

Since the different negotiation strategies adopted by a negotiator can influence the negotiating party's negotiation style, Hatfield, Agoglia, and Sanchez (2008) wrote that it is important to understand auditors' negotiation strategies as well as the reaction of their clients to the auditors' negotiation strategies. In their study, they presumed that auditors adopt a reciprocity-based strategy while negotiating with their clients. Hatfield et al. (2008) explained that the rule of reciprocity is that when one party makes concessions from his or her initial position, the other party is expected to reciprocate and make counteroffer. They considered that auditors would use this type of concession strategy when they know their clients are difficult to handle (competitive). The results of their experiments support their hypothesis. They had hypothesized that the auditors would fail to obtain an agreement from their clients to make larger adjustments when they did not adopt a reciprocity-based strategy.

However, Hatfield et al. (2008) also found that the negotiation outcome improved in the experiment when the auditors did adopt a reciprocity-based strategy. In this case, the reciprocity-based strategy helped to put pressure on the auditors to accept their client's position, and at the same time, it also reduced the resistance level of their clients to the proposed adjustment. This view has also been highlighted in the study of Sanchez, Agoglia, and Hatfield (2007).

In taxation, Smith and Stalans (1994) conducted a study via pre-audit interview on negotiating strategies adopted by tax audit officers and taxpayers to resolve tax disputes during tax audit period. They identified six negotiating strategies that are usually adopted by tax audit officers and taxpayers, including persuading, convincing, compromising, finding a new answer, going along and holding firm. They found that the two sides prefer to adopt different negotiating strategies. The taxpayers prefer that the tax audit officers reciprocate and adopt cooperative strategies to resolve tax disputes.

However, the majority of tax audit officers prefer to hold firm on their decisions and only to consider legal correctness. In this connection, the conflict between the two sides may distort the agreement on the findings of the tax audit. Based on their findings, the authors are of the opinion that tax audit officers should look for alternative ways to negotiate with taxpayers - ways that match the taxpayers' requirements (e.g., concessionary strategies). Although they identified the negotiating strategies preferred by tax audit officers and taxpayers, they did not identify or recommend any negotiating strategies that would be suitable for adoption by a tax audit officer to minimize time and effort when dealing with taxpayers during the tax audit period. Subsequently, based on their empirical study, Frecknall-Hughes and Kirchler (2015) commented that concession strategy is suitable to be adopted during the interaction between the tax authority, taxpayers or tax practitioners from the perspective of the tax practitioners.

According to their respondents, Hatfield et al. (2008) also noted that some of the proposed audit adjustments below an acceptable materiality level can be waived without the approval of the management or audit committees during a negotiation process if the auditors adopt a reciprocity-based strategy. According to them, a reciprocity-based strategy that is adopted during the negotiation process between auditor-client is allowed under the current regulatory environment, and this was confirmed by the audit partners and managers during the experiments. In this case, the auditors may not agree on final audit adjustments, which differ from their initial intended outcome. However, their study did not examine the waiver of audit adjustments from the perspective of the regulators. Nevertheless, a tax authority may also agree to drop some tax issues where tax laws are unclear and the tax owed is dependent on an interpretation of the tax laws (Marshall, Smith, & Armstrong, 1997). In their study, some of the tax issues were dropped by the tax audit officer during the negotiation process with the taxpayer or tax practitioner.

Subsequently, Joe, Wright, and Wright (2011) conducted a further study on the waiver of audit adjustments. They found that the auditors may still waive the audit adjustment although the investors or regulators may scrutinize the audited financial statements. They also noticed that auditors may accept the waiver of audit adjustments if they intend to maintain a longer relationship with their clients. In this study, they identified 163 audit clients of a 'Big Four firm', in which the auditors provided the descriptive data on how the audits were planned and conducted. Nevertheless, the intention to maintain the relationship may not exist between the tax authority and the taxpayers or their tax practitioners. The tax authority is only concerned with the behaviour of taxpayers or tax practitioners in response to the tax process and procedures of the country.

In view of the above literature, it is important to understand the negotiation strategy adopted by a negotiator (i.e., reciprocity-based) in order to reduce the resistance of a negotiator to accept a proposed adjustment or counteroffer of the other party and ensure a better outcome. Even though a reciprocity-based negotiation strategy has been adopted by the auditors to negotiate with their clients in an audit, the auditors may still be reluctant to accept their clients' counteroffers on their proposed audit adjustments and the auditors may have to strive to maintain a longer relationship with their clients in these circumstances. However, the reciprocity-based negotiation studies in auditing are different from the studies in taxation. In taxation, the tax audit officers may not accept the counteroffer from taxpayers because they act on behalf of the tax authority. The conditions for dropping proposed tax adjustments are different in taxation in auditing. In auditing, auditors may drop some audit adjustments below a certain threshold (Hatfield et al., 2008). However, in taxation, tax audit officers may waive some proposed tax adjustments because these adjustments may be classified as 'grey' areas or may be considered as being from a different perspective from technical point of view. In

addition, tax audit officers do not have to maintain long term relationships with taxpayers, because tax audits conducted on taxpayers are not repeated every year and are only based on selected cases in accordance with the selection process as stipulated by the tax authority. Other than the difference in the relationship between tax audit officers and taxpayers, there is a lack of literature providing an explanation of how negotiations take place from the tax practitioners' perspective between the tax authorities and the tax practitioners during the tax audit period in which a reciprocity-based negotiation strategy is adopted by tax audit officer. Prior to this, Frecknall-Hughes and Kirchler (2015) conducted an empirical study from the tax practitioners' perspective on their roles and how they interact with the tax authority and their clients, the taxpayers. Doyle et al. (2014) and Frecknall-Hughes et al. (2016) highlighted the influence of tax practitioners on their clients, the taxpayers, when dealing with the tax authority and the taxpayers' tax reporting style. In view of this, this experimental study further explores the interaction between the tax authority and the tax practitioners from a real world context. If the tax audit officers who act on behalf of the tax authority can settle the tax audit cases properly, they help the government to collect more taxes. On the other hand, taxpayers and tax practitioners are satisfied and more likely to comply with the tax regulations in future.

In the empirical study of Frecknall-Hughes and Kirchler (2015), they also found that tax practitioners play an important role during the interaction between the taxpayers and the tax authority. As mentioned, the tax practitioners may influence the response and the behavior of their clients, the taxpayers (Doyle et al., 2014; Frecknall-Hughes et al., 2016). Frecknall-Hughes and Kirchler (2015) further commented that in tax practice, tax practitioners represent both the taxpayers and the tax authority during the negotiation process in tax issues. They commented on the negotiation diagram between tax practitioners who act on behalf of their clients, the taxpayers with the tax authority

in respect of exchange of information between both parties and the benefits and costs arising from the interaction. In their study, they adopted negotiation theory to explain the interaction between the three parties (i.e., taxpayers, tax practitioners and tax authority). In addition, they also highlighted that the negotiation process consist of three stages: setting up the negotiation range, observing the negotiation range and finally, involvement in the dispute or achieving mutual agreement. Although they found that some of the negotiation tactics (e.g. persuasion, threat, or rewards) are adopted in taxation, but they do not comment on the most optimized tactic.

One of the factors that leads to a more satisfactory negotiation is the timing of the concessions. However, the effect of an aggressive stance by negotiators may reduce the acceptance levels of the parties involved. Frecknall-Hughes and Kirchler (2015) highlighted that when a party makes demands and starts to exchange information, he or she may be making proposals and concessions during the negotiation period.

In view of the above, the focus of this study is on the interaction between tax practitioners and the tax authority, the adoption of concessionary strategies during tax audit negotiation and the effect of concessionary strategies on negotiation outcomes. Appropriate strategies are required to avoid any unnecessary costs (i.e., to reduce the number of court cases and litigation costs).

The next section explains the research questions.

1.4 Research Questions

This study observes how negotiation strategies in the form of concession timings adopted by the tax authorities may lead to a better offer for the other party. Based on the above literature, the study explores the influence of concession timing strategies adopted by a tax audit officer on tax practitioners' final proposed offer, the perception

of fairness and the level of aggressiveness. Other than direct effect, this study also assesses the indirect effect of a mediator variable by using mediation analysis. According to Preacher and Hayes (2004), the effect of a proposed cause on some outcome may be caused by a mediator variable. Therefore, mediation analysis helps to understand the relationship between the main variables. In view of this, the four major research questions for this study are posed.

- (1) Does the timing of the tax authority's concessions influence the final proposed offer, perception of fairness and level of aggressiveness of the tax practitioners during tax audit negotiation period?
- (2) Does the tax practitioners' final proposed offer mediate the effect of the timing of the tax authority's concessions on the tax practitioners' perception of fairness during tax audit negotiation period?
- (3) Does the tax practitioners' perception of fairness mediate the effect of the tax practitioners' final proposed offer on the tax practitioners' level of aggressiveness?
- (4) Does the tax practitioners' perception of fairness mediate the effect of the timing of the tax authority's concessions on the tax practitioners' level of aggressiveness during tax audit negotiation period?

As indicated in these research questions, this study investigates the outcomes of tax authority-taxpayer negotiations and their impact on the effectiveness of concessionary strategies during the tax audit period. This research also incorporates the tensions between taxpayers and the tax authority officer on the proposed tax audit adjustments by highlighting issues of fairness and aggressive negotiating tactic in arriving at a satisfactory outcome in the negotiation.

Based on the above research questions, the research objectives are developed in the following section.

1.5 Research Objectives

Consistent with the research questions, these are the six research objectives of this study:

- (1) to explore the influence of the timing of the tax authority's concessions on the tax practitioners' final proposed offer (proposed tax adjustment);
- (2) to explore the influence of the timing of the tax authority's concessions on the tax practitioners' perceptions of fairness;
- (3) to explore the influence of the timing of the tax authority's concessions on the tax practitioners' level of aggressiveness during tax audit negotiation period;
- (4) to investigate the mediation effect of the tax practitioners' final proposed offer on the relationship between the timing of the tax authority's concession and the tax practitioners' perception of fairness;
- (5) to investigate the mediation effect of the tax practitioners' perception of fairness on the relationship between the tax practitioners' final proposed offer and the tax practitioners' level of aggressiveness.
- (6) to investigate the mediation effect of the tax practitioners' perception of fairness on the relationship between the timing of the tax authority's concessions and the tax practitioners' level of aggressiveness.

The following section introduces the negotiation theories, reciprocity and anchoring to be adopted in this experimental study.

1.6 Underlying Negotiation Theories

This study adopted two mechanisms, reciprocity and anchoring negotiation theories in a newly constructed negotiation model. The format of the instrument for this study is adopted from Tan and Trotman (2010). According to Tan and Trotman (2010), a negotiator is willing to concede his or her desired position helps to create a positive bargaining zone where concessions are possible. The first mechanism, reciprocity, is a form of social compliance or “give and take” cooperation, in which the negotiating parties allow reciprocating and the offering of concessions in response to concessions from the other party.

The second mechanism, anchoring, is based on the most recent offer made by a negotiator. It serves as an anchor for other party to make counteroffers. A combination of reciprocity and anchoring improves the negotiation between the negotiating parties.

Since this study focusses on the interaction between the tax authority and the tax practitioners, it follows the recommendation of Frecknall-Hughes and Kirchler (2015) where negotiation theory is the most suitable theory for tax audit negotiation and able to fit into many aspects of this experimental study from tax practitioners’ perspective.

1.7 Significant Contributions

This study provides significant contributions to theory and policy. There are several theoretical implications to be considered. Firstly, this study contributes to existing research on the tax authority-tax practitioner negotiation model by providing the first evidence that concession timing matters. It permits a better understanding of the consequences of concession timing strategies in negotiations adopted by a tax audit officer acting on behalf of the tax authorities on a tax practitioners’ final proposed offer. In an auditor-client negotiation study conducted by Tan and Trotman (2010), they found that the timing of auditors’ concessions influenced the final outcome of auditor-client

negotiation. Their results indicate the effectiveness of a Concession Gradual strategy during auditor-client negotiations. Similar to their experimental study, the result of this study may offer evidence on how concession timing negotiation strategies in taxation, adopted by tax authorities can influence the tax practitioners' final proposed offer in a tax audit officer-tax practitioner negotiation model. Since concession timing strategy includes the effect of reciprocity and anchoring theories, this experimental study also extends the effect of reciprocity and anchoring theories in the tax audit officer-tax practitioner negotiation model. To date, insufficient studies have been conducted to examine the reciprocity and anchoring effects between negotiations between tax audit officers and tax practitioners occurring during the tax audit period.

Secondly, this study extends the model of negotiation developed by Kleinman and Palmon (2000) and Tan and Trotman (2010) in auditing and Kwon and Weingart (2004) in marketing with a new variable, the tax practitioners' level of aggressiveness. In their negotiation models, they examined the negotiation between negotiators and their negotiating parties (i.e., auditor-client, buyer-seller), in which negotiators adopted concession timing strategies, and their effect on the final offer of other party. Kleinman and Palmon (2000) highlighted four important factors in the auditor-client negotiation oriented model, expectations and pressure from the client firm and perception and reaction of the audit firm. In their negotiation study, Tan and Trotman (2010) examined the effect of concession timing strategies adopted by auditors on clients' satisfaction with the negotiation outcome and on their intention to continue the relationship with the auditors. Kwon and Weingart (2004) also examined the perception of fairness from the buyers' perspective in addition to the buyers' satisfaction with the outcome and the judgments.

In summary, these studies found that concession timing strategies adopted by a negotiator may affect the negotiating party's final offer and his or her perception of fairness and may finally lead to a better outcome. In view of this, this study considers the influence of concession timing strategies adopted by the tax audit officer who acts on behalf of tax authority on the tax practitioners' level of aggressiveness during tax audit negotiation. This study focuses on tax practitioners' responses to a tax audit officer's concession timing strategies since the majority of taxpayers prefer to appoint tax practitioners to liaise with tax audit officers during tax audit period on their behalf. This study adds to the extant literature such as Erard (1993), Hite and Hasseldine (2003) and Leviner (2012) in respect to the effect of the aggressive behaviour against the willingness of declaration of tax by taxpayers or tax practitioners. Erard (1993) and Hite and Hasseldine (2003) have explained the role of tax practitioners as representatives of their clients, the taxpayers. Taxpayers prefer to appoint tax practitioners to handle their tax affairs in order to avoid a tax audit and the tax adjustments resulting from the tax audit. The study of Hite and Hasseldine (2003) used archival tax returns to analyze the aggressiveness of tax practitioners. As qualified tax practitioners have more tax knowledge to assist their clients with the preparation of tax returns and to liaise with tax authority, the returns prepared by tax practitioners have significantly fewer audit adjustments and penalty assessments, compared to those prepared by the taxpayers without assistance from tax practitioners.

In addition to the above studies, Leviner (2012) also commented that taxpayers, whether they are aggressive or passive, are likely to agree with a tax practitioner's advice. In his empirical research, he found that taxpayers rely heavily on tax practitioners and that tax practitioners could be a source of aggressiveness in the tax planning of taxpayers. Tax practitioners may advise their clients to adopt a more aggressive approach in tax planning or other tax affairs. In addition, tax practitioners

may also encourage their clients to disagree with any proposed tax adjustments from tax audit officers during a tax audit. Therefore, an understanding of tax practitioners' behavior can help to prevent the non-compliance of taxpayers by reducing their aggressiveness (Doyle et al., 2014; Frecknall-Hughes et al., 2016).

Thirdly, many tax studies (Murphy, 2004; Wenzel, 2003) have found that perceptions of fairness (i.e., distributive justice and procedural justice) are very important to improve voluntary compliance in taxation. Thus, this study adds to the existing literature by examining the role of fairness in the context of tax audit negotiations. If tax authorities apply the appropriate negotiation strategies in the tax audit process, tax audit cases can be finalized in a shorter period of time. Otherwise, if taxpayers or tax practitioners perceive that the negotiation strategies adopted by the tax authorities are unfair to them, they may aggressively delay paying their taxes by obtaining aggressive tax planning advice from tax practitioners.

The study conducted by Murphy (2004) provides an understanding of the aggressive behaviour of taxpayers or tax practitioners and their reaction to the tax process and procedures. Taxpayers prefer to adopt the aggressive tax advice of tax practitioners if they feel they are treated unfairly by the tax authority when they are caught and punished for tax offences. The findings of this study may also provide insights for the tax authorities on the most appropriate strategies to reduce the tax practitioners' level of aggressiveness.

In addition to the above theoretical contributions of this experimental study, its results also provide policy contributions on negotiations in tax audits for the tax authority and the tax practitioners. It helps to identify an appropriate negotiation strategy to be adopted by the tax audit officer to improve the tax audit process and subsequently prevent tax loss to the country. The experimental results may also become

a reference for the tax authority by identifying the proper procedure to govern tax audit negotiations between tax audit officers and tax practitioners. If a tax audit officer intends to consider waiving tax adjustments in view of unclear tax laws, appropriate tax process and procedures are required to handle the waiver so that taxpayers or tax practitioners will view the tax process and procedures as fair. This study also identifies the concessionary strategies that influence a tax practitioner's level of aggressiveness, and can, thus, reduce the negative effect of aggressiveness on tax audit negotiations and improve their outcomes.

Finally, this study provides references for tax authorities to establish tax audit negotiation procedures and internal policies to deal with aggressive taxpayers and to monitor the influence of tax practitioners on taxpayers. Normally, tax practitioners have a better understanding of the negotiation strategies adopted by tax audit officers during a tax audit period so they are able to assist their clients to resolve a tax audit case more quickly.

1.8 Conclusion

This chapter has explained the importance of negotiations in taxation, especially in tax audits, which can resolve the dispute between tax audit officers who act on behalf of tax authority and taxpayers or tax practitioners appointed by the taxpayers. This chapter also explained how tax audit negotiations are carried out at the international level and in Malaysia. Based on the gap identified from the literature and practical issues, the research questions and research objectives were developed and presented. The chapter also introduced the theories to be adopted for concessionary strategies, reciprocity and anchoring.

This experimental study examines the effect of concession timing strategies adopted by tax audit officers during tax audit negotiation on the tax practitioners' final proposed

offer on proposed tax adjustments, as well as on their perception of fairness and on their level of aggressiveness. Based on the available literature, some reciprocity-based negotiation studies between auditor-client have been cited. However, those studies can only be applied to taxation to a limited extent. In addition, tax audit officers may not intend to maintain a long term relationship with taxpayers as tax audit is not repeated every year. Moreover, there is a lack of studies on the negotiation model between the tax audit officers and the tax practitioners, who act on behalf of the taxpayers.

University of Malaya

CHAPTER 2: LITERATURE REVIEW

This chapter explains the auditor-client negotiation-oriented model developed by Kleinman and Palmon (2000) on the perception and reaction of auditors in view of their expectations and the pressure exerted by their clients. Based on this negotiation-oriented model, the chapter extends the same principles to a tax negotiation model between tax audit officers and taxpayers or tax practitioners. Current tax literature (Frecknall-Hughes & Kirchler, 2015; Huang & Yu, 1997; Park & Hyun, 2003; Smith & Stalans, 1994) have mentioned that negotiation always takes place in taxation, especially during a tax audit period but there is a lack of study to explore this area.

This chapter further explains the negotiation theories, reciprocity and anchoring effects when concessionary negotiation strategies are adopted by negotiators during the negotiation process between auditor-clients or buyer-sellers in the relevant studies. The influence of concessionary negotiation strategies (through reciprocity and anchoring effects) on the negotiating parties' final offers are also discussed in this chapter as well as the effect of concessionary negotiation strategies in relation to the perspective of fairness between negotiating parties, and the resulting aggressive behavior among negotiating parties.

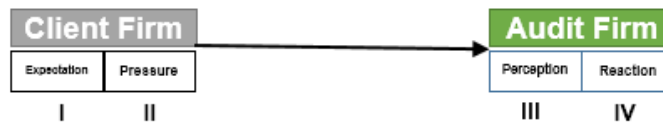
2.1 The Auditor-Client Negotiation-Oriented Model

Negotiation assists in the resolution of disagreements between auditors and clients on financial statements, disclosure notes, fees and the scope of an audit. It is important for auditors to understand their ability to maintain a good relationship with their clients while preserving their independence. The latter is important because the public relies on auditors' opinions for the reliability of the financial statements. In relation to the former, Kleinman and Palmon (2000) commented that auditors realize that more than one half of their revenue is generated from performing consultancy services to clients or non-

clients, as compared to their statutory audit services which are required under the law. The studies of Antle and Nalebuff (1991), Bame-Aldred and Kida (2007), Brown and Johnstone (2009), Brown and Wright (2008), Kleinman and Palmon (2000), Trotman et al. (2005) and Trotman, Wright, and Wright (2009) have all highlighted that poorly conducted negotiations between auditors and clients may cause conflict between them, and eventually the auditors could lose their clients.

In the empirical studies conducted by Kleinman and Palmon (2000), Brown and Wright (2008), Bame-Aldred and Kida (2007) and Trotman et al. (2009) on the auditor-client relationship, the researchers found that negotiation becomes necessary because of the different goals of the negotiating parties. If clients disagree with their auditors, they may pressure them, and their auditors may make compromises in order to maintain a long-term relationship with them.

In this study, the auditor-client negotiation model developed by Kleinman and Palmon (2000) is based on prior theoretical work and explains the interaction between auditors and their clients. It also highlights the response of both parties' during the negotiation process such as expectations, reactions and perceptions. Next, this negotiation-oriented model highlights the dynamics of the negotiation process between auditors and clients. The relationships between the two firms, the audit firm and the client firm has four characteristics which include maintaining a long term relationship between both parties, frequent interaction between both parties, both parties expecting reciprocity during the negotiation process, and finally, both parties being bound by law (i.e., complying with the statutory requirements). Please refer to Figure 2.1 for the auditor-client negotiation-oriented model. The characteristics of the model are similar to tax audit negotiation which will be discussed in Section 2.2. The factors that influence the auditor-client relationship are elaborated in the next section.



- I – Expectations on auditors, e.g. general societal norms for auditors, previous experience with audit firm
 - II – Pressure on auditor for economic and other reasons
 - III – Perception
 - IV – Reaction
- } Depend on organisational culture and personality characteristics, management decision

Figure 2.1: A Negotiation-oriented Model of Auditor-client Relationships

Source: Page 24, Kleinman and Palmon (2000)

2.1.1 Expectations and Pressure from the Client Firm

Based on their study, Kleinman and Palmon (2000) found that clients' expectations of auditors may be influenced by their own previous experience with audit firms or the experience of others in the industry with audit firms. Nevertheless, a client's perception of audit firms and of an audit firm's reaction is mediated by the audit firm's organizational culture and the client's personality. The organizational culture of a firm is determined by its history and values. Authoritarian decision-makers in firms prefer to adopt a negotiation style that is consistent with their values and will achieve the solution they desire.

The characteristics of a client's personality are different and these influence their perceptions of the audit firm and their response to them through the use of different negotiation styles. If the clients are self-centered, they will adopt an aggressive style to push their own needs forward, without considering the interests of others. In the event that clients disagree with their auditors, they may pressure them and the auditors may feel a need to compromise in order to maintain a long-term relationship with the client.

However, the clients may not be aware that their requests are not legally feasible. On the other hand, clients who show concern for others may adopt accommodating or compromising styles and sacrifice their own interests in order to reach an agreement between the negotiating parties. This is considered to be a concessionary style of negotiation. Brown and Wright (2008) found that clients may behave competitively with their auditors during a negotiation process, even when their auditor would like to avoid conflict and accommodate the clients' pressure.

2.1.2 Perception and Reaction of the Audit Firm

Kleinman and Palmon (2000) also found that conflict between auditors and their clients, as well as the environment may affect the perception and reaction of an audit firm in a negotiation. Auditors may expect their clients to have conflicts with them, based on their own experience with these clients. In certain circumstances, auditors may choose to agree with their clients prior to any further action being taken by their clients in order to maintain a good auditor-client relationship. However, as there is no legal contract binding the auditors and their clients, the auditors may choose to reject their clients' proposals. A signed audit engagement letter is merely an agreement to set out both parties' duties and responsibilities during the audit period. However, auditors may consider accepting their clients' requests if they perceive that they are bound to the auditor-client relationship, i.e., they would like to maintain a long term relationship with them. Auditors are often tempted to compromise with their clients' requests if they notice that their clients are likely to change auditors. Herda and Lavelle (2013) found that auditors may compromise with their clients even though they feel clients treat them unfairly (e.g. fail to provide supporting documents or reply to queries on a timely basis, or fail to attend the proposed meeting with auditors) if they hope to continue the relationship with their clients and provide other value-added services.

Other than conflict between auditors and clients, Kleinman and Palmon (2000) mentioned that the environment also affects the auditor-client relationship, and this environment exists in several dimensions. Different organizational environments and the characteristics of the role of different parties may influence the behaviour of the negotiating parties. In this case, the parties, e.g., a government agency, audit firms, professional bodies or audit committees, have different beliefs about an audit firm's role. The parties who have stronger beliefs may pressure the auditor to match their expectations in order to win the auditor's compliance and achieve their target. If auditors know that the risk of being barred by the relevant authority is high, they may forego their clients wishes in order to survive. In a stable environment, clients normally expect their auditors behave in a way similar to their previous behavior. If clients behave differently owing to the changes in their environment, the auditors may behave more cautiously than they did previously.

Bame-Aldred and Kida (2007) also conducted a study of auditors and clients, specifically on their initial negotiation positions. Bame-Aldred and Kida (2007) collected data from 71 professional auditors and experienced financial managers. They adopted a revenue-recognition conflict case to assess the flexibility of auditors or clients and their perceptions of the negotiating party (i.e., the auditors or the clients) in an auditor-client negotiation. The difference in the goals of the negotiators causes conflict between them. Auditors are more conservative, compared to clients who wish to report higher income. In view of this, it is important to understand the perceptions of the negotiators in order to achieve a better outcome. They found that auditors' perceptions and reactions are different from their clients' when they are negotiating. Their study result indicates that auditors are less flexible than clients and worse in forecasting the expectations of other the party.

In conclusion, the expectations and the pressure exerted by clients may not be commensurate with the perception and reaction of the auditors in response to their clients' requests. Studies that examined the mismatch between these two parties are equally important in providing guidelines for successfully resolving disputes between these two parties. Auditors should understand the expectations of their clients so that they can maintain a good relationship with them, whereas clients may want to seek ways to influence the reactions of their auditors so that they comply with their expectations. As mentioned on Page 5 of Chapter 1, this study is focussed on the negotiation process between the tax authority and the tax practitioners. The following section discusses how the auditor-client negotiation model is applicable in taxation negotiations.

2.2 The Tax Negotiation Model

Negotiation plays an important role in achieving resolutions between conflicting parties and improving the eventual agreement in auditing and taxation. Frecknall-Hughes and Kirchler (2015) provides insight of the interaction between the tax authority, taxpayers and tax practitioners in their empirical study but they do not explain the negotiations between the tax authority and tax practitioners or taxpayers during a tax audit period from practical perspective, although these negotiations inevitably take place. In their study, they highlighted there are three stages in the negotiation process and different tactics were adopted by negotiators based on the empirical studies. They also examined the theories which are suitable to apply in tax negotiation and they found that negotiation theory can fit into tax negotiation well. However, they do not analyse the response and the perception of both parties in detail.

The negotiation diagram of Frecknall-Hughes and Kirchler (2015) is different from Kleinman and Palmon (2000), Tan and Trotman (2010), Kwon and Weingart (2004) or

other negotiation studies. For example, the auditor-client negotiation-oriented model of Kleinman and Palmon (2000) provides an understanding of the interaction between auditors and clients. They explain the negotiation process between these two parties, which are influenced by organizational, environmental and other relational elements. They highlighted four important elements (i.e., expectation, perception, reaction and pressure) on the interaction of the negotiating parties. An important outcome of the auditor-client negotiation model is audit adjustments.¹ In summary, Kleinman and Palmon (2000) provides some insight on how negotiation are conducted between two negotiating parties during audit period, where a reciprocal relationship is expected between the parties and leads to counter response. This is similar in negotiations on taxation.

The negotiation between tax audit officer and tax practitioners or taxpayers concerns negotiation on the reduction or elimination of proposed tax adjustments. Huang and Yu (1997) mentioned that negotiation does take place between a tax audit officer and a taxpayer or his representative, a tax practitioner in order to reach a mutual agreement before the finalization of tax audit findings. Normally, negotiation takes place after the tax audit visit, and tax audit officers then notify the taxpayers of their findings. During the tax audit period, the tax audit officer contacts the tax practitioners or taxpayers to discuss the tax audit findings after their examination of the taxpayers' accounting records and other supporting documents. The tax practitioners or taxpayers may then present their supporting documents and the tax audit officer may waive some of the proposed tax adjustments, subject to the relevant tax laws and regulations, which are in line with their view. In view of this, the process of negotiation between tax audit

¹ Although taxpayers or tax practitioners prefer to accept lower taxable profit offered by tax audit officers in order to pay lower taxes, this is different from auditors' clients who prefer to accept that a higher profit is disclosed in their financial statements.

officers and tax practitioners or taxpayers is somewhat similar to the negotiation between auditors and their clients.

The auditor-client negotiation model is also suitable for application to the negotiation between tax audit officers and taxpayers or tax practitioners in view of the different power allocations between them (Smith & Stalans, 1994). In taxation, tax audit officers are the representatives who act on behalf of regulators, who have higher authority. Studies, such as Dwyer and Walker Jr (1981) and Herbst, Voeth, and Meister (2011) found that negotiators with different power allocations behave differently in negotiations. Herbst et al. (2011) commented that a weaker negotiator, who has a lower power allocation during the negotiation process may be forced to compromise with a stronger negotiator who has a higher power allocation. Herbst et al. (2011) also commented that Dwyer and Walker Jr (1981) had differentiated the weaker and stronger negotiating parties based on eight variables, which include initial bid, amount yielded and number of offers. Dwyer and Walker Jr (1981) indicated that stronger negotiators are more demanding at initial bid, earn less profit from their initial position (i.e., high initial bids) and are faster in obtaining an acceptable agreement. However, the weaker negotiators need more communication in order to obtain agreement from other parties.

Nevertheless, Frecknall-Hughes and Kirchler (2015) mentioned that tax negotiation may differ from other negotiations (e.g. auditor-client) where tax audit officers may not maintain a long-term relationship with taxpayers or tax practitioners as auditors do. Tax audit officers may appear to be more powerful during tax negotiation, but this is not always the case and depends on the nature of the negotiation and the issues involved. Moreover, a tax practitioner may deal with a tax audit officer for one or more of their clients for different issues or similar subjects.

2.2.1 Expectations and the Pressure of Taxpayers or Tax Practitioners

As mentioned in Section 2.1, the auditor-client negotiation model seeks resolution of disputes between the negotiating parties, and clients may behave aggressively in order to force auditors to accept their proposals. This is the same in taxation, in which tax practitioners who act on behalf of the taxpayers may behave aggressively when dealing with tax audit officers prior to reaching a mutual agreement between the parties. Tax practitioners or taxpayers may behave aggressively when they think that the tax audit officer may not treat them fairly. Hanlon, Hoopes, and Shroff (2014) highlighted that the taxpayer or tax practitioner may take the view that tax audit officers are unfair to them since they are unwilling to make concessions. Tax practitioners or taxpayers are willing to take a longer time to appeal or argue with the tax authority in order to gain acceptance of their counteroffer.

2.2.2 The Perception and Reactions of the Tax Audit Officer

From a tax perspective, negotiation in a tax audit between a tax audit officer and tax practitioners or taxpayers also depends on the situation and the experience of the tax audit officers in negotiations with tax practitioners or taxpayers. Based on a survey conducted by Feld and Frey (2002), taxpayers are willing to pay taxes if the tax audit officers treat them with respect. Otherwise, if tax audit officers force them to pay taxes without providing them with the proper reasons, the tax practitioners or taxpayers tend to respond aggressively by trying to avoid paying the taxes. Taxpayers or tax practitioners prefer tax audit officers to adopt transparent and clear procedures to handle their tax cases. If the taxpayers feel that they are being treated with respect and that the tax audit officers are treating them as a partner, they are more willing to pay their taxes. On the other hand, Erard (1993) noted that licensed tax practitioners are more aggressive than unlicensed tax practitioners in the USA, as they are able to act on behalf

of their clients in tax meetings and court hearings with the tax authority since licensed tax practitioners have more freedom in terms of the range of tax services that they can offer to taxpayers.

In taxation, Feld and Frey (2007) mentioned that a tax audit officer may have the mindset that taxpayers purposely under-report their income and they suspect that it is the taxpayers' intention to cheat.² In addition to the above, Feld and Frey (2007) also commented that a tax audit officer may give the tax practitioners or taxpayers the benefit of the doubt and give them a chance to prove their claims in the submitted tax return. In this circumstance, tax audit officers do their best to be fair to tax practitioners or taxpayers. Although tax practitioners or taxpayers may not be able to convince a tax audit officer to accept their tax treatment, they still prefer to negotiate with same tax audit officer in the future. Feld and Frey (2007) also reinforced the idea that the negotiation strategy adopted by the tax audit officer is equally important when that tax audit officer tries to liaise with them to try to find the reason for their mistakes and they appreciate the tax audit officer's efforts. However, if the interaction between the parties is not smooth throughout the tax audit process, there may be an increase in the level of their aggressiveness.

Sometimes, taxpayers or tax practitioners do behave aggressively in order try to reduce the amount of tax audit adjustments proposed by tax audit officers and make counteroffer to tax audit officers (Doyle et al., 2014). Doyle et al. (2014) further

² Based on the interview results with tax audit officers from the IRB in Section 4.1.1 of Chapter 4, tax audit officers may respond differently, based on their own experience, to a the counteroffer made by tax practitioners or taxpayers after they have had a technical meeting with the internal technical department. The tax audit officer may disagree with the tax practitioners' viewpoint and may proceed to issue the notice of assessment to them without concern for their potential response. The reaction of tax audit officers may affect the perception of fairness and the level of aggressiveness of the tax practitioners or taxpayers and their final offer on the tax adjustments proposed by the tax audit officers. In this event, a tax audit officer's negotiation strategies and reaction towards the counteroffer of the tax practitioner may affect tax practitioners' perception of fairness and their level of aggressiveness.

commented that tax practitioners adopt an aggressive approach if they feel the clients (i.e., big multinational companies) are important to them.

2.3 Concessionary Strategies in Negotiation Studies

Some negotiation researchers have conducted studies on the tactics of negotiation, negotiation behavior, and other factors, such as negotiation process and judgment bias (Bame-Aldred & Kida, 2007; Bazerman & Chugh, 2005; Steinel et al., 2008; Trotman et al., 2005). Those studies include the negotiations between auditors and clients, and buyers and sellers, and include two- or multi-party negotiations.

In the past, negotiation studies focused on identifying a suitable negotiation strategy to achieve a win-win situation. When the negotiating parties bargain on a valuable item, concessions are always expected to happen. Negotiators start from an opening offer and continue until they reach mutual agreement between both parties (Kwon & Weingart, 2004). Kersten, Wachowicz, and Kersten (2016) further commented that negotiations appear to be more efficient if they rely on unverified information and there are no specific rules for the negotiating parties to force another party to make concessions. Negotiators are advised to provide justification if they cannot accept the counteroffer of the other parties.

Normally, negotiating parties make offers or counteroffers during the negotiation process after they have received the first offer from the negotiator. Different negotiators may adopt different negotiation strategies, which influence the other parties and the outcome of the negotiations. An empirical analysis was conducted by Herbst et al. (2011) on buyer-seller negotiations in marketing research. The study found that the negotiators exchange offers and counteroffers in order to achieve a compromise solution (i.e., a contract or an agreement). This is known as a 'concessionary strategy' in negotiations. Pruitt (1981), Page 19 defined "a concession as a change of offer in the

supposed direction of the other party's interest that reduces the level of benefit sought". Basically, a concession strategy is used when a negotiator offers a concession when the other party is opposed to the opening offer in the negotiation and the negotiator hopes to settle and reach a mutual agreement. Pruitt (1981) further explained that concessions vary and the demand level declines over time. They can be offered early, gradually or late in the negotiation.

Vetschera, Filzmoser, and Mitterhofer (2014) describes the concession-based negotiation process in their study. In a negotiation process, negotiators may start with an extreme opening offer. Both parties may continuously make concessions during the negotiation period until both parties reach a joint agreement. They highlighted the requirements for a concession-based negotiation process: concession-making, reciprocity and value creation. Concessions are an important ingredient for a negotiation. Concessions made by a negotiator should reciprocate the concessions received from the opponent. Finally, at the value creation stage, the negotiators will compare the loss they obtain during concessions making with their negotiating parties with the gain of the opponent.

Other than concession strategy, the timing of concession strategy also may affect the valuation of the object and the satisfaction of negotiating parties. This was confirmed by the experimental study conducted by Kwon and Weingart (2004). They conducted an experiment on 132 undergraduates and the participants were required to respond to a pre-set negotiation scenario. They found that the concession timing strategies adopted by a seller influence the buyer's satisfaction of the outcome and valuation of the objects. As a buyer in the experiment, the participants indicated negative response to Concession Start. However, the participants indicated a positive response to Concession Gradual

and Concession End. Nevertheless, the participants replied that they were not satisfied with their negotiating party under Concession End.

Kwon and Weingart (2004) further explained that the different responses received from the participants under different concession timing strategies are the result of the perception of fairness. The participants perceived that the outcome that they obtained under Concession Start is less fair to them, especially from the perspective of distributive justice. Similarly, for those who under Concession End, the participants also indicated unwillingness to negotiate again with the seller since the seller was unable to reciprocate or make concessions during the negotiation process. The participants may not look forward to dealing with that seller again. However, the participants felt that they have been treated fairly under Concession Gradual as the seller was willing to make concessions.

2.3.1 Concessionary Strategies in Auditor-Client Negotiation

Negotiation between auditor and their clients is common in view of unclear or non-existent of accounting standards or regulations. As mentioned in Section 2.3, concessions always happen if negotiators are bargaining on valuable items and the final objective is a win-win situation (Kwon & Weingart, 2004). An auditor-client study conducted by Tan and Trotman (2010) found that concessions happen when an auditor's initial demand is higher than the final amount agreed by their clients' management. In auditing, the absence of the proper guidance or accounting standards may result in ambiguity or a different interpretation of accounting standards between auditors and their clients. Although the concession strategy may not be appropriate, auditors still adopted concession strategy to resolve the dispute between themselves and their clients as they found that their clients are more likely to accept with their proposal if they have adopted this strategy.

Brown and Wright (2008) conducted an empirical analysis on the negotiation research in the auditing discipline over the past twenty-five years. Generally, those negotiation studies focussed on the negotiation process and the factors which contribute to successful auditor-client negotiation at stages of pre-negotiation, negotiation and outcome. The negotiation strategies adopted by auditors during auditor-client negotiations are important and may influence the reactions of the negotiating parties.

Further to the experimental conducted by Kwon and Weingart (2004), the auditor-client negotiation study conducted by Tan and Trotman (2010) commented that concessions take place during negotiations when an auditor's initial demand is higher than that which is finally agreed by the clients or their management subsequent to the negotiation process. Initial demand refers to an income-decreasing audit adjustment proposed by an auditor at the beginning of an auditor-client negotiation. In their study, they found that clients always expect some concessions and an auditor usually offers concessions during the negotiation process. They studied how the timing of the concessions offered by an auditor can affect the financial officers' judgment on the final offers. Auditors may adopt different concession strategies in order to attract the attention of their clients at the start of the negotiation, seeking for positive effects on the negotiation outcome and thus, maintaining the auditor-client relationship. Auditors may start with a significant audit adjustment and other inconsequential audit differences, which may be waived by the auditors after the negotiation as a means of comforting their clients. Auditors usually give their clients a chance to negotiate and then they concede the higher write-down so that their clients believe that their proposed audit adjustments are appropriate and comply with current audit regulations.

Tan and Trotman (2010) adopted four concession timing strategies in their study, i.e., Concession Start, Concession Start+1, Concession Gradual and Concession End. Their

experiment on auditor-client negotiation also indicated at similar result with Kwon and Weingart (2004) in which the participants indicated negative response under Concession Start and Concession Start+1.³

In the empirical research of Brown and Wright (2008), one of the negotiation strategies adopted by the researchers in the auditing discipline is concessionary (lose-win). A concessionary strategy may provide an avenue for negotiators to make counteroffers that result in a “lose-win” outcome. In auditing, a concessionary strategy is one of the negotiation strategies to be adopted by inexperienced auditors if they want to maintain their relationship with their clients. In this circumstance, clients feel that their auditors are more reasonable if they adopt a concessionary strategy. Brown and Wright (2008) found that if auditors adopt a concessionary strategy during the negotiation process, their clients are more cooperative throughout the negotiation process on the proposed audit adjustments. Finally, they realise that the outcome of a concessionary strategy may favor the other party. This strategy is more focused on the wishes of other party than on the negotiator who has initiated the negotiation.

Negotiation studies have indicated that the negotiation strategy adopted by negotiators who initiate the negotiation process may affect the response of other party. Furthermore, a concessionary strategy is one of the negotiation strategies which are preferred by negotiators because they tend to improve the negotiation results and enable mutual agreement between negotiating parties. The behaviors of two negotiating parties that use the concessionary strategy are further illustrated in the following section, which discusses reciprocity and the anchoring effect of this type of strategy.

³ Nevertheless, the tax audit officers from the Inland Revenue Board Malaysia (IRB) highlighted during the interview sessions that there are two concession strategies adopted by them during tax audit negotiation, i.e., Concession Gradual and Concession End in view of the practical issues. Please refer to Section 4.1.1 of Chapter 4, page 89. According to the tax audit officers, they will not make concessions at the beginning (i.e., Concession Start+1) or before the tax audit negotiation start (i.e., Concession Start).

2.4 Reciprocity and the Anchoring Effect

Reciprocity and anchoring influence the negotiating parties in a concessionary strategy (Tan & Trotman, 2010). As mentioned in Section 2.3, reciprocity is an essential ingredient for concession strategy. Vetschera et al. (2014) highlighted that a concession-based negotiation process must involve reciprocity and anchoring effects, in which negotiators make an initial offer and their negotiating parties treat it as an anchor for them to make counteroffers along the concession making process. As explained by Kwon and Weingart (2004) and Tan and Trotman (2010), concession timing strategies may affect the fairness perception of the negotiating parties. The negotiating parties view that a negotiator who rarely reciprocates and make concessions is not fair to them.

In taxation, Frecknall-Hughes and Kirchler (2015) commented that tax practitioners also seek for any possibilities to make concessions when they negotiate with tax audit officers during the tax negotiation process. They may interpret ambiguous situations in favor of their clients, the taxpayers. The tax practitioners' level of aggressiveness may increase if the level of ambiguity of a particular tax issue is greater.

During the negotiation process, negotiators are expected to make their first offer. Galinsky and Mussweiler (2001) commented that this first offer is very important. A negotiator who made the initial or first offer will obtain a better outcome. The first offer may become a predictor for final settlement of the negotiation. Three experiments conducted by them in their study and their experiment results indicate that final agreement favors the negotiator who makes the initial or first offer. In view of this, it appears that first offer may affect the negotiation outcome as first offer acts as an anchor for the negotiating parties to make their counteroffer. This is also supported by English (2016). Vetschera (2013) also commented that the initial offer is an essential element to the adoption of a concession strategy in the negotiation process.

Nevertheless, the level of the first offer made by a negotiator may be influenced by his or her preferences. The factors which influence negotiators to decide on the size of concessions made are important as this may affect the final offer to be made by negotiators or to be expecting for further concession making.

The following sections elaborate further on reciprocity and anchoring effects and their roles in negotiation.

2.4.1 Reciprocity Effects

Falk and Fischbacher (2006) introduced reciprocity as a behavioral response towards kindness and unkindness. It helps to determine human behavior, based on the results of experiments and questionnaire studies. The strategy of reciprocity negotiation is further elaborated by other researchers (Cox, 2004; Göbel, Vogel, & Weber, 2013; Hatfield et al., 2008; Sanchez et al., 2007; Sethi & Somanathan, 2003; Tan & Trotman, 2010). According to Hatfield et al. (2008), the rule of reciprocation is that if individuals receive something that is valuable to them, they are expected to reciprocate. Thus, reciprocation helps to improve collaboration between negotiators. Likewise, if one party makes a concession in his/her initial offer, the other party will reciprocate with concessions. Kwon and Weingart (2004) highlighted that concessions always expected during the negotiation process and it is rare that the initial offer is fixed throughout the negotiation period.

In the study of Hatfield et al. (2008), auditors prefer to adopt a reciprocity-based negotiation strategy when they encounter competitive negotiators or are under pressure to maintain their relationship with their clients. Auditors feel that they are able to manage their clients' pressure either to waive or to reduce the proposed audit

adjustments if they adopt a reciprocity-based strategy and can improve the quality of the financial statements at the same time.

Similar to Hatfield et al. (2008), Tan and Trotman (2010) perceived a reciprocity mechanism as 'give and take' cooperation when the negotiating parties reciprocate and make counteroffers in response to a concession received from the other party. They also mentioned that there is a positive bargaining zone (i.e., when concessions are possible) between the negotiating parties who are willing to reciprocate. A negotiator can either make offers gradually during the negotiation period (Concession Gradual) or at the end of negotiation process (Concession End). Concessions made between the auditor and the financial officer indicate attempts at active negotiation between the parties on a proposed audit adjustment. Their study indicated that the Concession Gradual timing strategy is the most effective strategy for attracting reciprocation between the negotiating parties and achieves a better negotiation outcome. They found that their respondents were more willing to reciprocate when the first party initiates the negotiation and they are then able to reduce their offers more gradually than when other concession timing strategies are used.

In addition to Hatfield et al. (2008) and Tan and Trotman (2010), an empirical study conducted by Göbel et al. (2013) has summarized studies on reciprocity from a management perspective. They have described reciprocity as an interaction with mutuality and a reaction from the other party. In their study, they found that a reciprocity-based negotiation strategy (i.e., concession strategies) helps to resolve conflicts between the negotiating parties. The reciprocity procedures, give, take, reciprocate and gain provide an avenue for negotiators to maximize their bargaining during negotiation process. Based on their findings, reciprocity is an important strategy

in management, improving the negotiation process and the outcome of a negotiation with great effectiveness.

Based on the empirical study conducted by Agndal (2007), many researchers have recognized the importance of making first offers (Galinsky & Mussweiler, 2001; Van Poucke & Buelens, 2002). The first offer may be influenced by the negotiating parties' experience and by their expectations. These researchers commented that a negotiator who makes the first offer is able to achieve the best outcome after negotiation. During the negotiation process, an opening offer is normally met with a counteroffer at the initial bargaining stage of a concessionary strategy.

In taxation, different negotiating strategies may be adopted by tax audit officers or taxpayers during the tax audit period to resolve tax disputes arising from the tax audit findings. Smith and Stalans (1994) conducted pre-audit interviews with tax audit officers and taxpayers on the negotiating strategies they adopted to resolve tax disputes during the tax audit period. They found that tax audit officers prefer to adopt 'hold firm' negotiation strategies in order to apply the correct tax treatment for a tax deduction. On the other hand, taxpayers prefer that the tax audit officers adopt negotiating strategies based on cooperation. They even hope that tax audit officers will reciprocate throughout tax audit period to resolve the tax issues they have raised. In view of this, the negotiating strategies currently adopted by tax audit officers (i.e., cooperate, actively assert and hold firm) are not suitable to handle conflict between tax audit officers and taxpayers.

2.4.2 Anchoring Effects

Another aspect of a concessionary strategy is anchoring. In negotiation, the most recent offer made by a negotiator becomes an anchor for other party to make their

counteroffers. The empirical study of Agndal (2007) mentions that certain researchers recognize the importance of anchoring during negotiation (Furnham & Boo, 2011; Kristensen & Gärling, 1997, 2000; Ku, Galinsky, & Murnighan, 2006). It provides a stage for the negotiating parties to make offers and counteroffers. Normally, anchor points affect the counteroffers made by other parties. In the event that a negotiator perceives that his or her initial offer is a gain, he or she might make fewer offers. The anchor point of a negotiator tends to be high if he/she perceives making a gain in subsequent counteroffers.

Phillips and Menkhaus (2010) examined the impact of anchoring from different parties' perspectives: i.e., the seller and the buyer. They highlighted the advantages of anchoring in a negotiation process, and suggested that it may influence the subsequent bargaining between a buyer and a seller. Their study highlighted the influence of anchoring when a strategy of "anchor-and-adjust" is adopted by an individual. He may change his mind based on the value on the anchor given to him for consideration. Phillips and Menkhaus (2010) noted that buyers and sellers view anchors differently. Normally, an individual buyer would like to set the anchor below the reported price. However, an individual seller prefers to offer a price that is above average.

Tan and Trotman (2010) also explained the anchoring effects in an auditor-client negotiation. Their study found that anchors may affect the counter-party's offers and the outcome of the negotiation. Anchoring also influences a concessionary strategy in terms of the magnitude of the most recent offer made by the other party. In their study, Tan and Trotman (2010) indicated the different levels of the anchoring effect. For example, Concession Start means that concession starts before the negotiation starts and has a lower anchor (for the negotiating party to make counteroffer) as compared to other concessions. In the Concession End negotiation strategy, auditors also maintain the high

offer made at the beginning of the negotiation process and only lower their offer at the end of the negotiation. However, in a Concession Gradual negotiation strategy, the magnitude of concessions decreases gradually throughout the negotiation process. Based on the results of Tan and Trotman (2010), there is no significant difference between the response from the participants under Concession Gradual and Concession End. Since the tax audit officers from the IRB confirmed that Concession Gradual and Concession End were the concession strategies and adopted by them during the tax audit negotiation period, further investigation is required on the difference between these concession strategies in tax context.

2.4.3 The Joint Effect of Reciprocity and Anchoring

Tan and Trotman (2007) examined the joint effect of reciprocity and anchoring mechanisms. They found that these two mechanisms jointly influence the negotiation judgments of negotiators. They commented that these two mechanisms do not override one another. The two mechanisms, reciprocity and anchoring, work together to improve the negotiation process. A negotiator may reciprocate and make a counteroffer during a negotiation process in order to obtain his desired result. At the same time, he views the most recent offer as an opportunity for the other party as an anchor to make a counteroffer, until both parties reach a mutual agreement. Tan and Trotman (2010) commented that it is difficult to ascertain whether reciprocity or anchoring is dominant. There is no theory to confirm whether one of these mechanisms has a larger effect than the other. However, both mechanisms are seen as influencing the concessionary negotiation strategies adopted by auditors during the auditor-client negotiation process and both mechanisms carry equal weight in influencing negotiation judgments.

In conclusion, a negotiator can either make offers gradually or at the end of the negotiation process. The negotiator reciprocates and expects the other party to make

counteroffers. The most recent offer can be used as an anchor on which to base a counteroffer until the negotiator and the other party reach a mutual agreement.

Other than reciprocity and anchoring effects, Pruitt (1981) highlighted that different concession strategies may lead to a different negotiation outcome. He mentioned that too large concessions may cause negative outcome. On the other hand, too small concessions seem better and are able to obtain a favorable outcome that is agreed by the negotiating parties. However, it may incur additional costs as both parties are required to go through many rounds of negotiation to reach a mutual agreement. Filzmoser, Hippmann, and Vetschera (2016) in a later study, found that the emotions of negotiators may influence the concessions making. If a negotiator has negative emotions, resulting in a feeling of unfairness, they may behave defensively and reject the counteroffer of other party more often as compared with a negotiator with positive emotions who prefers to accept the concessions made by the opponent.

In taxation, the tax authority, taxpayers and tax practitioners are bound by the tax laws and regulations. The concessions made by negotiating parties during a tax audit negotiation period may require complying with the existing laws and regulations and may not be only affected by negotiators' preferences or emotions. Therefore, further study is required to explore the cause of tax practitioners making a large or small final offer and deciding on whether or not to try to negotiate further.

2.5 Concessionary Strategies and Negotiation Outcome

The negotiation strategies adopted by a negotiator may influence the response of the other negotiation party (Bame-Aldred & Kida, 2007; Trotman et al., 2005; Tse, Trotman, & Cheng, 2012). According to Agndal (2007), outcomes are measured in economic or mathematical terms, and their objective is to end in agreement. They are affected by happiness, efficiency and how the outcome of the negotiation is reached in

an integrative or a distributive agreement. Integrative agreement refers to non-zero-sum bargaining and provide the opportunity for the negotiating parties to achieve gain. Distributive agreement involves the allocation of fixed sums of goods or resources among the negotiating parties (e.g. selling of a used car). Concessions in negotiation are used to achieve an outcome that satisfies the negotiating parties (Lewicki et al., 2010).

Vetschera et al. (2014) elaborates the relationship between concession strategies, reciprocity, anchoring and negotiation outcome. They mentioned that different concession strategies may have a different impact on negotiation outcome and the possibility to reach agreement. Different concession strategies may affect the satisfaction of the negotiation parties, who hope to either continue in the negotiation or leave the negotiation and maximize their gain. Their empirical studies also found that the large or small concessions made are affected by the opponent party's reciprocity. Negotiators may tend to make large concessions if the opponent party makes concessions, but small concessions if the opponent party makes unilateral large concessions during the negotiation process.

Various studies (Ros & Sierra, 2006; Spaho, 2013; Zachariassen, 2008) have shown that concessionary strategies lead to favorable negotiation outcomes. Zachariassen (2008) also noted the importance of understanding negotiation strategies. He conducted a study on the impact of different negotiation strategies on the negotiation setting in different buyer-seller relationships. He interviewed a focal firm (i.e., the initiator of international business transactions) with a number of suppliers and found that different negotiation strategies should be adopted in different relational settings to improve the outcome of different negotiations, Ros and Sierra (2006) found that the concession tactic is seeking for the desired level of an offer, decreasing in each step during the negotiation process until both parties achieve an arrangement they can both accept.

According to Spaho (2013), a concession tactic is the most important tactic to resolve the conflicts between negotiating parties and allows both parties to make concessions during the negotiation process. It also helps to create a good atmosphere for solving a problem.

Sinaceur and Neale (2005) also found that timing and threats occurring during the negotiation process may affect the concessions between the negotiating parties and jeopardize the effectiveness of the negotiation strategy. Adair, Weingart, and Brett (2007) found that negotiators have to consider the effect of concessions and the frequency of offers. Both of these help to achieve mutual agreement between negotiation parties. Thomas, Thomas, Manrodt, and Rutner (2013) also noted that the concession tactic helps to achieve a win-win result. They found that a concession strategy is always adopted by negotiators who prefer win-win situations to resolve a problem. Nevertheless, negotiators in win-lose situations also adopt concession strategies to force the negotiating parties to make concessions in order to improve the expected outcome from the negotiation and eventually, the satisfaction level of the negotiating parties.

Kwon and Weingart (2004) conducted an experimental study on the buyer-seller negotiation model. Their results indicate that Concession Gradual results in greater acceptance by the negotiation partner than Concession Start or Concession End. Johnson and Cooper (2009) also highlighted the role of making concessions in the negotiation process. Their laboratory experiment employing 148 students found that negotiators prefer to adopt the concession making strategy in negotiation settings, face-to-face meetings and using computer media. Their results indicate that concessions help to measure the reasonable acceptable degree where are the negotiating parties acted relatively consistently (i.e. may adopt cooperative style and start with a low first offer)

and this assists negotiators in achieving an agreement. Negotiators may become frustrated if the other party adopts a take-it or leave-it style without any reciprocation. These results are supported by another study conducted by Baarslag, Hindriks, and Jonker (2011).

Since the tax audit officers from the IRB adopted concession strategies during the tax audit negotiation period, further study may be conducted to explore the response of tax practitioners (e.g. frustrated and becoming aggressive during negotiation process) if the tax audit officers are adopting a take-it or leave-it approach which is examined in the existing studies.

2.5.1 Concessionary Strategies and Negotiation Outcome in Auditor-Client Negotiation

In auditor-client negotiations, Tan and Trotman (2010) defined the negotiation outcome as the final audit adjustment that the auditor is willing to accept. Financial officers who act on behalf of the auditors' client and who are dissatisfied with the negotiation outcome may refuse to continue the relationship with auditors. During the auditor-client negotiation process, auditors have the final say in the audit adjustments to be included in the firm's accounting records. On the other hand, the financial officers' final offers of proposed audit adjustments can only be interpreted as their own assessment of an acceptable audit adjustment. Therefore, the more the auditors' final proposed audit adjustment exceeds financial officers' final offers, the lower the financial officers' satisfaction with the proposed audit adjustment.

Tan and Trotman (2010) further explain that a concession timing strategy in a negotiation adopted by an auditor influences the final offers of the other party. They examined the financial officers' final offers of proposed audit adjustments by weighing

their acceptability in a auditor-client negotiation. They found that the greater the difference between the auditors' final proposed decrease in the declared income and the financial officers' offers, the lower the satisfaction level of the financial officers. They perceived that the concession timing strategies in negotiations (i.e., Concession Start, Concession Start+1⁴, Concession Gradual and Concession End) adopted by auditors affect the final offers of the financial officers. However, the effect of financial officers' offers at the final round of a negotiation does not significantly influence the negotiation outcome and the intention to continue the relationship. Their findings indicate the effect of reciprocity and anchoring as first-order (i.e., a consequence of an action) and second-order consequences (i.e., each consequence has another consequence) for adopting concession timing strategies in negotiations. If financial officers are dissatisfied with the negotiation outcome, they are less likely to continue the relationship with their auditors. However, auditors may be concerned about whether non-compliance with current audit regulations and rules might affect their future, but despite this, they want to maintain a good relationship with their clients.

Sanchez et al. (2007) also conducted an experimental study to investigate auditor-client negotiation. They examined the auditor-client negotiation process by investigating a concession strategy (i.e., high or low) by reference to the concessions adopted by auditors during a negotiation on proposed audit adjustments. A higher first offer may lead to higher concessions to be made by the opponent party and a lower first offer may lead lower concessions from the opponent party. Their experiments involved the auditors' negotiation strategy, the effect of a concession approach during the negotiation process and this strategy in a concession approach. The result of their experiments indicate that a concession approach results in better negotiation outcome (i.e., greater

⁴ Auditor provides a concession only after one round of negotiation with the financial officer.

disclosure of inconsequential audit differences) and better client retention, because it produces a collaborative environment that helps both parties (i.e., auditors and clients) reach mutual agreement. Clients appear to be more willing to accept significant income-reducing audit adjustment if the auditors adopt a concession approach. Clients behave less aggressively during the negotiation process and are more satisfied with their auditors' performance.

Tse et al. (2012) also studied the impact of negotiation strategies in multi-period negotiations. The focus of their study was the effect of concession timing (i.e., No Concession, Concession Gradual and Concession End). They found that auditors need to consider the impact of concession timing strategies as these may affect the effectiveness of the auditors in future negotiations. They support that concession timing strategies adopted by auditors may induce greater cooperation between negotiating parties and may increase the satisfaction level of the auditors' clients. Concessions in auditor-client negotiation affect the willingness of clients to reciprocate and accept the auditor's proposed income-decreasing audit adjustment. In this study, they examined the impact of three concession strategies on the outcome of negotiations and on the satisfaction level of clients.

The focus of this study is in line with an earlier negotiation study conducted by Tan and Trotman (2007), in which Concession Gradual or Concession End were used to persuade the Chief Financial Officer (CFO) to accept an auditor's proposed audit adjustments. Although Tse et al. (2012) agree with Tan and Trotman (2007) that Concession Gradual and Concession End are the most effective strategies in inducing financial officers to accept larger income-reducing audit adjustments, they expressed their concern that using Concession Gradual and Concession End may not be a desirable strategy, pursuant to the current regulations. Nevertheless, financial officers have

indicated greater satisfaction if auditors adopt Concession Gradual and Concession End. In view of the above, different concession timing strategies may influence the response of negotiating parties.

An appropriate concession timing strategy adopted by a negotiator may improve the negotiation process and be more effective in achieving mutual agreement between the negotiation parties. Based on the above studies, it is apparent that Concession Gradual and Concession End are the two most effective concession making strategies, especially Concession Gradual, which can achieve a better result and more satisfaction for the negotiation parties.

2.5.2 Summary and the Gap in the Literature of Concession Timing Negotiation Strategies

In conclusion, concession timing strategy is an important negotiation strategy to create a good atmosphere for solving a problem (Agndal, 2007; Kwon & Weingart, 2004; Tan & Trotman, 2010; Vetschera et al., 2014). Tan and Trotman (2010) highlighted the category of concession strategies: Concession Start, Concession Start+1, Concession Gradual and Concession End. As explained, Concession Gradual and Concession End are the concession strategies that are applicable in a tax context as tax audit officers will not make concessions before or at the beginning of a negotiation process. During the negotiation process, the auditor negotiates and may waive some audit adjustments proposed to their clients after the negotiation (Hatfield et al., 2008).⁵ As well as in audit adjustments, the existing literature on auditor-client negotiations has also examined the effect of a waiver in an audit adjustment, carried out with a concession timing strategy, and this contributes to the satisfaction of clients and also

⁵ Based on the interview results with the tax audit officers from the IRB, as discussed in Section 4.1.1 of Chapter 4, the waiver of a tax adjustment can also occur in taxation through negotiation.

maintains a good relationship between the parties. In other words, this literature examined the effect not only of audit adjustments, which have first-order and second-order consequences for the adoption concession timing strategies in negotiations, but they also examine the second-order consequences of the concessionary strategies.

In taxation, the second-order consequences are consequences that could explain the reasons for the resistance of taxpayers or their tax practitioners in response to tax policy and regulations (Murphy, 2004). There is a lack on the impact of concession strategies on concessions make by negotiation parties as final offer. The reasons for making large or small concessions also may require a look into details to avoid the adoption of concession strategies that may fail and the parties do not obtain mutual agreement. Furthermore, the existing studies do not fully explore the effect of a take-it or leave-it approach during tax audit negotiation, leading to a negative impact on two important perceptions and the reactions of taxpayers and tax practitioners in negotiation: (i) the fairness perception, focusing on distributive and procedural justice; and (ii) the level of aggressiveness of taxpayers and tax practitioners.

As mentioned, Kersten et al. (2016) highlighted that negotiation without specific rules and information may be more efficient. In fact, this ideal situation may not be able to be applied to all types of negotiations. This has been highlighted by Druckman, Mitterhofer, Filzmoser, and Koeszegi (2014). They found that bargainers who are more flexible like to reciprocate and make more concessions during negotiation process and eventually are more satisfied with the negotiation process and the negotiation outcome. Nevertheless, this may not apply to tax negotiation.

In taxation, Frecknall-Hughes and Kirchler (2015) found that negotiation in taxation are different because the tax authority, taxpayers or tax practitioners are required to comply with the complex set of rules and regulations under the tax laws during their

negotiation and this also affects their negotiation approach. Moreover, a feeling of unfairness of the negotiating parties also may affect the negotiation process and the concession making (Filzmoser et al., 2016). Therefore, further study is required to examine the tax negotiation process and its outcome, since no proper examination of whether the concession making strategy of tax audit officers has any impact upon their negotiations with tax practitioners.

2.6 Distributive Justice and Procedural Justice

As recommended by Wenzel (2003), the types of fairness which are relevant to taxation are distributive justice and procedural justice. Distributive justice refers to perceived fairness on decision outcome, whether the degree of the outcome is reasonable and procedural justice is another type of fairness concern on decision making process, and whether the process is consistent, accurate or unbiased (Colquitt, Scott, Rodell, Long, Zapata, Conlon, & Wesson, 2013; Howard & Cordes, 2010; Leonardelli & Toh, 2011; Siu, Zhang, & Yau, 2013).

Colquitt (2001) conducted a construct validation (i.e., appropriateness of measurement) of the justice measure in order to examine the dimensionality (i.e., aspect or elements) of several perceptions of justice, including distributive justice and procedural justice. Colquitt (2001) recognized the importance of fairness. Therefore, they used several dimensions to measure the important outcomes on distributive justice and procedural justice via two studies in a university setting and in a field setting, in which employees in an automobile company were the participants. In this study, he adopted several measurement items in relation to justice in order to evaluate the impact of distributive justice and procedural justice. Distributive justice refers to the fact that the allocation of the outcome should be consistent with the goals that have been set, in order to maximize the productivity level. This form of justice focuses on the

appropriateness of an outcome. For procedural justice, two measurement criteria were used, process control (the ability to comment and provide arguments during a procedure) and decision control (the ability to influence the actual outcome). Procedural justice also includes the willingness of an individual to comply with the rules and decisions.

Colquitt et al. (2013), Mathisen, Ogaard, and Marnburg (2013) and Larsen and Lawson (2013) further elaborated that distributive justice is concerned with outcomes and whether they are consistent with the norms of allocation or equity. From the perspective of distributive justice, response to an outcome and the appropriateness of the outcome are the important criteria. Procedural justice is another type of justice, with emphasis on the decision-making process and its influence on the outcome. In the initial stage of studying justice, distributive justice played an important role and therefore, psychology researchers focused on the justice of the outcomes of decisions. Subsequently, psychology researchers realized that the process that leads to decisions is equally important (i.e., different views and arguments and an individual's ability to influence an outcome) and affects the decision to be made.

In the experimental study conducted by Van den Bos, Vermunt, and Wilke (1997), distributive justice was found to be strongly affected by outcomes instead of by procedure. On the other hand, procedural justice refers to a process leading to the formation of a perception of fairness and is strongly affected by procedure. This is supported by the studies conducted by Howard and Cordes (2010) and Lakshman, Ramaswami, Alas, Kabongo, and Pandian (2014).

According to Kass (2008), the combination of distributive justice and procedural justice can be used to predict the negotiation outcome and the perception of fairness of the other party. Similarly, Colquitt (2001) and Kass (2008) also explained that

perception of distributive justice relate to the fairness of an outcome and reactions to an outcome, and procedural justice perceptions relate to the reactions of the people who are responsible for the outcome. Verboon and Van Dijke (2007), Wenzel (2003) and Kirchler, Hoelzl, and Wahl (2008) and Lakshman et al. (2014) also contributed the same comments on the perceptions of fairness from distributive justice and from procedural justice.

2.6.1 Distributive Justice and Procedural Justice in Negotiation Literature

Kass (2008) conducted an empirical study that examined the perceptions of distributive justice and procedural justice in terms of the satisfaction of the negotiators with an outcome and with their desire for future negotiation. Her results indicate that distributive justice emphasizes the fairness of the outcome of a negotiation and procedural justice emphasizes the reactions and the process used to arrive at the outcome. Negotiators may feel that their negotiating party has breached his or her agreements if he or she feels that he or she has not been treated fairly. This will also affect his or her satisfaction with the negotiation outcome and the desire for future negotiation.

In their experimental study on buyer-seller negotiation, Kwon and Weingart (2004) considered the perception of fairness from the buyers' perspective. They found that a difference in concession timing in a negotiation strategy adopted by the sellers may influence the perceptions of the buyers to the distributive justice and procedural justice they experienced. They also found that in the buyers' view, Concession Gradual is a fairer method, compared to Concession Start or End and will create repeat business in the future as a result of the responsiveness to them during negotiation process. However, the buyers viewed that Concession Start was the most unfair method as sellers are not responsive. They felt that they lost control over their final offer (feelings of

procedural justice) under Concession Start and Concession End. Nevertheless, their satisfaction with the outcome of the negotiation (i.e., the final offer) was higher from the perspective of a distributive justice perspective than procedural justice in the three concession timing strategies.

In the two experiments conducted by Van den Bos et al. (1997), the researchers found that whether a procedure or outcome is judged to be fairer depends upon what information came first and what information followed. A perception of fairness may influence individual evaluations and behavioral reactions.

Fleck, Volkema, Pereira, and Vaccari (2017) mentioned that one of the factors that influence the desire of negotiators to negotiate again is the perception of fairness, especially distribution justice. If an individual feels an unfair distribution of resources and outcome, he or she may refuse to cooperate in the following-up negotiations. In other words, negotiators may not want to negotiate if they are dissatisfied with the negotiation outcome. Therefore, negotiators hope to achieve an agreement at the end of the negotiation process.

Based on the above literature, it appears that the mixed results of distributive justice and procedural justice help to assess the outcome for the negotiating party. The negotiation outcome of the negotiating party may affect their behaviour and reactions in future to the same issue. Normally, fair treatment will lead to a better negotiation outcome than unfair treatment. Fair procedures are more likely to produce fair outcomes than unfair procedures and hence, there is no doubt that treating another party fairly will obtain fairer outcomes than treating that party unfairly. In view of this, procedural justice has a strong relationship with the perceptions of distributive justice. Both types of justice are assessed together in order to see the overall picture of the perception of fairness.

2.6.2 Distributive Justice and Procedural Justice in Taxation Literature

Tax fairness is defined as the amount of tax legislation and the number of rules that benefit one segment of the tax-paying population over another. Generally, tax fairness is an important factor that may influence taxpayers' and tax practitioners' behaviour (Head, 1992). In an exploratory study conducted by Richardson (2005) in Australia and Hong Kong, he found that a low level of perception of tax fairness among taxpayers and tax practitioners may result in tax evasion. His research highlights the idea that the perception of unfairness leads to tax evasion among taxpayers. Therefore, it is important to identify ways to improve the tax process and procedures and reduce perceptions of unfairness among taxpayers and tax practitioners. Based on his findings, the perception of fairness is an influential factor in the behavior of taxpayers or tax practitioners. The result of his tax survey, from 407 postgraduate business students in one Australian university and two Hong Kong universities, show that the perception of tax fairness in the two countries is different. Australians perceived that general fairness, special provisions, the tax rate structure and self-interest are significant and influence Australians' tax compliance behavior, but people in Hong Kong perceive that only two factors, general fairness and benefits received, are significant and influence people's tax compliance behavior in Hong Kong.

From the perspective of taxpayers, Cords (2005) illustrated the significance of fairness in taxation. Taxpayers perceive that their existing tax laws are unfair to them if they share the tax burden and the tax revenue is spent in an improper manner. The tax authority incurs additional costs to conduct tax audits or tax investigations of taxpayers in order to collect under-reported taxes. He also commented on the final offers made by tax authorities in his empirical study. He found that tax audits affect the behavior of taxpayers. Tax audit officers determine a taxpayer's correct tax liability during the tax

audit period. Their tax audit experience can influence the taxpayers' future response during tax audits including how the final offers of the proposed tax adjustments affect the taxpayers or their tax practitioner's behavior in future (i.e., self-reported income). If taxpayers or tax practitioners perceive that the current tax process and procedures are unfair, they may not cooperate with the tax audit officer in the future.

Further to the discussion of distributive justice and procedural justice in earlier sections, Wenzel (2003) noted the importance of distributive justice and procedural justice from a tax perspective. He found that, from the perspective of distributive justice, certain issues need to be considered, including tax burdens and government services. Procedural justice is different from distributive justice, as it includes interactions between the taxpayers or their tax practitioners and the tax authority. Taxpayers will consider any opportunities available to avoid or evade tax. From the distributive justice perspective, individual taxpayers may compare their situation to that of other taxpayers who are also paying taxes, and may use this to evaluate the fairness of their tax burdens. At the same time, taxpayers also compare the benefits they receive and compare these to the taxes they have paid. Taxpayers are concerned about government services and about how the government utilizes the taxes collected from taxpayers. His findings are supported by Murphy (2005).

In her tax study, Murphy (2005) highlighted that there are three types of taxpayers, including the taxpayers who aggressively seek ways to exploit uncertainty in tax law or in the 'grey' areas. In view of the number of taxpayers who have been caught owing to their aggressiveness and their abuse of tax shelters in reporting their taxes, the Australian Tax Office (ATO) perceives this as a very serious matter that must be dealt with immediately. The ATO has even changed the tax regulations in order to help them to identify those who were practising illegal tax schemes. They have also found that many

Australian taxpayers are aggressive in nature. Nevertheless, taxpayers argue that their aggressive tax planning schemes were introduced by tax practitioners as one of the legitimate ways to minimize the taxes they have to pay. In view of this, the role of tax practitioners in tax compliance behavior is equally important and they have been found to be able to influence their clients' tax compliance behaviour. During a campaign for taxpayers to settle their taxes via the approved schemes offered by the ATO, the ATO found that many of the taxpayers who accepted their offers were the victims of inappropriate tax advice received from tax practitioners. Therefore, the aggressive behavior of tax practitioners has been found to influence the aggressive behavior of taxpayers. She even found that aggressive tax planning was then a new trend in Australia, and that taxpayers used this to try to reduce the taxes they had to pay, in response to the unfairness in taxation from their perspective. As a result, the tax authority was more concerned with finding a way to recover unpaid taxes.

The study conducted by Verboon and Van Dijke (2007) focused on motives of self-interest and justice in taxation. They found that people believe that distributive fairness guarantees their long-term or future outcomes or profits. In their study, they examined the mediation effect of distributive justice in relation to tax outcomes, which is similar to the finding of the above studies. Based on the literature, and using data from a Dutch Fiscal Monitor survey⁶, they concluded that distributive justice has an important effect on other variables (e.g., intention to evade taxes, and the acceptability of tax evasion) from the outcome perspective. Another aspect of fairness highlighted by Verboon and Van Dijke (2007) is procedural justice, which includes the fairness of enactment by the authorities and their decision-making procedures. Their finding is similar to the findings

⁶ Tax compliance survey on 744 Dutch citizens who were aged 16 years and above in year 2006

of Colquitt (2001). Based on the literature, distributive justice is more strongly related to a better outcome (i.e., the final tax adjustments) during a tax audit.

Subsequently, Kirchler et al. (2008) conducted an empirical research study on fairness. With regard to distributive justice, they found that taxpayers are unwilling to pay taxes if they know their tax burden is heavier than that of others. The essential components of procedural justice are the neutrality of the procedure, the trustworthiness of the tax authorities and respectful treatment. Taxpayers appear to be more cooperative if they feel the tax authority treats them equally and pays respect to them. Finally, from the perspective of justice, unreasonable audits and unfair penalties may lead to distrust and increased non-compliance among taxpayers.

The above literature is supported by Wahl, Kastlunger, and Kirchler (2010). They conducted two laboratory experiments with 124 students in Experiment 1 and 186 self-employed taxpayers in Experiment 2. The purpose of the experiments was to examine the effect of trust and power on the responses of taxpayers. There are three manipulation checks on the participants' responses in the experiments, i.e., before, during and after the filing period. Their results indicate that the trust of taxpayers on the tax authority may decrease if they perceived that the tax authority is unfair to them resulting from changes of government policies, enforcement of greater penalties and new tax regulations.

2.6.3 Summary and the Gap in the Research on Distributive Justice and Procedural Justice in Negotiation Outcomes

Based on the above literature, the perception of fairness includes distributive justice and procedural justice. Distributive justice focuses on the outcome, whereas procedural justice focuses on the procedure of the negotiation process. Distributive justice and

procedural justice have been shown to be important from the perception of the fairness of negotiators and possibly, of taxpayers or tax practitioners when they deal with the tax authority. Fairness is especially important in the negotiation strategy adopted by the tax authority. As negotiators, taxpayers or tax practitioners may feel they are not treated fairly by their tax authority if their perception of distributive justice and procedural justice is low. They may then be reluctant to negotiate with the tax authority in the future.

A tax audit may affect the taxpayers' behavior, and the final offers of tax adjustment in taxation may influence their perception of the tax process and procedures. The perception of fairness, distributive justice and procedural justice focuses on different perspectives: decision outcomes and decision-making procedures. Current literature only studies tax compliance behaviour and justice perception but does not examine the effect of distributive justice and procedural justice on the tax practitioners' reactions during the tax audit negotiation period. Different concession strategies may result in a different negotiation outcome. If a negotiator feels a negotiation is unfair to them, he or she may not desire to negotiate again with the same party (Fleck et al., 2017). Further study is required to explain the effect of concession timing on tax practitioners' perception of fairness in tax audit negotiation context.

2.7 Aggressiveness in Negotiations

Aggressive strategy is a negotiation strategy that attempts to resolve the conflicts between negotiating parties through adoption of threats, persuasive arguments and punishments (Ganesan, 1993). The purpose of aggressive strategy is to evoke unilateral concession made by the other party (Pruitt, 1981). Current literature indicates that the aggressive behavior adopted by a negotiator depends on the situation and the importance of the issue to be resolved. The aggressive behavior of negotiators may lead

them to adopt an aggressive strategy when dealing with their negotiating parties. A study conducted by Ganesan (1993) examined several negotiation strategies adopted by negotiators, including the aggressive strategy.

In an earlier marketing research study conducted by Perdue (1992), an aggressive negotiating tactic was adopted by purchasing agents to achieve better outcomes. He found that an aggressive negotiating tactic may create competition among suppliers, time pressure and loss of business, but, at the same time, increasing the suppliers' benefits. Looking at other negotiation tactics, Ganesan (1993) examined the impact of negotiation strategies on negotiation outcomes and on other parties' perceptions. The results of his study indicate that retailers are more likely to adopt an aggressive strategy if they intend to resolve minor issues with the other party. However, retailers prefer to adopt another strategy, i.e., a problem-solving strategy, to resolve major issues if their aim is to achieve a better outcome.

Generally, the focus of negotiation research studies is related to negotiation tactics. Basically, there are two dimensions of negotiation, assertiveness (i.e., win-lose) and cooperativeness. Ganesan (1993) found that a competitive or aggressive strategy is adopted by negotiators in business transactions. Compared to other negotiation styles, aggressive tactics involve threats, persuasive arguments and punishments, with the aim of eliminating a counteroffer from the other party. Nevertheless, Agndal (2007), in his empirical study, mentioned that buyers and sellers find it difficult to reach agreement if the sellers are sensitive to threats. Ganesan (1993) also found that there are two types of aggressive strategy, active and passive. The aim of a negotiator when adopting an aggressive strategy is to maximize the self-gain and reduce the number of concessions. Generally, bargainers with high power are better able to adopt an aggressive negotiating strategy than bargainers with lower power.

The empirical research study of Kleinman and Palmon (2000) found that a forceful (aggressive) strategy is one of the negotiation strategies that is adopted in auditor-client negotiations. They noted that clients may react aggressively so that their auditor will compromise and accept their proposal. In view of this, auditors may sacrifice their own interests in order to accommodate their clients' requests. Auditors may perceive that their clients will try to exercise their power because of their experiences with their previous auditors. However, the effectiveness of aggressive strategies adopted by clients depends on their willingness to accept a potential loss. If clients expect that the chance of success is less, their aggressiveness level is lower and vice versa.

Aggressive negotiation strategies are adopted by negotiators in various fields, e.g., buyer-seller negotiations, and auditor-client negotiations. An aggressive negotiation strategy helps to resolve the issues between conflicting parties. The above literature (Agndal, 2007; Ganesan, 1993; Kleinman & Palmon, 2000; Perdue, 1992) also highlighted the suitability of an aggressive negotiating strategy in different situations, depending on the balance of power between the negotiating parties. However, the negotiation outcome may be affected if negotiators are sensitive to aggressiveness. If taxpayers or tax practitioners feel they have not been treated fairly, they may react aggressively in response to a tax audit conducted by the tax authority (Kirchler et al., 2008).

2.7.1 Tax Practitioners' Aggressiveness

According to an earlier experimental study conducted by Schisler (1995), tax practitioners who have had favorable experience with a tax authority tend to adopt a less aggressive negotiating style, compared to tax practitioners without experience in dealing with a tax authority. In addition, qualified tax practitioners are less aggressive than unqualified tax practitioners. Qualified tax practitioners, with better tax knowledge and

understanding on the current tax laws, prefer to help their clients to reduce tax payable using a legitimate approach. As enforcers, tax practitioners are able to advise their clients, the taxpayers, to comply with the existing tax laws and regulations since they are familiar with them. Based on their findings, tax practitioners usually behave conservatively, even when they face aggressive taxpayers. Tax practitioners tend to view the tax process and procedures as fair, compared to the perception of their clients.

Murphy (2004) has conducted a study to examine the partnership between aggressive tax practitioners and their clients, taxpayers, which is different from the observation of Schisler (1995). This research involved 2,040 Australian taxpayers who were asked to express their perceptions of the Australian tax process and procedures and also to indicate their preference for an aggressive tax practitioner. Based on these findings, approximately 70% of taxpayers in Australia prefer to appoint tax practitioners to handle their tax affairs in order to file an accurate tax return, because they lack the needed tax knowledge. This scenario is supported by a study conducted in the United States by Gergen (2010), which showed that the tax returns submitted by tax practitioners are more aggressive in tax reporting to claim tax deductions, compared to self-prepared tax returns. Tax practitioners involved in this study mentioned that they would behave aggressively if their clients demand such a stance. Therefore, tax practitioners who are appointed by taxpayers to handle their tax affairs may be valued by taxpayers depending on how great a tax saving they obtain on their tax returns, when the returns are prepared by tax practitioners. The literature of this study indicates that tax practitioners who focus on ambiguous situations or in the 'grey' area tend to be more aggressive in tax reporting and find ways to minimize tax based on their tax knowledge when dealing with the tax authority. In these cases, the tax practitioners may become exploiters who do not recommend caution in the use of tax minimization strategies. On the other hand, taxpayers who are aggressive in tax reporting perceive

that avoiding or minimizing taxes is a smart thing to do. As a result, aggressive taxpayers are less committed to the tax process and procedures and more resistant in their dealing with the tax authorities.

Murphy (2004) also found that tax practitioners who are able to minimize the tax payable are more appreciated by a small group of individual taxpayers. In view of their tax knowledge, tax practitioners have dual roles, which may help to mitigate the tax risks of their clients, the taxpayers, rather than acting as enforcers of tax laws and regulations. The level of aggressiveness of tax practitioners affects their clients', the taxpayers' aggressive behaviour. The participants in Murphy's study are Australians who were selected by using the rolls of a national tax survey. She differentiated the taxpayers into two groups, those who are aggressive and those are non-aggressive, and then used several constructs: demographic profile, world views, motivational postures, evaluation of Australian Tax Office (ATO) and tax process and procedures, and individual experiences. Her survey results indicate that taxpayers who appoint aggressive tax practitioners are less honest, prefer to apply aggressiveness in evading taxes, are against the idea of paying taxes, believe their tax practitioners are resourceful and able to help them reduce their tax payable under tax audit, are resistant to the tax process and procedures and are ready to fight for their rights. Aggressive taxpayers in tax evasion also react less in terms of shame and perceive tax avoidance as a smart thing to do. They like to blame the ATO and take the view that ATO is unfair to them if they receive penalties from them as a result of under-declared taxes. In view of this, tax practitioners have substantial influence on their clients' aggressiveness when dealing with the tax authority. Normally, taxpayers prefer to choose a tax practitioner who can share their behavior and views.

Stephenson (2006) examined the expectation gap between taxpayers and tax practitioners in her study. She defines tax aggressiveness in reporting as taking advantage on every legal opportunity or possibilities to minimize tax payable. A tax practitioner is categorized as aggressive in tax reporting if he or she likes to interpret facts or laws in favor of his or her clients in order to incur the lowest potential tax payable. This is supported by another study conducted by Frecknall-Hughes and Kirchler (2015). They commented that tax practitioners play an important role in the interaction between the tax authority and taxpayers. Their involvement may bring positive and negative impacts from different perspective. Tax practitioners may help taxpayers to interpret the law based on their tax knowledge. However, they may facilitate tax avoidance of taxpayers as well which deemed aggressive and unacceptable by the tax authority. They define the aggressiveness of tax practitioners as a situation in which a tax practitioner interprets an ambiguous scenario or area in favor to taxpayers instead of the tax authority. During the negotiation process with the tax authority, tax practitioners may not simply accept the tax adjustments proposed by the tax authority if they have confidence that the tax issues can be defended (i.e., they adopt aggressive negotiating style).

In another research study of tax practitioners, Doyle et al. (2014) gathered the data from the ten interviewees (i.e., tax practitioners) from big and small firms. They commented that the tax practitioners from larger firms (i.e., Big four) viewed that tax practitioners from smaller firms (i.e., medium and small firms) are more aggressive in tax reporting or less ethical because they need to maintain their clients and grow the business. These views are different from the findings from this study. Doyle et al. (2014) mentioned that they did not discover any significant difference in aggressive behaviour between the tax practitioners from larger firms and smaller firms. They feel that smaller firms may not be quite so aggressive because the tax authorities in Ireland

and the UK may maintain a record for 'black-listed' tax practitioners who behave more aggressively than others. The tax authorities may pay more attention on those taxpayers who are served by these tax practitioners.

In a subsequent study on tax practitioners, Frecknall-Hughes et al. (2016) found that although tax practitioners were trying their best to ensure their clients, the taxpayers, comply with the tax laws, in certain circumstances, these tax practitioners were unclear whether the intention of the tax authority was to announce the changes of tax laws. As a result, tax practitioners may interpret the tax laws based on their best judgments and consider their clients' benefits at the same time. Tax practitioners may provide different opinions, which appear like an opportunity to exploit it and propose a tax scheme for taxpayers to minimize their tax payable. Unfortunately, tax practitioners' advice may differ from the original purpose of the respective tax laws. If that happens, the tax authority may view that tax practitioners were aggressive in their tax advice to their clients.

Rego and Wilson (2008) conducted a study on the relationship between aggressiveness in tax reporting and the level of compensation of the CEO and the CFO. They found that there is a positive relationship between tax aggressiveness and the level of compensation of the CEO/CFO. Aggressiveness in tax reporting in relation to the compensation of the CEO/CFO is a new variable that has not been examined by any previous study. Firms may measure the performance of the CEO/CFO based on the tax savings derived from the tax planning structure adopted in firms and their risk-taking behavior to ease the firms' cash flow. They do their best to take advantage of any legal tax shelter they can use to minimize tax. Therefore, the CEO/CFO may adopt aggressive behavior in tax issues if this behavior might result in a positive impact on their compensation. In view of the compensation received, the CEO/CFO may behave more

aggressively to achieve tax savings in order to receive a greater reward from their employers.

Frank, Lynch, and Rego (2009) also conducted another study that identified the importance of understanding the aggressiveness of taxpayers when the Inland Revenue Service (IRS) incurred additional costs to conduct tax audit on taxpayers, in order to examine taxpayers' business records as tax laws allow taxpayers to conduct tax planning to manage their profits, resulting in a loss of revenue. They found that the current trend of the firms was to declare a higher book income to their shareholders but lower taxable income to the tax authority. Frank et al. (2009) observed annual industrial files (i.e., business financial data) in 18,316 firms in North America from 1991 to 2005. They noted that aggressive tax reporting was defined as fraudulent reporting. Aggressive firms prefer to adopt tax shelter activities.

Another study, conducted by Spaho (2013), explains that if a negotiation strategy does not improve the outcome of the negotiation, the negotiator may involve an external consultant to solve the problem. The external consultant becomes a mediator to advise them how to solve the problem. Similarly, he found that in negotiations on taxation, tax practitioners act as a taxpayer's mediator. In addition to Murphy (2004), Nichols and Price (2004) also found that representation by a tax practitioners can result in a reduction of the taxpayers' final tax assessments during IRS audits. Their study involved a small group of students without tax audit experience, but with appropriate guidance from tax practitioners.

Leviner (2012) found that a key motivator of taxpayers to obtain the services of tax practitioners is the growing complexity of tax regulations and as well as an attempt to minimize their tax. Tax practitioners also act as gatekeepers to ensure the tax compliance of their clients. This contrasting role of tax practitioners (comply with tax

regulations versus minimize tax for taxpayers) could ensure that they are not overtly aggressive (Bobek & Radtke, 2007; Shafer & Simmons, 2011).

Most of the literature on tax aggressiveness (Frank et al., 2009; Murphy, 2004; Rego & Wilson, 2008; Stephenson, 2006) has focussed on the characteristics of aggressiveness in the tax reporting of taxpayers or tax practitioners and the consequences of their aggressive behavior. They have highlighted the essential issues in understanding the aggressiveness of taxpayers and the ways to reduce their aggressive behavior resulting from unfairness and unfavorable outcome from their point of view. However, these researches did not examine the relationship between a negotiation strategy adopted by a negotiator and the aggressive negotiating style resulting from the consequences of aggressive behaviour of the other party in response to that negotiation strategy to defend the negotiator's benefit (i.e., upon a tax audit conduct by the tax authority as highlighted in the study of Schisler (1995)). The next section discusses the gap between negotiation strategies and the aggressive behaviour of tax practitioners.

2.7.2 Summary and a Gap in the Literature Concerning the Effect of the Aggressive Behavior of Tax Practitioners on the Negotiation Outcome

Negotiation strategies are patterns of interaction used by two or more parties to achieve resolution. As mentioned in the study conducted by Ganesan (1993), an aggressive strategy is treated as one of the negotiation strategies of a negotiator. However, Ganesan (1993) found that an active aggressive strategy could cause a negative relationship and vice versa, while the use of a passive aggressive strategy can result in a positive relationship.

In taxation, an aggressive strategy is adopted by tax practitioners in certain circumstances when they are defending their clients during a tax audit conducted by the

tax authority (Schisler, 1995). Leviner (2012) commented that taxpayers are likely to agree with their tax practitioners' advice. In his empirical research, he found that taxpayers who rely heavily on tax practitioners may behave aggressively if the tax practitioners behave aggressively.

O'Donnell, Koch, and Boone (2005) provide insights into some of the influences of a tax practitioner's aggressiveness on the tax audit environment. In their study, they conducted two experiments with experienced tax practitioners who provided recommendations to their clients, and they examined the interaction between task complexity and procedural knowledge on the outcomes expected by the clients. They found that tax practitioners are more aggressive if their clients' tax positions can be defended during an IRS audit. However, if the level of complexity increases, tax practitioners with greater procedural knowledge are usually more conservative (i.e., less aggressive) as uncertainty increases.

Current literature explains aggressiveness in tax reporting behaviour that influences by tax practitioners (e.g. emotion, preference, perception of fairness). However, although Schisler (1995) highlighted that tax practitioners adopt an aggressive negotiating style to defend their clients who audited by the tax authority, there is a lack of literature that discusses how the aggressive negotiating strategy of tax practitioners can impact tax audit negotiations.

Based on the above literature, the aggressiveness of tax practitioners may influence the counteroffer decision made by the taxpayers, because these tax practitioners act as their consultants in dealing with the tax audit officer. Taxpayers may behave aggressively and resist compromise if they perceive that the tax authority is unfair to them. If a tax practitioner is aggressive and prefers to encourage the taxpayers to seek an ambiguous situation or a situation in the 'grey' area in order to minimize the tax

payable, the practitioner may propose aggressive tax planning to taxpayers or resistance to accepting the tax audit officer's proposed tax adjustment, since their clients' tax position can be defended.

A negotiator may be sensitive to threats from another party if that party adopts aggressive tactics. Aggressive tactics adopted during the negotiation process may result in fewer concessions made or offered between the negotiator and other party (i.e., it becomes difficult to reach agreement between the parties). Although the above literature has mentioned that a concessionary negotiation strategy is an effective strategy and can improve the negotiation outcome, no study has been conducted to examine the influence of a concession timing strategy adopted by a negotiator on an aggressive tactic adopted by the other party during a negotiation. Since Schisler (1995) indicated that tax practitioners adopted aggressive style to defend their clients' tax position during a tax audit, further study is required to ascertain the effect of concession timing strategies adopted by tax audit officers on tax practitioners' level of aggressiveness during negotiation process.

2.8 Summary

This chapter summarized the important factors that influence a negotiation model. There are several perspectives, i.e., reaction, perception, expectation and pressure between the negotiating parties in the auditor-client negotiation model. The negotiation strategy adopted by a negotiator may influence the expectation and counteroffer of the other party. A concessionary strategy is one of the most effective methods to resolve a dispute between negotiating parties (Johnson & Cooper, 2009; Thomas et al., 2013; Tse et al., 2012). Concession timing strategies in negotiations are recognized as effective strategies for negotiators to use during a negotiation process in order to improve the outcome of the negotiation. During the negotiation process, the effect of reciprocity and

anchoring between negotiating parties also need to be considered. Concession timing strategies in negotiations may affect judgment on the final offer of financial officers in the auditor-client negotiation model.

Another factor that should be considered during negotiation process is the perception of fairness from the perspectives of both distributive justice and procedural justice. If negotiators feel they have been treated unfairly, they may behave aggressively and resist when the other party offers a compromise. In addition, the perception of fairness by tax practitioners also affects their level of aggressiveness in their dealings with the tax authority. The adoption of an aggressive strategy by tax practitioners may reduce the concessions to be made in response to the offers received from the tax authority. However, the direct impact of concession timing strategies adopted by negotiators on the level of aggressiveness of the negotiating party has yet to be examined.

CHAPTER 3: RESEARCH FRAMEWORK

This chapter explains the development of the hypothesis and the literature related to the development of the research framework for this experimental study. Based on the current literature, this chapter discusses in more detail, the effect of concession timing strategies on the final offers, and a tax practitioner's perception of fairness and aggressiveness. Next, it discusses the auditor-client negotiation-oriented model of Kleinman and Palmon (2000) for development of tax audit officer-tax practitioner negotiation-oriented model. It then explains four important aspects of tax audit officer-tax practitioner negotiation: expectations of the tax audit officer, pressure from the tax practitioner, and the perceptions and reactions of the tax audit officer. This chapter also explains how these four aspects are connected to the first-order consequences of concessionary strategies in negotiations, final offers and the second-order consequences of this strategy: the tax practitioner's perception of fairness and aggressiveness. Next, this study's framework also applies two mediation effects: a tax practitioner's final proposed offer mediates the relationship between concession timing and a tax practitioner's perception of fairness and a tax practitioner's perception of fairness mediates the relationship between this final proposed offer and the level of aggressiveness.

3.1 Concessionary Strategy, Final Offer, Fairness and Aggressiveness

Concession is a change of offer in response to the other party's counteroffer. Negotiating parties may start with an initial or first offer and continue to make concessions until both parties reach a mutual agreement (Vetschera et al., 2014). Concessions are an important ingredient for negotiation. Kwon and Weingart (2004) highlighted that the timing of concession strategies also affect the negotiation outcome (i.e. valuation of object, satisfaction of negotiating parties, desire to future negotiation).

The conflicts between an auditor and a client may be resolved in negotiation between the parties. Auditors may fear that they will lose their clients if they do fulfill their requests. The conflict style between auditors and clients leads to a different negotiation strategy being adopted by auditors to resolve their disputes with their clients. One of the clients' courses of action is to exert force or pressure on auditors to accommodate their requests or their accounting treatment, without concern for the other party's (the auditor's) interests. Kleinman and Palmon (2000) mentioned that clients with 'concern for self' prefer to adopt force. Tan and Trotman (2010) and Kwon and Weingart (2004) found that a concession timing strategy is one of the negotiation strategies that can reduce the effectiveness of force. Tan and Trotman (2010) commented there are four category of concession strategies: Concession Start, Concession Start+1, Concession Gradual and Concession End.

In a tax context, Smith and Stalans (1994) identified six negotiation strategies which are adopted by tax audit officers and taxpayers for tax negotiation. However, they do not recommended the most appropriate negotiation strategy to achieve a win-win situation between tax audit officers and taxpayers. In a later study on taxation, Frecknall-Hughes and Kirchler (2015) suggested that tax audit officers can also seek an appropriate negotiation strategy that reduces the level of aggressiveness of tax practitioners or taxpayers. In their study, they provide some insights of the interaction between tax practitioners and tax authority. They highlighted that tax practitioners seek for any possibilities to make concession when they negotiate with tax audit officers. Nevertheless, they do not study on how tax audit officers adopt the concession strategy during the negotiation process with tax practitioners.

Two Tax Partners, who assisted in the validation of the experimental case and the measurement instruments in the experimental case in this study, have confirmed that

concession timing (i.e. Concession Gradual and Concession End) is a strategy that is adopted by tax audit officers during a tax audit negotiation. On the other hand, the tax audit officers from the IRB who have been interviewed for facts finding purpose in this study also confirmed the same.

In taxation, tax audit officers who act on behalf of the tax authority may reciprocate the counteroffers of tax adjustments made by tax practitioners or taxpayers during a tax audit negotiation meeting. Nevertheless, the relationship between a tax audit officer and a tax practitioner or a taxpayer is different from an auditor-client relationship, because they are not bounded by contract or agreement. In auditing, auditors are compensated with remuneration for auditing the financial statements prepared by clients and expressing their opinions based on the current law, accounting standards and procedures. However, tax audit officers are required to conduct a tax audit on taxpayers' accounting records and supporting documents in order to collect any under-reported taxes from taxpayers in order to prevent loss of revenue for the government.

The following section discusses the concession timing strategy adopted by auditors and its impact on the negotiation outcome: final offer, fairness and aggressiveness. The following section also discusses the effects of reciprocity and anchoring, which are equally important concepts in this concessionary type of negotiation model.

3.2 Concessionary Strategy and Final Offer

Final offer is a concession presented where there are no further concessions to bargain with the negotiating parties involved (Lewicki et al., 2010). Tan and Trotman (2010) commented that based on the existing accounting literature at that time, none of the accounting studies had addressed negotiation strategy in relation to the timing of concessions prior to them. In their study, they focused on a negotiation strategy that relates to the timing of concessions and to holding constant the total magnitude of

concessions that an auditor may deem appropriate. They explained that a negotiator can either make an offer before the start of a negotiation (Concession Start), after one round of a negotiation (Concession Start+1), at the end of the negotiation process (Concession End) or gradually during the negotiation process (Concession Gradual). They commented that Concession Start is not common in auditor-client negotiation because a concession has already been made by an auditor on the original audit adjustments prior to the start of negotiation with clients. An auditor normally will only start to make his or her concessions in response to the counteroffer received from their clients. Therefore, an auditor may not propose to reduce audit adjustments prior to the negotiation without a valid reason as his or her relationship with clients are bounded by the current regulations or accounting standards. During the negotiation process, concessions involve reciprocity and anchors in terms of the offers made (i.e., the initial offer, the counteroffer and the final offer) between auditors and clients.

Tan and Trotman (2010) also highlighted that concession timing strategies adopted by auditors influence the final offers of their clients. Therefore, Tan and Trotman (2010) examined the final offers that the financial officers would propose to auditors. These final offers were made in Round 3, when they were told that at the beginning of Round 3 that this would be the final round of negotiation with the auditors. The results indicate that there is no difference between Concession Gradual (mean = 8.67) and Concession End (mean = 9.07) in the financial officers' offers in Round 3. Similarly, there is no difference in their offers made between Concession Start (mean = 5.76) and Concession Start+1 (mean = 6.97). However, their final offers for Concession Start and Concession Start+1 are lower than those in Concession Gradual and Concession End. These results are supported by the reciprocity and anchoring mechanism predictions, when Concession Gradual or Concession End are associated with a higher offer than in either Concession Start or Concession Start+1. Although their findings on Concession Gradual

and Concession End are insignificant, they did not consider other factors such as perception of fairness and aggressive behaviour which may also affect the concessions they make. Therefore, further investigation into the different effects resulting from these two concession strategies is essential.

Nevertheless, based on the observations in the study of Tan and Trotman (2010), the results of their study indicated that Concession Gradual and Concession End are the optimal strategies to be adopted from the auditors' perspective, in order to maintain audit quality and a good auditor-client relationship. The waiver of proposed audit adjustments during the making of concessions may affect the audit quality. Therefore, it is a challenge for auditors to identify a negotiation strategy that can maintain the quality of their auditing and while, at the same time, retaining their clients. Although these two concession strategies were optimal from the auditors' perspective, Concession Gradual appears to the clients as a lack of strength, because the auditors were willing to make concessions (i.e., lower or waive the proposed audit adjustments) in order to accommodate the requests of their clients.

Another negotiation studies on the buyer-seller relationship was conducted by Kwon and Weingart (2004) and Kersten and Gimon (2012) found that a concession timing strategy does impact the other party. They found that concessions may prevent the other party from leaving the negotiation and may also encourage the other party to reciprocate. In a buyer-seller negotiation, concession timing influences the negotiating parties' perceptions of the quality of an object and the acceptable level of their agreement. In this study, they adopted three types of concession, Concession Gradual, Concession End and Concession Start. The results of their experiment show that Concession Gradual resulted in a more positive outcome from the buyers' assessment

(i.e. able to make lower final offer), and a higher level of satisfaction for the seller. However, Concession End resulted in a low level of negotiation outcome for the buyers.

Currently, there is a lack of literature that examines the negotiations between the tax authorities and the taxpayers' appointed tax practitioners during the tax audit period and the negotiation outcome when a reciprocity-based negotiation strategy (i.e., concession making) is adopted by the tax audit officer in a negotiation, although Huang and Yu (1997) mentioned that these negotiations do take place. In taxation, Frecknall-Hughes and Kirchler (2015) provide some insights of the interaction between the tax authority and tax practitioners and tax practitioners who are always looking for opportunity to make concessions. However, no further test has been done on the tax negotiation process on how concession making happens and how it affect the final offers of tax practitioners during the tax authority and tax practitioners negotiation process in a real world context. During the interview sessions with the IRB tax audit officers as described in Section 4.1.1 of Chapter 4, in the same way as in tax negotiations, tax audit officers often adopt concessionary strategies to resolve their tax audit cases with taxpayers or their appointed tax practitioners. However, when the IRB tax audit officers explain their findings to the taxpayers or their appointed tax practitioners, these taxpayers are not willing to decrease the amount of proposed tax adjustments prior to or at the beginning or start of a negotiation. Therefore, Concession Start +1 and Concession Start are not applicable in the tax industry. The experiment using the tax audit officer-tax practitioner negotiation model manipulates two concessionary strategies that vary in the timing of concessions offered, i.e., gradually making concessions during the negotiation or making them in the last round of the negotiation.

During the tax audit period, the proposed tax adjustment proposed by tax audit officers is based on the magnitude of the tax adjustment that the tax audit officer

believes is appropriate, as is the case in an auditor-client negotiation. As mentioned in these findings, in tax practice, tax audit officers prefer to propose higher tax adjustments in order to collect any under-reported taxes due to errors in the taxpayers' income tax returns. The proposed tax adjustments raised by tax audit officer may be higher than the amount that the taxpayers will agree to at the end of negotiation (i.e., the final offers). The tax audit officers know that the taxpayers or their representatives are likely to argue against their proposed tax adjustment because it could result in additional taxes payable and a penalty. Therefore, the tax audit officers know that the tax practitioners expect that the final proposed offer that the tax practitioner is willing to make will be lower under Concession Gradual than Concession End. They know that the tax audit officer is willing to accommodate their requests. In view of literature described above, this study predicts that tax practitioners may feel that tax audit officers are more flexible under Concession Gradual, in which the tax audit officers are willing to accept their final proposed offers at a lower level than when they make concessions under Concession End. The tax practitioners know that their offers will be rejected by the tax audit officers several times before a mutual agreement can be reached. As mentioned by Pruitt (1981), different concession strategies may lead to different negotiation outcome (i.e., larger or smaller concessions). From this, further study is required to identify the cause of tax practitioners make larger or smaller final offers or not negotiating further. Thus, the first hypothesis is formally stated below.

Hypothesis 1: The tax practitioners' final proposed offer will be lower when the tax audit officer uses Concession Gradual than when the tax audit officer uses Concession End.

3.3 Concessionary Strategy and the Tax Practitioners' Perception of Fairness

Distributive justice and procedural justice are two types of fairness important in the tax context. Distributive justice concerns decision outcome and procedural justice concerns on the decision making process (Colquitt et al., 2013; Howard & Cordes, 2010; Leonardelli & Toh, 2011; Mathisen et al., 2013; Siu et al., 2013). Prior to Colquitt et al. (2013) and Larsen and Lawson (2013), Van den Bos et al. (1997), Colquitt (2001), Wenzel (2003), Kass (2008) and Kirchler et al. (2008) conducted some studies on fairness, which included procedural justice and distributive justice. Procedural justice is related to the reactions to the agents and institutions that are responsible for the outcomes. It involves process control, in which a person's views and arguments for procedures and decision control are spelled out in detail, in order to influence the actual outcome of the procedures. Basically, procedural justice helps to determine the perceptions of individuals about the legitimacy of authority and their behavior in complying with the rules and decisions stipulated by the authority. Procedural justice includes two criteria: process control, in which they are able to express their opinions and arguments during a procedure, and decision control, in which they are able to influence the outcome.

Concerning distributive justice, the researchers of the above studies commented that distributive justice refers to perceptions of the fairness of the outcomes, which relates to their reactions to the outcomes. From the perspective of distributive justice, the expected outcome is consistent with the set goals for a particular situation or the response of the taxpayer to the appropriate outcome. Distributive justice perspective emphasizes the equity rule, e.g., the rewards and costs, and the assets and liabilities. In this case, the proportionality between the outcome of the rewards and the resources to be distributed is based on the contribution of the recipients during the process in

achieving an outcome. In other words, it examines the appropriateness of the outcome and the fair share to be received by the recipients in accordance with their contributions.

In summary, these studies (Colquitt, 2001; Colquitt et al., 2013; Kass, 2008; Kirchler et al., 2008; Van den Bos et al., 1997; Wenzel, 2003) concluded that perceptions of procedural justice are strongly related to attitudes towards the other party, while distributive justice is strongly related to attitudes about the outcomes. An unfair treatment may result in an individual receiving a better outcome, in order to let that individual feel that he has been treated more fairly. It is always perceived that fair procedures are more likely to produce fair outcomes than unfair procedures, although fair procedures can also produce unfair outcomes. In view of this, the strong relationship between perceptions of procedural justice and perceptions of distributive justice can help to ascertain the negotiation outcome. This is also supported by Verboon and Van Dijke (2007). Kass (2008) further suggested that procedural fairness, which affects the reactions more strongly, should also be tested in experimental research. Although the two types of justice are strongly interrelated, they still can be distinguished and they are measured differently, as shown in the study of Colquitt (2001).

In addition to the concession timing and the perceptions of negotiators, Kwon and Weingart (2004) also incorporated fairness in their buyer-seller negotiation model. During the negotiation process, a negotiator always seeks fairness and ensures that the outcome of the negotiation is fair. The predictions of Kwon and Weingart (2004) on distributive or procedural justice are supported. The perception of buyers from a distributive justice perspective is higher under Concession End as compared to Concession Gradual but the difference is insignificant when both concessions required effort from the buyer lead to exchange. However, the perception of buyers under

Concession Gradual from a procedural justice perspective is higher than under Concession End because the buyer is likely to experience a greater control over the negotiation process and the decisions made by the seller under Concession Gradual.

Wenzel (2003) and Cords (2005) highlighted the significance of fairness in taxation. If taxpayers perceive that the current tax process and procedure (e.g. negotiation strategy) are unfair to them, they may not be willing to cooperate with the tax audit officers. This is also supported in the studies conducted by Verboon and Van Dijke (2007) and Kirchler et al. (2008). Since there is a lack of study exploring how concession timing strategies (i.e. Concession Gradual and Concession End) are adopted by tax audit officers, so further study is required to examine the effect of concession timing strategies adopted by tax audit officers on tax practitioners' perception of fairness during the tax negotiation process.

In view of the above literature, this study predicts that tax practitioners may feel that tax audit officers are flexible under Concession Gradual and these officers propose or are willing to accept their final offers at a lower level as compared to tax audit officers who make concessions under Concession End. The tax practitioners realize that their offers will be rejected by tax audit officers several times before they arrive at a mutual agreement.

The above literature indicates that different concession timing strategies may influence the perception of fairness from a negotiator's perspective. Similar to Kwon and Weingart (2004), this experimental study predicts that tax practitioners will perceive that Concession End (i.e. lesser concessions making) will result in an outcome of greater fairness than Concession Gradual in the negotiation process. However, tax practitioners will take the view that procedural justice is higher under Concession Gradual as compared to Concession End because they feel they have a greater sense of

control over the negotiation process and the decisions. The second hypothesis is formally stated below.

Hypothesis 2a: Perception of distributive justice will be higher when a tax audit officer uses Concession End than when the officer uses Concession Gradual.

Hypothesis 2b: Perception of procedural justice will be higher when a tax audit officer uses Concession Gradual than when the officer uses Concession End.

3.4 Concessionary Strategy and Tax Practitioners' Aggressiveness

As mentioned in the earlier section, the auditor-client negotiation model of Kleinman and Palmon (2000) is concerned with the pressure from a client on an auditor during a negotiation process to waive or lower the audit adjustments proposed by the auditor, or otherwise, to remove their auditor in the coming statutory audit. The outcome of the study indicates the level of pressure made by the client on the auditor in order to force him/her to accept their counteroffer (i.e., waive or lower the audit adjustments) to be reflected in the financial statement. Otherwise, the clients may consider terminating the auditing services provided by the auditor and discontinuing their relationship in future.

In the experimental study of Kwon and Weingart (2004), a buyer dislikes a seller who resists making concessions and is not flexible during the negotiation process. They found that the concession timing strategies, Concession Gradual and Concession End, have a more positive effect on the negotiation outcome as compared to Concession Start. Nevertheless, a buyer is required to confront a seller who rarely makes concessions during the negotiation, even though the buyer may obtain his/her desired final result at the end of a negotiation process that uses Concession End. Satisfaction with the outcome of a negotiation (i.e., the value of the object and its benefit) under

Concession End is lower for a buyer than with Concession Gradual because the value of the object may be higher than under Concession Gradual. In this connection, the buyer may refuse to negotiate with the seller in future. The buyer also feels that a seller is more flexible and willing to accept a counteroffer under Concession Gradual and will make concessions frequently throughout the negotiation process.

Similarly in taxation, aggressive behavior of taxpayers or tax practitioners is common in the tax industry. In taxation, the preference of taxpayers for an aggressive tax practitioner may be different among individuals. Murphy (2004) conducted a national survey of data from 2,040 Australian taxpayers in order to understand the partnership between high-risk taxpayers and high-risk tax practitioners by examining taxpayers' attitudes and perceptions of the Australian tax process and procedures. Taxpayers may perceive that the unreasonable behavior of regulators may cause resistance from the taxpayers towards paying their taxes. In her study, she found that tax practitioners play an important role in taxpayers' reactions to current tax regulations and this has created a substantial indication that future studies are needed. Normally, tax research does not consider the influence of tax practitioners on taxpayers' decisions.

In Murphy (2004), she noticed that tax practitioners who are engaged by taxpayers can play the role of 'exploiters' or 'enforcers' of the law. When there is a clear indication about certain tax issues (unambiguous situations), tax practitioners may behave as 'enforcers' of the law. Otherwise, tax practitioners may become 'exploiters' of the law, if they are faced with an ambiguous situation (i.e., a 'grey' area) and if they then encourage their clients, the taxpayers to undertake a tax avoidance scheme.

Similar findings are also highlighted in Frecknall-Hughes and Kirchler (2015). Tax practitioners may seek an ambiguous area to minimize their clients, the taxpayers' tax payable. Therefore, a tax practitioner, who is an enforcer, may persuade a taxpayer to

comply with the tax laws and behave less aggressively towards the tax audit officer's proposed tax adjustment during the tax audit period. On the other hand, tax practitioners, who are exploiters, prefer to encourage their clients, the taxpayers, to argue about the tax audit officers' proposed tax adjustments during the tax audit period, and behave aggressively in order to reduce potential taxes payable. Although this experimental study does not look into the characteristics of tax practitioners, except their level of aggressiveness in response to the concessionary negotiation strategies adopted by the tax audit officer, aggressive behavior among tax practitioners is an important aspect to be examined in this study.

Aggressive behavior is affected by their perceptions of justice. Murphy (2005) commented that if procedural justice is more important than distributive justice, any unfair decision-making process will increase the level of aggressiveness of taxpayers or tax practitioners, no matter which negotiation strategy is adopted by the tax audit officer. Murphy (2005) commented that any unfair decision making process may affect the level of aggressiveness of taxpayers or tax practitioners. She also found that taxpayers may be more willing to fulfill their obligations and pay their taxes (make fewer concessions) if the Tax Office treats them fairly.

Based on the literature review in Section 2.7.1 of Chapter 2, the studies have examined and commented on aggressiveness in tax reporting behaviour. The researchers have also highlighted the essential issues or reasons to understand the aggressiveness of taxpayers or tax practitioners in order to reduce their aggressive behavior. Nevertheless, tax audit officers from the IRB have highlighted the taxpayers or the tax practitioners adopt an aggressive negotiating style during tax audit negotiation in order to argue with tax audit officers on ambiguous tax areas or technical issues if they know that the tax adjustments can be defended or waived. According to Ganesan (1993), aggressive

strategy is a negotiation strategy which resolves the conflict between negotiating parties by adoption of a threat element. However, this may result in a negative relationship between the negotiating parties. Therefore, although the current literature has highlighted the aggressive behavior of taxpayers and the way to reduce it, there is lack of research conducted to examine the relationship between the negotiation strategy adopted by the tax audit officer as the negotiator and the aggressive behavior of the taxpayers or tax practitioners.

In taxation, tax partners from an international tax firm and tax audit officers from the IRB have confirmed that both concession timing strategies, Concession Gradual and Concession End are practiced by tax audit officers during the tax audit period (please refer to Section 4.1.1 and Section 4.2 of Chapter 4).

In view of the above literature, this experimental study predicts that a tax audit officer who adopts Concession Gradual will be more willing to make concessions and accept the counteroffers of a tax practitioner than in Concession End, where a concession is only made at the end of the negotiation. In this connection, tax practitioners may behave more aggressively with Concession Gradual than with Concession End because they perceive that the tax audit officer is more willing to accept their counteroffers under Concession Gradual (i.e., be more flexible) and tax practitioners also feel that they have greater control over the negotiation process throughout tax audit period. In view of the fact that the concession timing strategies adopted by auditors affect the reaction of their clients, this experimental study also predicts that the concession timing strategies adopted by tax audit officers also may influence a tax practitioner's level of aggressiveness. Thus, the third hypothesis is concerned with control over other variables, such as the tax position of the taxpayers, the complexity of the tax audit case and the 'grey' areas.

Hypothesis 3: The tax practitioners' level of aggressiveness will be higher when the tax audit officers use Concession Gradual than when they use Concession End.

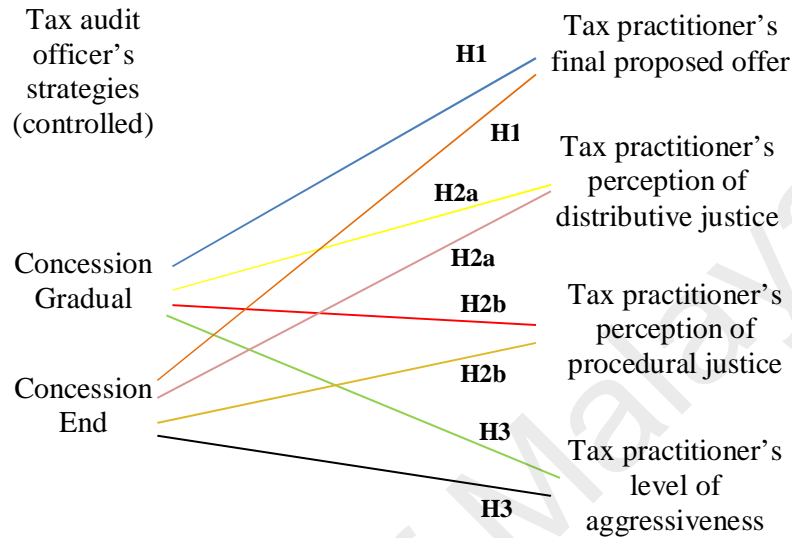


Figure 3.1: Predicted impact of concession timing strategies on four dependent variables: final proposed offer, perception of distributive justice, perception of procedural justice and level of aggressiveness

3.5 Tax Audit Officer-Tax Practitioner Negotiation-Oriented Model

Based on the literature outlined in Chapter 2, an auditor-client model proposed by Kleinman and Palmon (2000) can be adapted to a taxation context in a tax audit officer–tax practitioner negotiation model. Furthermore, because there is a lack of study in the tax area conducted on the negotiation that takes place between the tax audit officer and the tax practitioner except Frecknall-Hughes and Kirchler (2015) who highlighted that the interaction between tax practitioners and tax audit officers to deal with taxpayers' tax affairs, this study developed a tax audit officer-tax practitioner negotiation-oriented model from current literature on auditor-client negotiation models.

In the auditor-client negotiation model developed by Kleinman and Palmon (2000), they explain a mechanism in audit firm-client firm relationships and describe the

underlying values of the relevant parties and the interaction between the two parties. In this model, Kleinman and Palmon (2000) adopted the conflict style to explain the auditor-client relationship. Conflict style is defined as an individual's placements in two dimensions: concern for self and concern for others. One of the conflict styles, the use of force, is adopted by individuals who practise more concern for self than concern for others, thus behaving more aggressively to pressure their auditors in order to benefit themselves and achieve their goals.

The negotiation-oriented model developed by Kleinman and Palmon (2000) includes four important aspects that affect their negotiation, i.e., the expectations of the auditors, pressure from clients, and the perceptions and the reactions of auditors. Negotiation between auditors and clients involve differences in the preferences of the parties. These differences are the result of different values and goals. Clients always have some expectations of their auditors, based on their own prior experience in dealing with auditors. Therefore, clients may pressure their auditors in order to achieve their purposes or other benefits without taking into account the interests or the legal concerns of their auditors. During the negotiation with auditors, clients may behave aggressively so that the auditors will pay attention to their requests. Clients may adopt a conflict style in which they push aggressively in order to get what they want, even if this is at the expense of their negotiating parties' interests. Nevertheless, auditors also have their own perception of their clients' requests from the legal perspective and the auditor and client have to reciprocate during negotiation on audit adjustments. In this circumstance, the relationship between the auditor and the client is bound by law or by contract and the negotiating parties are interested in maintaining their relationship. Auditors will assess their clients' requests and respond to their clients, while at the same time, they are also required to comply with current regulations. In this connection, auditors may refuse to accept their clients' requests if they are illegal or are against current regulations. The

auditors are only required to accept their clients' requests if they are acceptable from a legal perspective.

Nevertheless, the auditor-client negotiation-oriented model developed by Kleinman and Palmon (2000) is essentially descriptive and offers only brief case studies in support, but not much evidentiary support for this model. In addition, this negotiation model provides some insights that how negotiation between auditor-client are conducted and how these two parties make concessions. Therefore, the developing of hypothesis for this study relies on the literature on the main variables, concession strategies, final offer, perception of fairness and aggressiveness but not from this auditor-client negotiation-oriented model. Further testing is required to find out the effects of the negotiation model.

Based on the above literature, in view of these four important aspects in auditor-client negotiation, the same factors are considered for the negotiation model, and these may also influence the relationship between the tax audit officer and the tax practitioner. Tax audit negotiations take place between tax audit officer and taxpayers or their representatives, the tax practitioners.⁷ In the same way as in other auditor-client negotiation studies, such as Kleinman and Palmon (2000) and Tan and Trotman (2010), the tax negotiation model examines the influence of the tax audit officers' negotiation strategy on the tax practitioners' final proposed offer. Negotiation strategies may also affect the tax practitioners' perception of fairness (i.e., in distributive justice and in procedural justice), as was found by Kwon and Weingart (2004). Negotiation strategies also may affect the aggressiveness of tax practitioners, as indicated by O'Donnell et al.

⁷ Tax practitioners act as mediators to solve the conflict between tax audit officers and taxpayers (Spaho, 2013). According to Murphy (2004), a tax practitioner's level of aggressiveness may influence a taxpayer's appetite for risk. Furthermore, taxpayers would like to engage tax practitioners to handle their tax audit, since they are lacking in the tax knowledge they need to respond to tax audit officers. Qualified tax practitioners prefer to advise their clients, the taxpayers to comply with the existing tax laws and regulations (Schisler, 1995).

(2005). The following sections discuss how audit adjustments, fairness perception and aggressiveness are manifested in tax audit officer-tax practitioner negotiations from the perspective of the four important aspects described in the model of Kleinman and Palmon (2000).

Based on the above, this study develops and tests the auditor-client negotiation-oriented model of Kleinman and Palmon (2000) in a tax context. Figure 3.1 below is tax audit officer-tax practitioner negotiation-oriented model which extends from the auditor-client negotiation-oriented model of Kleinman and Palmon (2000).

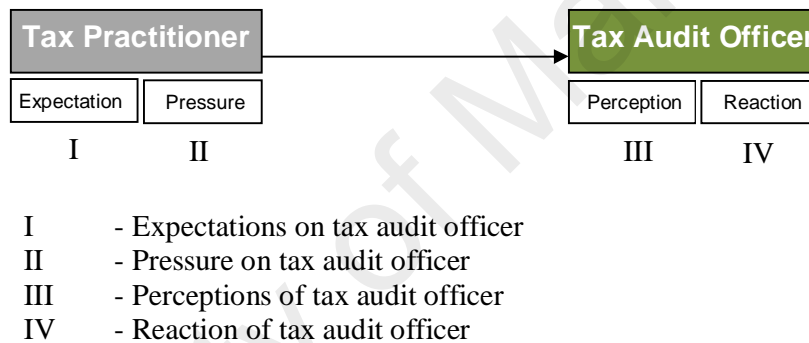


Figure 3.2: Tax Audit Officer-Tax Practitioner Negotiation-Oriented Model

3.5.1 The Expectations of the Tax Audit Officer

According to Kleinman and Palmon (2000), expectations refer to actions that trigger a desired or undesired behavior in the negotiating parties. In an auditor-client relationship, clients may shape their expectations of auditors based on the conflict between the negotiating parties, when one party wants another party to accept a proposed solution and this gives rise to conflict between the parties. Usually, clients may not aware of the regulatory or legal issues encountered by the audit firm, if the auditors accept their demands. Clients perceive that their proposed solutions may be feasible for the auditors, but the auditors may view it differently. However, clients'

perceptions are also influenced by the culture of their organizations and by their personalities. Some of the auditors' behaviors may be objected to by clients, but some may be accepted by their clients. Different clients may respond to an auditor's behavior differently.

The situation in taxation is similar to the situation in auditing. Murphy (2004) has highlighted that fairness plays an important role in the expectations of auditors and of tax practitioners or taxpayers. In taxation, Hanlon et al. (2014) commented that tax practitioners or taxpayers have their own perceptions of the tax authority. Therefore, the negotiation style of tax audit officers who act on behalf of the tax authority may influence their impressions of the practitioners or taxpayers. If the tax authority is strict and inflexible during the negotiation process, tax practitioners or taxpayers are not able to obtain any benefits from the tax audit negotiation. In these circumstances, if they are not allowed to make a counteroffer on the proposed tax adjustments provided by tax audit officers, they may judge that the tax authority is unfair.

Tax practitioners or taxpayers also may behave aggressively if they perceive that their tax treatment of the tax issues raised by them is different and unfair to them, even though it is in accordance with the current tax laws and the interpretation of these laws by the tax audit officers. Hanlon et al. (2014) found that taxpayers may incur significant costs and use a lot of managerial time to explain the tax issues questioned by a tax audit officer when they want to make an appeal. In normal circumstances, although tax practitioners or taxpayers perceive that their documentation and tax treatment have been handled in the proper manner, sometimes they still want to argue with the tax audit officers, even though it may take a longer time to resolve their tax audit case. From their perspective, tax audit officers are expected to accept their counteroffer, which is substantiated by the relevant supporting documents and grounds of appeal. Otherwise,

tax practitioners or taxpayers may take the view that the tax audit officers are unfair to them and this will affect their response to them in the future.

3.5.2 Pressure from the Tax Practitioner

Kleinman and Palmon (2000) commented that an organization's culture and its management team may influence its behavior. Some clients prefer to adopt a 'conflict' style and they like to pressure their auditors in order to get what they want, without concern for others' interests. They force another party to compromise with their request, because they are only concerned for self, and have minimal concern for others.

In the same way, tax practitioners or taxpayers also behave aggressively to pressure tax audit officers in order to protect their own interests. In addition, the way that tax audit officers treat the tax practitioners or taxpayers is important. In a tax audit, tax practitioners, as the taxpayers' representatives, may make a counter proposal to the tax audit officer to protect taxpayers' interest, in order to reduce the proposed tax adjustments raised by tax audit officers. Feld and Frey (2007) mentioned that taxpayers and the tax authority are bound by a psychological tax contract, in which both parties treat each other as partners. Tax audit officers who act for the tax authority may accept a counteroffer from the tax practitioners. If tax audit officers indicate resistance to compromise when they are pressured by the tax practitioners or taxpayers, this may affect taxpayers' or tax practitioners' reaction (i.e., honesty in paying taxes). A tax practitioner's level of aggressiveness may change as a result of different concession timing strategies adopted by a tax audit officer during the tax audit negotiation period.

3.5.3 The Perceptions of the Tax Audit Officer

According to Kleinman and Palmon (2000), the perception of auditors by their clients may be different when the auditors have different opinions about the disclosures

in financial statements. Clients sometimes have disputes with auditors on auditing issues. Clients assume that their appointed auditors are the specialists in auditing and that they are the experts who can provide several solutions to them, and they think that auditors always have to deal with people with specific problems and issues. However, auditors may reject their clients' proposals by considering the legal viewpoints and the current regulations. If their clients force or pressure them to accept their accounting treatment, the auditors also may reject their clients' proposals, especially if the clients are pressuring them to accept an audit adjustment which may be a legal risk for them.

In taxation, tax audit officers may interpret current laws and regulations differently from tax practitioners or taxpayers. Tax audit officers may not be able to accept a counteroffer recommended by the tax practitioners or taxpayers, because the tax authority may view the same tax issue differently. This can be seen in the discussion in Section 4.1.1 of Chapter 4. As highlighted by Feld and Frey (2007), different negotiation strategies adopted by tax audit officers may be viewed differently by tax practitioners or taxpayers. Any disagreement may result in an increase in the level of aggressiveness of the tax practitioners or taxpayers which was confirmed by the tax audit officers from the IRB during interview sessions for fact finding purposes. In view of this, the perception of fairness of tax practitioners may be affected by the concession timing strategies adopted by tax audit officer and this may result in a different level of aggressiveness of tax practitioners in future.

3.5.4 The Reactions of the Tax Audit Officer

In the auditor-client negotiation-oriented model of Kleinman and Palmon (2000), clients may believe that their current auditors will accept their accounting treatment based on their prior experience with (other) auditors. They may reduce their pressure on their auditors if they expect the possibility that they can convince their auditors is low.

However, auditors may view the situation differently, based on their prior experience in dealing with (other) clients. Auditors may also react differently based on the counteroffer proposed by their clients. If auditors feel that their clients' accounting treatment will not meet the requirements of current accounting standards, they may refuse to accept their clients' accounting treatment, in view of the legal risk. Instead, they may react as though they are being threatened and may refuse to accept their clients' treatment even though the clients may pressure them to maintain the relationship.

Based on the above explanation, the similarity and difference between the auditor-client negotiation-oriented model of Kleinman and Palmon (2000) and the tax audit officer-tax practitioner negotiation-oriented model developed in this study are summarized in Table 3.1 below.

The auditor-client negotiation-oriented model developed by Kleinman and Palmon (2000) has yet to be tested and the tax audit officer-tax practitioner negotiation-oriented model which has been adapted from the auditor-client negotiation-oriented model is a reference of the interaction between tax audit officers and tax practitioners. The response and reaction of both parties during the tax audit negotiation period are analysed in this study to provide some insights into how tax negotiations are conducted and how the parties involved make concessions during the tax negotiation process. Furthermore, as the tax audit officer-tax practitioner negotiation-oriented model is influenced by many factors during negotiation process, the development of hypothesis of this study relies on the four main variables, which were elaborated in earlier sections of this chapter and focused on the effect of adoption of concession timing strategies on the tax practitioners' final proposed offer, perception of fairness and level of aggressiveness, which has yet to be explored in detail in a tax context. The findings

from the interview sessions with the tax audit officers from the IRB is also a reference to form the hypothesis for this study.

Table 3.1: Similarity and Difference between auditor-client negotiation-oriented model and tax audit officer-tax practitioner negotiation-oriented model

Factors		Auditor-Client	Tax audit officer-Tax Practitioner
Expectation of client/tax practitioner	Similarity	<ul style="list-style-type: none"> • Influence by clients' own experience with audit firms or others in the industry • Mediated by organization culture and clients' personality • Expect auditors make concessions and accept clients' counteroffer 	<ul style="list-style-type: none"> • Influence by previous tax audit experience with tax audit officers • Mediated by clients' personality and perception on tax authority • Prefer tax audit officers to make concessions
	Difference	<ul style="list-style-type: none"> • Maintain long term relationship 	<ul style="list-style-type: none"> • Tax practitioners feel unfairness if tax audit officers are strict • No need to maintain long term relationship
Pressure on auditor /tax audit officer	Similarity	<ul style="list-style-type: none"> • Adopt aggressive style to push for their needs • Pressure on auditor who is disagreed with them • Pressure on auditor if they can justify to waive the proposed audit adjustments • Different concession timing strategies negotiation outcome 	<ul style="list-style-type: none"> • Adopt aggressive style to pressure tax audit officers in order to protect their interest • Pressure on tax audit officers if can defend taxpayers' tax position • Different concession timing strategies lead to different final offer and level of aggressiveness
	Difference		<ul style="list-style-type: none"> • Behave aggressively if tax practitioners feel unfairness
Perception of auditor/tax audit officer	Similarity	<ul style="list-style-type: none"> • Expect to have conflicts with clients • May reject clients' request since no legal contract bounded two parties 	<ul style="list-style-type: none"> • Dispute in ambiguity areas and different interpretation in technical issues
	Difference	<ul style="list-style-type: none"> • Retain clients to provide value-added services to increase fees • May require to provide solutions for clients on auditing issues 	<ul style="list-style-type: none"> • No intention to retain tax practitioners as tax audit is one-off exercise • Focus on tax finalization • Perceive that taxpayers or tax practitioners purposely under-reported tax and have intention to cheat
Reaction of auditor/tax audit officer	Similarity	<ul style="list-style-type: none"> • May reject clients' requests if the risk being barred by authority is high • Response to clients' requests based on experience • May affect clients' offers during negotiation process 	<ul style="list-style-type: none"> • May reject tax practitioners' counteroffer as restricted by current tax laws and regulations • Response to tax practitioners based on tax audit experience • May affect tax practitioners' final offers, perception of fairness and level of aggressiveness
	Difference	<ul style="list-style-type: none"> • May accept clients' request if clients may terminate audit services 	<ul style="list-style-type: none"> • Tax audit officers have higher power in tax audit negotiation
	Overall	<ul style="list-style-type: none"> • Clients deal with same auditors if no changes 	<ul style="list-style-type: none"> • Tax practitioners deal with different tax audit officers for different tax audit case

3.6 The Mediation Effect

The mediation analysis is adopted in this experimental study to understand the relationship between four main variables: tax authority's concession timing strategies, tax practitioners' final proposed offer, tax practitioners' perception of fairness and tax practitioners' level of aggressiveness. This study contributes to our understanding of tax audit officer-tax practitioner negotiation by providing evidence on concession timing matters, and also contributes to a better understanding of the consequences of concession timing strategies in negotiations (Concession Gradual and Concession End) adopted by tax audit officers. Tax practitioners may behave differently in response to different negotiation strategies adopted by tax audit officers.

Tan and Trotman (2010) found, in an experimental study, that the negotiation strategy adopted by auditors may affect the final offers of financial officers during the negotiation process on proposed audit adjustments. In the same way, during a tax audit period, the negotiation strategy adopted by the tax audit officers who act on behalf of the tax authority also may influence the final proposed offer of the tax practitioners who represent their clients, the taxpayers.

Tax audit officers from the IRB have adopted concession timing strategies (i.e., Concession Gradual and Concession End) during tax audit negotiations. A concession timing strategy may influence the negotiators' perceptions of fairness. Kwon and Weingart (2004) commented that the buyers experience a greater sense of control over the negotiation process and over the sellers' final decisions or final offers if the sellers adopt Concession Gradual rather than Concession End. The buyers feel that the negotiators, the sellers, are more flexible in making concessions and accepting their counteroffers. From this, it appears that Concession Gradual is more responsive from the buyers' perspective and results in better negotiation outcome (i.e., greater

satisfaction of the seller, and the buyer wants continue to negotiate with seller), whereas negotiations using Concession End have the opposite result. Using a Concession End strategy, the buyers are required to argue many times with the sellers before they receive an acceptable response.

Kwon and Weingart (2004) also found that a feeling of justice influences the mutual agreement of buyers and sellers. Justice, especially distributive justice, mediates the concession timing effect on an agreement with another party. As mentioned by Kwon and Weingart (2004), different concession timing strategies may affect the negotiating party's perception of fairness. According to this study, distributive justice is the important mechanism influencing the negotiation outcome. In the tax context where tax practitioners are able to finalize the tax audit with a better outcome (i.e., a lower final offer, resulting in less additional tax payable), their perception of distributive justice on the tax authority is more important than their perception of procedural justice. This is because the final proposed offer refers to the outcome of the negotiation which is influenced by the distributive justice perspective but not by procedural justice. Concession Gradual is a fairer negotiation strategy than Concession End because this negotiation strategy allows the other party to make counteroffers and the negotiator is more responsive to these counteroffers. In the same way, in taxation, the effect of a concession timing strategy (i.e., Concession Gradual or Concession End) adopted by a tax audit officer affects the tax practitioner's perception of fairness and may influence his or her final proposed offer. It may also influence the flexibility of negotiation strategy of the tax audit officer during the tax audit negotiation. Tax practitioners perceive that tax audit officers are fair to them if these officers are willing to make concessions and accept their counteroffers. In view of this, this study formally presents the following hypothesis.

Hypothesis 4: The effect of the tax audit officer's concession timing strategy on the tax practitioners' perception of distributive justice is mediated by their final proposed offer.

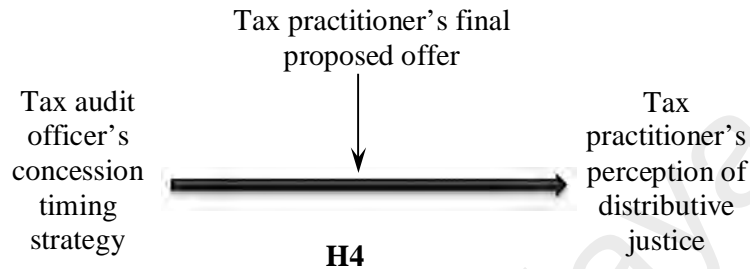


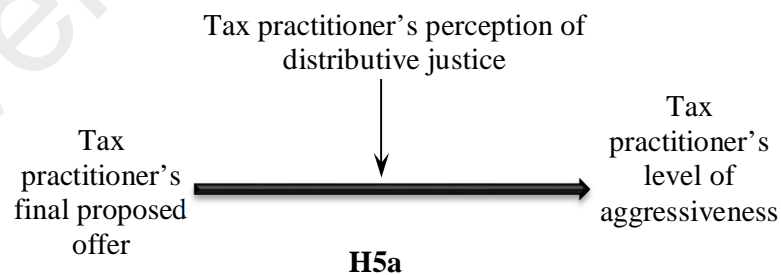
Figure 3.3: Mediation effects between tax audit officer's concession timing strategy and tax practitioner's perception of distributive justice

The study of Murphy (2004) examined aggressive taxpayers' attitudes in handling tax affairs and the way that taxpayers would like to partner with high-risk tax practitioners. She found that taxpayers prefer to appoint an aggressive tax practitioner to represent them to deal with tax authority. They blame the tax authority if they feel they have been treated unfairly when they are caught and punished, i.e. they perceive that the decision made by tax officer is unfair to them. From this, if tax practitioners cannot lower the final proposed offer during tax audit negotiation period, this may affect their perception of distributive justice. Finally, tax practitioners may adopt an aggressive negotiating style to deal with tax audit officers in order to protect the taxpayers' interest. It can be concluded that the perception of distributive justice of tax practitioners may affect the negotiation outcome for their clients, the taxpayers. Murphy (2004) also found that the tax practitioners' perception of procedural justice can affect both the tax practitioners' and the taxpayers' decision making and their aggressiveness. Moreover, different concession timing strategies may cause the negotiating party to consider the

fairness in negotiation process, which is a concern from the perspective of procedural justice (Kwon & Weingart, 2004). In view of this, tax practitioners who represent their clients (the taxpayers) may adopt an aggressive negotiating style in an attempt to minimize the amount of tax their clients have to pay when dealing with tax audit officers, if their clients feel that the tax process and procedures, e.g., the concession timing negotiation strategy to be adopted or tax authority's tax treatment of them, is unfair to them. Unfair treatment from the tax authority may jeopardize tax practitioners' or taxpayers' perception of fairness. Thus, this study formally presents the predictions in the following hypotheses.

Hypothesis 5a: The effect of the tax practitioners' final proposed offer offered on the tax practitioners' level of aggressiveness is mediated by their perception of distributive justice.

Hypothesis 5b: The effect of the tax audit officer's concession timing strategy on the tax practitioners' level of aggressiveness is mediated by their perception of procedural justice.



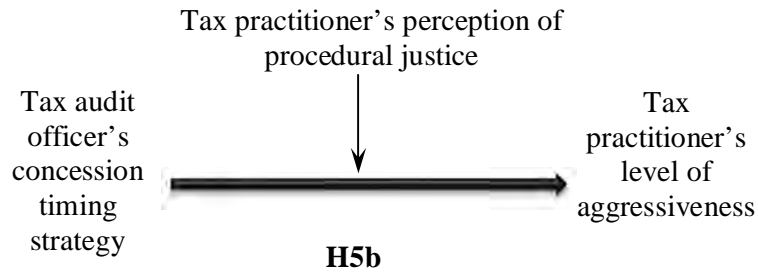
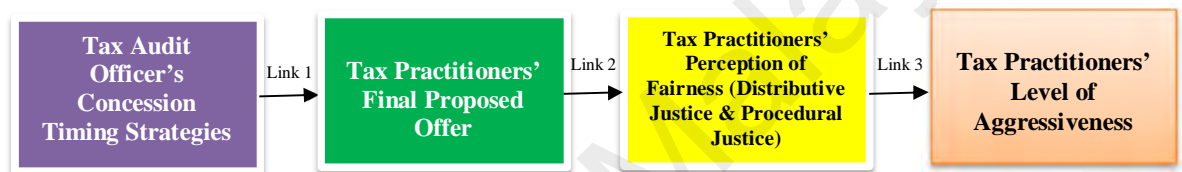


Figure 3.4: Mediation effects between tax audit officer's concession timing strategy, tax practitioner's final proposed offer and tax practitioner's level of aggressiveness



- Link 1: Concession timing influences a tax practitioner's final proposed offer
- Link 2: The tax practitioners' final proposed offer influences their perception of fairness
- Link 3: Tax practitioners' perception of fairness influences their level of aggressiveness

Figure 3.5: A Mediation Model of a Tax Audit Officer - Tax Practitioner Negotiation

3.7 Summary

This chapter summarized the important variables for the development of the research framework. The auditor-client oriented model for negotiation of Kleinman and Palmon (2000), focussed on the clients' expectations and the pressure on auditors, as well as on the perceptions and reactions of auditors. This experimental study developed a tax audit officer-tax practitioner model for negotiation, with the consideration for the four important factors adapted from Kleinman and Palmon (2000), i.e., the expectations of the tax audit officer, pressure from the tax practitioner, the perception and the reactions of the tax audit officer.

Tan and Trotman (2010) conducted an experimental study that adopted concessionary negotiation strategies and considered the reciprocity and the anchoring effects of both parties during the negotiation process. They further found that the negotiation strategy adopted by auditors may influence the final offers of the client. Based on the information from the tax partners and the tax audit officers from the IRB, and concession timing strategies adopted by tax audit officers during tax audit negotiation, this experimental study examined the effect of negotiation strategy, concession timing (Concession Gradual and Concession End) on tax practitioners' final proposed offer, on their perception of fairness (distributive justice and procedural justice) and on the level of aggressiveness before and after tax audit negotiation.

The tax audit officer-tax practitioner model for negotiation also considers the reciprocity and anchoring effects during the negotiation process, adapted from Tan and Trotman (2010). In addition to the concessionary strategies of the tax audit officer, which affect the final proposed offer of tax practitioners, this model also examines the effect of concession timing strategies on tax practitioners' perceptions of fairness, adapted from Kwon and Weingart (2004) and predicts that these perceptions may influence the level of aggressiveness of the tax practitioners who represent their clients during the tax audit period. This is a serious matter and requires special attention from the tax authority (Murphy, 2004). In addition, this tax audit officer-tax practitioner model for negotiation also predicts the mediation effect between the four main variables, based on the current literature.

CHAPTER 4: RESEARCH DESIGN AND METHODOLOGIES

This chapter discusses the design of the experiment for the study which includes the facts finding obtained from the interview sessions with the tax audit officers from the Inland Revenue Board of Malaysia (IRB) and the case background. The next section discusses the tax partners' validation of the case materials. This chapter also explains the manipulation check conducted during the data collection process in this experimental study and elaborates the background of the participants for this experimental study. Next, this chapter explains the experimental procedures, pilot test and debriefing for this study. Finally, the chapter highlights the method of analysis adopted in this experimental study.

The following section discusses the design of the experimental study adopted in this study and the variation in the negotiation strategies adopted by a tax audit officer to improve the results of a negotiation between a tax audit officer and a tax practitioner or taxpayer.

4.1 Design of the Experiment

This study adopted an experimental method to study a tax field audit case of a manufacturing company for the years of assessment 2002 to 2005. According to Shadish, Cook, and Campbell (2002), an experimental method is suitable to define the cause, effect and causal relationship between variables and control the irrelevant variables at the same time. There are several negotiation studies (Kwon & Weingart, 2004; O'Donnell et al., 2005; Tan & Trotman, 2010) that have adopted an experimental method with an experimental case to examine the response of the targeted respondents and the relationship between cause and effect of an issue. For example, Tan and Trotman (2010) adopted the experimental method to examine the influence of an

auditor's timing of concessions on financial officers' judgments on proposed audit adjustments during the negotiation process between auditor-client. Similar to tax audit negotiation, the experimental method is the most suitable method to examine the tax audit officer's timing of concessions (i.e., cause) on tax practitioners' final proposed offers, perception of fairness and level of aggressiveness (i.e., effects). In this case, the tax audit officer from the IRB examined the company's accounting records and other documents during a tax audit visit to the company's business premises. Subsequent to the tax audit visit, the tax audit officer proposed some tax adjustments that may not be acceptable by tax practitioners.

The experiment used in this study was developed using a design of 2 x 1, varying the tax audit officer's negotiation strategy (Concession Gradual and Concession End) across two levels. The design of the experiment is adopted from Tan and Trotman (2010), while the case in the experiment is adapted from an actual field audit case in Malaysia. Please refer to Appendix C for details of the case used in this study. Participants were told that the tax audit officer had suggested some tax adjustments to partially disallow some of the RA claimed on the capital expenditure. The participants were provided with the background information of the RA claimed and the disputes on the tax treatment with tax audit officer. They were also informed about how the proposed adjusted figures were determined (i.e., the additional tax payable and the tax penalty).

In this experimental study, a Concession Gradual strategy offers concessions gradually during the tax audit negotiation period, while in a Concession End strategy, a concession is offered only once, at the end of the negotiation period (Table 4.3). Both concession strategies were administered to participants who acted as tax practitioners representing their clients, the taxpayers. Participants reacted differently to the different approaches in their replies to the researcher. Please refer to Appendix D for the

questions used in the experiment, adopted in Concession Gradual, and in Appendix E for the questions used in Concession End negotiation strategies.

In the experimental case used in this study, the participants were required to complete the experiment over four rounds of negotiation, via emails. Prior to the start of the experiment, the participants were requested to set aside two hours for the experiment. Participants would be informed of the date and time of their appointment with a researcher, who would act as an IRB audit officer. On the actual date of their appointment, participants were expected to wait for the first email sent by the researcher: a cover letter, case materials and the questions for Round 1. Participants were able to start immediately with Round 1, after they had read the cover letter and the case materials. The researcher would send Round 2 to participants after they had completed Round 1 and had replied to the researcher via email. The same procedure was adopted for Rounds 3 and 4 until participants had completed the four rounds of questions. The details of procedure for the experiment are explained in Section 5.4 below. In fact, most of the participants completed all of the tasks within the time set.

The following section discusses the facts finding obtained from the interview sessions with the Inland Revenue Board of Malaysia (IRBM) to understand the tax audit process and the practices of the IRBM.

4.1.1 Interview Results

As explained in Chapter 1, there is lack of studies on the negotiation between tax practitioners and tax audit officers that can be applied to the taxation industry. It is essential to understand the relevant negotiation strategies that should be adopted by the IRB to resolve disputes with taxpayers or tax practitioners about the tax audit findings, in particular, the processes and procedures of tax audit negotiation in Malaysia. In order

to understand the negotiation in tax audit cases, interview sessions were conducted with ten tax audit officers from the IRB in the Corporate Tax Branch, the Larger Taxpayer Branch and the Multinational Tax Branch who had carried out a number of tax audits of corporate taxpayers on behalf of the IRB. Please refer to Appendices A and B for the background of the IRB and the tax audit officers. The interview results obtained from the interview sessions provide a better understanding of the negotiation procedure for tax audit officers.

Based on the fact that the interview findings from the tax audit officers from the IRB, negotiation always takes place during the tax audit period, negotiation is a useful tool for them to resolve tax audit cases with taxpayers or their tax practitioners. One of the tax audit officers from the Larger Taxpayer Branch commented that a tax audit officer may make an offer during the last round of the negotiation. This negotiation method is called a Concession End strategy. The tax audit officer considers the documents submitted by the taxpayers or their representatives, the tax practitioners together with their explanations and they may be able to convince the tax audit officers to accept their justifications in the final round of negotiation. In addition, the tax audit officers also mentioned that they may gradually offer concessions during the negotiation period. This negotiation method is called Concession Gradual.

In addition to the above, tax audit officers commented that tax practitioners play an important role in assisting taxpayers to resolve their tax audit issues. The officers also mentioned that tax negotiation is smoother with the involvement of tax practitioners because of their better tax knowledge and their familiarity with tax audit procedures. During tax audit period, taxpayers may appoint tax practitioners as their representatives to liaise with tax audit officers on tax audit findings if they are not confident enough to

start the negotiation with tax audit officers themselves and /or if the tax implication is significant.

Tax audit officers from the Corporate Tax Branch commented that tax audit negotiation to resolve tax audit issues may be carried out via emails or telephone calls prior to face-to-face meetings. They further commented that a lot of tax audit officers negotiate with taxpayers or tax practitioners via emails.

One of the tax audit officers from the Corporate Tax Branch stressed that tax practitioners may take a harsh approach and behave aggressively during tax audit negotiation meetings, especially on two issues which will be discussed in the next paragraph. Similarly to the Larger Taxpayer Branch, in view of the fact that the tax issues raised by the tax audit officers in the Larger Taxpayer Branch may result in substantial additional tax payable and penalties, taxpayers or tax practitioners often behave very aggressively in trying to reduce the additional tax payable and the penalties.

Overall, there are two types of issues negotiated during the tax audit period that always result in disputes between the tax audit officers and the taxpayers - technical issues and issues in the 'grey' area. According to one of the tax audit officers from the Corporate Tax Branch, technical issues refer to a tax treatment of revenue and expenditure. The 'grey' area refers to tax issues for which there are no existing tax laws and regulations to provide clear guidance on the tax treatment or the supporting documents required. These two issues always become the target for tax practitioners to exploit it in order to minimize their clients' tax payable because there is a lack of clear guidelines or regulations to clarify the purpose of the laws.

The following section discusses the background and details of the tax audit case adopted in this study.

4.1.2 Case Background

The tax audit case was adapted, with minor changes, from an actual tax field audit case in Malaysia. As an introduction to the tax audit case, participants were informed that the company was principally involved in the business of manufacturing semiconductor products. The company had incurred a significant amount of capital expenditure to expand its manufacturing activities, e.g., plant and machinery, equipment, and real estate. In view of this, the company was eligible to claim one of the tax incentives promoted by the Malaysian Government, especially for manufacturers: the RA under Schedule 7A of the Income Tax Act, 1967 (the Act). The company started to claim RA in the year of assessment, 1998, when it met all the criteria under the law for RA purposes. The case material included the financial information (i.e., revenue, net profit before tax and taxes payable) of the company for the respective years of assessment.

The case material also explained the situation in the year when tax field audit comes into the picture. In this tax field audit case, the tax field audit was conducted by the IRB during 2009. The case material contained the results of tax audit findings for a manufacturing company over four years of assessment on the RA claimed, but the audit results asked for additional tax payable and a tax penalty. The tax audit officer is focussed on the proposed tax adjustment, in respect of the RA claimed during the respective years. The company had claimed the RA on all of the capital expenditure, which included its manufacturing activities, as advised by their appointed tax practitioners. However, when the tax audit officer examined the capital expenditure incurred by the company for RA purposes, he adopted a different viewpoint. The tax

audit officer proposed a partial disallowance of the RA claimed by the company, on the basis that these assets were not used directly for manufacturing or processing purposes. For the IRB, the expenditure incurred by the company was not directly involved in the qualifying activity, pursuant to current tax legislation, so this this expenditure did not qualify for an RA claim.

The case material listed the relevant expenditure incurred that triggered the tax audit officer's attention and his view that this expenditure was not eligible for an RA claim over the four years of the assessment. This was followed by the tax audit officer's perception of the expenditure incurred by the company, based on the current tax legislation. Subsequently, the case material also explained the details of the dispute with tax audit officer, in which the tax authority held a different opinion on RA than that claimed by the company, i.e., some of the capital expenditure did not qualify for RA purposes, and the tax officer disallowed the RA claimed.

Table 4.1: The IRB's Rationale for the Ineligibility of Selected Expenditure to Qualify for RA Purposes

Expenditure	Function of Asset	IRB's rationale for disallowing the RA claim
Piping system	Delivery of the chemicals and gases	Not for production or processing purposes and thus, it is not a qualifying expenditure
Sprinkler system and fire proofing system	To safeguard production premises as flammable gases and hazardous chemicals used in the manufacturing process	Not for production or processing purposes and thus, it is not a qualifying expenditure
Waste water treatment equipment	To treat the chemical wastes and wastewater to prevent water pollution	Not for production or processing purposes, and thus, it is not a qualifying expenditure
Cold room	Storage of raw materials	Not for production or processing purposes and thus, it is not a qualifying expenditure
Purchase cost of factory	Instead of renting the factory, the company purchased the factory building from the owner	As the factory was rented by the company previously, and the purchase price of this factory did not include expansion, it is not eligible for RA, i.e., it is not an expenditure incurred under a qualifying project (i.e., no expansion of the factory)

In view of this, the tax audit officer proposed the withdrawal of the RA claimed on the piping system of RM0.5 million in 2002, the sprinkler system and fire proofing system of RM0.3 million in 2003, the waste water treatment equipment and the cold room expenditure of RM0.4 million in 2004 and the cost of the purchase the factory of RM0.7 million in 2005, which the company had previously rented. The piping system, the sprinkler system, the fire proofing system, the waste water treatment equipment and the cold room were not directly used in the manufacturing activities of the company. Furthermore, there was no expansion of the capacity of the manufacturing activity even though the company purchased the factory, because the company had used the factory as their business premises during the tenancy period when it was owned by the former landlord.

To understand the proposed tax adjustments, participants were referred to Table 3 which is included in the experimental case (or Table 5.2, below), which indicates the RA claimed and the tax payable paid, additional tax payable, and the potential tax penalty as a result of the withdrawal of the RA claimed, and various assumptions with respect to potential penalties. Table 5.2, is an extract of instruments of this experimental case. For example, if the piping system is not eligible for an RA claim, the additional tax payable is only RM0.1 million and the potential tax penalty is RM0.05 million. Depending on the assumption on the level of penalties, the additional tax payable could vary from RM0.1 million to RM0.2 million, as indicated in Column E of Table 5.2. The tax audit officer started by disallowing the RA claimed on the expenditure incurred for the piping system, the sprinkler and proofing systems, the waste water treatment equipment, the cold room and the cost of purchasing the factory, resulting in an accumulated additional tax payable of RM0.5 million for the years of assessment 2002 to 2005, and an aggregate tax penalty of RM0.24 million. The potential additional tax

payable can be reduced to RM0.1 million if the tax audit officer makes concessions on the RA claimed for the expenditure incurred by the company.

The tax audit officer claimed that the basis adopted is based on the clauses included in Schedule 7A of the Act. The expenditure that was not accepted by the tax audit officer as qualifying expenditure for claiming of RA include the piping system for transferring gas and liquid during the manufacturing process, the sprinkler and fire proofing systems in the factory, the waste water treatment equipment, the cold room and the cost of factory previously rented factory from the former owner. Nevertheless, Schedule 7A of the Act explains that a company is eligible to claim the RA on capital expenditure on factory, plant and machinery used in Malaysia for a qualifying project. Schedule 7A of the Act further explains that a qualifying project is a project undertaken by a company to expand, modernize or automate its existing business in respect of the manufacturing of a product or any related product within the same industry, or in diversifying its existing business into a related product within the same industry. However, the Act does not define capital expenditure for RA purposes and the plant must qualify as a production plant.

In this connection, the tax audit officer prepared an explanatory letter to the company on the capital expenditure that was disallowed. The company may appeal to the tax audit officer on the proposed tax adjustments with its supporting documents to substantiate the claiming of RA and the tax audit officer may accept the company's appeal provided the tax issues are straightforward or clearly stated in the current tax legislation (i.e., not 'grey' areas or technical issues). At the end of the case material, the participants were told that they should act as the appointed tax practitioners of the company and they were required to reply stating their views to the researcher, who acted as the tax audit officer in the experiment, and communicated via emails.

Table 4.2: Reinvestment Allowance Withdrawn, Original and Revised Tax Payable and Penalties

Years of assessment (YA)	RA claimed based on expenditure <i>directly</i> or <i>indirectly</i> involved in the production or processing purposes (the Company's original assessment)		RA claimed based on expenditure <i>directly</i> involved in the production or processing purposes (the IRB's revised assessment)					
	RA claimed RM (million) (A)	Total Tax Payable RM (million) (B)	RA withdrawn RM (million) (C)	Total Tax Payable RM (million) (D)	Additional Tax Payable (Difference between revised tax payable in Column D and original tax payable in Column B) (RM million) (E)	Accumulated Additional Tax Payable RM (million) (F)	Tax Penalty @ 45% (Penalty imposed on additional tax payable in column E) (RM million) (G)	Accumulated tax penalty RM (million) (H)
2002	0.5	0.6	0.5 ^a	0.7 [0.6 + (0.5 x 28%)]	0.1	0.1	0.05 [0.1 x 45%]	0.05
2003	0.3	0.5	0.3 ^b	0.6 [0.5 m + (0.3 x 28%)]	0.1	0.2	0.05 [0.1 x 45%]	0.1
2004	0.4	0.9	0.4 ^c	1.0 [0.9 + (0.4 x 28%)]	0.1	0.3	0.05 [0.1 x 45%]	0.15
2005	0.7	1.3	0.7 ^d	1.5 [1.3 m + (0.7m x 28%)]	0.2	0.5	0.09 [0.2 x 45%]	0.24

Note

^a Deemed to have not been given RA claimed on the piping system

^b Deemed to have not been given RA claimed on the sprinkler fire proofing system

^c Deemed to have not been given RA claimed on the waste water treatment equipment and the coldroom

^d Deemed to have not been given RA claimed on the purchase cost of factory

The proposed tax adjustments of tax audit officer show his tough stance, indicating that the various concession timing manipulations would not be apparent in earlier rounds based on the actual negotiation conditions between tax audit officer and the taxpayers' appointed tax practitioners. The tax audit officer may agree to the RA claimed on the expenditure incurred if the tax practitioner is able to prove that the tax treatment of the expenditure incurred is legitimate, based on current tax legislation.

In the treatments of Round 2 to Round 4, the instruction referred the participants to Table 3 of the experiment case (or Table 4.2 in this report), and indicate when the tax audit officer provided a new adjustment. For example, in one instance, participants were informed that “the IRB audit officer has not agreed to your proposed adjustment, and has asked for a tax adjustment that increases the tax payable by RM0.5 million (and the tax penalty by RM0.24 million). The IRB audit officer is still of the opinion that only the plant and the equipment acquired by the company that are directly involved in production or processing and only these are eligible for RA”. Across the two treatments, the tax audit officer maintained the tax treatment in which only the expenditure incurred by the company that is directly involved for production and or processing purposes should be allowed, but the tax audit officer did vary the tax penalty level.

In both treatments (Concession Gradual and Concession End), the tax audit officer started with the proposed tax adjustment, resulting in an additional tax payable of RM0.5 million in Round 1 of the negotiation. The tax practitioner was told that the tax audit officer had decided on a final tax adjustment that would result in an additional tax payable of RM0.1 million (and a tax penalty of RM0.05 million) for both treatments in Round 4. Thus, in both treatments, the participants received identical starting points (RM0.5 million) and finishing points (RM0.1 million). The difference of these treatments was the timing of the reduction from RM0.5 million to RM0.1 million. The

magnitude of the tax adjustment in Rounds 2 and 3 was RM0.3 million and RM0.2 million, respectively, using the strategy of Concession Gradual. For the Concession End strategy, the proposed tax adjustments in Rounds 2 and 3 remained at RM0.5 million. Please refer to Table 4.3 for the tax adjustments proposed by the tax audit officers for Rounds 1 to 4.

Table 4.3: Additional Tax Payable-Decreasing Tax Adjustments Proposed by Tax Officer at Each Negotiation Round

	Concession Gradual RM million	Concession End RM million
Round 1	0.5	0.5
Round 2	0.3	0.5
Round 3	0.2	0.5
Round 4	0.1	0.1

The following section discusses the validation of the experimental case. This validity control was conducted by two tax partners on the actual tax case adopted for this experimental study.

4.2 Tax Partners' Validation of the Case in the Experiment

Two tax partners from an international tax firm in Malaysia were selected to assist in determining the validity of the actual tax field audit case to be studied in this experiment from practical perspective. However, this case has yet to be tested in any study. During the interview sessions, the formal discussions were conducted with the tax partners to ensure that the case in this experimental study was valid and in accordance with current practice in the tax profession. The selected tax partners have over five years' experience as tax partners and more than 15 years of experience in the tax profession. Both of the tax partners have experience in tax audit cases and have attended appeals of tax audit cases that had been sent to the Dispute Resolution Department of the IRB or to court. The tax partners were provided with details of the tax audit case and the research

instrument. The tax partners were encouraged to comment on the case materials and the research instrument for this study. They indicated that two treatments, i.e., Concession Gradual and Concession End, could take place in tax practice, based on their experience in dealing with the tax authority. They confirmed that tax audit officers would either gradually agree to waive certain proposed tax adjustments throughout the tax audit period (Concession Gradual) or would only waive certain proposed tax adjustment towards the end of tax audit period prior to the finalization of the tax audit (Concession End). In the scenario of Concession End, tax audit officers are tougher and are resistant to accepting the justifications of the taxpayers or their appointed tax practitioners.

They also highlighted that it is common for the Malaysian tax authority to notify taxpayers or their appointed tax practitioners of the tax audit officer's audit findings. Tax audit officers also may call for a meeting with the tax practitioners or taxpayers in order to explain their views from their perspective. During the tax audit negotiation period, some tax issues or tax findings may be dropped during or after the tax audit meetings if tax audit officers are satisfied with the supporting documents and the justification furnished by tax practitioners or taxpayers. Tax practitioners or taxpayers are also allowed to express their opinions on the interpretation of laws or regulations during the tax audit meetings. The final result of negotiation on tax audit findings should be acceptable by both parties, in order to prevent one of the parties taking their appeal to court.

The tax partners also commented that their negotiation style may be different, in view of the different negotiation styles of different tax audit officers. They agreed that most tax audit cases are resolved after several rounds of negotiation with tax audit officers.

In addition, one of the tax partners also suggested the inclusion of a paragraph in the case materials to explain the changes in the regulations for Reinvestment Allowance (RA). According to this tax partner, the definition of a factory has been defined in Paragraph 9 of Schedule 7A of the Act with effect from the year of assessment, 2012, as a result of a landmark decision of case law on RA by the Court of Appeal for *Ketua Pengarah Hasil Dalam Negeri v Success Electronics & Transformer Manufacturing Sdn Bhd (2012)*. This paragraph spells out that a portion of the floor area of a building or an extension of a building used for the purposes of placing or installing plant or machinery or to store any raw material, or goods or materials manufactured is not eligible in an RA claim. In this connection, it is important to highlight to participants that this new rule is not applicable to this case, because the tax audit conducted by the IRB was done prior to the enforcement of the new rule on RA.

Prior to the finalization of the tax field audit case to be adopted for this experimental study, the opinions of an academic expert in experimental studies were also taken into consideration. He also verified the validity of the design of the experiment and the instrument for this study. Both of the tax partners and the academic expert have mentioned that the decisions of the tax audit officer in the experiment are reasonable.

The following section explains the researcher's expectations of the participants.

4.3 Manipulation Check

A manipulation check was conducted to ensure that all participants had agreed to make their decision during the first three rounds of the negotiation. Participants were informed by the researcher that the third round is the last round of negotiation with a tax audit officer in view of the practicality of experiment and the time constraint. Since this is the last round of negotiation, participants were required to counter propose their final offers to the tax audit officer before the tax audit officer made his or her final decision.

Participants were expected to go through four full rounds of negotiation in order to determine their level of aggressiveness before and after the tax audit negotiation process. Therefore, thirteen participants were dropped because they accepted the offer in the first round. An additional three participants were dropped because they accepted the offer in Round 2. Finally, another six participants were dropped in view of their acceptance of tax audit officer's offer in Round 3. Finally, the study retained 62 valid participants in the experiment. Other than the participants' level of aggressiveness, they were also required to provide their response from the perception of fairness in Round 4, which was expected to be affected by the concession timing strategies adopted by the tax audit officer during the first three rounds.

The following section elaborates the background of the participants for this experimental study.

4.4 Participants

The study involved 62 participants for the experimental case conducted. The participants are tax personnel who were working in tax firms or companies in Malaysia. Although the sample size for this experimental study is small, it is an acceptable sample size for an experimental study with reference to several existing studies. Shrouf and Bolger (2002) highlighted that a small sample size (20 to 80 cases) is acceptable for a mediation experimental study. In the experimental negotiation study conducted by Tan and Trotman (2010), 80 participants (Chartered Accountants or CPAs) were involved in the analysis of this audit-client negotiation study. In this study, the experience of the participants was taken into consideration during the selection as experience can improve the negotiation outcome. Based on Trotman et al. (2009), senior auditors who have greater experience in handling negotiation with clients contribute to better outcomes, compared to junior auditors. Hence, the proposed audit adjustment requested by the

audit partners was higher (e.g., larger inventory write-downs) even though less experienced auditors (e.g., audit managers or seniors) may demand a high-risk adjustment during the initial negotiation, and subsequently, their clients usually accept their demands. Less experienced auditors also behave more conservatively if the risk of their proposed audit adjustment is low.

Brown and Johnstone (2009) also conducted an experiment on audit partners and managers. Their result supports Trotman et al. (2009), as they found auditors may change their negotiation strategies based on their experience in negotiation with their clients.

From a practical perspective, the IRBM highlighted in the IRB Guide on Tax Audit released in year 2000 that a taxpayer can be selected for audit at anytime. The current Chief Executive Officer of IRBM, Datuk Sabin Samitah further mentioned that under five year time barred period for audit, “the IRBM will audit a taxpayer at least once in a five-year cycle, which translates into roughly 20% of taxpayers being audited each year”. Please refer to *The Star Online, Higher Revenue for IRB, 5 June 2017*.

In view of the above literature, participants were selected based on their current jobs in tax companies in Malaysia and their experience (working in tax companies for at least half a year). The participants involved were working in the tax firms. The tax position presently held by these participants was: tax partner, tax director, tax manager, tax senior or tax assistant.

The experience of participants ranges from 0.5 to 21.75 years. In this experiment, 31 participants were offered Concession Gradual and another 31 participants were offered Concession End. The participants were randomly allocated to these groups. Thirty-four participants work as non-management staff and 28 participants hold management

positions in a tax firm. The participants' positions and the number of participants holding these positions (in brackets) were tax partner (1), tax director (2), tax manager (25), tax senior (30) and tax assistant (4).

The following section discusses the experimental procedure that was implemented during the experimental study, which was conducted with 62 participants. The participants were informed about the procedure for this study by the researcher prior to the commencement of the experiment.

4.5 Experimental Procedure

This experimental study was conducted by using email negotiation medium between a tax audit officer with tax practitioners on the proposed tax adjustment subsequent to the tax audit visit. Email negotiation was adopted in this study in order to control the variables in the experiment case which is not workable face-to-face. The selected tax practitioners were informed that the number of rounds of negotiation was limited to not more than four and the experiment shall be completed within two hours for both concession timing strategies. In effect, there are only three rounds of negotiation and the fourth round is simply a final offer from the tax audit officer in view of the time limitation for the experimental case.

In this experimental study, the participants were informed by phone calls in respect of the date and time to conduct the experiment for this study and follow-up by email notifications to confirm the appointments agreed. Prior to the time agreed, the participants received a phone call from the researcher and an email advising them of the allotted time for the experiment. There is evidence in the literature that this kind of email negotiation is used in tax audit officer-tax practitioner negotiations. The tax audit officers from the IRB have confirmed that email negotiations were carried out

subsequent to tax audit visits conducted by tax officers during the interview sessions, as discussed in Chapter 2.⁸

The first email sent to the participants contained a cover letter informing them that they were to take the role of the representative, tax practitioner of a manufacturing company, and included background on the company, the proposed tax adjustment, and details of proposed negotiation with the tax audit officer. The participants were informed that: “as their current appointed tax practitioner, the company has engaged you to represent them during the course of the tax audit. In this case, you are required to enter into negotiations with the tax audit officers of the IRB who is in charge of this case. Your task is to appeal for a reduction of additional tax and penalties imposed by the IRB on these proposed tax adjustments. It is logistically difficult to have you interact face-to-face with a tax audit officer. What we have done is to have you adopt the role of the appointed tax practitioner, and have you to negotiate the RA adjustment through emails with another person playing the role of the tax audit officer”. The participants’ email responses were sent to the email address of the researcher, who played the role of the tax audit officer. Participants were also informed that there would not be more than four rounds of negotiation. Although the participants had been informed of the maximum number of rounds of negotiation, they did not know the exact number of rounds, just as they would not know this in practice. During Round 3, the participants were informed that this was the last round of discussion with tax officer, and they could accept the proposed tax adjustment or suggest one last proposed tax adjustment to tax officer for consideration. Therefore, the tax practitioners’ offer in

⁸ In actual fact, some tax audit cases were resolved without face-to-face negotiation between taxpayers or tax practitioners with tax audit officers, and the tax adjustments proposed by tax audit officers at the final stage of negotiation were agreed by email. Furthermore, tax audit officers who have been interviewed mentioned that certain tax audit cases under face-to-face negotiation may be preceded by emails. Other than tax audit officers from the IRB, during the validation of case, tax partners also commented that negotiations are carried out via emails between tax practitioners and tax audit officers. It is common to use emails for tax practitioners’ negotiations with tax officers, after obtaining the approval of the taxpayers on the reply to tax audit officers, since there was a number of parties involved (e.g., the tax practitioner, the taxpayers and the tax audit officer).

Round 3 served as their final offer to the tax officer and they expected to receive the tax officer's decision in Round 4. Therefore, the participants' response in Round 3 is crucial as they may not pass the criteria set under the manipulation check of this experimental study.

The questions in this experimental study were presented in two sections, A and B in Rounds 1 to 3. Participants were informed that their responses to Section A would be forwarded to the tax audit officer without disclosing their identities, but not their responses in Section B, and participants were assured by the researcher that their responses in Section B were strictly for the purposes of this study. The participants were required to answer three questions in Section A of Round 1: (a) to state whether they were willing to accept the amount of tax adjustment proposed by the tax officer; (b) if their answer to the previous questions was "no", to state the amount of tax adjustment acceptable to them that they would propose to the tax audit officer; and (c) to provide an explanation for the tax adjustment proposed by them. In this experimental study, the questions were the same in Rounds 2 and 3, except that questions in (c) were not included. Participants were also requested to respond to the statements in relation to their level of aggressiveness in question (d) of Section B in Round 1.

In this study, the tax audit officer's concessions were held constant for the participants for reasons of internal validity. The questions in (c) provided an opportunity for the participants to explain their rationale for the remaining rounds (i.e., Rounds 2 to 4) as it would be odd or potentially offensive to the participants if there was no response from a tax audit officer to the issues raised by tax practitioner. Nevertheless, it was important for the participants to consider any further concession as reasonable in this experiment. The participants were allowed to present their case or justification in Round 1.

In Section B of Round 1, participants were requested to indicate how strongly they felt (on a 10-point Likert scale which is similar to the scale adopted in Tan and Trotman (2010)) about their decision in question (a) above. The participants were asked to indicate the likelihood that the tax audit officer would accept their recommendation in the coming round, using an 11-point probability scale, ranging from 0.0 to 1.0. They were also asked to state the amount of the proposed tax adjustment that they believed would ultimately be recorded in the notice of assessment. These same questions also were asked in Rounds 2 and 3, except for question (c) and the statements of their level of aggressiveness. As mentioned in the case material, limiting the number of rounds of negotiation to not more than four, Round 3 is the final round (i.e. final proposed offer) for the participants to make a counteroffer before the tax audit officer makes his or her final decision on the proposed tax adjustments.

The set of responses given by the tax audit officers are different for both treatments, i.e., Concession Gradual and Concession End. The amount of tax adjustments is decreasing under Concession Gradual but it is constant from Round 1 to Round 3 under Concession End. In Round 4 for all treatments, all the participants were told that the tax audit officer had decided on a final tax adjustment that increased the tax payable by RM0.1 million (and the tax penalty by RM0.05 million). Thereafter, they were asked a series of questions in relation to the negotiation (e.g., the acceptable level of the negotiated outcome and process, the perception of fairness, the level of aggressiveness at the beginning of the negotiation and the post final decision offered by tax audit officer) and were also asked to state their backgrounds.

In this experimental study, a Likert scale is adopted for certain questions for measuring as a Likert scale uses numerical descriptors to allow the participants select an appropriate number to denote their level of agreement (Dawes, 2008). According to

Dawes (2008), a Likert scale is suitable to measure the perceptions of a participant. In addition, there is no significant difference in terms of variation (i.e. mean, skewness or kurtosis) if difference scale points are adopted. Furthermore, it is very easy to carry out rescaling and arithmetic adjustments to facilitate the comparisons between different scale points.

The following section explains the variables used to measure the level of aggressiveness and the perception of fairness of the participants. These were adopted from the studies of Colquitt (2001), Kass (2008) and Murphy (2004).

4.5.1 Dependent Variables

In the above paragraphs, the magnitude of the tax adjustment refers to the magnitude of the offer that the tax practitioners would propose to the tax audit officer. During tax audit period, tax practitioners may provide additional information and documents to make counteroffers in response to the proposed tax adjustment so that the tax audit officer agrees with a concession and the basis of these documents. In this experimental study, the participants acted as tax practitioners and their final proposed offer is equivalent to their Round 3 offers, as they were informed that, in this round, they could either accept the proposed tax adjustment or ask for another round of offers for the tax audit officer's consideration. In Round 4, they would receive the tax audit officer's decision on the tax adjustment. Participants were requested to indicate their offer, assuming that they had one last round of negotiating with the tax audit officer after they received his/her decision.

4.5.1.1 Level of Aggressiveness

In this study, the instruments included the statements adopted from the study of Murphy (2004) to examine the level of aggressiveness of tax practitioners during the tax

audit period, especially their views on the 'grey' areas (i.e. no clear guidance on tax treatment). They were asked to rate their agreement with the following statements in Rounds 1 and 4 on a five-point Likert scale, which is the scale adopted in study of Murphy (2004).

1. I went all out to help my clients to minimize tax.
2. I reviewed the case material to identify ambiguous and 'grey' areas of the tax law to defend the case in my client's favor.
3. I made sure I was able to help my client to minimize tax.

A tax practitioner who responded at higher Likert scale rate for the above questions is treated as an aggressive negotiator and he or she may encourage taxpayers involve in tax minimisation. The study helps to identify the response of the tax practitioners towards different concession timing strategies adopted by tax audit officers.

4.5.1.2 Fairness

This study also adopted the statements used in the studies of Kass (2008), Colquitt (2001) and Murphy (2004) to gain an understanding of the participants' perception of fairness, including distributive justice and procedural justice (i.e., the influence of the participants' perception of fairness on their aggressiveness). The participants were asked to rate their agreement on distributive justice and procedural justice in Round 4 on ten-point (1 to 10) or five-point (1 to 5) Likert scale. The scales which were adopted in this experimental study, are the same with the original scales adopted by the existing researchers, Colquitt (2001), Murphy (2004) and Kass (2008). In this experiment, the participants were required to reply with their comments from the perception of fairness on the negotiated offer made by the tax audit officer throughout the tax audit negotiation process (i.e. Rounds 1 to 3) and the final agreement (i.e. Round 4) offered by the tax audit officer. The participants answered the questions based on their experience. In this

study, other than the comments on the concession made by the tax audit officer, the participants were also requested by the researcher to provide their comments in respect to their perception on the IRB as the tax authority in Malaysia (e.g. the IRB gets / considers / cares) from a procedural justice perspective. The tax practitioners' perception of the IRB's practices and enforcement of laws and regulations may also affect their level of aggressiveness. Table 4.4 summarizes the questions on distributive justice and procedural justice adopted as part of the questions in the instrument.

Table 4.4: Statements of Distributive Justice and Procedural Justice

Variable	Question	Source
Distributive Justice (10 point Likert scale)	Do you think the negotiated offer was fair?	Murphy (2004), Kass (2008)
	Do you think the final agreement was fair?	
	Do you agree with the decisions made by the IRB audit officer from this negotiation?	
	Do you think the decisions of the IRB audit officer on the proposed tax adjustment are favorable to you?	
Procedural Justice (5 point or 10 point Likert scale)	Do you think the IRB audit officer listened to what you had to say?	Colquitt (2001), Murphy (2004), Kass (2008)
	Do you feel you had a lot of control over the negotiation process?	
	Do you think the IRB audit officer allowed you to express your views and feelings during negotiation?	
	Do you think the IRB audit officer allowed you to appeal the outcome arrived at?	
	The IRB gets the kind of information it needs to make informed decisions.	
	The IRB considers the concerns of average citizens when making decisions.	
	The IRB care about the position of taxpayers.	
	The IRB try to be fair when making their decisions.	
	The IRB is concerned about protecting the average citizen's rights.	
	The IRB go to great lengths to consult with the community over changes to their system.	

The following section explains the pilot test conducted with several tax practitioners in Malaysia.

4.6 Pilot Test

After the finalization of the experimental case and the tax instruments for this study, five tax practitioners from a tax firm in Malaysia were selected to conduct the pilot test for this case. The participants were allowed to give their opinions on the experimental case, and the design and experimental procedure for this study. The time that the participants were required to spend in order to complete this study was also assessed so that the participants would be able to complete it within the stipulated timeline.

Subsequent to the pilot tests conducted with the selected five participants, as mentioned in the above section, the participants shared their understanding of the experimental case that was adopted. There were no changes to the experimental case, as their feedback indicated that they understood the case adopted. The participants also mentioned that the tax instruments were in order, but they found that the required time to complete the study should be two hours, as one hour was too short for them.

4.7 Debriefing

As well as the pilot test, debriefing was also carried out for those participants who were involved in the actual experiment. They were expected to share their experiences and comments on the questions in Rounds 1 to 4 subsequent to the completion of experiment, especially on the dependent variables in this experimental study. Some of their comments are discussed in Chapter 5.

4.8 Method of Analysis

The results from this study were analyzed using two SPSS methods, the T-test and the PROCESS macro for SPSS created by Hayes (2012). The T-test was conducted on the results for Hypotheses 1 to 3. The relationship between the relevant variables was assessed based on the T-test results. Pallant (2007) commented that an independent-samples T-test is suitable to use for comparing the mean score or continuous variable

under two different groups of subjects. In view of this, the experimental study examined the response of participants under two different concession timing strategies, gradual and end, and T-test was used to analyse the data collected. Furthermore, the paired-samples T-test is used when there is only one group of people (i.e. tax practitioners who were working in tax firm in Malaysia) to collect the data under two different conditions (i.e. concession gradual and concession end). If the experimental designs are conducted in pre-test or post-test arrangement, this is an appropriate technique to examine the participants' responses under two different conditions. In this experimental study, the paired-samples T-test was, thus, adopted to examine the participants' level of aggressiveness before and after the tax audit officer made his or her final decision.

For Hypotheses 4 and 5, the mediation effect was analyzed by using the PROCESS macro for SPSS. This mediation analysis helps to establish the causal variable influences on the outcome of the dependent variable through one or more mediator variables. In the past, the researchers usually adopted the mediation analysis guided by Baron and Kenny (1986). Baron and Kenny (1986) apply the Sobel test for a more direct test of an indirect effect. However, the Sobel test is only suitable if a sample size is big. The Sobel test is less conservative if it is used to test a small sample. Therefore, this method is not suitable to test the mediation effect for this experimental study as the sample size is small (i.e. 62). Another method can be used in testing mediation effect. PROCESS analysis, which was introduced by Hayes (2012), highlighted that PROCESS analysis is suitable to describe the nature of mechanisms when a variable transmits its effect on another variable (i.e., X influences some consequences of Y on one or more mediator variables).

PROCESS is a computational tool for SPSS that can be used for mediation analysis. It utilizes an ordinary least squares or logistic regression-based path analytical

framework to estimate direct and indirect effects in mediator models. The macro of PROCESS analysis can work well if the sample size is at least 25. The research objectives of this experimental study include the effect of one variable on a consequent of another variable that depends on a third variable and therefore, PROCESS analysis is suitable in this experimental study to examine the mediation effects between the variables. In addition to this, the macro also applies bootstrap methods (range from 1 to 2,000,000) for inference about indirect effects in mediation models. The bootstrap methods helps to reduce the errors in the mediation analysis. According to Preacher and Hayes (2004), the larger number of bootstrap samples taken for a mediation analysis, the lesser errors in estimates of indirect effect. Nevertheless, Preacher and Hayes (2004) recommended the bootstrap of 5,000 to be used for mediation analysis purposes. In view of this, in the analyses for this experimental study, 5,000 bootstrap samples were adopted to estimate the bias-corrected bootstrap confidence intervals.

Subsequent to the manipulation check but prior to the analysis process, all the data collected were recorded in a codebook in SPSS. This includes defining and labeling each of the variables in the experiment. All the data that passed the manipulation check had gone through a cleaning process and was checked for outliers. Only the data that can pass the reliability test and the normality test was used for analysis purposes. All the relevant variables were identified in accordance to the hypothesis developed in this study. If the questions were more than one for a variable (e.g. fairness), the data was transformed into a new variable in order to carry out further analysis.

4.9 Summary

This experimental study was developed to examine the concession timing strategies (i.e., Concession Gradual and Concession End) which were adopted by a tax audit officer to influence the final offer, level of aggressiveness and perception of fairness of

the tax practitioners. The statements on the level of aggressiveness and the perception of fairness of tax practitioners were adapted from Colquitt (2001), Murphy (2004) and Kass (2008). The case study used is an actual tax field audit case conducted by the IRB on a manufacturing company in Malaysia in 2009, on the RA claimed by the company during the years of assessment, 2002 to 2005. The design of the instruments was adapted from a negotiation study conducted by Tan and Trotman (2010) on auditor-client negotiation that focussed on proposed audit adjustments.

The experiment assumes that the negotiation took place between the tax audit officer and the tax practitioners during the tax audit period via emails and this was confirmed by tax audit officers from the IRB (Chapter 2) and the tax partners who assisted in the validation of the case and the instruments for the case. The tax audit officer held a different opinion of the tax treatment of the RA than was claimed by the company on the expenditure incurred. Prior to the commencement of the experiment, participants were informed by the researcher of the procedures. Participants were requested to provide their offers and justifications throughout several rounds of negotiation via emails. They were required to complete the experiment via emails within two hours.

CHAPTER 5: RESULTS OF SPSS ANALYSIS

This chapter explains the data cleaning process on the data collected from the 62 participants prior to the discussion of the results of the testing of hypotheses, which were discussed in Chapter 4. This chapter also summarizes the reliability of the analysed results and the normality analysis of three dependent variables, i.e., the tax practitioners' final proposed offer (Hypothesis 1), the tax practitioners' perception of fairness (Hypotheses 2a and 2b) and the tax practitioners' level of aggressiveness (Hypothesis 3). Next, the results of the direct effects of the negotiation strategies on each of the same three dependent variables are summarized in Tables 6.11, 6.12, 6.13, 6.14 and 6.15. This chapter summarizes the mediation results for Hypotheses 4 and 5.

5.1 Data Cleaning of the Experimental Data Collected from 62 Participants

After collecting the results from 84 participants, the data collected went through the first stage of a de-selection process, in view of the participants who accepted the offer from the tax audit officer in this experiment in Rounds 1 to 3. As a result, the data collected from 22 participants were dropped because they accepted the offer from the tax audit officer in Rounds 1 to 3. As explained in Section 4.3 of Chapter 4, participants were expected to go through four full rounds of negotiation in order to determine their level of aggressiveness before and after the tax audit negotiation process and provide their response from the perspective of fairness in Round 4 which was expected to be affected by the concession timing strategies adopted by the tax audit officer during the first three rounds.

Finally, data collected from 62 (84 – 22) participants who were working in tax firms or companies in Malaysia were used for the for SPSS analysis. Previously they were either involved in all or part of a tax field audit process. The participants' positions and

the number of participants holding these positions (in brackets) were tax partner (1), tax director (2), tax manager (25), tax senior (30) and tax assistant (4). The year of experience and the current tax position between the participants deals with the fact that the tax audit officer who adopted two concession timing strategies (i.e., Concession Gradual and Concession End) are quite similar.

All of the tax practitioners who were involved in this experimental study have tax audit experience (i.e., involved in tax audit cases), and have liaised with tax audit officers previously on behalf of clients. Table 5.1 summarizes the number of participants with experience in pre-tax audit visit (i.e., notify taxpayers on tax audit visit and the list of documents that are required to be ready for the purposes of the tax audit officers' inspection), tax audit visits, tax audit meetings and the settlement of tax audit.

Table 5.1: The Participants' Tax Audit Experience

Tax Audit Stages	Concession End	Concession Gradual
Pre-tax audit	30	27
Tax audit visit	11	18
Tax audit meeting	10	18
Settlement of tax audit	11	20

The majority of the participants have tax audit experience. Based on the results obtained from this experimental study, 16 participants out of 28 who have tax audit meeting experience stated that their final proposed tax adjustment is RM Nil, and 6 participants mentioned that their final proposed tax adjustment should be RM0.1 million. The tax audit negotiation on the tax audit findings started after the tax audit visit and the negotiation or meeting took place between the tax audit officers and the taxpayers or their tax practitioners at the IRB office. It was found that participants who have had tax audit negotiation experience tended to make a counteroffer with a lower adjustment amount to the tax audit officer in this experimental case.

The data collected from the 62 participants who were qualified for the experiment was copied to an Excel Worksheet in order to identify any missing data. In the Excel Worksheet, the 'COUNTBLANK' function was used and it successfully identified two participants, with Identity Numbers 6 and 26 who missed the questions in Section B of Round 3. These two questions are not the questions that would disqualify the reply from the participants for the purpose of this experimental study (i.e., the data obtained is required to conduct the further statistical analysis). Schafer and Graham (2002) and Tabachnick and Fidell (2007) recommended that the answers for the missed replies could be replaced with the new answers using the accepted method in SPSS: mean substitution. By using the Excel Worksheet, the mean was calculated based on the available data for the respective variables and became a guide to fill in the blanks so that the answers to be inserted would not affect the original results. The reason to adopt mean substitution does not change the distribution as a whole, because the mean is closer to the missing value it replaces.

Other than the above, there were no answers missed by the 62 participants. In this connection, the data from the 62 participants were ready for the second stage of cleaning: reliability analysis and normality analysis. The following section discusses the reliability analysis on the data collected from the 62 participants, especially the data attributable to distributive justice, procedural justice and the level of aggressiveness of tax practitioners.

5.2 Reliability Analysis

Reliability analysis is important to ensure that the scales to be adopted for data analysis are reliable (Pallant, 2007). The main concern of the reliability test is the internal consistency of the scales. Thus, if the Cronbach alpha coefficient of a scale is above 0.7, that scale is acceptable. Other reliability analysis is not suitable in view of

the small sample size of this experimental study (Russell, 2002). In this study, the tax practitioners' level of aggressiveness and perception of fairness (i.e., distributive justice and procedural justice) were examined based on several questions adopted from the instruments of Murphy (2004), Colquitt (2001) and Kass (2008). Therefore, it was necessary to conduct a reliability test on the aforesaid constructs and to ensure that those constructs are correlated.

The following section discusses the results of the reliability test on the tax practitioners' level of aggressiveness (before and after the tax practitioners knew the final decision of the tax audit officer), as well as on distributive justice and procedural justice.

5.2.1 Results of Reliability Analysis

Table 5.2 below summarizes the reliability of the results of the analysis for four constructs on the internal consistency for the scale adopted.

Table 5.2: Results from the Reliability Analysis

Variable	No. of Items	Cronbach's Alpha
Tax practitioners' perception of distributive justice	4	0.94
Tax practitioners' perception of procedural justice	8	0.79
Tax practitioners' level of aggressiveness (Round 1)	2	0.80
Tax practitioners' level of aggressiveness (Round 4)	3	0.80

The following sections further discuss the reliability results for each of the above constructs.

5.2.2 The Tax Practitioners' Perception of Distributive Justice

According to Kwon and Weingart (2004), the perception of fairness of the negotiating parties is essential for a negotiation process. In this study, the perception of

fairness includes distributive justice and procedural justice. The instruments adopted from Murphy (2004) and Kass (2008) for distributive justice were used to analyze the reliability level. The questions were stated in Round 4, when participants knew the final decision made by the tax audit officer. The Cronbach's Alpha for the scales of distributive justice adopted is 0.94, which is above the acceptable level, so it can be concluded that this scale has good internal consistency.

5.2.3 The Tax Practitioners' Perception of Procedural Justice

Another perception of fairness was examined in this study, procedural justice. The instruments adopted from Murphy (2004), Kass (2008) and Colquitt (2001) for procedural justice consisted of 10 items.

Based on the above results of the reliability analysis for distributive justice, a similar effect also occurred for procedural justice and the scale for procedural justice has good internal consistency, with a Cronbach alpha coefficient of 0.79. However, SPSS has recommended that the variables DA10 and DA11 need to be deleted.

The mean and standard deviation of each variable for both groups, i.e., Concession End and Concession Gradual, are summarized in Table 6.3 below.

5.2.4 The Tax Practitioners' Level of Aggressiveness (Rounds 1 and 4)

Compared to the existing negotiation model of Tan and Trotman (2010), Kwon and Weingart (2004) and Kleinman and Palmon (2000), the tax practitioners' level of aggressiveness is a new variable adopted in the negotiation model between the tax audit officer and the tax practitioner. Based on the literature, this study recognizes the significant role of the level of aggressiveness of tax practitioners during a tax audit negotiation with a tax audit officer. The instruments tested in this study for level of

aggressiveness were adapted from Murphy (2004). Participants were required to provide their replies in Section B.

In view of the above, the Cronbach's Alpha of the tax practitioners' level of aggressiveness at Round 1 (before the final decision was made by tax audit officer) for three items is 0.61, which is below the acceptable level, i.e. 0.70. In this connection, SPSS has recommended to delete variable AB42, so that Cronbach's Alpha will improve to 0.80. By doing so, the scale will have a good internal consistency, when compared to the original results.

In addition, the reliability test was also conducted on the tax practitioner's level of aggressiveness after the tax audit officer had informed the tax practitioner of his or her final decision. In this study, the same questions of Round 1 and Round 4 were posed to examine the response of the tax practitioners after the tax audit officer had informed them of the final decision. The Cronbach's Alpha for the scales adopted is 0.80, which is above the acceptable level, so it is concluded that this scale has good internal consistency.

The mean value as summarized in Table 5.3 indicates that the tax practitioners were aggressive if the mean value is higher than 3 under a 5 point Likert scale (Murphy, 2004). The scale assessed the priority of tax practitioners to adopt aggressive stance to handle taxpayers' tax audit case. Similarly to the tax practitioners' perception of fairness, they perceived the tax authority is fair to them if the mean value is higher than 5, under a 10 point Likert scale or vice versa.

Other than the priority values as stated under mean value, this study also examined the standard deviation of the variables. Standard deviation is calculated according to the degree of variation from a perfect fit or a bell curve which take into consideration the

kurtosis and skewness of the data (Griffith, 2010). Smaller standard deviation indicates the accuracy of the data collected.

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Table 5.3: The Mean and Standard Deviation of the Dependent Variables

Constructs	Variables	Concession End		Concession Gradual		Total	
		Mean	Standard Deviation	Mean	Standard Deviation	Mean	Standard Deviation
Tax practitioners' level of aggressiveness (Round 1) / Aggressiveness Before (Mean = 3.84, Standard Deviation = 0.79)	AB41 - Minimize tax	3.71	0.97	4.06	0.77	3.89	0.89
	AB42 - Defend my client (deleted)	4.23	0.62	4.03	0.71	4.13	0.66
	AB43 - Able to help	3.77	0.88	3.81	0.83	3.79	0.85
Tax practitioners' level of aggressiveness (Round 4) / Aggressiveness After (Mean = 3.73, Standard Deviation = 0.83)	DA161 – Minimize tax	3.87	0.99	3.52	1.09	3.69	1.05
	DA162 – Defend my client	4.19	0.70	3.55	1.06	3.87	0.95
	DA163 – Able to help	3.77	0.92	3.48	1.00	3.63	0.96
Tax practitioners' perception of distributive justice (Mean = 6.12, Standard Deviation = 2.18)	DA5 – Fairness of negotiated offer	5.77	2.53	6.65	1.82	6.21	2.23
	DA6 – Fairness of final agreement	5.77	2.45	6.55	1.98	6.16	2.24
	DA7 – Agree with IRB officer	5.55	2.51	5.94	2.58	5.74	2.53
	DA8 – Favorable tax adjustment	6.06	2.53	6.65	2.36	6.35	2.44
Tax practitioners' perception of procedural justice (Mean = 5.83, Standard Deviation = 1.25)	DA9 – IRB officer listened to you	5.90	2.52	7.10	1.85	6.50	2.27
	DA10 – Allow to express (deleted)	5.97	2.47	7.23	1.59	6.60	2.15
	DA11 – Allow to appeal (deleted)	5.81	2.32	6.94	1.93	6.37	2.19
	DA12 – Control over negotiation process	5.26	2.25	6.45	1.65	5.85	2.05
	DB91 – Kind of information	3.48	0.72	3.48	0.89	3.48	0.80
	DB92 – Concern of citizens	2.71	0.86	2.74	0.82	2.73	0.83
	DB93 – Position of taxpayers	2.68	0.98	3.00	0.82	2.84	0.91
	DB94 – Fair when making decisions	3.00	0.82	3.10	0.91	3.05	0.86
	DB95 – Protect citizen's right	2.52	0.77	2.77	1.02	2.65	0.91
	DB96 – Consult community	2.29	0.86	2.77	1.09	2.53	1.00

Note: The above symbols of AB, DA and DB are the numbering of different variables at different rounds (i.e. Rounds 1 and 4).

Table 5.3 indicates that the tax practitioners' level of aggressiveness to defend their clients during tax audit period is similar under Concession End (mean = 4.23) and Concession Gradual (mean = 4.03) at Round 1. However, the tax practitioners' level of aggressiveness to defend their clients under Concession End (mean = 4.19) is higher than under Concession Gradual (mean = 3.55) at Round 4. Overall, the tax practitioners' level of aggressiveness to defend their client is higher as compared to another two variables (i.e., minimize tax and able to help) either at Round 1 or 4. On the other hand, the tax practitioners' perception of distributive justice and procedural justice are at similar level (means = 6.12 and 5.83, respectively). The tax practitioners' perception of distributive justice is similar under Concession End and Concession Gradual. However, it appears that the tax practitioners' perception of procedural justice is different in the two groups (i.e., Concession End and Concession Gradual). Thus, further analysis is conducted in this chapter based on the results obtained.

The following section discusses the results of the normality analysis conducted on the main variables, i.e., tax practitioners' final proposed offer, tax practitioners' perception of fairness and tax practitioners' level of aggressiveness in this experimental study.

5.3 Normality Analysis

The normality analysis was conducted on the three main variables: the tax practitioners' final offer, the tax practitioners' perception of fairness (distributive justice and procedural justice) and the tax practitioners' level of aggressiveness (before and after the final decision made by tax audit officer). Tabachnick and Fidell (2013) recommended that two components be used to assess normality, skewness and kurtosis. They explained that skewness refers to the symmetry of a distribution, where a skewed variable is a variable indicating that the mean is not at the center of the distribution.

Kurtosis refers to the ‘peakedness’ of a distribution. In statistics, kurtosis can be either too peaked (short, thick tails) or too flat (long, thin tails). According to their study, the values of skewness and kurtosis are zero when a distribution is normal.

Based on this guidance, Eutsler and Lang (2015) commented that the Z-score is another measurement for skewness and kurtosis and it should be used to assess the normality of distribution with a combination of skewness and kurtosis. Z-scores are calculated by dividing the skewness or kurtosis score by its standard error of skewness or kurtosis, respectively. Mayers (2013) introduced a guideline for Z-score cut-off points in Table 5.4 below. He highlighted that Z-scores is more suitable as compared to Kolmogorov–Smirnov and Shapiro–Wilk tests for exploring outcomes across a single group in respect of two or more conditions. Coolican (2017) further recommended that skewness and kurtosis should not be more than two times greater than its ‘standard error’.

Table 5.4: Guideline for the Z-score

Sample Size	Z-scores
<50	± 1.96
51 – 100	± 2.58
> 100	± 3.29

In view of the above, Z-scores of ± 2.58 are applicable in this experimental study, since the sample size is 62 respondents. The following sections explain the results of normality analysis for the main variables.

5.3.1 The Tax Practitioners’ Final Proposed Offer in Round 3

The normality test results of the tax practitioners’ final proposed offer at Round 3 are shown in the table below.

Table 5.5: Test of Normality for the Tax Practitioners' Final Proposed Offer at Round 3

Dependent Variable: Concession		Statistic	Standard Error	Z-scores
Gradual	Skewness	0.78	0.42	1.85
	Kurtosis	-0.57	0.82	-0.70
End	Skewness	-0.01	0.42	-0.02
	Kurtosis	-1.47	0.82	-1.79

Based on the above normality test results, skewness and kurtosis for Concession Gradual and Concession End are less than twice its 'standard error'. The above Z-scores of the tax practitioners' final proposed offer for skewness and kurtosis are 1.85 and -0.70 for Concession Gradual and -0.02 and -1.79 for Concession End, respectively. Therefore, this variable can be viewed as having a normal distribution (i.e., ± 2.58).

Prior to obtaining the above results, there was an outlier included in the data set. Mayers (2013) suggested 'adjusting' the outlier by replacing it with a score that represents the mean score plus two standard deviations. The adjusted score (RM0.29 million) was used to replace the original score (outlier) of RM0.44 million. Prior to this, Mayer, Stoller, Bartelson, James Rутtenber, Sandhaus, and Newman (2000) and Davidson, Strain, Myers, Thurston, Bonham, Shamlaye, Stokes-Riner, Wallace, Robson, and Duffy (2008) mentioned that the analysis results should not be driven by a small number of outliers.

5.3.2 The Tax Practitioners' Perception of Fairness

There are two types of justice being assessed in this study, as mentioned in the previous sections: distributive justice and procedural justice. The results of normality analysis for these types of justice are shown in the following table.

5.3.2.1 Distributive Justice

Table 5.6: Test of Normality for Distributive Justice

Dependent Variable: Concession		Statistic	Standard Error	Z-scores
Gradual	Skewness	-0.38	0.42	-0.89
	Kurtosis	-0.54	0.82	-0.65
End	Skewness	-0.52	0.42	-1.22
	Kurtosis	-0.46	0.82	-0.56

Based on the above normality test results, skewness and kurtosis for Concession Gradual and Concession End are less than twice its 'standard error'. The above Z-scores of the tax practitioners' perception of distributive justice for skewness and kurtosis are -0.89 and -0.65 for Concession Gradual and -1.22 and -0.56 for Concession End, respectively. Therefore, this variable can be viewed as having a normal distribution (i.e., ± 2.58).

5.3.2.2 Procedural Justice

Table 5.7: The Test of Normality for Procedural Justice

Dependent Variable: Concession		Statistic	Standard Error	Z-scores
Gradual	Skewness	-0.03	0.42	-0.07
	Kurtosis	0.88	0.82	1.07
End	Skewness	-0.90	0.42	-2.14
	Kurtosis	1.26	0.82	1.53

Based on the above normality test results, skewness and kurtosis for Concession Gradual and Concession End are less than twice its 'standard error'. The above Z-scores of skewness and kurtosis are within the acceptable level, as the Z-scores of the tax practitioners' perception of distribution justice for skewness and kurtosis are -0.07 and 1.07 for Concession Gradual and -2.14 and 1.53 for Concession End, respectively. Therefore, this variable can be viewed as having a normal distribution (i.e., ± 2.58).

5.3.3 The Tax Practitioners' Level of Aggressiveness

The tax practitioners' level of aggressiveness was examined before and after the participants knew the final decision of the tax audit officer on the tax adjustment for the tax field audit on the targeted company. Participants were requested to provide their opinions in Round 1 (before the final decision made by the tax audit officer) and in Round 4 (after the final decision made by the tax audit officer), respectively, on the same questions in respect to their level of aggressiveness. The results of the normality analysis for the participants' level of aggressiveness before and after the final decision made by tax audit officer are shown in the following table.

5.3.3.1 Round 1 (Before the Final Decision Made by the Tax Audit Officer)

Table 5.8: The Test of Normality for the Tax Practitioners' Level of Aggressiveness in Round 1

Dependent Variable: Concession		Statistic	Standard Error	Z-scores
Gradual	Skewness	-0.46	0.42	-1.08
	Kurtosis	0.73	0.82	0.88
End	Skewness	-0.91	0.42	-2.16
	Kurtosis	1.17	0.82	1.42

Based on the above normality test results, skewness and kurtosis for Concession Gradual and Concession End are less than twice its 'standard error'. The result of skewness and kurtosis for the tax practitioners' level of aggressiveness in Round 1 are within the acceptable level, as they are -1.08 and 0.88 for Concession Gradual and -2.16 and 1.42 for Concession End, respectively. Therefore, this variable can be viewed having a normal distribution (i.e., ± 2.58).

5.3.3.2 Round 4 (After the Final Decision Made by the Tax Audit Officer)

Table 5.9: The Test of Normality for the Tax Practitioners' Level of Aggressiveness in Round 4

Dependent Variable: Concession		Statistic	Standard Error	Z-scores
Gradual	Skewness	-0.05	0.42	-0.12
	Kurtosis	-0.84	0.82	-1.02
End	Skewness	-0.10	0.42	-0.24
	Kurtosis	-0.67	0.82	-0.82

Based on the above normality test results, skewness and kurtosis for Concession Gradual and Concession End are less than twice its 'standard error'. Similar to the results for their level of aggressiveness before the final decision was made by the tax audit officer, the results of skewness and kurtosis are within the acceptable level for tax practitioners' level of aggressiveness in Round 4. The Z-scores of tax practitioners' level of aggressiveness in Round 4 for skewness and kurtosis are -0.12 and -1.02 for Concession Gradual and -0.24 and -0.82 for Concession End, respectively. Therefore, this variable can be viewed as having a normal distribution (i.e., ± 2.58).

In conclusion, the above variables have normal distribution and it is suitable to use this data for further statistical analysis.

5.4 Tax Practitioners' Offer under Concession Timing Strategy

In this study, the tax audit officer adopted two negotiation strategies, Concession Gradual and Concession End. The tax audit officer gradually reduced the final proposed offers in Rounds 1 to 3 throughout the tax audit negotiation process when adopting a Concession Gradual negotiation strategy. The tax practitioners made their final proposed offers in Round 3, and not in Round 4. The tax audit officer only made a concession in Round 4 as his/her final decision and made no concessions in Rounds 1 to 3 during tax audit negotiation process when adopting the Concession End negotiation strategy.

Based on the data collected from the 62 participants in this study, the pattern of the tax practitioners' final proposed offers for tax adjustments is shown in Table 5.10, below. The final proposed offers of the tax practitioners are presented in Figure 5.1.

Table 5.10: The Mean and Standard Deviation of the Tax Practitioners' Offers at Each Negotiation Round

Concession Timing	Mean (Standard Deviation)		
	End	Gradual	Overall
No. of participants	31	31	62
Round 1	RM0.11 m (0.10)	RM0.14 m (0.12)	RM0.13 m (0.12)
Round 2	RM0.12 m (0.12)	RM0.09 m (0.09)	RM0.12 m (0.16)
Round 3	RM0.13 m (0.11)	RM0.05 m (0.06)	RM0.09 m (0.10)
Round 4 (after receiving the tax audit officer's decision)	RM0.05 m (0.05)	RM0.01 m (0.03)	RM0.03 m (0.04)

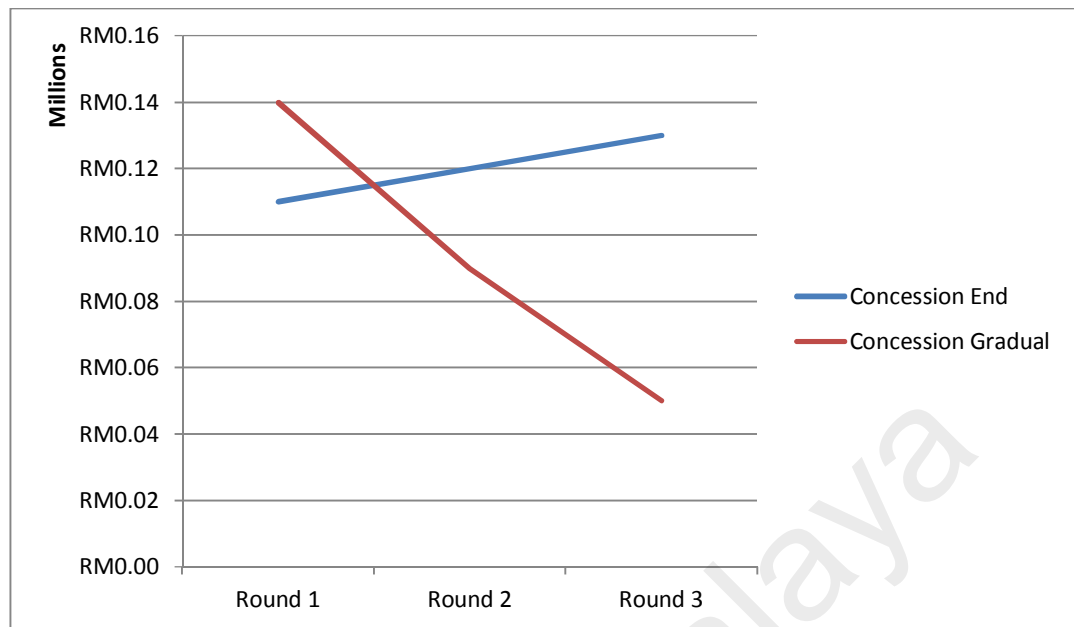


Figure 5.1: Offers Made by the Tax Practitioners in Negotiation from Rounds 1 to 4

As shown in the above Figure 5.1, the tax practitioners accelerated the decrease in the amount of their concessions for Concession Gradual. Their final proposed offers tended to trend downwards across the rounds. This indicates that the tax practitioners were increasingly willing to go for a decreasing tax payable-tax adjustment with each negotiation round. For example, the concession at Round 3 is lower than that at Round 2 or Round 1.

However, the decreasing trend did not happen for Concession End. The concessions made by the tax practitioners gradually increased from Rounds 1 to 3. The tax practitioners were willing to increase their offers, since the tax audit officer refused to provide any concessions and maintained the proposed tax adjustment throughout the negotiation process. When the tax practitioners were informed that Round 3 would be the last round of negotiation, they increased their offers to a higher level than in Round 2 and with the hope that the tax audit officer would accept their proposal.

In this study, the means of the offers made are 0.11 and 0.14 for Concession Gradual and Concession End at Round 1 and 0.12 and 0.09 for Concession Gradual and Concession End at Round 2, respectively. The final proposed offers at Round 3 made by the tax practitioners under Concession Gradual are much lower than under Concession End. Further analysis is presented in Section 5.5. The T-test result of $p > 0.001$ indicates that there is no significant difference between the concessions at Rounds 1 and 2.

In their comments to the questionnaire, four of the 31 tax practitioners had different results for Concession End, compared to Concession Gradual. These tax practitioners commented that the ambiguity in the relevant tax laws would be favorable to their client and therefore, they gave the lowest concession in Round 1, since they believed that the tax audit officer should not disallow their client from claiming RA on the expenditure incurred. However, they found that the tax audit officer of the IRB was persistent in his/her proposed tax adjustment from Rounds 1 to 3. In view of this, they increased their counteroffer from Rounds 2 and 3, so that the tax audit officer would accept their offer and resolve the tax audit case. They felt that the tax audit officer was not flexible and not willing to reduce the additional tax payable to be paid by their client as a result of the disallowance of the RA claims on the qualifying expenditure incurred and included in their client's original tax computation.

The above results are similar to the buyer-seller negotiation conducted by Kwon and Weingart (2004). During the buyer-seller negotiation, they found that the estimated value of the object by the buyers was higher under Concession End, because the seller was reluctant to make concessions. In that circumstance, a buyer might consider that the object is valuable and the price to be agreed by the buyer should be favorable to them, because the seller was so confident about the value of this object and refused to reduce the price in order to please the buyer.

In this study, the tax practitioners were asked to indicate the amount of proposed audit adjustment after receiving tax audit officer's decision. They would also receive the tax audit officer's decision in Round 4. In this experimental study, the final round of negotiation actually happened in Round 3 for both concession strategies. In view of this, the tax practitioners' final proposed offers in Round 4 are purely an assumed expression of their intentions.

The following section discuss on the results of Hypothesis 1.

5.5 The Test of Hypothesis 1

The first dependent variable in this experimental study is the tax practitioners' final proposed offers. This dependent variable concerns the tax practitioners' final proposed offers in relation to the magnitude of the tax adjustment that they would propose to the tax audit officer from the IRB. The tax practitioners' final proposed offers are their Round 3 offers, because they would be told at the start of Round 3 that this was the final round of negotiation with the tax audit officer. The participants were allowed to accept the tax audit officer's proposed tax adjustment in this round, or to suggest one last proposed tax adjustment to the tax audit officer for his consideration.

Hypothesis 1 predicted that the tax practitioners' final proposed offer would follow the pattern that their final proposed offer would be lower when tax audit officer used Concession Gradual as compared to when he/she used Concession End. In the experimental study conducted by Tan and Trotman (2010), it was found that there is no difference in the buyers' offers or financial officers' offers under Concession Gradual and Concession End conditions. However, the results in this study are different. In this study, the tax practitioners' final proposed offer under Concession End (mean = 0.13) is higher than in Concession Gradual (mean = 0.05).

In this study, the significance level of Levene's test for equality of variances is $p < 0.001$. This means that the variances for the two groups (Concession Gradual and Concession End) are not the same. Therefore, the data violate the assumption of equal variance, resulting in unequal variances (degree of freedom being different from $60[n_1 + n_2 - 2]$). Furthermore, the means are 0.05 and 0.13 for Concession Gradual and Concession End, respectively. The final proposed offers made by the tax practitioners under Concession Gradual are much lower than under Concession End. The T-test result of $p < 0.001$ indicates the significant difference between the concessions and these findings are consistent with the predictions in Hypothesis 1.

Table 5.11: The Results of the T-test and Descriptive Statistics for the Amount Proposed in the Final Round of Negotiation

	Concession						<i>T</i>	<i>df</i>	<i>p</i>
	End			Gradual					
	<i>N</i>	<i>M</i>	<i>SD</i>	<i>N</i>	<i>M</i>	<i>SD</i>			
Tax Practitioner's Final Proposed Offer	31	0.13	0.11	31	0.05	0.06	3.76	46.08	0.00

$*t(46.08) = 3.76, p = 0.00$

Notes:

Concession Gradual

Concessions are gradually offered during the negotiation period.

Concession End

A concession is offered only during the last round of the negotiation.

The results of the T-test shown in Table 5.11 indicate a statistically significant mean difference in the final proposed offer made in Round 3 between the tax practitioners under Concession End and Concession Gradual. As predicted in Hypothesis 1, the tax practitioners felt the tax audit officer was more flexible in accepting their counteroffer under Concession Gradual throughout the negotiation process and therefore, they have made a lower final offer in Round 3, when they were informed that this will be the final round for them before the tax audit officer makes the final decision on the tax adjustments. This result is similar to the findings of Kwon and Weingart (2004), in which the buyers under Concession Gradual estimated the object value to be lower than

those under Concession End, because the sellers appeared to be more flexible and willing to reduce the amount. On the other hand, the tax practitioners felt that under Concession End, the tax audit officer was not willing to make a concession on their counteroffer and showed resistance to accepting the proposed tax adjustments.

5.6 The Test of Hypothesis 2

In this experimental study, the second dependent variable is the perception of fairness of tax practitioners. There are two types of fairness addressed in this study, distributive justice and procedural justice. In other studies in relation to fairness, i.e., Kwon and Weingart (2004), Colquitt (2001) and Kass (2008), the researchers found that Concession Gradual is a better negotiation strategy for the targeted respondents in their studies, and resulted in those respondents perceiving that fairness is higher if the other party adopts Concession Gradual. The second hypotheses anticipated that the perception of distributive justice or procedural justice will be higher when the tax audit officer uses Concession Gradual than when he/she uses Concession End.

The following section discusses on the results of Hypotheses 2a and 2b from the data collected.

5.6.1 The Result of Hypothesis 2a

In the experimental questionnaire, participants were requested to rate their agreement on distributive justice in Round 4 on a ten-point Likert scale. Hypothesis 2a predicted that the perception of distributive justice would be higher when the tax audit officer uses Concession Gradual rather than Concession End.

Table 5.12: The Results of the T-test and Descriptive Statistics for the Tax Practitioners' Perception of Distributive Justice

	Concession						<i>T</i>	<i>df</i>	<i>p</i>
	End			Gradual					
	<i>N</i>	<i>M</i>	<i>SD</i>	<i>N</i>	<i>M</i>	<i>SD</i>			
Tax Practitioners' Perception of Distributive Justice	31	5.79	2.41	31	6.44	1.91	-1.18	60	0.24

* $t(60) = -1.18, p = 0.24$

Hypothesis 2a predicted that tax practitioners' perception of distributive justice would follow the pattern that their perception of distributive justice would be higher under Concession Gradual than under Concession End. For Hypothesis 2a, the significance level of Levene's test for equality of variances is larger than 0.05 and this indicates equal variances assumed (equal variance) and therefore, the degree of freedom is 60 [$n_1 + n_2 - 2$]. In addition, the above results in Table 5.12 show that there is no significant difference in their perception of distributive justice under Concession Gradual and Concession End conditions (means = 6.44 and 5.79, respectively; $p > 0.05$). This finding is similar with the results of distributive justice from the buyers' perspective in the study of Kwon and Weingart (2004), in which the mean for Concession Gradual and Concession End indicated no significant difference. In view of this, the prediction of Hypothesis 2a is rejected.

5.6.2 The Result of Hypothesis 2b

For the dependent variable of the tax practitioners' perception of fairness, this study also predicted that their perception of procedural justice would be higher if the tax audit officer used Concession Gradual rather than Concession End. The participants were requested to rate their agreement on procedural justice in Round 4, on a ten-point or five-point Likert scale. As mentioned in Section 4.5.1.2, the scales which are adopted in this experimental study are the same as the original scales adopted by the existing researchers, Colquitt (2001), Murphy (2004) and Kass (2008). In this case, rescaling

adjustments were conducted to adjust the five-point Likert scale to become ten-point Likert scale by dividing the total values with the number of questions in relation to procedural justice to identify the mean values.

Table 5.13: Results of the T-test and Descriptive Statistics for the Tax Practitioners' Perception of Procedural Justice

	Concession						<i>t</i>	<i>df</i>	<i>p</i>
	End			Gradual					
	<i>N</i>	<i>M</i>	<i>SD</i>	<i>N</i>	<i>M</i>	<i>SD</i>			
Tax Practitioners' Perception of Procedural Justice	31	5.50	1.24	31	6.16	1.18	-2.15	60	0.04

* $t(60) = -2.15, p = 0.04$

The above T-test results in Table 5.13 show that there is a significant difference in the tax practitioners' perception of procedural justice under Concession Gradual and Concession End conditions (means = 6.16 and 5.50 respectively, $p < 0.05$). For Hypothesis 2b, the significance level of Levene's test for equality of variances is larger than 0.05 and this indicates equal variances assumed (equal variance) and therefore, the degree of freedom is 60 [$n_1 + n_2 - 2$]. In this study, the participants under Concession Gradual found a higher level of procedural justice (6.16) as compared to Concession End (5.50) in the combined results. As explained in Chapter 4, procedural justice is concerned with the attitudes of the other party and the tax practitioners felt there were unfair procedures under Concession End, compared to Concession Gradual. This result is also similar to Kwon and Weingart (2004), in which Concession Gradual resulted in a higher level of procedural justice, compared to Concession End. Thus, the prediction of Hypothesis 2b is supported in this study.

5.7 The Test of Hypothesis 3

The tax audit officer-tax practitioner negotiation model has considered a new variable: the tax practitioners' level of aggressiveness in this model as compared to the

auditor-client negotiation model of Tan and Trotman (2010) and the seller-buyer negotiation model of Kwon and Weingart (2004).

In this experimental study, the participants were asked three questions in relation to their levels of aggressiveness in Round 1 and Round 4, respectively. Their response in Round 1 represents their level of aggressiveness prior to the final decision of the tax audit officer. The response of participants on their aggressiveness had also been tested in Round 4, after they had learned the final decision of the tax audit officer.

The following sections discuss the results of tax practitioners' level of aggressiveness in Round 1, at the beginning of negotiation process, and in Round 4, after they have learned the final decision of the tax audit officer for the tax audit conducted.

5.7.1 The Results of the Tax Practitioners' Level of Aggressiveness in Tax Audit

The participants' level of aggressiveness was measured in Rounds 1 and 4, i.e., prior to the negotiation process and after the final decision of the tax audit officer has been made known to them. The instruments were adapted from Murphy (2004), as discussed in Chapter 5.

5.7.1.1 The Tax Practitioners' Level of Aggressiveness (Round 1)

The results of Hypothesis 3 on the tax practitioners' level of aggressiveness at the beginning of the negotiation process in tax audit are tabulated in Table 5.14, below.

Table 5.14: The Results of the T-test and Descriptive Statistics for the Tax Practitioners' Level of Aggressiveness at the Beginning of the Negotiation Process

	Concession						<i>T</i>	<i>df</i>	<i>P</i>
	End			Gradual					
	<i>N</i>	<i>M</i>	<i>SD</i>	<i>N</i>	<i>M</i>	<i>SD</i>			
Tax Practitioners' Level of Aggressiveness (Round 1)	31	3.74	0.86	31	3.94	0.73	-0.96	60	0.34

* $t(60) = -0.96, p = 0.34$

As shown in Table 5.14, there is no significant difference in the tax practitioners' level of aggressiveness at the beginning of tax audit negotiation when a tax audit officer adopts Concession Gradual (mean = 3.94) and Concession End (mean = 3.74) where $p > 0.05$ (two-tailed). The participants, who were acting as tax practitioners, were only asked to indicate their opinions based on their previous experience on tax audit cases, or, if any, their experience in taxation. The level of aggressiveness of tax practitioners may not have differed significantly between Concession End and Concession Gradual before they started to negotiate with the tax audit officer. During the experiment, the participants were requested to rate their agreement in Round 1 on a five-point Likert scale.

5.7.1.2 The Tax Practitioners' Level of Aggressiveness (Round 4)

In addition to the tax practitioners' level of aggressiveness at the beginning of negotiation process, this study also examined their level of aggressiveness after they had been informed of the final decision made by the tax audit officer at the end of negotiation process, which is important in ascertaining the overall level of aggressiveness of tax practitioners. During the experiment, the participants were also requested to rate their agreement in Round 4 on a five-point Likert scale. The results of Hypothesis 3 on tax practitioners' level of aggressiveness after the final decision made by tax audit officer at the end of negotiation process in tax audit are tabulated in Table 5.15, below.

Table 5.15: The Results of the T-test and Descriptive Statistics for the Tax Practitioners' Level of Aggressiveness after the Tax Audit Officer Has Made the Final Decision

	Concession						<i>t</i>	<i>df</i>	<i>P</i>
	End			Gradual					
	<i>N</i>	<i>M</i>	<i>SD</i>	<i>N</i>	<i>M</i>	<i>SD</i>			
Tax Practitioners' Level of Aggressiveness (Round 4)	31	3.95	0.72	31	3.52	0.90	2.09	60	0.04

* $t(60) = 2.09, p = 0.04$

The above results show that there is a significant difference in the tax practitioners' level of aggressiveness when a tax audit officer adopts Concession Gradual or Concession End (means = 3.52 and 3.95 respectively, $p < 0.05$). As explained in Chapter 4, tax practitioners may react more aggressively if they perceive that the tax audit officer who behaves more flexibly during the negotiation process is willing to respond to a counteroffer from tax practitioner, when the tax audit officer adopts a Concession Gradual negotiation strategy, as found in Kwon and Weingart (2004).

However, the results from this experimental study indicate that the level of aggressiveness of the tax practitioners who participated in this study is different from Kwon and Weingart (2004) and that predicted in Hypothesis 3. The results show that tax practitioners who encounter tax audit officers who adopt Concession End are more aggressive, mean = 3.95 as compared to tax audit officers who adopt Concession Gradual, mean = 3.52. There is a difference between the level of aggressiveness if the tax audit officers adopt two different negotiation strategies (i.e., Concession Gradual and Concession End). The tax practitioners who faced tax audit officers under Concession End reacted more aggressively to the offers of the tax audit officer than under Concession Gradual. During the debriefing session, they informed the researcher that they felt that the tax audit officer was not willing to accept their counteroffers and they could not control the negotiation process.

Nevertheless, the results of this experimental study are similar to the findings of Murphy (2004), in which those tax practitioners who act on behalf of taxpayers were aggressive when they perceived that the taxpayers were receiving less favorable outcomes in their tax affairs, compared to taxpayers in general. Hence, the tax practitioners were less likely to agree with tax audit officer's final decisions. In this connection, tax practitioners behave with more resistance when they deal with a tax audit officer and enjoy seeking out the 'grey' areas of current tax law in order to assist taxpayers in mitigating the tax payable. The magnitude of the differences in the means (mean difference = 0.43, 95% CI: 0.17 to 0.84) was medium [eta squared (η^2) = 0.07].

Thus, the prediction of Hypothesis 3 is not supported in this study, where Hypothesis 3 had predicted that the tax practitioners' level of aggressiveness would be higher when the tax audit officer used Concession Gradual than when he/she used Concession End. However, this experimental study found that there is an important, significant difference in the tax practitioners' level of aggressiveness between Concession Gradual and Concession End.

5.7.1.3 The Paired-Samples T-test for the Tax Practitioners' Level of Aggressiveness

A paired-samples T-test was conducted to evaluate the impact of the tax practitioners' level of aggressiveness before and after the final decision made by tax audit officer during a tax audit negotiation process.

There was no difference statistically in the tax practitioners' level of aggressiveness prior to the commencement of the tax audit negotiation with the tax audit officer ($M = 3.74$, $SD = 0.86$), as compared to after tax audit officer has made the final decision under Concession End ($M = 3.95$, $SD = 0.72$, $t(30) = -1.86$, $p = 0.07$, two-tailed).

However, there was a statistically significant decrease in the tax practitioners' level of aggressiveness under Concession Gradual prior to commencement of tax audit negotiation with tax audit officer ($M = 3.94$, $SD = 0.73$), as compared to after the final decision has been made by tax audit officer ($M = 3.52$, $SD = 0.90$; $t(30) = 2.59$, $p = 0.02$, two-tailed). The mean decrease in the tax practitioners' level of aggressiveness was 0.42, with a 95% confidence interval ranging from 0.09 to 0.75. The eta squared statistic (0.18) indicates a large effect, with a substantial difference in the level of aggressiveness of the tax practitioners under Concession Gradual before and after the tax audit officer made the final decision.

5.8 The Test of Mediation Model

The following discussion focuses on the mediation model of Hypotheses 4, 5a and 5b, as depicted in Figure 3.5, based on the findings from the existing literature in respect of the relationship between the main variables as discussed in Chapters 2 and 3. Subsequently, the research framework was developed as appended in Figure 3.4 of Chapter 3 to examine the mediation effect between the main variables according to the findings of other studies instead of test the model as a whole in view of the small sample size of this experimental study. Hypothesis 4 posits that the final offer at Round 3 mediates the effect of concession timing strategies on the tax practitioners' perception of fairness (i.e., distributive justice and procedural justice). According to Hayes (2012), the simple mediation model involves three variables. The first link is the independent variable and this link influences the mediator and the second link is the mediator, which has an effect on the dependent variable.

A mediation analysis was conducted on the above links to examine whether tax practitioners' final proposed offers mediated the influence of the tax audit officer's concession timing strategy (i.e., Concession Gradual and Concession End) on tax

practitioners' level of aggressiveness, or whether the tax practitioners' perception of fairness (i.e., distributive justice and procedural justice) mediated the influence of the tax practitioners' final proposed offers on the tax practitioners' level of aggressiveness. This study used the PROCESS macro for SPSS to examine this mediation effect. As highlighted in Section 4.8 of Chapter 4, PROCESS analysis is more suitable to examine the nature of a variable on another variable as compared to other mediation test in a small sample size. In addition, the bootstrap methods inclusive in PROCESS analysis help to reduce the errors in the mediation analysis. This experimental study adopted 5,000 resamples based on the recommendation of Preacher and Hayes (2004).

Based on the results from the PROCESS macro for SPSS, Preacher and Hayes (2004) explained that if the zero is in the 95% confidence interval, the indirect effect is significantly different from zero at $p < 0.05$ (two tailed). The following sections discuss on the results of PROCESS macro for SPSS obtained for this mediation effect.

5.8.1 The Test of Hypothesis 4

Hypothesis 4 tested to determine whether the effect of the tax audit officer's negotiation strategies on the tax practitioner's perception of fairness was mediated by their final proposed tax adjustment offered. In this study, the tax practitioners' perception of fairness includes distributive justice and procedural justice. The following section discusses the mediation effects in two perspectives.

5.8.1.1 The Mediation Result of Hypothesis 4

Hypothesis 4a examines the mediation effect of the tax practitioner's final proposed tax adjustment on the tax audit officer's negotiation strategies and the tax practitioners' perception of distributive justice. As explained in Section 3.6 of Chapter 3, the final proposed offer made by tax practitioners may influence their perception of distributive

justice based on the outcome from the negotiation. Therefore, no hypothesis was developed to examine the mediation effect of the tax practitioners' final proposed tax adjustment on the tax audit officer's negotiation strategies and the tax practitioners' perception of procedural justice. The statistical results have confirmed this prediction in this experimental study⁹.

The bootstrap mediation analysis (5,000 resamples) revealed the mediation result of the tax practitioners' final proposed offers on the influence of the tax audit officer's negotiation strategies and the tax practitioners' perception of distributive justice. Figure 6.2 below provides evidence for a mediation effect for Hypothesis 4a, in which the index of mediation was significantly different from zero ($b = -0.54$, $SE = 0.28$, 95% CI [-1.19, -0.07]). The bootstrapped estimate of the indirect effect is estimated to lie between -1.19 and -0.07, with a 95% confidence interval. Thus, the indirect effect is, indeed, significantly different from zero at $p < 0.05$. The outcome of the tax audit negotiation was reflected in their final proposed offer. Tax practitioners behave differently under the different concession timing strategies adopted by the tax audit officer. In view of the different final proposed offer (i.e., different size of offers have been made) during the tax audit negotiation process, the perception of fairness on the final proposed offer allowed to be made by tax practitioners influence the tax practitioners' perspective of distributive justice.

⁹ Another perception of fairness was also investigated, which is procedural justice. The bootstrap mediation analysis (5,000 resamples) revealed the mediation result of the tax practitioners' final proposed offer on the influence of the tax audit officer's negotiation strategies, and the tax practitioners' perception of procedural justice. There is no indication of a mediation effect as the index of mediation was significantly different from zero ($b = -0.15$, $SE = 0.16$, 95% CI [-0.53, 0.12]). The bootstrapped estimate of the indirect effect is estimated to lie between -0.53 and 0.12 with a 95% confidence interval. Thus, it can be concluded that the indirect effect is not significantly different from zero at $p < 0.05$. In view of this, the tax practitioners' final proposed offer has no mediation effect on the relationship between tax audit officers' concession timing strategy on tax practitioners' procedural justice perception. The process of tax audit negotiation, from the tax practitioners' perspective on procedural justice has no effect on their final proposed tax adjustments, resulting from the negotiation strategy adopted by the tax audit officer.

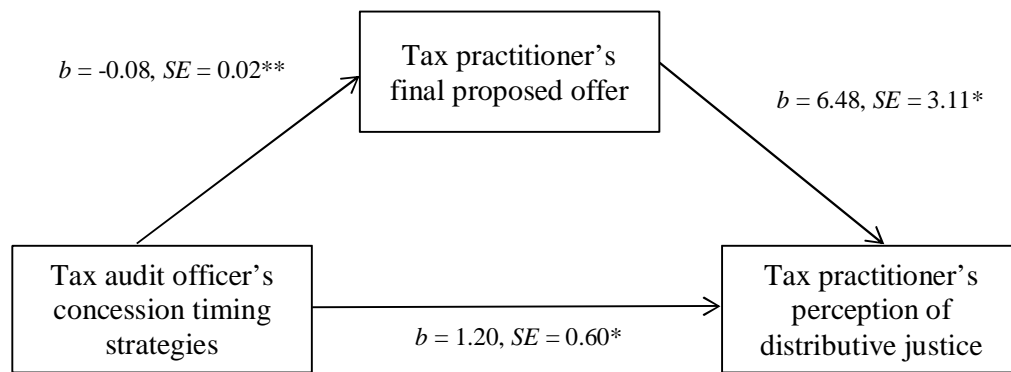


Figure 5.2: The Influence of the Tax Audit Officer's Concession Timing Strategies on the Tax Practitioners' Perception of Distributive Justice, Mediated by the Tax Practitioners' Final Proposed Offer

* $p < 0.05$, ** $p < 0.01$

The following sections discuss the results for Hypothesis 5.

5.8.2 The Test of Hypothesis 5

Hypothesis 5 tested whether the effect of the tax practitioners' final proposed offer or the tax audit officer's concession timing strategy on the tax practitioners' level of aggressiveness is mediated by the tax practitioners' perception of fairness (distributive justice and procedural justice). As this study observed, the tax practitioners' perception of fairness includes distributive justice and procedural justice. The following section discusses on the mediation effects from two perspectives.

5.8.2.1 The Mediation Result of Hypothesis 5a

The bootstrap mediation analysis (5,000 resamples) revealed the mediation result of tax practitioners' perception of distributive justice on the influence of tax practitioners' final proposed offer and tax practitioners' level of aggressiveness. Although the existing literature highlighted the relationship between these variables, Figure 5.3, below, provides evidence that there is no mediation effect and the index of mediation was insignificantly different from zero ($b = -0.22$, $SE = 0.29$, 95% CI [-1.16, 0.07]). The

bootstrapped estimate of the indirect effect is estimated to lie between -1.16 and 0.07 with a 95% confidence interval. It can be concluded that the indirect effect is not significantly different from zero at $p < 0.05$. In view of this, the tax practitioners' perception of distributive justice has no mediation effect on the relationship between their final proposed offer and the tax practitioners' level of aggressiveness. The outcome of tax audit negotiation, from the tax practitioners' perspective of distributive justice, has no effect on their level of aggressiveness.

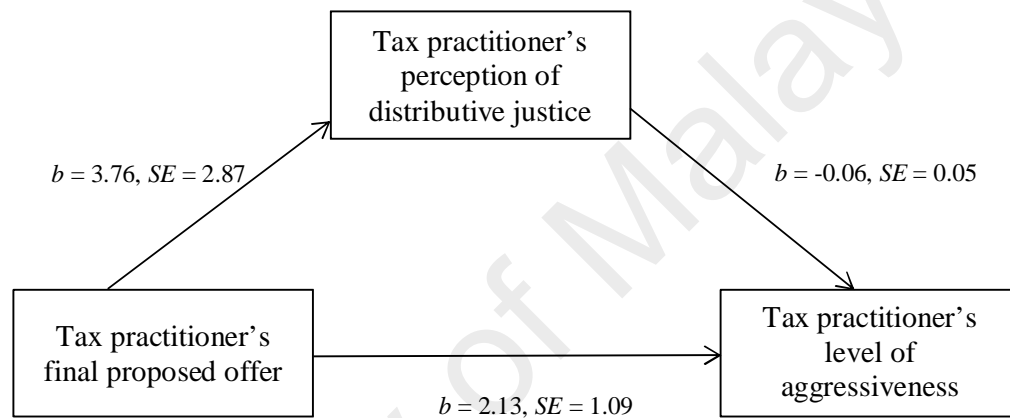


Figure 5.3: The Influence of the Tax Practitioners' Final Proposed Offer on the Tax Practitioner's Level of Aggressiveness Mediated by the Tax Practitioner's Perception of Distributive Justice

5.8.2.2 The Mediation Result of Hypothesis 5b

The bootstrap mediation analysis (5,000 resamples) revealed the mediation result of the tax practitioners' perception of procedural justice on the influence of the tax audit officer's concession timing strategies and the tax practitioners' level of aggressiveness. Figure 5.4, below, provides evidence for no mediation effect. The index of mediation was insignificantly different from zero ($b = 0.00$, $SE = 0.06$, 95% CI [-0.14, 0.12]). The bootstrapped estimate of the indirect effect is estimated to lie between -0.14 and 0.12 with a 95% confidence interval. It can be concluded that the indirect effect is not significantly different from zero at $p < 0.05$.

In view of this, although the existing literature highlighted the relationship between these variables, the mediation analysis indicates that the tax practitioners' perception of procedural justice has no mediation effect on the relationship between the tax audit officer's concession timing strategies and the tax practitioners' level of aggressiveness. The process of tax audit negotiation, from the tax practitioners' perspective on procedural justice, has no effect on their level of aggressiveness in view of the negotiation strategy adopted by the tax audit officer.

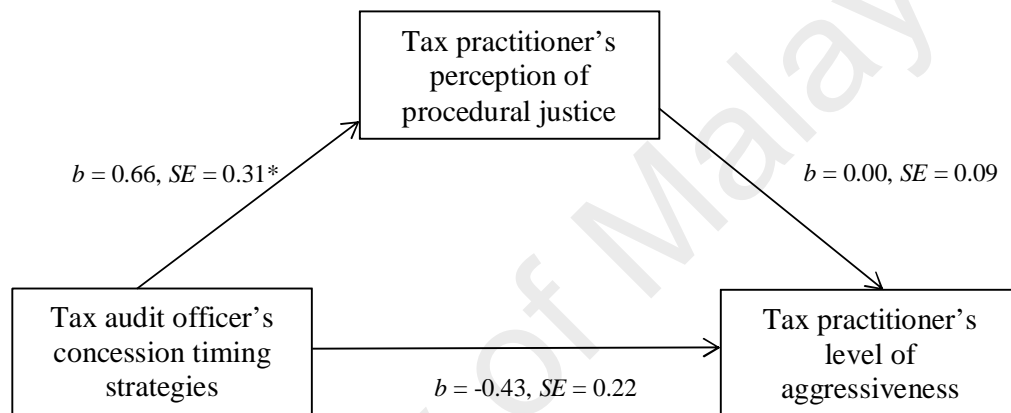


Figure 5.4: The Influence of the Tax Audit Officer's Concession Timing Strategies on the Tax Practitioner's Level of Aggressiveness Mediated by the Tax Practitioners' Perception of Procedural Justice

* $p < 0.05$

5.9 Conclusion

The SPSS results for this experiment study show that the tax audit officers' negotiation strategy may affect the tax practitioners' final proposed tax adjustments offered for this tax audit case, and also the tax practitioners' level of aggressiveness during the tax audit negotiation. The tax practitioners also emphasized the tax audit procedures, rather than the negotiation outcome. Therefore, there is a significant result obtained from the perspective of the tax practitioners' view of procedural justice.

The tax practitioners' final proposed offers were lower under Concession Gradual, compared to Concession End, because the tax audit officers were more flexible, from the tax practitioners' view point. The tax practitioners behaved no differently prior to the start of the tax audit negotiation. However, the tax practitioners behaved more aggressively in response to the tax audit officer who adopted the Concession End negotiation strategy as compared to the auditor who adopted the Concession Gradual negotiation strategy. Based on the debriefing session with the participants, they felt that the tax treatment that the tax audit officer adopted was unfair to them, as the tax audit officer was not willing to respond to their counteroffers throughout the negotiation process, until the last round of the negotiation.

From the results of PROCESS macro for SPSS, the tax practitioners' final proposed offer mediated the tax audit officers' concession timing strategy on the tax practitioners' perception of distributive justice. As the final proposed offers were reflected in the negotiation outcome expected by tax practitioners, the perception of distributive justice of the tax practitioners was affected.

In summary, the SPSS analysis results indicate that the tax audit officer's negotiation strategy affects the tax practitioners' final proposed offer, the tax practitioners' level of aggressiveness and also the tax practitioners' perception of procedural justice.

CHAPTER 6: DISCUSSION OF EXPERIMENTAL ANALYSIS

This chapter provides a comprehensive discussion of the findings of this experimental study based on the five hypotheses developed to examine the effect of concession timing strategies on the tax practitioner's final proposed offer, his/her perception of fairness and his/her level of aggressiveness. The explanations provide answers to the study questions, and achieve the study objectives pre-determined at the beginning of this study. In addition, the current chapter structures the discussion of the findings according to the research questions presented in Chapter 1. The following Sections 6.1 to 6.5 discuss the research questions together with the experimental results for each hypothesis developed in this study.

6.1 Research Question No. 1 – Does the timing of the tax authority's concessions influence the final proposed offer of tax practitioners during tax audit negotiation period?

In Chapter 1, Research Question 1 is concerned with the influence of the tax authority's concession timing strategies on the tax practitioners' final proposed offer. Concession making involves two theories, reciprocity and anchoring, in which negotiators make offers and expect the other parties to reciprocate and make concessionary offers. As explained in Chapter 2, the offers made by the negotiators become an anchor for their other parties to make counteroffers. Negotiators are advised to make concessions in order to help both parties (i.e., negotiators and other party) to move to a mutual agreement (Kersten & Gimon, 2012) and to prevent the other party leaving the negotiation.

The experimental results of Kwon and Weingart (2004) indicate that the buyers prefer the sellers who adopt Concession Gradual rather than Concession End. The

buyers, who were unwilling to accept the concessions made by the sellers, reduced their counteroffers, including the final proposed offer gradually as the sellers were willing to make concessions throughout the negotiation period. Therefore, Hypothesis 1 makes the following prediction.

Hypothesis 1: The tax practitioners' final proposed offer will be lower when the tax audit officer uses Concession Gradual than when the tax audit officer uses Concession End.

Based on the results obtained, as explained in Chapter 5, the concession timing strategies adopted by the tax audit officers affect the tax practitioners' final proposed offer, so **Hypothesis 1 is supported**. Under Concession End, if tax audit officers hold firm in their decision during tax audit negotiation process, they are able to collect more tax revenue. This result is different from the experimental result of Tan and Trotman (2010), in which there is no difference in the financial officers' final round offer between Concession Gradual and Concession End. Auditors try to comply with the existing accounting standards, while at the same time, try to maintain good relationships with their clients and therefore, the auditors may compromise with the final offers of the financial officers. As a result, the auditors' proposed audit adjustments are not significantly affected statistically by the final offers of financial officers.

However, in this experimental study, the T-test results indicate a different result in auditor-client negotiation, in which there are statistically significant mean differences in final proposed offer made in Round 3 of the experimental study under Concession Gradual and Concession End. In taxation, tax audit officers may not be concerned with the final proposed offers of the tax practitioners since they are not required to maintain a good relationship with them. They may negotiate with the tax practitioners based on their own experience in dealing with other taxpayers or tax practitioners. Nevertheless,

the tax authority is responsible for the collection of under-reported tax. Tax audit officers are encouraged to conduct the tax audit cases effectively. Tax audit officers may not compromise to tax practitioners in the same way that auditors compromise to their clients in order to retain them as clients.

In this connection, the tax practitioners reacted differently towards the different concessionary negotiation strategies adopted by the tax audit officers during the tax audit period. Tax practitioners may make a higher counteroffer during a tax audit negotiation period in order to obtain the agreement from tax audit officers. Although tax audit officers intend to collect more tax by holding firm on the concessions made, they may accept the counteroffer made by tax practitioners so that they can settle the tax audit cases within a shorter period of time.

The final proposed offer (i.e., the amount of additional tax payable and the potential penalty offered at the final round of negotiation with negotiating party) for tax practitioners under Concession Gradual was gradually decreased, as they found that the tax audit officer was flexible and willing to reduce his or her proposed tax adjustments. Therefore, the concessions made by tax practitioners at Round 3 (mean = RM0.05 million, standard deviation = 0.06) are higher than at Round 2 or Round 1. Although the tax audit officer may not follow the counteroffer made by tax practitioners exactly, he/she is still willing to reduce the proposed tax adjustments in order to achieve a mutual agreement between the parties. At the final round of tax audit negotiation (i.e., Round 3), the tax practitioners behave more aggressively in trying to make a lower concession, since the tax audit officer may accept their counteroffer as the tax audit officer's final decision during the tax audit negotiation process.

Nevertheless, the results under Concession End were different from those under Concession Gradual. The tax practitioners' final proposed offers were gradually

increased instead of decreased, in response to the concessions made by the tax audit officer. During the tax audit negotiation process, from Rounds 1 to 3, the tax audit officer strictly maintained the proposed tax adjustment at RM0.5 million (penalty at RM0.24 million). In view of this, the tax practitioners reacted differently than under Concession Gradual. In this circumstances, they reduced their final proposed offer (mean = RM0.13 million, standard deviation = 0.11) and hoped that the tax audit officer would eventually accept their counteroffer. Under Concession End, tax practitioners felt that the tax audit officer was reluctant to make concessions and believed that tax practitioners would finally accept their offer.

This indicates that a negotiator's concession patterns are different in response to his or her negotiating party's concession pattern. The negotiator may either increase or reduce his or her counteroffer in order to obtain the acceptance of his or her negotiating party and optimize their benefits at the same time.

In this experimental study, the tax practitioners perceived that a Concession Gradual strategy is a better negotiation strategy from their perspective during the tax-audit negotiation period. Under Concession Gradual, the tax audit officer appeared to be more flexible and willing to make concessions in response to the counteroffer made by the tax practitioners. Tax audit officers who adopted Concession Gradual may feel more comfortable dealing with the tax practitioners as these tax practitioners, who act on behalf of taxpayers, may think that the tax audit officers are fair to them and willing to help them to minimize the tax penalty. Under Concession Gradual, the tax audit officers were willing to accept counteroffers from the tax practitioners and make concessions by reducing their offers throughout the tax audit negotiation period. The tough behavior of the tax audit officer under Concession End has forced the tax practitioners to negotiate a higher offer (i.e., additional tax payable and a potential penalty) from the tax authority

and this increases the tax practitioners' or taxpayers' level of aggressiveness at the same time (as discussed in Section 6.3).

6.2 Research Question No. 2 – Does the timing of the tax authority's concessions influence the perception of fairness of tax practitioners during tax audit negotiation period?

Based on the statistical results, this experimental study found that the concession timing strategies adopted by the tax audit officers affect the tax practitioners' perception of procedural justice but not distributive justice. Murphy (2004) commented that fairness is an important factor in taxation. This comment is supported by Richardson (2005), in which the perception of tax fairness affects the behavior of taxpayers or tax practitioners.

Two types of perception of fairness have been examined in the experimental study of Kwon and Weingart (2004): distributive justice and procedural justice. Distributive justice refers to the outcome, whereas procedural justice refers to the process of negotiation. On the other hand, procedural justice emphasizes the procedures and control of actual outcome resulting from the procedures adopted. Their results indicate that the buyers prefer the sellers who adopt Concession Gradual instead of Concession End. The sellers who were unwilling to make concessions made the buyers feel that they had been treated unfairly by the sellers. Similar to Kwon and Weingart (2004), this experimental study also examined the tax practitioners' perception of fairness in respect of distributive justice and procedural justice. Hypotheses 2a and 2b were developed following the details outlined in Chapter 4.

Hypothesis 2a: Perception of distributive justice will be higher when the tax audit officer uses Concession End than when the officer uses Concession Gradual.

Hypothesis 2b: Perception of procedural justice will be higher when the tax audit officer uses Concession Gradual than when the officer uses Concession End.

Based on the statistical results of this experimental study, there was no significant difference between the perception of distributive justice among tax practitioners under Concession Gradual (mean = 6.44, standard deviation = 1.91) and Concession End (mean = 5.79, standard deviation = 2.41; $t(60) = -1.18$, $p = 0.24$, two tailed). In view of this, **Hypothesis 2a is rejected**. This result is similar to the result in the experimental study between seller-buyer of Kwon and Weingart (2004) and the empirical study conducted by Kass (2008) on the negotiators' satisfaction of negotiation outcome, as discussed in Chapter 3. The tax practitioners under both concessions felt that the tax audit officer was willing to give a concession at the end of the negotiation, i.e., reduce the additional tax payable to RM0.1 million at Round 4, which is not significantly different from their expected outcome.

However, the result from the perspective of procedural justice is different from that of distributive justice. The tax practitioners viewed that concession timing strategies adopted by the tax audit officer affected their perception of procedural justice. Tax practitioners who had undergone the experimental study under Concession Gradual (mean = 6.16, standard deviation = 1.18) felt that the tax audit officer was more flexible compared to those under Concession End (mean = 5.50, standard deviation = 1.24; $t(60) = -2.15$, $p = 0.04$, two tailed). The magnitude of the differences in the means (mean difference = -0.66, 95% CI: -1.28 to -0.05) was moderate (eta squared = 0.07). On the other hand, the tax practitioners under Concession End felt that the procedures stipulated by the tax audit officer were tough for them. Thus, **Hypothesis 2b is supported**.

This finding indicates that if a negotiator isn't willing to make concessions then his or her negotiating party is going to feel that this is unfair to them. The negotiator may make a greater final concession as compared to his or her initial offer in order to obtain the acceptance of the negotiating party. This result is similar to the result of experimental study conducted by Kwon and Weingart (2004), in which the buyers felt that they had a sense of control over the negotiation process and over the final decision of the tax audit officer under Concession Gradual. Similarly to the tax practitioners, the tax audit officer gradually reduced his offer throughout the tax negotiation period and they felt that he or she was willing to listen to them and to allow them to make counteroffers in order to protect their clients' rights. In this circumstance, the tax practitioners can control the negotiation process and the negotiation outcome is favor to them throughout the tax audit negotiation period. The tax practitioners expect the tax audit officers to make concessions in response to their counteroffers as fairness is important in taxation and as a result, the tax practitioners may advise their clients', the taxpayers to pay more tax if the tax practitioners feel that the tax audit officers are fair to them.

The following section discusses the effect of the tax authority's concession timing strategies on the tax practitioners' level of aggressiveness.

6.3 Research Question No. 3 – Does the timing of the tax authority's concessions influence the level of aggressiveness of tax practitioners during tax audit negotiation period?

The statistical result of this experimental study indicates that the tax audit officers' concession timing strategies affect the tax practitioners' level of aggressiveness. Tax practitioners' level of aggressiveness is a new variable in a negotiation model. According to Ganesan (1993), an aggressive strategy adopted by a negotiator may

reduce the concessions during the negotiation process in order to maximize self-gain. In view of this, the tax audit officer-tax practitioner negotiation model developed in this experimental study has considered the level of aggressiveness of tax practitioners and its effect on the tax audit negotiation process as an important factor to be considered. Therefore, Hypothesis 3 was developed, as shown below.

Hypothesis 3: The tax practitioners' level of aggressiveness will be higher when the tax audit officers use Concession Gradual than when they use Concession End.

During this experimental study, the tax practitioners' level of aggressiveness before and after the tax audit officer made the final decision was examined to determine the level of difference in aggressiveness during the tax audit negotiation process. The results indicate that there was no difference for tax practitioners who underwent the experimental study for both concessions, i.e., Gradual (mean = 3.94, standard deviation = 0.73) and End (mean = 3.74, standard deviation = 0.86; $t(60) = -0.96$, $p = 0.34$, two tailed) at the beginning of negotiation process. However, the tax practitioners had different views after the tax audit officer had made the final decision at Round 4. The results indicate that the tax practitioners under Concession End were more aggressive than those under Concession Gradual, the opposite of what was anticipated in Hypothesis 3.

In detail, tax practitioners under Concession End (mean = 3.95, standard deviation = 0.72) considered that the tax audit officer was not flexible as he/she was not willing to make a concession in response to their counteroffer. In this connection, the tax practitioners behaved aggressively when they perceived that they had received an unfavorable outcome to their clients' tax affairs. In this connection, they were less likely to comply with tax regulations and preferred to seek 'grey' areas for their clients in

order to reduce the tax payable. For the tax practitioners who had undergone Concession Gradual, the results were found to be, mean = 3.52, standard deviation = 0.90; $t(57) = 2.09$, $p = 0.04$, two tailed. The magnitude of the differences in the means (mean difference = 0.43, 95% *CI* : 0.18 to 0.84) was moderate (eta squared = 0.07), indicating less aggressiveness, because they felt that tax audit officer was flexible and willing to listen to them. The tax audit officer was more willing to reduce the proposed tax adjustments after he or she had been informed of the counteroffer from the tax practitioners. This result is similar to those in the experiments conducted by Kwon and Weingart (2004) and Murphy (2004).

In the study of Kwon and Weingart (2004), the buyers realized that they were required to confront the sellers who were unwilling to make concessions (i.e., Concession End) and the buyers commented that they were reluctant to negotiate with the sellers in future. In addition to this, Murphy (2004) found that a tax practitioner who is an 'enforcer', who feels that a tax authority who is willing to negotiate may encourage his clients to comply with tax laws and the practitioner will be less aggressive in response to the tax audit officer's proposed audit adjustments.

In summary, the tax practitioners' aggressiveness is related to the willingness of the tax audit officers to make concessions. If the tax audit officers appear conciliatory, the tax practitioners start to think they might get a better outcome than they had originally expected. The tax practitioners behave more aggressively in handling the tax issues when they deal with the tax audit officers. Once a negotiation is over, the tax practitioners who have negotiated with tax audit officers who adopted a Concession End strategy are going to have a less favorable view of the tax office and the tax system generally. As a result, the tax practitioners are going to adopt more aggressive tactics to minimize taxpayers' tax the next time around.

The following section summarizes the mediation effect in this experimental study.

6.4 Research Question No. 4 – Does the tax practitioners’ final proposed offer mediate the effect of the timing of the tax authority’s concessions on the tax practitioners’ perception of fairness during tax audit negotiation period?

This experimental study also examined the mediation effect of the main variables in the tax audit officer-tax practitioner negotiation model. Hypothesis 4 was developed in Chapter 3.

Hypothesis 4: The effect of the tax audit officer’s concession timing strategy on the tax practitioners’ perception of distributive justice is mediated by their final proposed offer.

As commented upon by Kwon and Weingart (2004), the buyers felt that if they had control over the sellers on the final decisions or final offers in the negotiation process, they perceived that they were treated fairly by the sellers. After the data analysis was conducted by using PROCESS analysis to examine the mediation effect of the variables as explained in Chapter 5, the mediation results of this experimental study were found to be similar to the experimental results of Kwon and Weingart (2004). The mediation results indicate that the tax practitioners’ final proposed offers mediated tax audit officers’ concession timing negotiation strategies and their perception of distributive justice. Thus, **Hypothesis 4 is supported**. Distributive justice (i.e., focused on negotiation outcome) mediates the perception of tax practitioners on their final proposed offer in the different concession timing negotiation strategies adopted by tax audit officers.

As explained earlier, the different negotiation strategies adopted by the tax audit officers resulted in different counteroffers from the tax practitioners. The results of

Hypothesis 1 of this experimental study indicate that there are significant differences in the final proposed offer made by tax practitioners under Concession Gradual and Concession End. The final proposed offer made by the tax practitioners under Concession Gradual (mean = 0.05) is significantly lower than those made under Concession End (mean = 0.13). Thus, the outcome of this experimental study (i.e., the final proposed offer made by tax practitioners) is influenced by the relationship between the concession timing strategies adopted by tax audit officers and the tax practitioners' perception of distributive justice. This implies that when the tax practitioners are dissatisfied with the negotiation outcome (i.e. final proposed offer), they consider that the negotiation outcome was different from their expectation.

The following section discusses the mediation effect of the tax practitioners' perception of fairness on the relationship between the tax practitioners' final proposed offer and the tax audit officer's concession timing strategy and the tax practitioners' level of aggressiveness.

6.5 Research Question No. 5a - Does the tax practitioners' perception of fairness mediate the effect of the tax practitioners' final proposed offer on the tax practitioners' level of aggressiveness?

Research Question No. 5b – Does the tax practitioners' perception of fairness mediate the effect of the timing of the tax authority's concessions on the tax practitioners' level of aggressiveness during tax audit negotiation period?

Hypotheses 5a and 5b were also tested to find the mediation effect between the main variables in the tax audit officer-tax practitioner negotiation model and were developed based on the literature discussed in Chapter 3.

Hypothesis 5a: The effect of the tax practitioners' final proposed offer offered on the tax practitioners' level of aggressiveness is mediated by their perception of distributive justice.

Hypothesis 5b: The effect of the tax audit officer's concession timing strategy on the tax practitioners' level of aggressiveness is mediated by the tax practitioners' perception of procedural justice.

Based on the PROCESS analysis results, there is no mediation effect for the tax practitioners' perception of fairness (i.e., distributive justice and procedural justice) on the tax practitioners' final proposed offer and the tax practitioners' level of aggressiveness. Thus, **Hypotheses 5a and 5b are rejected**. According to Murphy (2004), taxpayers prefer to appoint an aggressive tax practitioner to assist them if they perceive that tax authority treated them unfairly with the imposition of penalties. In this situation, the taxpayers and the tax practitioners behave aggressively in response to the unfair treatment by the tax authority or their perception of an unfair negotiation outcome. However, the mediation analysis for Hypothesis 5a of this experimental study indicated that the tax practitioners' perception of fairness from distributive justice perspective has no mediation effect on the tax practitioners' final proposed offers and their level of aggressiveness.

In addition, the tax practitioners' perception of fairness from a procedural justice perspective also has no mediation effect on the tax audit officer's concession timing strategy and their level of aggressiveness. Thus, Hypothesis 5b is also rejected.

In summary, the tax practitioners' final proposed offer or the tax audit officer's concession timing strategy and their perception of fairness are not affect their level of aggressiveness, which is different from the prediction in Hypotheses 5a and 5b. Tax

practitioners viewed that they have no control over the final proposed offer because the tax audit officer who represents the tax authority (i.e., a negotiator with more power) will be the party who can choose the negotiation strategy preferred by him/her and can make the final decision at the end of the negotiation process. As a result, their perception of fairness (distributive justice) does not affect their level of aggressiveness in view of their final proposed offer and they may not be able to force the tax audit officer to change the negotiation method. Perhaps, when a negotiator starts negotiating with his or her negotiating party, his or her notions of distributive justice or procedural justice do not influence at all as his or her makes offers and counteroffers. This idea was only crystalized in retrospect.

6.6 Conclusion

The data analysis results for Hypotheses 1, 2 and 3 of this experimental study indicate that the concession timing negotiation strategies adopted by tax audit officers during a tax audit negotiation process affect the final proposed offer made by the tax practitioners, their perception of fairness from a procedural justice perspective and their level of aggressiveness.

The tax practitioners have offered a higher proposed tax adjustment, which resulted in the reduction of additional tax payable and potential penalty if tax audit officers adopted Concession Gradual rather than Concession End, since the tax audit officers appeared to be more flexible and willing to accept the counteroffer made by the tax practitioners. However, the tax practitioners under Concession End indicated less confidence in their final proposed offer in view of the tax audit officers' adherence to their proposed tax adjustments and no concessions were made during the negotiation process.

Tax practitioners were concerned with the procedures and the attitudes of the negotiating party. The data analysis results indicate that the tax practitioners who have undergone the experimental study under Concession Gradual considered that Concession Gradual is a fairer negotiation strategy for the taxpayers, because the tax audit officer who adopts Concession Gradual allows the tax practitioners to make their counteroffers from the perspective of procedural justice. However, the tax audit officer under Concession End ignored the counteroffer made by the tax practitioners and strictly followed their procedures and final decisions. In view of this, tax practitioners feel that Concession End is an unfair negotiation strategy from the perspective of distributive justice. This unfair perception, however, did not influence their level of aggressiveness.

Based on the mediation analysis, the results indicate that the tax practitioners' final proposed offer has a mediation effect on the tax authority's concession timing strategies and the tax practitioners' perception of distributive justice. Theoretically, distributive justice is related to the negotiation outcome (i.e., the final proposed offer) made by the negotiating parties. In view of this, the tax practitioners' final proposed offer is not mediated by the tax practitioners' perception of procedural justice (i.e., the negotiation procedure).

CHAPTER 7: SUMMARY AND CONCLUSION

This chapter summarizes the findings of this experimental study and discusses the implications of the findings from theoretical and policy perspectives. Based on the experimental study results, the chapter highlights the potential limitations of the study and presents a number of suggestions for future research to overcome these limitations. Finally, the chapter ends with concluding remarks on the overall thesis.

7.1 Tax Audit Negotiation

Based on the existing literature in several countries (Huang & Yu, 1997; Niu, 2011; Park & Hyun, 2003), tax audit is a common practice for tax authorities and it is used to collect under-reported taxes and improve the tax compliance behavior of taxpayers or tax practitioners who provide tax advice for their clients. In Malaysia, the IRB serves as the tax authority and has enforced a tax audit program to randomly conduct examinations of individual and corporate taxpayers' accounting records to ensure that they comply with current tax legislation and to reduce tax avoidance.

There is a lack of existing taxation literature that provides an explanation of how negotiations are carried out between the tax authority and the taxpayers or their appointed tax practitioners during a tax audit. Some aspects of the existing negotiation models in other disciplines, particularly auditor-client negotiation, may be suitable for application in the negotiation process between tax audit officers and tax practitioners, in view of the similarities in position and requirements between tax audit officers and tax practitioners. Similar to Smith and Stalans (1994) in respect of the power allocation between the parties (i.e., the tax audit officer and the taxpayer), the tax audit officers have the formal power to make final decisions for proposed tax adjustments after a tax audit visit. Although the study conducted by Huang and Yu (1997) mentioned that

negotiation does take place between taxpayers or their tax practitioners with the tax audit officer, there is a lack of literature pertaining to the study of negotiation procedures and actual negotiation process in taxation. In normal practice, the tax authority is represented by a team of tax audit officers who carry out tax audit visits to taxpayers' premises to examine their accounting records and ensure that their income tax return is prepared in accordance with current tax laws and regulations.

During tax audit period, tax audit officers may also encounter problems, such as 'grey' areas and ambiguous technical issues, which may require several meetings. Nevertheless, in Malaysia, the tax audit officer may drop certain tax adjustments in view of the fact that there is ambiguity in some 'grey' areas in the current regulations. However, the appropriateness of a waiver of tax adjustment has to be considered by the tax authority. Although Frecknall-Hughes and Kirchler (2015) highlighted negotiations in taxation and explained the stages of negotiation, this experimental study provides further investigation of the negotiation process and procedures together with the implications of two important variables: the tax practitioners' perception of fairness and the level of aggressiveness.

The next section summarizes the interview results obtained from ten tax audit officers in the Corporate Tax Branch, the Larger Taxpayer Branch and the Multinational Tax Branch of the IRB.

7.1.1 Interview Results with Tax Audit Officers from the IRB

Several interview sessions were conducted with ten tax audit officers from the Corporate Tax Branch, the Larger Taxpayer Branch and the Multinational Tax Branch of the IRB who are involved in tax audit cases in order to understand negotiation in tax audit cases and gaining insights on how tax audit officers from the IRB conduct tax

audit cases in order to establish the appropriate hypotheses. The interviews dealt with the negotiation process between the tax audit officer with taxpayers or tax practitioners.

The negotiation takes place during the tax audit process. In most tax audit cases, the tax audit officer issues a tax audit findings' letter after both parties have agreed with the final proposed tax adjustments after negotiations.

As highlighted by the tax audit officers during the interview sessions, there are several tax issues that require resolving through negotiation between the tax audit officer and the taxpayers or their tax practitioners before going to the finalization stage. During a tax audit negotiation, the tax audit officers may have found some tax issues in 'grey' areas, where there is a lack of clear guidelines on the respective tax issues, or there may be different technical points of view. Normally, the tax audit officers go through some internal process that is not known by taxpayers or tax practitioners, for example, presenting the technical issues to the Internal Technical Department of the IRB to obtain a ruling on the appropriate tax treatment. They may also meet with the taxpayers or their tax practitioners together with their superior to discuss any 'grey' areas. After considering the taxpayers or their tax practitioners' grounds for appeal, the superior is expected to make the final decision on the tax treatment. The majority of taxpayers prefer to appoint tax practitioners to act on their behalf in dealing with the IRB during a tax audit. Some of the tax audit officers among the interviewees confirmed that tax audit cases can only be settled via negotiation (i.e., three to four meetings) and the tax audit period may be prolonged if there is difficult interaction between the tax audit officer and the taxpayers or their tax practitioners. The majority of the interviewees from the IRB also confirmed that many tax audit negotiations are carried out via emails and telephone rather than in face-to-face meetings.

Although the interview findings are not a formal part of the findings from this experimental study, during the interview sessions with ten tax audit officers from the IRB, one of the tax audit officers mentioned that Concession Gradual and Concession End were adopted by them during the tax audit negotiation process, which lasted from two to six months. When the tax audit officers adopt concessionary negotiation strategies during tax audit negotiation, the taxpayers or their tax practitioners may behave aggressively in view of any substantial potential tax liability to be paid based on the proposed tax adjustments from tax audit findings. If the taxpayers or their tax practitioners disagree with the final decision of the tax audit officers, they may submit an appeal to the Dispute of Resolution Department for a hearing session, prior to going to court. Nevertheless, the tax authority prefers to finalize tax audit cases prior going to court, in order to reduce the litigation costs and shorten the tax audit period. For example, the tax audit officers from the IRB confirmed that they are advised to finalize the cases as quickly as possible.

Based on the above interview results, this study then examined concessionary strategies in the negotiations between the tax audit officer and the tax practitioner by adopting experimental method. The following section summarizes the results from this experimental study.

7.1.2 The Results of the Experimental Study

Chapter 2 explains the main variables adopted to develop the tax audit officer-tax practitioner negotiation model for this experimental study. The main variables of this experimental study include the tax authority's concession timing strategies, the tax practitioners' final proposed offer, the tax practitioners' perception of fairness and the tax practitioners' level of aggressiveness. From the literature of other disciplines, such as auditing and marketing (Kwon & Weingart, 2004; Tan & Trotman, 2010), concession

timing strategies appear to be one of the most effective negotiation tactics used by negotiators to improve the negotiation outcome and the acceptance level of other party in achieving a mutual agreement.

In view of the above, an experiment was conducted in this study using participants who were tax practitioners working in several tax firms in Malaysia, and examined concession timing strategies (i.e., Concession Gradual and Concession End) that are adopted by tax audit officers during tax audit negotiations. The tax audit officer-tax practitioner negotiation model examines the concessions made by a negotiator (i.e., the tax audit officer) and the response of other party (i.e., the tax practitioner) by making counteroffers. Tax practitioners are expected to make counteroffers subsequent to the first offer made by the tax audit officers. The tax practitioners may not be able to pressure the tax audit officer, who acts on behalf of the IRB, in order to obtain any benefits from tax audit negotiation because the tax audit officer is not required to maintain a long-term relationship between both parties. Tax practitioners are advised to consider that the tax audit officer is tougher if he/she does not allow them to make their counteroffers in response to the proposed tax adjustments made after the tax audit visit under Concession End. In this connection, the results of Hypothesis 1 indicate that the final proposed offer of tax practitioners under Concession Gradual is significantly lower than the final proposed offer of tax practitioners under Concession End.

Other than the final proposed offer made by tax practitioners, different concessionary negotiation strategies may affect the tax practitioners' perception of fairness. Tax practitioners feel they have been treated unfairly with a negotiation outcome from the perspective of distributive justice if no concessions are allowed. As well as the negotiation outcome, tax practitioners are also concerned with the negotiation and decision-making process from a procedural justice perspective (Colquitt, 2001; Kass,

2008; Murphy, 2004). In Hypothesis 2a, there is no significant difference in a tax practitioner's perception of distributive justice under Concession Gradual and Concession End, since the tax audit officer is willing to give a concession at the final round of negotiation. However, there is a significant difference in tax practitioners' perception of procedural justice between Concession Gradual and Concession End in Hypothesis 2b, as the tax practitioners feel that they can control the negotiation process under Concession Gradual.

Other than perception of fairness in taxation, Murphy (2004) also found that the level of aggressiveness of tax practitioners is equally important and affects their attitudes during a tax audit negotiation with the tax audit officer. In this experimental study, prior to the negotiation process, there was no difference in the level of aggressiveness of tax practitioners under Concession Gradual and Concession End. The pair-wise result of Rounds 1 and 4 and the concessions indicate that the tax practitioners prefer the tax audit officer to adopt Concession Gradual, which favors them and allows them to make counteroffers. From this, the tax practitioners may reduce the potential tax payable and tax penalty resulting from a tax audit visit. Ideally, the tax practitioners prefer to deal with a tax audit officer who adopts Concession Gradual, because the tax audit officer is then willing to consider their counteroffers and remove some tax adjustments (i.e., a waiver of the tax adjustment) after receiving the justification from the tax practitioners.

The result of Hypothesis 4 indicates that the tax practitioners' final proposed offer is mediated by the tax audit officer's concession timing strategies on the tax practitioners' perception of fairness from the perspective of distributive justice, and the tax practitioners behave differently in response to different concession timing strategies adopted by the tax audit officer. The final proposed offer refers to the outcome of the negotiation process. Nevertheless, there is no mediation effect on the tax practitioners'

final proposed offer from the tax audit officer's concession timing strategies on tax practitioners' perception of fairness from the perspective of procedural justice (i.e., no hypothesis is developed).

For Hypotheses 5a and 5b, the results also indicate that there are no mediation effects for tax practitioners' perception of fairness (i.e., distributive justice and procedural justice) on the influence of the tax practitioner's final proposed offer or the tax audit officer's concession timing strategies and the tax practitioner's level of aggressiveness.

The following section summarizes the development of the tax audit officer-tax practitioner negotiation model.

7.2 The Tax Audit Officer-Tax Practitioner Negotiation-Oriented Model

In the simulation of a tax audit negotiation in this experimental study (i.e., in the experiment case), the tax audit officer responds on the proposed tax adjustments to a tax practitioner who acts on behalf of his client, a taxpayer. In return, the tax practitioner adopts the proposed amount from tax audit officer as an anchor to make his counteroffer. This process was repeated three times until both parties achieve a mutual agreement. This simulation process was adopted from an auditor-client negotiation study conducted by Tan and Trotman (2010).

The existing negotiation models available in other disciplines (i.e., auditing, sales, etc) are not suitable to apply in tax audit negotiation in view of a power dimension. The negotiation process is driven by the tax audit officer and the negotiation is focused on the offers made by the tax audit officer and the counteroffers made by the tax practitioners on behalf of their clients, taxpayers, as opposed to a mutual offer-exchange process in the existing negotiation models. Thus, the adoption of a negotiation strategy and a different offer may affect the negotiation outcome in tax audit cases (i.e., how

much tax is agreed on, and the attitude of tax practitioners or taxpayers towards the tax authority). Furthermore, the tax audit officers are required to negotiate with their superiors to decide on the resolution of a dispute with the taxpayers. The negotiation process and outcome experienced by the tax practitioners affect the perception of fairness and the level of aggressiveness of tax practitioners (i.e., hard tactics and smaller concessions) who act on behalf of their clients, the taxpayers in the future tax audit negotiation.

Other than the concession timing strategies adopted by auditors and the final offers proposed by financial officers in Tan and Trotman (2010), this study also takes into consideration two other important variables in taxation, namely, tax practitioners' perception of fairness and their level of aggressiveness. The experimental results confirmed that in the concession making process between the tax audit officer and the tax practitioners reciprocity and anchoring theories were adopted in the negotiation process during a tax audit period, as confirmed by the tax practitioners who were involved in this experimental study, together with the ten tax audit officers from the IRB and the two tax partners who assisted in the validation of the experimental case.

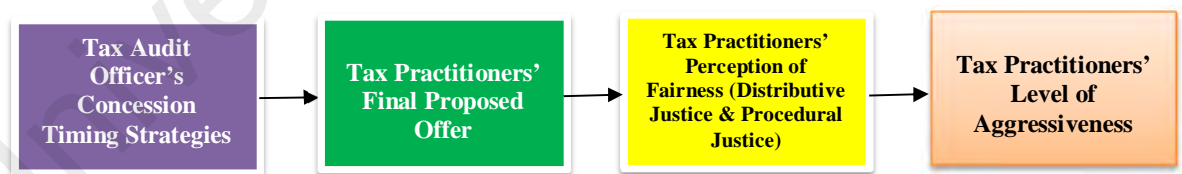


Figure 7.1: Tax Audit Officer-Tax Practitioner negotiation model

In an auditor-client negotiation model or buyer-seller negotiation model in the current literature (Kwon & Weingart, 2004; Tan & Trotman, 2010), the concession timing strategies adopted by negotiators affect their negotiating parties' response.

Similar to these studies, the results of this experimental study also provide evidence of the tax practitioners' perception of fairness and level of aggressiveness in response to different concession timing strategies adopted by the tax audit officers during the tax audit period. The following section discusses the theoretical and policy implications of this experimental study.

7.3 Implications of the Study

There are theoretical and practical implications from the results of this experimental study. First, it adopts reciprocity and anchoring theory in the negotiation process between a tax audit officer and tax practitioners during a tax audit. It also represents the first study on a negotiation model in taxation that focusses on tax audit negotiation between a tax audit officer and a tax practitioner adapted from the auditor-client negotiation model of Kleinman and Palmon (2000). In auditing and marketing disciplines, some researchers have considered negotiation strategies, the final proposed offer and perception of fairness in their negotiation models (Kwon & Weingart, 2004; Tan & Trotman, 2010).

Based on the existing negotiation models and the different circumstances in taxation as compared to other disciplines, this experimental study developed a new negotiation model, which is applicable for tax audit purposes. In this experimental study, the tax audit officer-tax practitioner negotiation model has considered a new variable, the tax practitioners' level of aggressiveness, which plays an important role tax negotiation. If tax audit officers fail to understand the reasons for the aggressiveness of tax practitioners, they may not be able to handle tax audit cases well and may delay the completion date of tax audit cases. If that happens, tax audit officers may not collect the under-reported taxes in an effective way and thus, minimize the cost to be incurred. From a practical perspective, the study helps to identify an appropriate negotiation

strategy to be adopted by a tax audit officer in order to improve the tax audit process. These implications are explained in detail below.

7.3.1 Theoretical Implications

Based on the literature review and the experimental results obtained from this study, there are several theoretical contributions from this study, which are elaborated below.

7.3.1.1 Concession Timing Strategies Adopted in the Tax Audit Officer-Tax Practitioner Negotiation-Oriented Model

In view of the inadequacy of the literature in examining the negotiation strategies adopted by tax audit officers from other studies (Smith & Stalans, 1994; Tan & Trotman, 2010), this is the first study conducted in taxation to examine the influence of concession timing strategies adopted by the tax audit officers to deal with other party, the tax practitioners. The experimental results in Chapter 5 indicate that different concession timing strategies may affect the response of tax practitioners when they make their final proposed offer on behalf of their clients, the taxpayers. In auditor-client negotiation study conducted by Tan and Trotman (2010), there is no difference in the final offers made by financial officers under Concession Gradual and under Concession End.

This study's result is different from Tan and Trotman (2010). In this experimental study, there is a new finding with regard to the implication of a concession timing strategy. The study found that the final proposed offer made by tax practitioners was significantly higher under Concession End than under Concession Gradual (i.e., significant difference). The respondents, the tax practitioners perceive that Concession Gradual is a better concession timing strategy because the tax audit officer is willing to accept their counteroffers. Under this concession, tax practitioners perceive that the tax

audit officer is willing to make concessions and they are able to control the negotiation process (i.e., from a procedural justice perspective). However, tax practitioners under Concession End consider that the tax audit officer is unfair to them throughout the tax audit negotiation process because the negotiated offer of the tax practitioners under Concession End as this was higher than under Concession Gradual. A possible reason for this exception in taxation is because the negotiated offer has direct negative implications for the profitability and cash flow of the firm. A higher negotiated offer may result in higher additional tax payable and a penalty imposed to be paid to the tax authority. Furthermore, the financial performance of the firm is affected and the impression of stakeholders of the firm will be jeopardized. In view of this new insight into tax negotiations, an avenue for further research into the concession timing strategy would be to explore the question on concession timing strategies on tax audit negotiation.

This study also explains the understanding of how the tax audit negotiations are conducted during the tax audit period between tax audit officers and tax practitioners, who act on behalf of their clients, the taxpayers. All of these findings were not identified previously by the researchers.

7.3.1.2 An Extension Negotiation Model of Tan and Trotman (2010) and Kwon and Weingart (2004) with a New Variable, the Tax Practitioner's Level of Aggressiveness

Unlike the studies conducted by Kwon and Weingart (2004) and Tan and Trotman (2010) which examined the final offer or perception of fairness together with the satisfaction of the negotiating party, this study examines the tax audit officer-tax practitioner negotiation model by considering the effect of the concession timing strategies adopted by the tax audit officer on the tax practitioner's final proposed offer

and the tax practitioner's perception of fairness in the negotiation process. In addition to these variables, this model also considered the effect of the concession timing strategies adopted by the tax audit officer on the tax practitioner's level of aggressiveness, which are mediated by the tax practitioner's final proposed offer and the perception of fairness. In addition, this is a new negotiation model developed for studying taxation by using an experimental method. Taxpayers' or tax practitioners' aggressiveness has also been studied in the tax literature – see Murphy (2004), Schisler (1995) and Rego and Wilson (2008). These studies have examined the relationship between taxpayers' or tax practitioners' perception of fairness and tax aggressiveness. As an extension of the current literature, this experimental study has linked the effect of concession timing strategies to those variables (i.e. tax practitioners' perception of fairness and tax aggressiveness).

Based on the statistical results discussed in Chapter 5, this experimental study found that the concession timing strategies adopted by tax audit officers influence the final proposed offer and the level of aggressiveness of tax practitioners. Tax practitioners made a lower final proposed offer to the tax audit officer under Concession Gradual (mean = RM0.05m) as compared to under Concession End (mean = RM0.13m). Under Concession Gradual, the tax audit officer is more willing to make concessions. The tax practitioners also behaved more aggressive under Concession End as compared to under Concession Gradual as they viewed that the tax audit officer who adopted Concession End is unfair to them. Again, these findings were not identified previously by the researchers.

7.3.1.3 The Tax Practitioners' Perception of Fairness in the Tax Audit Officer-Tax Practitioner Negotiation-Oriented Model

Although some tax studies (Murphy, 2004; Wenzel, 2003) have stressed that the perception of fairness is an important factor to be considered in taxation, insufficient negotiation studies have been conducted in taxation to examine the effect of the perception of fairness from a tax practitioner's perspective. Thus, this experimental study has extended the effect of the perception of fairness in taxation from a tax practitioner's perspective. The tax audit officer-tax practitioner negotiation model links the effect of concession timing strategies to tax practitioners' perception of fairness. Therefore, this model extends these studies by examining the effect of concession timing strategies adopted by a negotiator on other variables.

Based on the analysis in Chapter 5, this study found that tax practitioners felt that they received fairer treatment from a tax audit officer under Concession Gradual than under Concession End from the perspective of procedural justice, which is similar to the results of Kwon and Weingart (2004). This is because under Concession Gradual, the tax audit officer is willing to make concessions during the tax audit negotiation period. However, there is no significant difference for tax practitioners under Concession Gradual than under Concession End from the perspective of distributive justice in this study, because the final decision made by the tax audit officer at the final round is similar for both types of concession negotiations. This finding is different from Kwon and Weingart (2004), in which the buyers' perception of fairness from distributive justice perspective under Concession End is higher than under Concession Start or Concession Gradual.

Nevertheless, the examination of the mediation effect of a tax practitioner's final proposed offer and a tax practitioner's perception of fairness on the tax audit officer-tax

practitioner negotiation model found that a tax practitioner's final proposed offer mediated the tax audit officer's concession timing strategies and the tax practitioner's perception of fairness from the perspective of distributive justice. Tax practitioners felt that the final proposed offer made by them represented the negotiation outcome of the tax audit and should be accepted by tax audit officer as their final decision.

This study verifies that the procedures adopted by a tax audit officer affect a tax practitioner's perception of procedural justice and the negotiation outcome affects a tax practitioner's perception of distributive justice. Although there is no significant difference between the tax practitioners' perception of distributive justice under Concession Gradual and Concession End, this is a new finding for the understanding of the way of tax audit negotiations are conducted from the tax practitioners' perception of fairness.

The questions adapted in this study from other studies examined the response of the tax practitioners (i.e., strongly disagree to strongly agree). The findings of this study are to a degree similar to the findings of the tax studies conducted by other researchers (Murphy, 2004; Wenzel, 2003).

7.3.1.4 The Mediation Effect between the Main Variables of the Tax Audit Officer-Tax Practitioner Negotiation-Oriented Model

This experimental study has examined the mediation effect on the main variables of the tax audit officer-tax practitioner negotiation model, which is similar to Tan and Trotman (2010). Nevertheless, there is lack of negotiation study in taxation, which also considers the mediation effect of the main variables.

Based on the SPSS results of this study, the concession timing strategies adopted by a tax audit officer as a negotiator influenced the tax practitioner's perception of fairness

from the perspective of procedural justice, as adapted from Kwon and Weingart (2004). The tax practitioners who were involved in this experimental study felt that they could control the negotiation process under Concession Gradual but not under Concession End. However, they were unable to influence the negotiation outcome of the tax audit, which was decided by a tax audit officer (distributive justice) as explained by Smith and Stalans (1994) because the tax authority has formal power to make the final decision. Therefore, from the perspective of distributive justice, there is no significant difference for tax practitioners under Concession Gradual and Concession End.

Nevertheless, the mediation results from this experimental study indicate that the tax practitioner's final proposed offer was mediated by the tax audit officer's concession timing strategies and the tax practitioner's perception of fairness from the perspective of distributive justice. The reason for this is that from the perspective of distributive justice, the final proposed offer of the tax practitioners represents the negotiation outcome of the tax audit (Colquitt, 2001; Kass, 2008) and therefore, based on the mediation results in this study, distributive justice is more influential than procedural justice in terms of the negotiation outcome.

7.3.1.5 The Extension of Reciprocity and Anchoring Theories in Taxation Study

Reciprocity and anchoring theories are very important in negotiation studies (Tan & Trotman, 2007; Tan & Trotman, 2010). These two mechanisms are the essential components during the negotiation process in other disciplines, such as auditing and marketing. However, insufficient studies in negotiation have been conducted previously in taxation to examine the effect of reciprocity and anchoring theories.

The study conducted by Smith and Stalans (1994) also mentioned that taxpayers prefer tax audit officers to reciprocate during the tax audit negotiation, although tax

audit officers prefer to hold firm on their decisions, made with legal correctness. Therefore, in view of the significance of reciprocity and anchoring mechanisms in the negotiation process and since there is lack of taxation study, that looks into the application and effect of the reciprocity and anchoring theories, this experimental study provides evidence on the reciprocity and anchoring effects in taxation as well, especially during a tax audit negotiation.

This negotiation model provides the first evidence that reciprocity and anchoring do affect the negotiation model in taxation between negotiators and other parties. The reciprocity and anchoring mechanisms are applied during tax audit negotiation between tax audit officers and tax practitioners, like in the negotiation process in other disciplines. The tax practitioners who were involved in this experimental study always responded to the tax audit officer with their counteroffers when they received the concessions made by the tax audit officer. At the same time, the tax audit officers' proposed tax adjustment becomes an anchor for the taxpayers or tax practitioners to make their counteroffers.

7.3.2 Policy Implications

In addition to the above theoretical implications, this experimental study also discusses practical implications for the tax industry.

7.3.2.1 The Study Identifies Appropriate Concessionary Strategies for Tax Audit Negotiation to Improve the Perception of Fairness (Distributive Justice and Procedural Justice)

The ten tax audit officers from the IRB confirmed in the interview sessions that concession timing strategies, Concession Gradual and Concession End, are adopted by the tax audit officers during the negotiation process with taxpayers or their tax

practitioners. This experimental study found that tax practitioners prefer to adopt less aggressive tactic if the tax audit officer adopts a Concession Gradual negotiation strategy during the tax audit negotiation period. The tax practitioners view that Concession Gradual is a fairer strategy from the perspective of procedural justice because the tax audit officer allows them to control the negotiation process and is more likely to reciprocate the offer made by the tax audit officer under Concession Gradual than under Concession End. If tax practitioners perceive that the negotiation strategies and the treatment of tax audit officer is fair to them, they may respond positively in their decisions on any final proposed offer and their level of aggressiveness during the future tax audit officer-tax practitioner negotiation process will be lower (willing to accept the concessions made by the tax audit officers) during tax audit period. This may lead to a better result from the tax audit negotiation for both the tax practitioner and the tax authority. Tax practitioners may influence their clients, the taxpayers, to reduce tax avoidance or evasion in their tax planning, and a majority of taxpayers may prefer to appoint a tax practitioner to handle their tax affairs.

7.3.2.2 The Study Identifies the Concessionary Negotiation Strategies that Influence a Tax Practitioner's Level of Aggressiveness

This experimental study has considered a tax practitioner's level of aggressiveness and the root cause of aggressive behavior and examined the concessionary negotiation strategies that affect tax practitioners' level of aggressiveness. Smith and Stalans (1994) found that taxpayers prefer that tax audit officers adopt a negotiation strategy in which they can reciprocate to improve the negotiation outcome.

Based on the existing literature, concessionary negotiation strategy involves reciprocity and anchoring, which may help to improve the desires of taxpayers or tax practitioners and reduce their level of aggressiveness at the same time. Based on the

experimental results, as tested in Hypothesis 3, tax practitioners did not reduce their aggressiveness in response to the tax audit officer who adopted Concession End. They felt that the tax audit officer was tougher as he/she refused to allow them to make concessions and ignored their counteroffers until the final round of negotiation. Thus, they perceived that the tax audit officer's negotiation strategy was unfair to them in the current negotiation and they expect to adopt aggressive tactic when dealing with a tax audit officer in future negotiation.

On the other hand, tax practitioners' aggressiveness was reduced significantly if the tax audit officer adopted Concession Gradual, in which he/she appeared to be more flexible and willing to make concessions and reduce their proposed tax adjustments (i.e., accept the proposals of the tax practitioner). The experimental results provide an indicator to tax authorities that, by adopting a Concession Gradual strategy, they can reduce the level of aggressiveness of taxpayers or their tax practitioners.

7.3.2.3 The Study Provides Guidelines to Establish Tax Audit Negotiation Procedures for Conducting Tax Audits

Based on the experimental results of this study, Concession Gradual is the more effective way to handle the tax audit negotiation process between tax audit officers and tax practitioners and the tax authority may treat this as a direction for establishing formal tax audit negotiation procedures. The most appropriate negotiation strategy was identified in this experimental study, Concession Gradual strategy, and this provides a reference for the tax authority in setting up internal policy (i.e., a tax audit manual on negotiation strategies and procedures) to improve the efficiency of the tax department for the effective settlement of tax audit cases.

The tax authority also may consider developing formal guidelines or structured procedures for the professional conduct of tax practitioners in dealing with the issue of aggressive tax planning or aggressive tactic that influence of tax practitioners on taxpayers, based on the variables examined in this experimental study. The reasons for the disagreement with the tax audit officers and the adoption of aggressive tactics by the tax practitioners which were examined in this experimental study provide a reference for the tax authority to finalise a tax audit case within a shorter period. Nevertheless, the tax authority should also seek additional evidence on the practices, professional ethics and responsibilities of tax practitioners, which are not included in this experimental study, and these can be examined in the future.

7.3.2.4 The Study Provides a Guideline for the Waiver of Tax Adjustments during the Tax Audit Period

Based on the interview sessions with the tax audit officers from the IRB, tax audit officers may drop some tax adjustments (i.e., 'grey' areas, technical issues) which often give rise to negotiations if there are no clear guidelines or tax laws to govern those tax issues. At present, the tax audit officers are required to present their tax audit findings to the Technical Committee of the IRB in order to seek approval before they are allowed to make changes. At this time, there are no proper procedures for tax audit officers to follow for dropping tax issues found during a tax audit visit. Thus, a gradual approach to scoping the size of the 'grey' area might be useful in tax audit negotiation.

At the same time, the process to waive certain tax audit adjustments is also not transparent to taxpayers or tax practitioners. In view of this, the tax authority is advised to establish a proper system to handle the waiver of tax adjustments found during a tax audit visit in order to prevent tax loss to the country. The legitimacy of the tax waiver decision making process should be investigated further before formalization. If the tax

process and procedures for handling these issues is transparent (i.e., up to a certain extent) to taxpayers or tax practitioners, they may feel the tax waiver decision making process and procedures are fair to them and this may reduce their level of aggressiveness during the tax audit period. Therefore, future study can focus on the role of the tax authority in providing guidance by establishing a new tax process and procedures, which would improve the tax compliance behavior of tax practitioners and reduce the administrative costs of collecting under-reported taxes.

The following section discusses the limitations of this experimental study and makes suggestions for future research.

7.4 Limitations of the Study

This experimental study identifies the most effective concession timing strategies for negotiations with tax practitioners or taxpayers in order to resolve tax audit cases in a shorter period of time. However, there are a number of limitations of this study that should be noted.

First, tax practitioners were only told at each round of negotiation of the revised tax adjustments proposed by the tax audit officer and the relevant penalty. The information transmitted to tax practitioners was held constant at each round between treatments (i.e., Concession Gradual and Concession End). However, in practical terms, it is likely that a tax audit officer would provide additional responses in relation to the arguments made by tax practitioners in an earlier round.

Second, the design of this experimental study used emails to conduct negotiations. Although it does happen that tax audit negotiations take place through emails, the results may differ from those of negotiation sessions conducted by face-to-face. However, it is impossible to manipulate the concession timing strategies if the face-to-

face method is adopted, i.e., unrestricted communication or messaging can jeopardize the experimentalist's control over the discussion topic as per Kachelmeier and Towry (2002). The actual response of tax practitioners during an experiment period using face-to-face communication may be significantly different from the original plan of the experimental method adopted, and as a result, the replies from the tax practitioners may not be usable due to their inconsistencies.

Third, the participants in this experimental study were told that there was a maximum number of four negotiation rounds. In practice, this information would not be known in advance, and the number of rounds of negotiation may be fewer or more. In addition, the actual negotiations in a tax audit would be likely to take a longer period of time than the two hours of this experimental study. During a tax audit negotiation period, new issues may be raised by the tax audit officer in view of additional data arising. The rationales of the participants to make offers after the first round of negotiation were not studied, as they were not requested from the respondents in the questionnaire.

Fourth, the behavior of the tax practitioners in this experimental study may not reflect the behavior of the real tax practitioners in an actual negotiation. The behavior of the tax practitioners involved was closely controlled and the concession amounts were fixed.

Fifth, this experimental study did not control for the demographic data of the respondents, e.g., aggressiveness, education, personality. The respondents were chosen based on their years of experience in taxation with a minimum of half a year.

7.5 Suggestions for Future Research

This experimental study focused on the influence of concessionary negotiation strategies on tax field audit cases. Future research may extend to investigating how concession timing interacts with alternative strategic approaches to tax investigation, and other tax audit tactics of the tax authority to collect under-reported taxes. According to the tax audit officers from the IRB during the interview sessions, the negotiation period in a tax investigation would be longer, in practice, compared to a tax field audit.

As tax authorities are now aware that the perception of fairness may affect the professional conduct of tax practitioners, and in view of the existing negotiation process and procedures practised by tax audit officers, future study may examine the fairness of the tax process and the procedures and the appropriateness of the procedures to be adopted for tax field audits. Tax practitioners may influence the perception of taxpayers on the current tax process and procedures and the aggressive behavior of taxpayers in response to an unfair tax process and procedures.

Subsequently, future study should also extend to the identification of the main factors that influence the aggressive behavior of taxpayers or tax practitioners, other than the negotiation strategies adopted by tax audit officer examined in this experimental study. Understanding the reasons for the aggressive behavior of taxpayers and tax practitioners are important as this can help the tax authority create a fair tax processes and procedures from the view point of taxpayers and tax practitioners and encourage them voluntarily to declare their fair share of tax without incurring additional costs. Future study may consider additional factors, such as tax policy and tax practitioners' service charges that also affect the tax practitioners' level of aggressiveness other than concession timing strategies and that can be adopted by a tax audit officer during a tax audit negotiation period.

7.6 Conclusion

This experimental study provides important evidence of how tax audit negotiation takes place between tax audit officers and tax practitioners. From the taxpayers' perspective, tax practitioners help them to reduce tax adjustments and penalty assessments, resulting from a tax audit conducted by a tax audit officer. In view of this, the tax practitioners' level of aggressiveness may affect taxpayers' behavior, and they may consider a tax planning scheme based on the tax practitioners' advice.

This study also identifies the changes in the level of aggressiveness of tax practitioners before and after a tax audit officer makes the final decision on the proposed tax adjustments for tax audit purposes. Tax practitioners behave differently in response to the two concession timing strategies adopted by tax audit officers, Concession Gradual and Concession End. In addition to aggressive behavior, the final proposed offer of tax practitioners is lower under Concession Gradual than under Concession End because they perceive that the concessionary negotiation strategy adopted by a tax audit officer is flexible and that the tax audit officer will be willing to make concessions throughout the tax audit negotiation period. Tax practitioners also feel that they would like to control the negotiation process.

This study considered the perception of fairness by tax practitioners. If tax practitioners view that their clients, the taxpayers and they themselves have been treated fairly by the tax authority, they may behave less aggressively in response to the tax adjustments proposed by tax audit officers during the tax audit negotiation period. Tax practitioners emphasize procedural justice and the attitude of the tax audit officer and procedures of tax audit that may affect their behavior during a tax audit negotiation period. The tax practitioners' final proposed offer, which is influenced by the tax audit officer's concession timing strategies, affects the perception of fairness of tax

practitioners. In this study, the tax practitioners' final proposed offer were mediated the tax audit officer's concession timing strategies and the tax practitioner's perception of distributive justice. Distributive justice strongly affects the outcome of the tax audit negotiation, i.e., the tax practitioner's final proposed offer.

Based on the experimental result of this study, the tax authority may consider setting up formal guidelines or procedures to safeguard the professional conduct of tax practitioners, improve the current tax policies, and reduce the level of aggressiveness of tax practitioners.

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LIST OF PUBLICATIONS AND PAPERS PRESENTED

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2. Anna Che Azmi, Yuen Hoong Voon (2016). The effect of clients' auditing experience and concession-timing strategies on auditor-client negotiations. *Group Decision and Negotiation*, 25(2), 1049-1069