

CHAPTER 1

BACKGROUND AND INTRODUCTION

1.1 BACKGROUND

The new government that took office in South Africa in April 1994 faced a multitude of challenges. Usually, any government investment in tax reform and improvements in tax administration is given a low priority compared to more visible (tangible) and less controversial national programmes (Dhillon & Bouwer 2005:1), but the new South African government was deeply aware of the urgent need to modernise revenue administration in South Africa (Manik 2005:1; Manuel 2002:2). It realised that tax reform can stimulate business by reducing the burden of compliance and by eliminating distorting effects in the economy, thus producing an upward spiral of funding available for other national programmes (Dhillon & Bouwer 2005:1-2).

After years of isolation, South Africa was still “hamstrung” by revenue departments that performed poorly and by a burdensome and bureaucratic tax regime (Manik 2005:1). Under the previous (apartheid) government, there were five different tax administrations – one for South Africa, and one for each of the homeland "states" or so-called TBVC countries – the Transkei, Bophuthatswana, Venda and the Ciskei (Aaron & Slemrod 1999:2). From April 1994, the homelands were abolished, the country was divided into nine provinces and the tax system was earmarked for revision. Since then, most of the revenue-raising authority resides with the national government (Aaron & Slemrod 1999:2).

In the 1990s, internationally, revenue agencies generally began to focus on internal improvements and structural changes (Rettie 2005:1). The revenue administration in South Africa was no exception to these international trends. The new government needed to maximise the efficiency of the revenue-raising instruments at its disposal strategically in order to access funds to address substantial backlogs in the provision of social services and infrastructure to previously disadvantaged communities. Internally, it was apparent that a progressive organisation would require a different organisational culture – one that reflects greater professionalism, a service orientation, high levels of integrity and a passion for learning (Manik 2005:2). This approach contrasted with the existing culture of job entitlement with a civil service ethos (largely clerical clock-watchers who wielded a great deal of power over taxpayers and traders) (Manik 2005:2).

The initiation of a structural reform of the South African revenue authority was already recommended by the Margo Commission in 1986. This Commission (1986) was specifically appointed to enquire into and to make recommendations for the implementation of a cohesive tax structure at all levels of government in South Africa (South Africa 1984:2). The Margo Commission (1986:467) found that the revenue authority in South Africa laboured under severe disabilities and recommended that the autonomy of what was then called Inland Revenue should be reconsidered, so that the revenue authority would not have to be bound by State procedures (Margo Commission 1986:37). The dire straits in which the revenue authority found itself by 1994 led South Africa's first post-apartheid government to announce on 22 June 1994 that it had appointed another commission to study the South African tax system and to make recommendations for reform (Aaron & Slemrod 1999:3). The mandate of this commission was very broad, as it was to investigate virtually every aspect of the South African tax regime inherited from the previous government against the backdrop of the political, social and economic goals of the new government (Manuel 2002:3). The commission was officially called the Commission of Inquiry into Certain Aspects of the Tax Structure of South Africa, but it soon became known as the Katz Commission, named after its chairman, Michael Katz, a private corporate lawyer (Aaron & Slemrod 1999:3). The commission issued nine interim reports from November 1994 to February 1999, providing a solid foundation on which to build subsequent tax reform efforts (Aaron & Slemrod 1999:3).

Recommendations regarding a reform of the administrative mechanisms dominated the early work of the Katz Commission and they were an important consideration in all the reports (Manuel 2002:10). One of the recommendations of the Katz Commission (1994:263) was that attention should urgently be paid to enhancing the status and administrative autonomy of the then Commissioner for Inland Revenue. This recommendation supported what the Margo Commission had already suggested in 1986. Inspired by these recommendations, the South African Revenue Service (hereafter "SARS") was established in terms of the South African Revenue Service Act, No 34 of 1997 (hereafter the "SARS Act"). The Katz Commission did not only provide the impetus to enhance tax administration – in its third interim report, the Commission also placed on record its support for the decision taken by the government to restructure the Inland

Revenue and Excise administrations into what is now known as SARS (Katz Commission 1995:3). The transformation of a fragmented revenue administration was one of the most important reforms the government introduced after 1994 (South Africa 1997:i).

In terms of section 2 of the SARS Act, SARS was created as an organ of the State within the public administration, but as an institution outside the civil service. SARS was therefore established in 1997 as an institution outside the civil service and was given independent status in an attempt to enhance its administrative efficiency (Peters 1996:32). Although SARS is an institution outside the civil service, it operates under the executive authority of the Minister of Finance (SARS 2005a:102). This restructuring gave Pravin Gordhan, then the newly appointed Deputy Commissioner (now the Commissioner), the responsibility of transforming the organisation, and the freedom to innovate without the constraints normally imposed on government departments (Planting 2004:11). These changes also put SARS in a strong position to reach its key objectives of collecting all national taxes, duties and levies by attracting and retaining competent people, using modern information technology and adopting efficiency-enhancing organisational structures and incentive schemes (Manuel 2002:3). Since then, extensive organisational transformation has elevated SARS to a model of domestic public sector transformation and technology innovation, and has made it a preferred employer (Manik 2005:1). SARS appears to be one of the success stories of the post-apartheid government. Today SARS is considered a global benchmark for emerging countries. Part of this success was due to structural change (Planting 2004:11; Smith 2003:4).

SARS's enhanced performance has made it easier for the government to achieve some of its budgetary goals. This suggests that a mutually supportive relationship between the legislature and a government department on the one hand, and revenue-raising authorities on the other, can improve the State's extractive capacity (Smith 2003:5). Although prospects for success are said to depend on the degree to which political authorities allow institutions that perform public functions to operate without interference, the recent history of SARS suggests that active political support for the institution and a co-operative relationship between the revenue service and the relevant government department may be a precondition for success (Smith 2003:5-6,12).

The international focus of internal improvements and structural changes in organisations has shifted over time. Calls for businesses to pay attention to the quality of the service(s)

they deliver to their customers have increased in the last few decades (Schneider & White 2004:1). As the community's expectations regarding the service(s) received from private sector organisations have grown, there has been a corresponding increase in people's expectations regarding the service(s) provided by the public sector (Dhillon & Bouwer 2005:2). Since the start of the 21st century, revenue agencies worldwide have typically been the first public sector institutions to redefine the relationship between the government and the community (Stoke, Regan & Stauffer 2005:1). Revenue agencies began to concentrate on improving external aspects – their relationship with clients and the service they provide to clients (Rettie 2005:1). The relationship management strategy is based on the approaches of bringing taxpayers into the system, of investing time in the relationship to help taxpayers to understand how to be compliant, and of maintaining the relationship with taxpayers as customers in the long term (Dhillon & Bouwer 2005:7). Revenue agencies now think of taxpayers as customers, offer a choice of convenient channels that make it easy to comply, and use customer insight to drive tailored services and compliance activities (Rettie 2005:1; Stoke *et al.* 2005:5).

As the new democracy matured, the South African government adopted the “Batho Pele” principle (“Batho Pele” is the Sesotho term for “putting people first”). SARS pioneered this shift toward a service ethic by adopting an enterprise-wide citizen relationship management vision (Areff & Mabaso 2005). SARS has identified and determined the manner in which it plans to maximise its responsiveness – it has developed a capability model and transformational strategy that will propel it to higher levels of efficiency and service delivery (Areff & Mabaso 2005). One of the components of this strategy is customer management – the bastion of the reorganisation effort toward improving service delivery – by taking the service to the people and empowering the front end of SARS (Areff & Mabaso 2005).

Tax is increasingly becoming a priority in the political agenda. Over time, countries are encouraging a shift in the direction, not only of life-long relationship management, but also of building effective and accountable authority in the form of a social contract (Centre for the future state 2005:5,12; Katz Commission 1995:130). One of the reasons for encouraging such a social contract was already identified as early as the 18th century, when Adam Smith formulated four maxims with regard to taxes in general. One of his four maxims states that every tax ought to be contrived in such a way that it will take out of the

pockets of the people as little as possible, and keep out of their pockets as little as possible, over and above what it brings into the public treasury of state (Smith [1776] 2003:1044). Although these maxims were formulated in the 18th century, they are still highly relevant in modern tax law (Huxham & Haupt 2006:2).

According to Adam Smith ([1776] 2003:1045), a tax may either take out or keep out of the pockets of the people a great deal more than it brings into the public treasury in four different ways. One of these ways is that, in fulfilling of their tax obligations, taxpayers may be exposed to unnecessary trouble, vexation and oppression. Although vexation is not, strictly speaking, an expense, it is certainly equivalent to one. Often taxes are much more burdensome to the people paying the taxes than the taxes are beneficial to the government that imposes them. The compliance costs taxpayers incur are often not limited to direct cash outlays, but also include time costs: time is spent in carrying out tax-related obligations rather than in earning money. There are also psychological costs such as stress, anxiety or discomfort which result from tax liabilities or dealings with SARS (Katz Commission 1994:47; Woellner, Coleman, McKerchar, Walpole & Zetler 2005:270).

Many taxpayers today resort to using professional tax experts or tax practitioners to find some relief from their burdensome tax obligations. However, tax practitioners charge for their services. The more onerous it is for a tax practitioner to deal with a taxpayer's tax obligations, the higher the charge for the service; therefore the higher the direct costs involved in collecting the tax. Tax practitioners would generally, even at the cost of lost fee income, prefer a tax assessment system that works effectively (Mitchell 2001:81). The reason for this may be that they are unable to recover the full cost of SARS's inefficiency from the fees they charge their clients.

When an attempt is to be made to reduce the direct and psychological costs of the tax burden, the tax relationship can be seen as a core element in the social contract between the taxpayer as a customer on the one hand, and SARS on the other (Smith 2003:4). The Katz Commission (1995:181) recommended that, at an administrative level, the "social contract" between revenue authorities and taxpayers should take the form of a Statement of Taxpayer Rights to ensure fair treatment by the revenue service and compliance by the taxpayer. The content of such a Statement of Taxpayer Rights should include expeditious and timeous tax administration and the respectful, courteous and helpful treatment of

taxpayers (Katz Commission 1995:181). So far, there are no formal rules to govern the social fiscal contract.

In 1997, the Minister of Finance released a Charter of Taxpayers' Rights which restated the rights that taxpayers have under the Constitution. Unfortunately, that Charter does not in itself afford taxpayers a remedy where SARS has violated their rights. Nor does it provide for sanctions if either party does not fulfil certain obligations (Croome 2005/2006:29; Sapa 2002:1).

Until the start of the 21st century, there was no effective recourse for taxpayers who had administrative difficulties in their dealings with SARS (Smith 2003:16). Croome (2001:12) suggested that further reforms were needed, such as the establishment of a tax ombudsman, to restore some balance in the relationship between taxpayers and the revenue authorities. The first step towards the establishment of a tax ombudsman and another big step towards a more customer-focused approach was the launch of the SARS Service Monitoring Office (hereafter "SSMO") in October 2002. The purpose of the SSMO is to determine whether SARS lives up to its promise of efficient service delivery, as this office provides a channel for taxpayers to voice their complaints about areas in which they do not receive the service they deserve (Nathan 2003; SARS 2006c, 2006d). The office does not report to Parliament, but it functions independently from SARS operations. It reports directly to the Commissioner for SARS (Olivier 2006:23). This structure enables the Commissioner to obtain information regarding problem areas from an independent source and to take the necessary action to rectify problems (Olivier 2006:23).

Apart from the creation of the SSMO, the Siyakha ("we are building") transformation programme was launched in 2000 to reshape SARS fundamentally, into a 21st century organisation which will be able, *inter alia*, to address service inefficiencies and the lack of a service culture (National Budget Review 2002:69; SARS 2005a:85). A new dispute resolution process was also introduced. It represents a major new service for taxpayers (SARS 2006e).

Another contribution by SARS to alter South Africa's taxpaying culture and to enhance its service offering was the introduction of the "Filing season" campaign three years ago (Jooste 2005:12; Manik 2005:3). The campaign entails a high degree of interaction between the South African government and millions of its citizens, and thus has a

significant effect on perceptions of the quality of the service SARS delivers and of the government in general (SARS 2005a:6).

The introduction of e-filing in the Value-Added Tax (VAT), Pay-As-You-Earn (PAYE) and company tax domain has also proven to be a huge success (SARS 2005a:6). According to Trevor Manuel, the purpose of e-filing for individual taxpayers is to minimise frustration levels with regard to the completion and submission of individuals' tax returns (Visser 2006a). SARS has also taken large strides toward delivering a complete service to its stakeholders from its service branch offices (SARS 2005a:33). The National Call Centre, based on Siebel CRM software, was also established to offer new access channels (Areff & Mabaso 2005).

Although modernisation and improved technology do not guarantee improved service delivery, they can play a very important role. SARS is actively pursuing initiatives with regard to the modernisation of the Tax and Customs business. In December 2006, Accenture, a private company, was awarded a tender for undertaking this task (SARS 2006g). Automating a large number of internal processes, especially with regard to determinations and assessments, will make it possible to shift a significant number of employees from an inward back-office function to an outward customer-facing function focused solely on enhancing the customer's experience (Areff & Mabaso 2005).

The momentum which has already been gained in improving service delivery reached a new high on 9 May 2007, when Trevor Manuel, the Minister of Finance, announced a fully electronic channel for both individual and business taxpayers to file income tax returns (Manuel 2007). This new submission process is designed to be much less burdensome than the old process and provides taxpayers with faster turnaround times and greater certainty (Kieswetter 2006a; Manuel 2007). Moreover, SARS has indicated that this step is only the beginning of a three-year process of innovation in its endeavour to continue to provide improved service to taxpayers (Manuel 2007).

In addition to these improvement initiatives, the Charter of Taxpayers' Rights was followed by a draft service charter. The objective of the draft service charter is to enhance the culture of service at SARS. The draft spells out SARS's mission statement (Nathan 2003). When the draft charter was released, Commissioner Pravin Gordhan said that the service charter would help to create a relationship based on "mutual trust, and respect" between

the tax authority and the taxpayers (Ensor & Temkin 2002). Pravin Gordhan added that tax and customs administrations all over the world are increasingly paying attention to the services they provide to taxpayers. Most administrations consider their business to be a customer service and have undertaken modernisation and reform to promote a service culture (Ensor & Temkin 2002). SARS has specifically adopted the objective of dramatically improving its service levels (Gordon 2003:30).

Many taxpayers who have had dealings with the tax authorities in the past would probably be sceptical, and in the words of Croome (2006:1), they probably believe that there can be peace in the Middle East before they could imagine a world where SARS answers all telephone calls within 20 seconds. Nevertheless, during the last three years, SARS has begun to benchmark its service standards against international best practice (SARS 2005b:2). On 19 October 2005, the final SARS Service Charter, which sets out its service standard guidelines (including the objective of answering the telephone within 20 seconds), was released (Croome 2006:1). It sets standards publicly, in the spirit of “Batho Pele”, for the levels of service expected from SARS officials to taxpayers. SARS has indicated that the service standards would be phased in gradually from 2005 to 2007, within an 18 month period (SARS 2005b:2). Taxpayers could therefore expect the Charter to be fully implemented by the start of the 2008 tax year (Croome 2006:1). The Service Charter is intended to ensure that public expectations of service delivery are matched by achievable and measurable performance standards (SARS 2005a:26). SARS has committed itself to being taxpayer- and trader-centric, being proactive and accessible in its approach to improving levels of service and providing additional channels of customer interaction (Croome 2005:4; SARS 2005a:57). Notwithstanding the changes it has made, SARS still has to face the need to transform itself fully – into a customer-focused and innovative revenue administration. However, the Service Charter will hopefully be a useful tool with which to hold SARS accountable for the level of the services it delivers to taxpayers, even in the short term (SARS 2005b:2).

The service initiatives are part of the overall compliance model SARS has adopted. The compliance approach aims to incorporate into the business processes of the organisation a balance between service provision on the one hand and taxpayer education and the enforcement of tax laws on the other (SARS 2005a:6). The service leg requires SARS to reorient itself to break the bureaucratic mould and develop into an outward-looking, public-

centric service organisation that understands its external environment and facilitates interaction and compliance (SARS 2005a:6).

What will happen next? In future, taxpayers can expect to see the outwardly directed approach evolve even further. The findings of research into high-performance governments suggest that by 2010 leading revenue agencies will deliver greater public sector value than ever before, building more proactive, less intrusive relationships with the community (Manik 2005:4; Rettie 2005:1; Stoke *et al.* 2005:14). Change is an ongoing process and a new wave of transformation has been initiated (Manik 2005:4). The anticipated outcome for SARS is a much smarter, more visible and more responsive revenue service that is attuned to the realities of South African compliance and the country's economy (Manik 2005:4).

1.2 RATIONALE FOR THE STUDY

Pravin Gordhan has stated clearly that tax administrations all over the world are paying increasing attention to the services they provide to taxpayers (Ensor & Temkin 2002) and that SARS considers its business to be a customer service (Gordon 2003:32). Although SARS admits that there were certain service delivery deficiencies in the past (SARS 2005a:33), few would dispute that in recent years SARS's efficiency has improved significantly (Ensor 2004:2, Olivier 2006:23; SARS 2005a:5). According to independent media analysis reports, the tone of the media coverage of the nearly 6 000 pieces of editorial appearing in print and in the broadcast media during 2005 was also largely positive (SARS 2005a:34). Several press releases from the Commissioner's office have also led readers to believe that SARS is operating extremely efficiently (Mitchell 2001:81). Pravin Gordhan (SARS 2005a:5) believes that in the year 2005 significant advances were already being made toward fulfilling SARS's ambition to become a service-oriented revenue administration that understands the needs and behaviour of all taxpayers better than in the past, and that SARS has taken large strides towards delivering a complete service to its stakeholders from its service branch offices (SARS 2005a:33). By contrast, Webb (2006:30) claims that some SARS branch offices, the Johannesburg office in particular, are acting increasingly imperiously and pay little attention to the law or the taxpayer community, and that some SARS officials are highly capricious.

A very different picture from that presented by SARS itself is also presented by partners from accounting and legal firms who operate tax compliance divisions (Mitchell 2001:81, Croome 2006:1). Piet Nel (in Visser 2006b) claims that SARS unlawfully victimises taxpayers under the guise of improved service initiatives. Divaris (2006a:2) has expressed even more severe criticism of SARS, suggesting that SARS personnel are judging their efforts by internally satisfying standards that ignore the purpose and meaning of their actions. He is of the opinion that some of the SARS documents provided to serve taxpayers are poorly written, even illiterate and misdirected (Divaris 2006a:2). He has described the SARS website as a “labyrinth or Einsteinian – things keep popping in & out of existence” (Divaris 2006b:1). In a public statement, Dave King (2006:5) stated that he was “vilified, defamed and grievously and irreparably prejudiced” by SARS, and although there will always be statements like this from people under investigation from SARS, Ware and Divaris (2006:2) agree fully with Dave King, as they confirm that the statement he made “sounds like the SARS they came to know and love in recent years”. Suliman (2006) is also of the opinion that taxpaying customers are at the mercy of presumptuous, inexperienced, immature and robotised tax officials, whose mindset is only directed by the need to recover as much tax as possible without any consideration for the human needs of taxpayers. The current poor climate of compliance also indicates little confidence in the tax system and revenue administration (Manik 2005:2).

There are therefore currently conflicting views with regard to the services rendered by SARS. At present, there are no formal processes that allow either SARS or taxpayers to evaluate the merits of these views.

SARS (2006c) is of the opinion that the number of complaints received by the SSMO determines how effective and efficient the services that SARS renders to taxpayers (SARS 2006c) are – for example, during 2005, a total of 5 756 claims were received and were dealt with by the SSMO office.

Although the SSMO fulfils a very important function in assisting taxpayers to solve problems, the number of queries received by the SSMO should not form the basis for an evaluation of the services rendered by SARS. The first reason for this is that not all taxpayers would necessarily make use of the route provided by the SSMO, as there are several barriers that prevent them from doing so, for example, procedural barriers (there are a multitude of procedures they have to follow before they get to the SSMO) and a lack

of knowledge about the SSMO or fear of discrimination (Croome 2002:15; Gaster & Squires 2003:58). The second reason is that, while it would appear that the SSMO is performing an invaluable role, no feedback has been forthcoming on the nature of the complaints lodged, or on how such complaints are being handled (Croome 2006:2). Thirdly, Gaster and Squires (2003:58) argue that although a “voice” (in the form of a complaint) is virtually the only option for those dissatisfied with public services, complaints reflect only the tip of the iceberg. Some reasons why so many dissatisfied people fail to complain include their own perceived powerlessness (“it won’t make any difference if I do”), personal reasons (“I am not a complainer”; “I have other problems”) and low expectations (“all services are like this anyway”). Each individual seems to have a personal tolerance level – the actual nature of the “final straw” is probably irrelevant (Gaster & Squires 2003:58).

The SSMO facilitates the resolution of problems of a procedural nature that have not been resolved by SARS offices through the normal channels (Tustin, De Clercq & Venter 2006:30). Another reason why the number of complaints to the SSMO should not be the only yardstick for service quality is that the literature on service quality clearly distinguishes various service dimensions which constitute the total service quality construct (Babakus & Boller 1992:255; Grönroos 1984:37; Parasuraman, Zeithaml & Berry 1985:47; Philip & Hazlett 1997:270). As the SSMO focuses mainly on monitoring the procedural quality and not the technical, functional or image-related service quality, a much broader strategic evaluation of the service quality is required to enable a clear understanding of the total service quality performance of the service provided by SARS.

SARS has clearly stated that, apart from the evaluation done by the SSMO, when the Service Charter is introduced, the Charter will enable taxpayers to evaluate SARS on the levels of service SARS has rendered in terms of achievable and measurable performance standards (SARS 2005a:26). Croome (2006:2) is of the opinion that it is important that SARS reports regularly on the service levels that taxpayers experience and on the measures taken to address deficiencies in service levels. Croome (2006:2) also argues that the acid test of the efficacy of the Service Charter will be the levels of service taxpayers actually experience, measured against the prescribed levels (Croome 2006:2).

Some attempts have been made to gather opinions with regard to the perceptions that taxpayers hold of the services SARS provides. Three different reports by the Bureau of

Market Research (Department of Taxation 2005; De Clercq, Tustin & Venter 2006; Tustin *et al.* 2006) investigated the views of different sectors of small and medium enterprises in Gauteng with regard to tax management and administrative skills.

In all three reports only two questions were posed. They requested information with regard to the SARS service quality. The first question dealt with the working relationship of the establishment concerned with SARS. Although the majority of respondents (more than 60% in all three reports) indicated that they had received average to above-average service, this is not yet in line with the goal of the SARS Service Charter, which suggests that SARS strives to provide excellent service (Department of Taxation 2005:131). In the second question, six aspects of SARS's service were identified and all six service aspects included in the surveys received an above-average evaluation. The call centre service was rated lowest in all three reports (Department of Taxation 2005:152-153).

No indication was provided for why only six aspects were selected and what method was used to select the six aspects used to measure the services. Determining the perceptions of the sample population regarding the services which they received from SARS was listed as one of the objectives of all three studies, but the reports only included the service quality questions in the questionnaire, the responses to the questions, and an interpretation of the answers to these questions. The reports fail to explain the methodology used. First, the reasons for including the perceptions of the services provided by SARS are not given. Second, the theoretical construct on which the questions were based is not discussed. The reports state that the design of the questionnaire was based on input not only from the research team but also from the National Treasury and SARS. The level and extent of such involvement by the National Treasury and SARS are, however, not clear.

Another opinion poll is the "tracker survey", an ongoing survey of perceptions and attitudes regarding the South African government. In general it tracks shifts in perceptions, informs SARS taxpayer education campaigns and establishes the impact of these campaigns (SARS 2005a:35). A representative spread of South African citizens aged 18 years and older is polled daily throughout the year, and the results are collated each quarter (SARS 2005a:35). From the beginning of 2004, questions relating to SARS and taxation have been included in the tracker survey. SARS has used the tracker to establish benchmarks

on taxpayer consciousness, taxpayer literacy and compliance perceptions (SARS 2005a:35).

In 2006, the SARS Practitioners Unit, as part of developing a comprehensive practitioner-specific service strategy, began to engage quite extensively with practitioners by means of an electronic survey, a number of focus group discussions and a series of individual engagements (SARS Practitioners Unit 2006). This was done in order to understand the tax practitioners' specific perceptions of and needs with regard to SARS and the services SARS offers (SARS Practitioners Unit 2006). The main focus of the survey questionnaire was not the quality of the current offerings – instead, it took the form of a needs analysis. Of the 101 questions in the questionnaire, only 12 questions related either directly or indirectly to the services SARS provides. The rest related either to profiles or to requested service requirements, needs or utilisation. The questions in the survey that related directly to service offerings were open-ended questions requesting additional information with regard to specific service areas. In a few closed-ended questions, practitioners were requested to rate the service of the call centre and the branch offices. This questionnaire focused only on the “customer contact” or “front office” aspects of the service offerings of SARS. No evaluations of the perceptions of the “back office” or technical dimension of service quality were performed. Also, no questions were posed with regard to the public image of SARS or its infrastructure.

Another survey was designed primarily to determine the tax compliance burden for small and medium enterprises, but it did include a number of questions relating to the SARS service standards (Smulders 2006). The questions focused on many of the service quality items reflected in the SARS Service Charter, most of which are procedural. Again, opinions were not tested on the technical service levels, or on SARS's public image and on its infrastructure. The inclusion of the various questions also appeared to be random and there was no systematic process that could provide a rationale for the inclusion of specific questions or that could ensure the comprehensiveness of the questions asked. Although the SARS Service Charter was not yet fully operational when the survey was distributed, it was clear from the responses received that, apart from the time taken to assess a tax return, SARS performed far below the promised service standards set out in the Service Charter, which had to be complied with fully by October 2007.

Unfortunately, all the attempts to establish the perceptions of taxpayers with regard to the services rendered by SARS were fragmented and none have focused on the overall quality of services provided by SARS. Most were limited to a few isolated questions on taxpayers' perceptions with regard to encounters with SARS. Thus, there is currently no service quality model that could be used to generate structured information on the actual performance of SARS or the quality of the services it renders, as perceived by taxpayers.

In its annual report for 2005, SARS (2005a:26) admits that detailed and reliable tracking methodologies to determine service standards of SARS still require a lot of refinement. Two individual interviews with employees at the SARS head office in Pretoria, Mr Edward Kieswetter, the then General Manager: Operations (2006b) and Ms Tasneem Carrim, Head: Communications (2006), revealed that SARS is still only in the planning phase of developing a strategy to measure its actual service levels.

As early as the 19th century, Woodrow Wilson (1887:215) pointed out that public opinion of the quality of public administration is important. He acknowledged the problems of making public opinion efficient without allowing it to be meddlesome, but he did not give any indication of how he believed public opinion should be gathered. People's perceptions of the services provided by public agencies (including SARS) are also beginning to play a key role in the planning, monitoring and evaluation of those services (Palfrey, Phillips, Thomas & Edwards 1992:126). Therefore, a more customer-conscious strategy involves canvassing the views of an entity's potential and actual clientèle (which includes regular surveys of taxpayers) in an attempt to monitor taxpayer satisfaction and to tailor services to the perceived needs and priorities for improvement (Dhillon & Bouwer 2005:9; Gaster & Squires 2003: 91; Katz Commission 1994:266; Palfrey *et al.* 1992:126; Seth, Deshmukh & Vrat 2005:914).

Research has shown that a revenue agency's image in the community is a key driver of voluntary compliance (Croome 2005/2006:28; Stoke *et al.* 2005:10). Higher levels of revenue collection may therefore not only ensure that the State has the resources it requires to fulfil its function, but also indicate that the State has established a relationship with its citizens which may allow the State to govern effectively (Smith 2003:4). The view is also widely held that lifelong relationship management drives the design of customer interactions, so that agencies can proactively identify which customers are at risk of

becoming non-compliant and interact with them appropriately to maximise compliance (Stoke *et al.* 2005:7).

It is well known that in South Africa there is still a problem with regard to non-compliance with tax legislation and that there is still a very extensive tax gap. Oberholzer (2008:ii) recently found that non-compliance by taxpayers is one of the main causes of the significant gap between the amount of tax that is theoretically collectable from economically active persons and that which is actually collected in South Africa. Pravin Gordhan, however, believes that a significant shift has occurred with the emergence of a “citizenship culture”, translating into higher levels of tax compliance (Ensor 2004:1).

Voluntary compliance is also maximised with better customer service that makes it easier to comply (Dhillon & Bower 2005:2). It is also contended that levels of tax compliance are enhanced when taxpayers believe they are being treated fairly (Croome 2005/2006:29). The quality of the services provided by SARS is therefore crucial, as this directly influences the onerousness of complying with one’s tax obligations. In spite of the many successes it has attained in recent years, SARS itself admits that it still has a long way to go in its pursuit of excellence (SARS 2005a:39).

In the public sector, service quality is not linked to long-term profitability, but rather to concepts such as “value-for-money”, “equity”, “public accountability” and “Citizen Charter Standards”, as well as effectiveness in achieving desired outcomes (Foster & Newman 1998:1). The key objective of the present study flows logically from the principle of public accountability and “Citizen Charter Standards”, as suggested by Palfrey *et al.* (1992:23).

The performance standard expected of SARS should be high, given SARS’s significance in the economy (Dhillon & Bower 2005:9). It is therefore of the utmost importance that the perceptions of taxpayers with regard to the public image of SARS be determined, so that this information can be used to refine any service strategies developed to ensure that tax compliance in South Africa improves even further.

In order to develop service management and marketing models, it is important to understand what customers are really looking for and what they evaluate (Grönroos 1988:10). Unfortunately, all the attempts to date have been fragmented. They did not focus on the overall services of SARS. Most were limited to a few isolated questions on taxpayers’ perceptions with regard to encounters with SARS. There is therefore currently

no service quality model available that can be used to measure SARS's actual performance or the quality of the services SARS renders, as perceived by taxpayers.

What is needed is a model of service quality, in other words, a model that describes how the quality of the services SARS provides is perceived by customers (taxpayers) (Grönroos 1984:36; Palfrey *et al.* 1992:126; Philip & Hazlett 1997:264). When the service provider understands how the services will be evaluated by the users, it will also be possible to identify how to manage these evaluations and how to influence them in the desired direction (Grönroos 1988:10). Conceptual models in service quality enable management to identify quality problems and thus help in planning for the launch of a quality improvement programme, thereby improving efficiency and overall performance (Gaster & Squires 2003:57; Grönroos 1988:10; Seth, Deshmukh & Vrat 2005:914).

The design of a service quality model for the assessment of the services provided by SARS is justified, as it is an essential means to improve the services SARS renders and therefore also voluntary compliance. Such a model would ensure an objective assessment of service quality and would not elicit a biased view driven by SARS's own perceptions or those of disgruntled taxpayers who may have had a bad experience and have approached the SSMO.

1.3 RESEARCH OBJECTIVE

The objective of the present research is to develop a service quality model that can be used as a framework for a measuring instrument to establish the perceptions that tax practitioners hold with regard to the services SARS renders.

In developing the service quality model, the relevant service quality dimensions, determinants and attributes need to be identified.

1.4 DELIMITATION OF THE STUDY

The objective of the study is to develop a service quality model that can be used to establish the perceptions held by tax practitioners with regard to the services SARS renders. The scope of the study is explained in more detail below.

- SARS collects a wide range of taxes, but the service quality model developed in the present research focuses mainly on Income Tax, Pay-As-You-Earn (PAYE), the Skills

Development Levy (SDL) and Value-Added Tax (VAT). SARS's mandate also includes the Customs Department. However, because Customs and Excise taxes are not paid by a great portion of the taxpaying population, the perceptions of taxpayers with regard to the services rendered by SARS in connection with the administration of these taxes are excluded from the service quality model proposed in the present research. The requirement to register as a tax practitioner in terms of section 67A of the Income Tax Act, No 58 of 1962 (hereafter the "Income Tax Act"), specifically excludes, in section 67A(e), any person who provides advice solely in respect of the application of the Customs and Excise Act, No 91 of 1964. Such persons are therefore also excluded from the sample population.

- SARS has drafted its own service level agreement. Although the proposed service quality model includes measures to evaluate compliance with the agreement, the effectiveness, completeness, simplicity and so on of the service agreement are not evaluated.
- The service quality model proposed in the present research can be used to measure the quality of the services provided by SARS and not the effectiveness of the services or the organisation. It may well be that the service quality is high, but that the effectiveness is very low.
- The detailed legislation regulating compliance with the various taxes levied by SARS falls beyond the scope of the present research. Legislation on any specific tax is only referred to if it may affect the quality of the SARS service levels under review.
- The most effective structure in which SARS should operate is not investigated in the present research.
- The service quality model proposed in the present research does not address the level of the overall burden of taxation in the economy, but the question of the overall tax burden cannot be ignored. Firstly, taxpayers' perceptions of what is fair and just can change rapidly (Katz Commission 1995:9), and this can have a negative impact on tax morality and possibly also on the ways in which SARS as an institution (and therefore its service levels) is perceived.
- The service quality model proposed in the present research does not evaluate the services that any taxpayer actually receives as a quid pro quo for paying taxes.

- SARS can influence the burden on taxpayers in fulfilling their legal obligations in two different ways. Firstly, SARS can minimise the amount of time and the degree of difficulty involved for taxpayers to meet their obligations (for example, e-filing has been introduced to minimise the burden of filing of returns). This can be summarised as minimising the burden on the taxpayer. Secondly, SARS can maximise the quality of the assistance provided to taxpayers to help them to comply with their obligations, and effectively resolve questions and issues. This can be summarised as maximising SARS's responsiveness to stakeholders. Although it is true that the two issues may be linked, they are also quite distinct. The present research focuses mainly on maximising SARS's responsiveness to stakeholders. It only addresses to a lesser extent the technological innovations or other procedural aspects introduced by SARS in an attempt to minimise the burden on taxpayers.
- In the current literature relating to the evaluation of service quality, two different links emerge. The one is the link between service quality as a function of the business (SARS) and its customers or consumers, and the other is the link between front-line staff and supporting staff. Although Curuana and Pitt (1997) and Reynoso and Moores (1995, cited in Seth *et al.* 2005:946) continuously point out the positive correlation between delivery of services and business performance and the service quality delivered to the customer, only the service quality as perceived by a segment of the customers (tax practitioners) could be evaluated by the service quality model proposed in the present research. Any conclusions on the service quality as perceived by the customer may, however, indicate possible strong or weak points in the relationship between the front-line staff and support staff.
- Some models are designed to assist in the development or improvement of service quality. There are also models for the measurement (internal and external) of service quality. Various models provide insight into the determinants of service quality, but in the present research only the external measuring models are analysed. An external measurement model is therefore proposed. It should be noted that the outcome of using the service quality model proposed in the present research may indicate areas where SARS still needs to improve its service quality, and that possible service quality improvement models may be applicable in such cases.
- In evaluating models and developing a model, both methodological soundness and managerial usefulness are assessed. As the purpose of the present research is to

assist SARS in its endeavour to improve service quality, without sacrificing the validity or the reliability of the instrument, managerial usefulness outweighs the methodological shortcomings.

1.5 RESEARCH METHOD

The research methodology applied in constructing a model to meet the primary research objective of the study is explained in this section.

The present research is qualitative by nature and specifically adopts an interpretive orientation, which seeks to understand phenomena and to develop theory or build models or frameworks which can be tested empirically in later research (Cooper & Schindler 2001; Leedy & Ormrod 2005; Welman, Kruger & Mitchell 2005). For this reason, the research problem was not stated in the form of null hypotheses which the research would aim to reject using statistical techniques, but was framed as a broad research objective.

Although the research is mainly qualitative in its approach, it also has a positivist underpinning, as it is based on the broad premise that an ideal norm or standard exists against which the service delivery levels of SARS can be tested. The research does not merely seek to understand, but to develop a model based on an ideal standard or norm. The service quality model proposed is a service quality model that can be used as a framework for a measuring instrument to evaluate the quality of the services SARS renders, as perceived by tax practitioners.

The first step in the research was a detailed literature review carried out to establish the definition of the theoretical constructs to be used in the research. The outcome of the literature review served as a theoretical underpinning for the development of the proposed service quality model.

In addition to the literature review, for the development of the service quality model, the primary data was collected *inter alia* by means of a group interview. In addition to the group interview, the open-ended questionnaire option was chosen as the primary instrument for data collection in the present research.

The unit of analysis and population consisted of all tax practitioners registered with SARS in terms of section 67A of the Income Tax Act at the time the questionnaires were

distributed. No statistical sampling techniques were used, as the questionnaires were administered to the entire population of registered tax practitioners.

The group interview questionnaire was distributed to all 22 attendees at the group interview. Six completed questionnaires were returned, representing a response rate of 27.3%. The total population of approximately 17 000 tax practitioners returned 811 completed questionnaires, which represents a response rate of approximately 5%. Gremler (2004:73) found that the average number of responses in the 115 critical incident technique studies investigated was 341. The response rates in the present research can therefore be considered satisfactory.

The design of the open-ended questionnaire (measuring instrument) was based on the principles of the critical incident technique. The questionnaire was used to collect what is referred to as “critical incidents” that were analysed into a classification scheme using the content analysis method. The data analysis involved three processes. The first was the identification of usable critical incidents. The second was the development of a classification scheme for the content analysis. The third was a content analysis of the identified critical incidents.

After the preparation of the summaries of the frequencies of the responses in the relevant classification scheme, a process of natural language argument was used to convert the data analysis results and the relevant elements of the theory based on the literature survey into the proposed service quality model.

1.6 STRUCTURE OF THE THESIS

The main outcome of the present research takes the form of a thesis. A discussion of the structure of the thesis is provided below.

1.6.1 Chapter 1

The first chapter provides an introduction and background to the present research and also sets out the research objective. The rationale for the present research is discussed, the delimitation of the present research is explained and the research design and methodology are briefly summarised.

1.6.2 Chapter 2

The purpose of Chapter 2 is to identify and to define the theoretical constructs that are relevant to the purposes of the present research.

As the perceptions that tax practitioners hold with regard to the services of SARS can be evaluated through the measurement of either service quality or customer satisfaction, Chapter 2 commences by distinguishing between service quality and customer satisfaction, firstly, to ensure that the correct construct is measured to achieve the objectives of the study and, secondly, to understand exactly what is to be measured in the present research. To enhance understanding of the inherent characteristics and problems of the phenomena of services, quality and perceived service quality, and to ensure that any measuring instrument that is developed in the present research incorporates all the relevant aspects needed to measure the construct of interest comprehensively, the chapter then proceeds to define services, quality and perceived service quality by means of an analysis of the existing literature.

1.6.3 Chapter 3

A thorough understanding of the combined term, namely the service quality construct, is required in order to understand exactly what is being measured. Chapter 3 presents the results of a comprehensive literature review of the perspectives that relate to the research on the service quality construct that focuses on the principles identified in Chapter 2.

1.6.4 Chapter 4

Chapter 4 provides a detailed description of the research methodology used in the present research. This chapter commences with the research orientation, presents detailed information about the unit of analysis and population and describes the research method used in collecting, analysing and interpreting the primary data.

1.6.5 Chapter 5

Because the services offered by SARS consist of both traditional and electronic services (hereafter “e-services”), a distinction is made between the traditional service modes and the e-service modes. Chapter 5 presents the results of the data analysis for the traditional services.

1.6.6 Chapter 6

SARS provides e-services through its website and the e-filing option (the online filing and assessment service). Chapter 6 presents the results of the data analysis for the e-services.

1.6.7 Chapter 7

The final chapter, Chapter 7, starts with a summary of the theoretical constructs as identified and defined in the literature review. The chapter then provides a summary of the research method used to build the service quality model. The proposed service quality models (for both the traditional services and the e-services) are then presented. The validation of the proposed service quality models is also explained. The chapter provides a critical evaluation of the present research and concludes with suggestions for future research.

1.7 SUMMARY

This chapter has provided an introductory discussion of the scope of the present research. It set out the background, rationale and objective of the present research. The structure of the present research in achieving the stated objective was discussed. The next chapter defines the theoretical constructs relevant to the present research.

CHAPTER 2

IDENTIFYING AND DEFINING THE THEORETICAL CONSTRUCTS

2.1 INTRODUCTION

The objective of the present research is to develop a service quality model that can be used to establish the perceptions that tax practitioners hold with regard to the services SARS renders. As the perceptions can be evaluated through the measurement of either service quality or customer satisfaction, this chapter begins by distinguishing between service quality and customer satisfaction. This was done, firstly, to ensure that the service quality model is based on the correct measurement construct to achieve the objectives of the study and, secondly, to understand exactly what is to be measured by the model proposed in the present research. To enhance understanding of the inherent characteristics and problems of the phenomena of services, quality and perceived service quality, and to ensure that the model that is developed in the present research incorporates all the relevant aspects needed to measure the construct of interest comprehensively, the chapter then proceeds to define **services**, **quality** and **perceived service quality** by means of an analysis of the existing literature.

2.2 SERVICE QUALITY VERSUS SATISFACTION

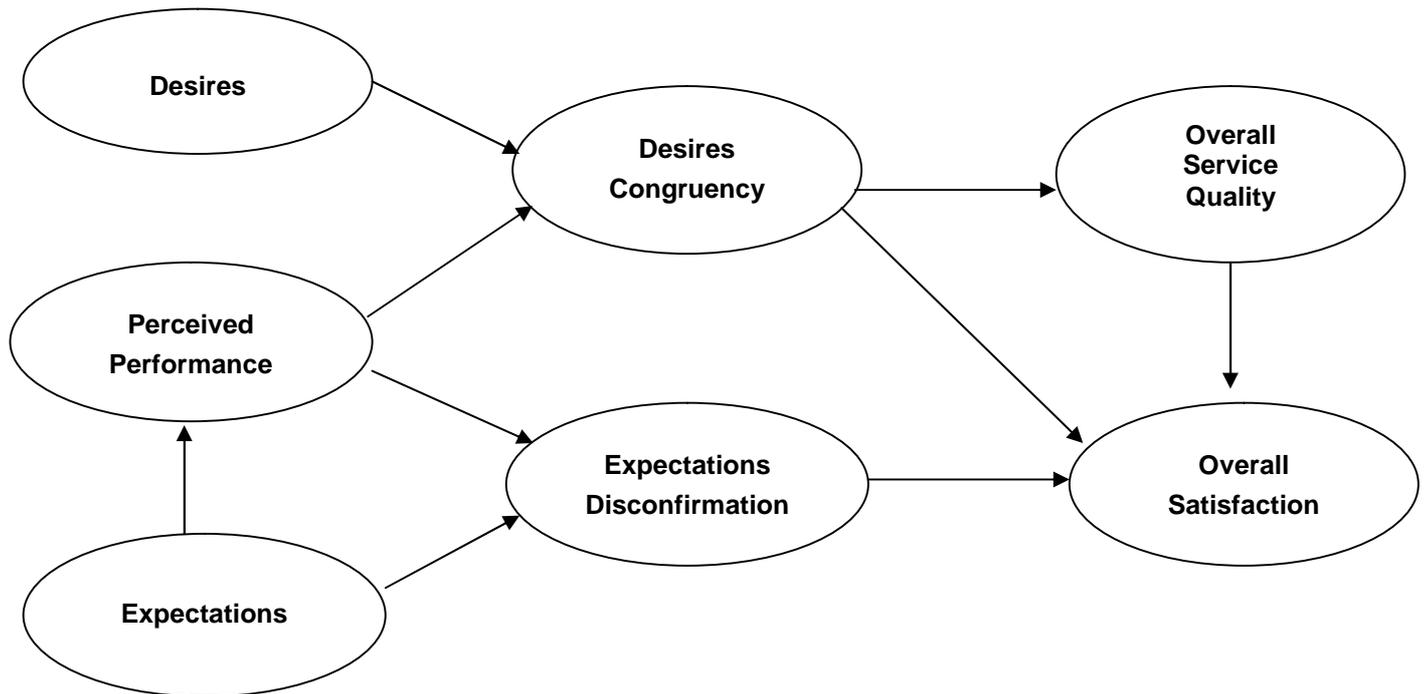
Some researchers, such as Johnson and Gustafsson (2000) and Marx (2005:10), avoid addressing the difference between service quality and satisfaction and use both terms interchangeably in practice and in theory. By contrast, other researchers, such as Berry, Parasuraman and Zeithaml (1988), Czepiel, Solomon, Surprenant and Gutman (1985), Dabholkar, Shepherd and Thorpe (2000:166), Olivier (1993), Parasuraman, Zeithaml and Berry (1986, 1994), Rust, Zahorik and Keiningham (1995), Schneider and White (2004) and Spreng and Mackoy (1996) argue that, while service quality and customer satisfaction are related, they are two distinct constructs. Service quality is a global judgement or attitude relating to the superiority or excellence of the service, whereas satisfaction is related to a specific transaction. This implies that satisfaction is less enduring and more situationally oriented (Bolton & Drew 1991:2; Lewis 1993:4; Parasuraman *et al.* 1986:5). Schneider and White (2004:51-53) suggest that service quality is a consumer's judgement about the service itself (in other words, it is descriptive and based on fact), whereas

satisfaction is more of a judgement of how the service affects the consumer emotionally (in other words, it is more evaluative and it is based on emotion).

Both service quality and customer satisfaction are usually measured by means of the gap approach, that is, the difference between perceptions and expectations (Rust *et al.* 1995:9). The difference between service quality and customer satisfaction arises mainly because of different definitions of expectations. In the service quality literature, expectations are regarded as the desires or “wants” of consumers, in other words, what customers feel a service provider should offer them, rather than what a service provider would offer (Parasuraman *et al.* 1986:6). By contrast, customer satisfaction is believed to result from a comparison between what did happen in a service experience on the one hand and what customers believed (predicted) would happen on the other (Bitner 1990:70; Gilbert, Churchill & Surprenant 1982:492; Parasuraman *et al.* 1986:6; Schneider & White 2004:53). Since a consumer's expectation in a satisfaction context represents a prediction, it is expressed by a mean expectation value, with a degree of uncertainty surrounding the mean, because the consumer is unsure about what to expect. By contrast, since a consumer's expectation in a service quality context represents what he or she desires, that expectation can be regarded as a distinct value with little or no uncertainty surrounding it (Parasuraman *et al.* 1986:6).

It was originally believed that the two constructs were related, in that incidents of satisfaction decay over time into an overall consumer attitude or judgement of perceptions of service quality (Bitner 1990:80; Parasuraman *et al.* 1986:5). Further research altered the original beliefs about customer satisfaction. It was found that it might be more correct to regard service quality as an antecedent of customer satisfaction (Dabholkar *et al.* 2000:166; Olivier 1993; Parasuraman *et al.* 1994; Spreng & Mackoy 1996). Spreng and Mackoy (1996:209) modified a model originally developed by Olivier (1993) because they found empirical evidence that illustrates that service quality is an antecedent of customer satisfaction (see Figure 2.1).

Figure 2.1: Spreng and Mackoy’s final model containing completely standardised parameters for perceived service quality and satisfaction



Source: Spreng and Mackoy (1996:209)

The above model illustrates that the Desires Congruency (a gap scale in the service quality measurement) has a significant effect on overall satisfaction, while the expectations disconfirmation (the difference between what is projected and the perceived performance in the customer satisfaction theory) does not affect overall service quality (Spreng & Mackoy 1996:209). This implies that customer satisfaction is a consequence of service quality. The effect of service quality on customer satisfaction was further refined by Dabholkar *et al.* (2000), who found that customer satisfaction strongly mediates the effect of service quality on behavioural intentions (see Figure 2.2).

Figure 2.2: Mediating model of customer satisfaction on behavioural intentions



Source: Dabholkar *et al.* (2000:141)

Dabholkar *et al.* (2000:166) also found that customer satisfaction is a much better predictor of behavioural intentions, whereas service quality is more closely related to specific factor evaluations about the service. Schneider and White (2004:53) agree that the service quality construct is best used to diagnose the way the organisation performs, while the customer satisfaction construct is best used to diagnose the way customers feel and their behavioural intentions. Behavioural intentions in the marketing literature relate predominantly to purchase intentions, particularly to customer loyalty and the intention to repurchase in relation to optimising sales, as well as the net profit of the organisation.

In the case of SARS, a taxpayer (and therefore also a tax practitioner) does not have the choice of a different service provider, or the choice to abandon the system, which implies that these behavioural intentions are not relevant to the present research. This recognition is in line with the opinion of Gaster and Squires (2003:43), who argue that public service quality “can never simply be about ‘satisfying’ or ‘pleasing’ the ‘customer’, since it has wider responsibilities laid on it by society”. The evaluation of the service quality construct is therefore the most suitable construct to measure the services rendered by SARS.

2.3 SERVICES

2.3.1 Meaning of “service”

A service is a complicated phenomenon (Grönroos 1988:10). The word has many meanings, ranging from a personal service to a service as a product. The scope of the meaning of the term can be even broader. Berry, Zeithaml and Parasuraman (1985:44) define services as “performances, not objects”. Gaster and Squires (2003:7) partly agree with this definition, as they define services as “experience goods”.

From the above definitions it is clear that a service differs from goods, but it is not completely clear what the nature of a service is. As the focus of the present research is a service rather than goods, it would be preferable to use a definition that identifies the essential characteristics of a service for the purposes of the present research. The characteristics of a service are identified as **intangibility** (Boshoff 1990; Eiglier & Langeard 1977; Grönroos 1978; Schneider & White 2004; Upah & Fulton 1985), **relative inseparability** (Eiglier & Langeard 1977; Gaster & Squires 2003; Grönroos 1978; Schneider & White 2004), **interdependence** (Czepiel *et al.* 1985; Eiglier & Langeard 1977;

Grönroos 1984; Haywood-Farmer 1988; Kelly, Donnelly & Skinner 1990; Speller & Ghobadian 1993a) and **heterogeneity** (Anthony & Govindarajan 2000; Eiglier & Langeard 1977; Gaster & Squires 2003; Haywood-Farmer 1988; Schneider & White 2004).

2.3.2 Characteristics of services

2.3.2.1 *Intangibility*

Possibly the most fundamental and most frequently mentioned of the various characteristics of a service is the defining characteristic of intangibility (Boshoff 1990:37; Eiglier & Langeard 1977: 36; Grönroos 1978:591; Schneider & White 2004:6; Upah & Fulton 1985:255). This characteristic implies that pure services cannot be seen, touched, held, tasted, smelled or stored – they have no physical manifestation (Schneider & White 2004:6; Speller & Ghobadian 1993a:2; Upah & Fulton 1985:255). At a conceptual level, this characteristic is difficult to analyse because one cannot grasp it, except in contrast to tangible goods. It is therefore an imperfect definition because it only tells us what services are not, not what they are (Eiglier & Langeard 1977:33). Upah and Fulton (1985:255) attempted to address this deficiency. They define service intangibility as involving such things as “physical effort, thought processes, demeanour, appearance, and the use (but not ownership) of goods or facilities”.

Services are not all intangible. Instead, they may be seen as being arrayed on a continuum of intangibility, with pure services (which have no tangible component) at the one extreme of the continuum, and pure goods (which have no intangible component) at the other extreme (Schneider & White 2004:7). However, most services fall between the two extremes of the intangibility continuum, because they have both tangible and intangible elements (Schneider & White 2004:7). Services rendered by SARS probably lie closer to pure services on the intangibility continuum.

Because of its intangibility, a precise evaluation of the quality of service output is difficult (Eiglier & Langeard 1977:44; Haywood-Farmer 1988:20). Not only is it difficult to measure service quality, but one cannot store a service, thus removing the possibility of a final quality check such as that commonly found in the manufacturing sector (Haywood-Farmer 1988:20). The possible consequences of service failure might also be more severe. When

there is no physical product that can be repaired or returned when service quality is poor, clients tend to use the media to voice their dissatisfaction (Eiglier & Langeard 1977:44).

Schneider and White (2004:6) clearly state that pure services are essentially processes that are experiences which yield psychological experiences more than they yield physical possessions. In measuring a service, it should therefore be taken into account that a psychological process is to be measured, and not physical goods. This is the reason why the perceptions of the users of the service are obtained. Moreover, caution should be exercised in analysing the results, as it should be borne in mind that, although the measurement might not be completely accurate, it may be the best indication of the service quality obtainable from the users of the service.

2.3.2.2 *Relative inseparability*

Pure services, which are composed entirely of a delivery experience, cannot be produced at one time and in one place and then be stored for later use somewhere else. A service can also not be “sent back” (Eiglier & Langeard 1977:37-39; Gaster & Squires 2003:97; Schneider & White 2004:7). There is therefore a relatively small time-gap between production and consumption, and services are often consumed as they are produced (Grönroos 1978:591; Schneider & White 2004:7; Speller & Ghobadian 1993a:2).

The inability to produce services long before they are consumed means that the same problem arises as with intangibility, because there is no way of producing a service, checking it for defects, and then delivering it to a customer (Eiglier & Langeard 1977:37-39; Grönroos 1978:591; Schneider & White 2004:7). The effectiveness of a service cannot be guaranteed in advance, merely “assured” on the basis of the proven expertise of the supplier at a previous “service encounter” (Gaster & Squires 2003:7).

SARS renders different types of service. The services of registering taxpayers, assessing their tax returns and processing any tax payment can technically be separated, as there could be internal processes to check for the incorrect capturing of the registration, return and payment. There could also be additional internal processes to ensure the correct assessment of the tax return. The tax practitioners can also assess the accuracy of the service of assessment. On the other hand, when, for example, a tax practitioner visits a SARS office with a tax query or telephones the call centre, the service could be regarded

as inseparable, as the response of the SARS employee cannot be checked for defects before any communication takes place between the two parties.

In view of the fact that each of the services of SARS can lie at a different point on the separability-inseparability continuum, in the evaluation of the services SARS offers, the different services should be measured separately. The relative inseparability of the specific service should be taken into account in the analysis of service quality results and in any recommendations that are proposed. So, for example, for the assessment of a tax return, more internal checking processes may be recommended in the case of low perceived service quality, but with regard to the call centre, additional training of staff or better internal communication between the back-line and front-line employees at SARS may be recommended.

2.3.2.3 *Interdependence*

One unique aspect of services is that the customer is not simply the user of the service, but also participates in the production and delivery of the service (Czepiel *et al.* 1985:3; Eiglier & Langeard 1977:36; Grönroos 1984:37; Haywood-Farmer 1988:20; Kelly *et al.* 1990:1; Speller & Ghobadian 1993a:2). This may be referred to as “interdependence”, which can be defined as “the effect interacting persons have on each other’s outcomes in a social relationship” (McCallum & Harrison 1985:35).

For many services, the customer is required to contribute information or effort before the service transaction can be consummated (Kelly *et al.* 1990:1). A service organisation does not function well unless the role of the customer (for example, the information or effort contributed) is adequately fulfilled (Eiglier & Langeard 1977:37; Kelly *et al.* 1990:1; McCallum & Harrison 1985:35). Hence, service productivity and quality depend not only on the performance of the service providers’ personnel, but also on the performance of the consumer (Philip & Hazlett 1997:262).

By analogy, the services rendered by SARS with regard to the registration of taxpayers depend in part on the quality and completeness of the relevant information on the form submitted by the tax practitioner. It should thus be acknowledged that the service quality of SARS as perceived by tax practitioners should be looked at within the context of an interdependent social interaction, and additional information from SARS itself regarding

internal service quality results might balance the perceptions expressed by the tax practitioners.

Service encounters may also vary greatly in terms of the degree and mutuality of interdependence that they entail. This is generally very high in the case of public administration, and it is never entirely absent (Eiglier & Langeard 1977:54; McCallum & Harrison 1985:35). At one extreme, highly bureaucratized public administration encounters, such as those involved in the issuance of a renewed driver's licence, place the consumer in a highly dependent position with little or no power over the outcomes of the provider, while the provider may exercise power over the consumer's rewards and costs (McCallum & Harrison 1985:36). It should therefore also be taken into account that SARS has a great deal of power in the interdependent social interactions under review and that the taxpayer (and thus indirectly the tax practitioner) is in a highly dependent position. So, for example, SARS could exercise its power to freeze the bank account of a particular taxpayer, even if the taxpayer, through his or her tax practitioner, has provided full cooperation and participation, but the other party to the social interaction (SARS) has not performed well with regard to capturing or processing certain information.

2.3.2.4 *Heterogeneity*

Another characteristic in the study of service activities is the fact that services are heterogeneous (Eiglier & Langeard 1977:33; Schneider & White 2004:8). On the one hand, because the majority of services are not automated and are only standardised up to a point, there may be great variations over time (Eiglier & Langeard 1977:42). On the other hand, the human element in the production and delivery of services may mean that no two service experiences are identical, as people's performance fluctuates continuously (Czepiel *et al.* 1985:3; Schneider & White 2004:8). Different customers might have different demands that need to be met, or different service personnel might go about meeting the same customer demands somewhat differently at different times (Schneider & White 2004:8). This relative heterogeneity can make it more difficult to measure services and to do quality control checks ahead of time to ensure that the services meet uniform standards (Schneider & White 2004:8). Because of the impossibility of measurement against exact uniform standards, even when each customer receives exactly the same quality of service, depending on his or her individual circumstances, each customer could evaluate these services differently (Haywood-Farmer 1988:20).

One of the results of the heterogeneity of services is that services cannot be standardised in a production process and are therefore very labour intensive (Anthony & Govindarajan 2000:621; Gaster & Squires 2003:7). A further result of the fact that all services cannot be performed in one “factory” and cannot be distributed to “warehouses” to be sold is that most service organisations operate many units in various locations (Anthony & Govindarajan 2000:621).

In order to ensure that the results of the study truly reflect the perceptions of tax practitioners (and indirectly the perceptions of the taxpayers), the response rate has to be large enough and there has to be high representation from the many locations where SARS’s services are performed. It is acknowledged that because services are labour intensive, quality improvement cannot be achieved by adjustments to production processes, and might take longer to be effective and might even cost more than would be the case for physical goods.

2.4 QUALITY

2.4.1 The meaning of “quality”

Although at first glance, it may seem simple to define quality, it is difficult to establish a single, universal definition for the term (Grönroos 1988:11; Lawton 1989:34; Schneider & White 2004:9). However, it is of limited value to contemplate measuring service quality without defining what service quality is. Efforts to define and measure quality originated in the goods sector of the private sector (Gaster & Squires 2003:6; Parasuraman *et al.* 1985:1). According to the Japanese philosophy that prevailed in the mid-1980s, quality is “zero defects – doing it right the first time” (Parasuraman *et al.* 1985:1). Lawton (1989:34) partly agrees with this philosophy in that, although he does not define quality, he argues that once problems have been eliminated, what is left is excellence or quality. Because of the unique characteristics of services, it is often difficult to adopt a “zero-defect” or “elimination of problems” approach, as services are intangible and defects or problems subjective. Several researchers from the early 1980s onwards (Garvin 1984; Grönroos 1988; Gummesson 1992; Juran 1988; Lawton 1989; Schneider & White 2004) have realised that there is a need to refine the definition of quality within the service environment. Various approaches to defining quality have emerged. These approaches, namely the philosophical, the technical, the user-based and value-based approaches are

investigated in more detail below to identify the most suitable approach for the present research.

2.4.1.1 *The philosophical approach*

According to the philosophical approach, also called the transcendent approach of philosophy, quality is both absolute and universally recognisable, a mark of uncompromising standards of high achievement (Garvin 1984:25). Proponents of this view claim that quality cannot be defined precisely; instead, it is a simple, unanalysable property that people learn to recognise only through experience (Garvin 1984:25). This approach borrows heavily from Plato's explanation of beauty. Like other terms that philosophers consider to be "logically primitive", beauty (and perhaps quality as well) can only be understood after one is exposed to a succession of objects that display that characteristic (Garvin 1984:25).

The drawback of transcendent or philosophical definitions is that they leave quality open to loose statements and dishonest manipulations (Gummesson 1992:183). Schneider and White (2004:10) are of the opinion that, because quality, as viewed from a philosophical perspective, is unknowable and immeasurable, this approach is useless from a research perspective.

2.4.1.2 *The technical approach*

A technical specification of a service is frequently considered to be the quality of the service or at least the most important feature of its perceived quality (Grönroos 1988:11). The technical approach views quality objectively. The approach could be divided further into the **product attribute approach** and the **manufacturing approach**.

The **product attribute approach** regards differences in quality as a reflection of differences in the quality of some ingredient or attribute possessed by a product or service (Garvin 1984:26). So, for example, high quality ice cream has a high butter fat content, just as fine rugs have a large number of knots per square inch (Garvin 1984:26). Because quality reflects the presence or absence of measurable product or service attributes, it can be assessed objectively, and it is based on more than preference (Garvin 1984:27).

There are various problems with this approach. Firstly, improved quality can only be obtained at higher cost. Secondly, quality is regarded as an inherent characteristic of the services (goods), rather than as something ascribed to them (Garvin 1984:27). Klaus (1985:21) is of the opinion that this approach is not suitable in a service encounter environment. Garvin (1984:28) regards the primary focus of this approach as internal. As several services rendered by SARS encompass service encounter interaction with tax practitioners, either by telephone or in face-to-face encounters, and as the study investigates the views of external (not internal) users of the service, a product attribute approach was not considered to be suitable for the current research.

Although international benchmarking might be a tool in defining the quality of SARS using the product attribute approach, SARS does not have competitors in the South African market. This makes the product attribute approach unsuitable, because a primary goal of measuring service performance using the product attribute approach is usually to work towards becoming equal or superior to competitors with regard to the quality of competing services (Juran 1988:4).

A slight variation of the previous approach is found in the **manufacturing approach**, which regards quality as a precise and measurable variable (Garvin 1984:25). This approach is also called objective quality and conformance quality. In this approach, services are regarded as special types of goods. Good quality is taken to mean that goods are compliant with standards and are free of deficiencies (Juran 1988:5; Klaus 1985:19).

The product-based and manufacturing-based quality notions may appear to be similar, but they are in fact quite distinct. Product-based definitions are linked to design (concept design), whereas manufacturing-based definitions are related to the delivered service (Gummesson 1992:184). This fairly objective approach to measuring quality still has a place in measuring the technical outcomes of service experiences (for example, the correctness of a tax assessment) (Schneider & White 2004:11). For services, time can also be used as an example. The SARS Service Charter (SARS 2006f) sets predetermined standards with regard to the periods allowed for the various services (concept design), which implies that the manufacturing approach would define quality as conformance with these standards. Part of the present research therefore uses the manufacturing approach to defining quality as the conformance of SARS with its own Service Charter.

The manufacturing approach cannot be the only approach used to measure the quality of the services SARS renders. For example, the product attribute of the answering of calls by the call centre is to answer 90% of all calls within 20 seconds. Whether this is good service quality or not cannot be judged, but the manufacturing approach of defining quality could result in a situation in which employees strive to achieve this standard. This may then mean that some employees may not deal with calls adequately, in an attempt to deal timeously with the next incoming call, or that they may even put tax practitioners on hold in order to answer the next call within the prescribed time.

In reality, customers often perceive quality as a much broader concept, and non-technical aspects may dominate the quality experience (Grönroos 1988:11). It is thus clear that a broader definition of quality is required to be able to measure the full quality phenomenon.

2.4.1.3 *The user-based approach*

The user-based approach starts from the premise that quality is “in the eyes of the beholder” (Garvin 1984:27). It is therefore subjective, hinging on the individual perceptions of customers. The goods or services that best satisfy their preferences are then those which they regard as having the highest quality (Garvin 1984:27; Gummesson 1992:184; Schneider & White 2004:10). The quality of a service is therefore judged to be high when customers say it is (fitness for use) and this does not always mean that the service conforms to technical criteria (Berry *et al.* 1988:35; Grönroos 1988:11; Juran 1988:5; Schneider & White 2004:10). This approach is the closest to the definition that is now universally accepted (Gummesson 1992:184). Because of the nature of service delivery, it is particularly appealing as an approach to defining quality in the realm of services (Schneider & White 2004:10).

In the marketing literature the user-based approach has led to the notion of “ideal points” – precise combinations of product attributes that provide the greatest satisfaction to a specified consumer (Garvin 1984:27). Each of these concepts, however, creates two problems. The first is practical, namely how to aggregate widely varying individual preferences so that they lead to meaningful definitions of quality at the market level (Garvin 1984:27). The second is more fundamental, namely how to distinguish those product attributes that connote quality from those that simply maximise consumer satisfaction (Garvin 1984:27). The aggregation problem is usually resolved by assuming

that high-quality products are those that best meet the needs of the majority of consumers (Garvin 1984:27). Unfortunately, this approach ignores the different weights that individuals normally attach to quality characteristics. This makes devising an unbiased statistical procedure for aggregating such widely varying preferences difficult (Garvin 1984:27). A more basic problem with the user-based approach is its equation of quality with maximum satisfaction (Garvin 1984:27). While the two are related, they are by no means identical (Garvin 1984:27). A product or service that maximises satisfaction is certainly preferable to one that meets fewer needs, but it is not necessarily also a better service (Garvin 1984:27).

It is widely recognised that quality is not an objective thing, but rather a concept construed by the service user (Berry *et al.* 1985:45; Philip & Stewart 1999:2). Despite all the shortcomings of this approach, Boothe (1990:65) summarises the importance of this approach in the following statement: “In the uncertain world of providing services, one thing is certain: the customer defines quality”.

2.4.1.4 *The value-based approach*

The value-based approach defines quality in terms of costs and prices (Garvin 1984:28). It is a question of the consumers’ own personal assessments of what they get in relation to the price they are able and willing to pay (Gummesson 1992:184). The difficulty in employing this approach lies in the blending of two related, but distinct concepts. Quality, which is a measure of excellence, is equated with value, which is a measure of worth (Garvin 1984:28). The taxes payable by taxpayers are, according to the principles of Adam Smith, linked to affordability, but they are not linked with value at all. Although taxpayers receive an indirect benefit from the taxes paid (for example, protection by the police), the tax system is progressive. This means that a taxpayer with a higher taxable income pays a higher percentage of taxation, but does not necessarily receive more value (for example, greater protection from the police). This approach to defining quality is therefore not suitable for the present research.

While it may be possible to gauge taxpayer satisfaction in general with the services taxpayers receive from the State in exchange for the taxes they pay, the present research seeks to assess the perceptions of tax practitioners. By implication, the nexus between taxes paid and social services provided is absent. The cost-benefit measure is more likely

to be whether the efficiency of the service provider (SARS) enables the practitioner to recover the cost of his or her time from the taxpayer client in full.

2.4.2 Concluding remarks on quality

Technical quality definitions focus on the supply side of the equation, are objective, and are primarily concerned with engineering and manufacturing practice. By contrast, user-based definitions of quality incorporate subjective elements, because they are rooted in consumer preferences. However, Garvin (1984:29) maintains that, irrespective of the preferred approach, the characteristics that connote quality must first be identified by means of market research of customers (a user-based approach to quality) and must then be translated into an identifiable product (service attributes – a product-based approach). Next, the manufacturing process must be organised to ensure that products are made precisely to these specifications (a manufacturing-based approach to quality) (Garvin 1984:29). Garvin's (1984) comments are valid. However, although the services of SARS are already operational, SARS has indicated that it is now on a journey to ensure service quality. The first logical step would thus be to implement a user-based approach, as proposed in the present research.

Schneider and White (2004:11) found that the user-based approach is superior to an objective checklist approach in evaluating the quality of intangible services. Technical approaches are more appropriate to measuring the quality of the “what” of services, while user-based approaches are more appropriate to the “how” of services (Schneider & White 2004:11).

In the present research, the predominant approach is a user-based one, but the principles of the manufacturing approach are also incorporated to ensure that the full spectrum of quality, as perceived by tax practitioners, is captured in the proposed service quality model.

2.5 PERCEIVED SERVICE QUALITY

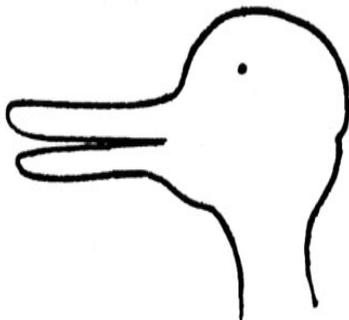
Actual quality is the real level of quality provided to the customer as seen by the organisation providing the service (Boothe 1990:65). Organisations that measure service quality quantitatively often have precise measures of these values, but it is a common

mistake for an organisation to assume that these values are the same as the perceived service quality (Boothe 1990:65).

What is to be measured by the service quality model proposed in the present research is the service quality as perceived by the tax practitioners. This may or may not differ from the actual objective quality as measured by the organisation itself. In order to enhance understanding of what is measured by the proposed service quality model, it is important to understand what “perception” entails.

Perception is defined by the *South African Concise Oxford Dictionary* as “the ability to see, hear, or become aware of something through the senses”. This definition focuses on the senses and the use thereof. The five senses (sight, hearing, touch, taste and smell) therefore all affect people’s perceptions. O’Brien (2004:1) expresses a similar view, as he defines perception as “the process by which we acquire information about the world around us using our five senses”. Lumsden and Lumsden (2000:93) acknowledge that perception is subjective. They argue that perception is “the way people ... pay attention to a stimulus and how they interpret that stimulus for themselves”. The subjectiveness of perceptions is strikingly demonstrated by the illustration in Figure 2.3.

Figure 2.3: The phenomenon of “seeing as”



Source: O’Brien (2004:7)

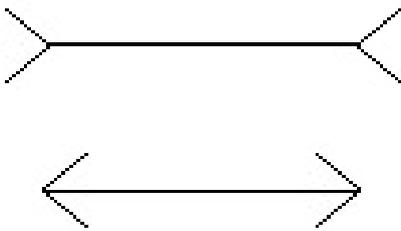
When they first look at the illustration in Figure 2.3, many people see a duck, but the character of the visual experience can be altered if the beliefs about the picture are changed to indicate a rabbit looking upward. The picture now looks different, even though it consists of precisely the same configuration of black marks on a white background. It is

thus clear that the same black marks on a white background can be perceived totally differently by different people.

There are three main reasons why perceptions are subjective. Firstly, people perceive selectively (their motives, needs, drives, wants and experiences may keep them from seeing things that are unacceptable or unknown to them). Secondly, people perceive what their background permits them to perceive (the background is usually influenced by their culture, language, gender, and previous experiences). Thirdly, people multiply their misperceptions regarding other people (thus no one can be sure how another person perceives other persons, objects or ideas) (Lumsden & Lumsden 2000:93).

The famous Muller-Lyer illusion (in O'Brien 2004:3) explains how prior experiences assist in forming our perceptual beliefs (see Figure 2.4).

Figure 2.4: The Muller-Lyer illusion



Source: O'Brien (2004:3)

The two horizontal lines above look as though the top line is longer than the bottom one, but if the person looking at the picture knows about the Muller-Lyer illusion, then the perceiver disregards what he or she sees and instead believes that the lines are the same length (which they are) (O'Brien 2004:3). Because of prior knowledge, the perceiver thus disregards what he or she "sees" in the perceptual experience.

It is clear that various factors (for example, motives, needs, drives, wants, experiences, culture, language and gender) influence how a person forms a perception. Perceptions are therefore experiential states of mind and not necessarily real (Haywood-Farmer 1988:19). Nevertheless, the perceived service quality approach still seems to form the foundation of much of the ongoing service quality research and theory development in services marketing (Grönroos 1988:11; Parasuraman *et al.* 1986:1; Schneider & White 2004:10).

Grönroos (1984:37) defines perceived service quality as “the result of the consumer's perception of the service itself”. This implies that, as Parasuraman *et al.* (1986:3) put it, perceived quality refers to “the consumer's judgement about a service's overall excellence or superiority. It differs from objective quality, it is a form of attitude, it is related but not equivalent to satisfaction, and it results from a comparison of expectations with perceptions of performance”. Haywood-Farmer (1988:19) also suggests that customers form their judgement of perceived service quality by comparing their perceptions of what they receive to their expectations of what they should receive. Expectations can thus be added to the subjective factors that may influence customers' formation of perceptions of service quality.

Boothe (1990:65) regards perceived quality as “the customer's feel for the quality of the service that has been provided”. Schneider and White (2004) argue that, in an extreme sense, the increased intangibility of service delivery means that people cannot physically touch services, but can only perceive them in their minds. Schneider and White (2004:10) therefore define service quality as “a judgment about a service's overall excellence or superiority”.

Perceived service quality is based on both a cognitive judgement (that is, an inference about the superiority of the product or service based on a rational assessment of characteristics or attributes) and affective judgement (that is, an emotional response of pleasure and arousal) (Jiang & Wang 2006).

Jiang and Wang (2006:211) found that affect (pleasure and arousal) is more likely to influence perceptions of service quality in hedonic (leisure) services and less in the utilitarian (functional) services. Jiang and Wang (2006:212) state that “utilitarian services ... provide consumers with certain functional utilities or solve practical problems such as car repairing or tax return filing”. Jiang and Wang (2006:212) also found that although pleasure is less likely to influence perceptions of service quality in utilitarian services, arousal has no effect on the perceived quality of such services. Homburg, Koschate and Hoyer (2006:27) found that as the number of experiences increases over time, the influence of cognitive factors also increases, whereas the influence of affective factors decreases.

From the above, it is clear that the proposed service quality model captures the perceived

quality of the services of SARS. Hence, such perceived service quality would tend (a) to be viewed subjectively by the tax practitioner; (b) to be predominantly a cognitive and, to a lesser extent, an affective judgement; (c) to be represented by the difference between perception of performance and expectations, and (d) to be related to, but not equivalent to satisfaction.

2.6 SUMMARY

Service quality and **customer satisfaction** are two distinct concepts. Therefore, as the development of a service quality model for the valuation of the services of SARS is the primary focus in the present research, it appears to be more appropriate to measure the service quality construct than to measure customer satisfaction.

Services and **quality** are elusive phenomena. They are therefore very difficult to define. Nevertheless, in this chapter an attempt was made to analyse and describe these phenomena. **Services** were analysed with reference to their characteristics and the possible influence of these characteristics on the measurement of service quality. The relevant characteristics are the intangibility, relative inseparability, interdependence and heterogeneity of services. All of these characteristics have a direct or indirect impact on the measurement of service quality. The measurement of services evaluates psychological experiences. Hence, the development of a service quality model for eliciting the perceptions of tax practitioners in measuring the service quality of SARS was confirmed to be appropriate for the present research. It was also established in this chapter that the service quality model should provide for the different services of SARS to be measured separately, as all the services are not located at the same point on the inseparability continuum. In analysing the results of the study, the need for triangulation was confirmed, given the characteristic of interdependence (so, for example, when a taxpayer through his or her tax practitioner does not fulfil his or her duties, this could have a very negative impact on the perceptions of the service quality of SARS). The characteristic of heterogeneity implies that the results obtained from using the proposed service quality model can only be reliable when there is a large enough response rate that is also representative of all the different locations where SARS renders its services.

Quality has been described in the light of the various approaches used by those who have studied this phenomenon. It was found that the user-based approach (defining quality from

the user's perspective) in combination with the manufacturing approach is the most suitable approach for the present research.

In line with the user-based approach to quality, **perceived** service quality was found to be influenced by various factors (for example, motives, needs, drives, wants, experiences, culture, language and gender). This implies that the service quality that is to be measured by the proposed service quality model is perceived subjectively by tax practitioners. It is also predominantly a cognitive and, to a lesser extent, an affective judgement. It is represented by the difference between perception of performance and expectations and is related (but not equivalent) to satisfaction.

Having described **services**, **quality** and **perceived service quality**, the construct of **service quality** itself also needs to be analysed in more detail, as this construct is not merely a combination of the **service** and **quality** phenomena. **Service quality** is analysed in the next chapter.