The Alignment between Business and Information Technology Strategy:  
A Study of Directorate General of Taxes – Indonesia

Jarot Budiono  
Hirano Masaaki  
Graduate School of Asia-Pacific Studies, Waseda University  
Faculty of Waseda University

Abstract:
The alignment between business and Information Technology (IT) strategies has long been a main concern for many organizations. After deciding to invest, running billions of dollars, companies and government agencies worldwide are largely unable to convincingly get the full benefit of their IT projects. The misalignment of the strategies is believed to be one of main causes resulting unfruitful IT investments. Directorate General of Taxes (DGT) is also facing the same problem. The effectiveness of its IT project is still indefinite. Considering this circumstance, it is important to analysis the source problems of the misalignment. People, process and organization factors are recognized as important components in promoting the alignment. Using those factors, we analysis the cause of the misalignment of current policy in DGT. Finally, we describe a series of studies of those factors and propose recommendations to minimize the misalignment.

1. Background

Since the enactment of the Director General of Taxes Decree No 178 of 2004 regarding Blueprint for Directorate General of Taxes’ Policy for 2001 to 2010, IT has been a favorite term in workplace environment of DGT. The decree is mainly about the DGT’s policy in leveraging IT to achieve its vision. Since then, most of its divisions include IT in their policies. Sets of new services have been launched, various new networking with local governments have been formed and numerous new approaches to the taxpayers have been introduced. In a greater scale, DGT also intends to use its property tax database as an embryo of Single Identification Number (SIN), the first Indonesia’s social security number.

The enactment of the decree was influenced by environment of Indonesia in which the business was widely known to be less attractive then in neighboring countries at that period. In year 2004, macroeconomic and politic instability, corruption, tax rate and cost of financing are the big five obstacles for doing business in Indonesia. To make the environment more attractive to investors, the government has also been conducted various packets of reformation, both in the process of administration, laws and jurisdictions. Times to obtain licenses to set up new companies or make investments has been shortened, unnecessary documents required for have been eliminated, redundant official positions have been ruled out and rule of laws have been simplified, and various positions have been decentralized.

In line with government’s actions, DGT has also been reforming tax rules and administrations practices.
within its authority. The reformation of tax law itself has actually been started in three stages, which are in 1983, 1994 and 2000. However, reformation in term of tax administration to serve taxpayers as customers has never been done. Abimanyu (see 2003) believes that reformation in taxations should include modernization of tax administration and the utilization of IT to increase service delivery to taxpayers. Therefore, in 2004, the reformation has been focused on the administration process which comprises of reorganizing the structure, the implementation of new business process and the utilization of IT. The latest is aimed to prevent tax payers from having face-to-face meeting with tax officers which considered as a main source of corruption (Tim Peneliti, 2000).

The role of DGT in collecting revenue is crucial for the development of the country. Tax revenue grew at least 19% in the past 5 years ("Penerimaan Pajak," 2007). In a period of 2002 to 2005, the revenue accounted for 70% or more of national budget\(^2\). Furthermore, as in other countries, tax is also aimed for regulation, stability and income redistribution ("Pajak," 2008).

Until year 2000, the number of registered tax payers, which means tax payers who filed their individual income tax return, was less than 2 millions. It nearly doubled in 2004. The number then reached 10 million in that following year.

However, this number is still too small compared to the population. With the population about 206 millions in 2000, it was only 1% of them paid taxes. This was worsened by the inequality in the amount of taxes paid by tax payers. Statistics in 2003 unveiled that 20% of revenue from tax was paid by 200 taxpayers, or 0.0054% of total number of taxpayers (Purnomo, 2003). Furthermore, Chamberlain and Fleenor (2005) argued that ideal taxations system should be wide tax base and low tax rate. Other researchers added the increase in the capacity of tax administration (Ikhsan, Trialdi, & Syahrial, 2005).

### Table 1. Number of Registered Taxpayers 2000 – 2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Persons/Corporations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>1,980,893</td>
</tr>
<tr>
<td>2001</td>
<td>2,485,554</td>
</tr>
<tr>
<td>2002</td>
<td>2,899,709</td>
</tr>
<tr>
<td>2003</td>
<td>3,671,392</td>
</tr>
<tr>
<td>2004</td>
<td>4,066,632</td>
</tr>
<tr>
<td>2005*</td>
<td>10,201,258</td>
</tr>
</tbody>
</table>


Circumstances stated above have forced DGT to come up with new initiatives by leveraging IT in the administration processes and increasing number of taxpayers. The software application for external called e-Service was designed. The service consists of three main features, namely: e-registration, e-filing, and e-information.

Aside from application for external, DGT has also redesigning internal applications. This is mainly to response the restructuring. There are 13 semi-independent software applications were developed by in-house programmer. Unfortunately, almost all of those applications do not interoperable one to another. Most of them are developed based on request from other divisions within DGT.

After being implemented for two years (2004 – 2005), there was no significant result from the e-service yet. E-registration accounted only for 0.04% of the growth of registered tax payers and less than 0.005% registered tax payers who utilized e-filing in the same year. Number of registered taxpayers was also

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subject to be evaluated. Information from SIG and other sources, which were used as basis for officially assigning citizens as new registered taxpayers, seems to be invalid. Business and IT strategy in DGT are likely to be not aligned.

2. Research Objectives
The study is aimed to identify factors that promote and demote the alignment between business and IT strategy in the public sector in Indonesia, particularly in DGT. Research is also intended to identify the views of respondents toward the current implementation of IT.

3. Framework
In this study, author uses Strategic Alignment Model (SAM) (see Figure 1) proposed by Venkatraman and Henderson (1993) with modification by Luftman, Papp and Brier (1999) and by Gartlan and Shanks (2007). SAM has been a fundamental method for researchers and practitioners to conduct in-depth research concerning the alignment.

Recent research in the field proposed three internal factors that influence the successful of the alignment, i.e. people, process and organizational factors (Gartlan & Shanks, 2007). In detail, each of the factors comprises of several components (Figure 2)

Figure 1. Strategic Alignment Model

![Figure 1](source)


Figure 2. People, Process and Organization Factors of Alignment

![Figure 2](source)


4. Method

Respondents. Respondents were chosen based on their role in the formulation of both business and IT strategy in DGT. They are in the position of middle manager and top managers. Strategy formulation in DGT are centralized, thus respondents were taken from the headquarters.

Interviews. Interviews were conducted involved key persons from IT and non-IT divisions. Interviewees were not only from middle manager level, but also from higher level. It is needed to gain further information about the actual role of perspective respondents. Interviews are also to reshape each
element of the factors to adjust the environment in the public sector, since the previous study was conducted with respondents were mixed from public and private sectors.

Questionnaire. Questionnaire was adopted from Gartlan and Shanks with adjustments based on the interviews with key persons. The questionnaire is mainly asking the respondents to rate the importance of each factor in achieving alignment and rate the current condition in the DGT against each factor using 5-pint Likert scale. After some adjustments, questionnaires were then distributed to the respondents. Respondents are given enough time to think and fill in the questionnaire based on their views about the current alignment and their roles as described in the code of conduct.

Analysis. Questionnaire then will be analyzed to identify factors which respondents from both IT and non-IT managers choose as the most important to be considered to ensure the successfulness of the alignment. Views from respondents concerning the current condition of each factor will also be analyzed.

5. Result

The result of the study will be presented to the managers in DGT to give a big picture regarding the cause of the failure. Recommendation from the research is aimed to locate source problems of the failure of DGT in aligning its strategy and minimize the same problems in the future.

References


