Designing Focus Groups and Experiments to Evaluate Policy Approaches and Measures for Tackling Undeclared Work

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1 Focus groups

1.1 Introduction

Many people across the globe earn their income from undeclared activities concealed from the tax authorities (Schneider, 2013; Schneider and Williams, 2013; Williams, 2014c,d,e; Williams and Horodnic, 2015a,b; Williams and Yousseff, 2014a,b). Indeed, nearly two-thirds of global working population have their main job in the undeclared economy (OECD, 2011), with the undeclared economy constituting some 7-16% of GDP in advanced economies (Schneider, 2013), and that some 10% of the population in Eastern Europe have their primary employment in the undeclared realm (ILO, 2103a). Therefore it is no surprise that tackling the undeclared economy has moved to the top of public policy agendas (European Commission, 2003).

Moreover, undeclared work takes many forms which leads to a vast array of policy measures and approaches being used to tackle the phenomenon. When undeclared work is viewed as a minor practice composed of an employer exploiting their employees under sweatshop-like working conditions, few policy makers question the application of repressive policy measures. However, this is only one facet of the undeclared economy. There are many other forms of the undeclared work such as people conducting paid favours for kin, friends, neighbours and acquaintances, businesses operating either fully or partially off-the-record, business start-ups operating undeclared and even those who chose to voluntarily work on a self-employed basis in the undeclared economy. Recognizing the widespread prevalence and multi-faceted nature of undeclared work has led to a re-thinking regarding how undeclared work should be tackled. Rather than eradicating the undeclared economy, a policy shift towards providing incentives and facilitating the formalization of such work has occurred, and a range of public policy approaches and measures have been adopted across countries (ILO, 2014; Williams, 2014a). However, little has been done so far to evaluate specific public policy measures and approaches.

This working paper seeks to answer how one would investigate the question, “How do people consider, perceive, react and experience specific policy measures and approaches?” This demands the application of some sort of method that explores each person’s perceived reality. This can be done by gathering people into groups, creating an environment, where everyone feels comfortable enough to express themselves, and helps facilitate the interaction between participants. One of the methods that helps answer questions such as this, is the qualitative research method of focus groups.

1.2 What is a focus group?

A focus group is a type of in-depth interview that can provide insights into a particular topic otherwise unavailable through the means of quantitative research methods. Focus groups consist of a small number of people (6-10), also known as participants, who are carefully chosen from the target population and gathered in a controlled environment for a guided discussion on a particular topic. The discussion is guided by a specially trained facilitator, also known as a moderator. The role of the moderator is to provide a ‘guided interaction’ between participants by using a set of skills such as: restating responses, drawing out emotions and motivations and even linking ideas floated by the participants for further exploration. If the focus group is properly moderated, participants are likely to stimulate each other and exchange a whole range of ideas, providing insights unavailable through
surveys and one-on-one interviews. As a result focus groups are often used in an exploratory capacity to help evaluate a programme of activities and to generate ideas for future research (Scott, 2011).

Focus groups were first used during WWII as war propaganda in order to test responses to radio programmes aimed at raising morale (Merton and Kendall, 1964; Kahan, 2001). It was not until the 1980s however, that focus groups gained popularity in social science research and became widely used as a marketing tool (Kidd and Parshall, 2000). Eventually, focus groups expanded and became popular with sociologists, psychologists, programme developers, policy makers, decision makers and evaluation researchers (Powell et al., 1996; Scott, 2011).

Focus groups also attracted interest as a tool to help produce information for policy development and analysis (Redburn and Guo, 2006). A focus group on a program or a policy can be run before, during or after the policy is developed, and can even be applied as an ongoing process (Redburn and Guo, 2006).

Although the use of focus groups amongst policy makers is at best sporadic, when used properly, they can help validate at an individual level whether a specific policy has produced the desired outcome and whether its implementation has been consistent with the intended purposes and goals (Shalock, 2001). Kahan (2001:129) agrees with their value for policy analysis and finds that focus groups ‘enable participant stakeholders to become part of the process, help uncover misunderstandings that conceal underlying agreements amongst stakeholders, and uncover potential problems of implementation’.

1.3 The use of focus groups
As already mentioned above, the goal of a focus group is to help generate a better insight into a topic of a particular interest to the researcher. Powell et al. (1996) finds focus groups particularly useful when:

- existing knowledge of a subject is inadequate, or further elaboration on issues arising is needed, or when a new hypothesis is necessary prior to constructing the questionnaire or enhancing a new one;
- the subject under investigation is complex and the concurrent use of data collection methods is required to ensure validity;
- the subject under investigation is complex and comprises a number of variables; and/or
the results of a quantitative survey are inadequate, ambiguous or misleading and require further clarification/elaboration.

When tackling undeclared work, countries wishing to select policies are confronted with a lack of knowledge regarding what will work and what will not. Not only are there limited evaluations on the effectiveness of the policy measures for tackling the undeclared work, but there is also no common criteria to help evaluate policy measures. As a result, there is little understanding in terms of which combination and/or sequence of indirect and direct policy measures is most effective to tackle undeclared work (Williams, 2014a,b). Considering some of the issues affecting the evaluation of policy measures and approaches in place for tackling undeclared work, focus groups may provide valuable information when used in conjunction with other research methods. In fact, although focus groups can be used on their own as a free standing methodology, many advocate their use in conjunction with other research methods such as surveys or individual interviews (Billson, 2006; Folch-Lyon and Trost, 1981). Through triangulation, focus groups can amplify other methods and help reinforce their advantages and strengths and at the same time, help minimize their disadvantages and weaknesses.

Indeed, and as Khan et al. (1991) and Folch-Lyon and Trost (1981) state, focus groups are effective when used:

- **As an idea generation tool**
  When used as an idea generation tool, the focus group precedes a quantitative research method and helps researchers identify important issues surrounding the subject of research and learn public thought. Background information obtained can help identify problems and generate ideas for the quantitative phase.

- **In conjunction with quantitative methods**
  The main objective here is *triangulation, namely* the use of two or more research methods in a complementary way. The focus group can help answer questions such as “why?” or “how”, whilst the quantitative method can help answer the questions such as “how many?”

- **As a follow-up**
  In this case, focus groups are used as a follow-up after the analysis of the results obtained via quantitative methods, and can help explore certain topics in greater depth.

- **As a primary data-collection method**
  Focus groups can be used as a primary data collection method, particularly for topics that are hard to investigate through quantitative methods. Focus group discussions are particularly well suited for subjects of a sensitive nature, as they provide an intimate environment away from home, and among anonymous participants in a supportive setting.

1.3.1 The use of focus group to help assess/analyse tax compliance

1.3.1.1 Focus group as a tool to assess tax compliance

Lozza et al. (2013) carry out an online focus group as a second phase of their research on ‘The Relationship between Political Ideology and Attitudes towards Tax Compliance: The Case of Italian Taxpayers.’ In their study, they follow the theoretical approach of *focused ethnography* (Knoblauch, 2005). Focused ethnography has emerged as a promising method for applying ethnography to a distinct issue or shared experience in cultures or sub-cultures and in specific settings, and can be particularly useful when the aim of the research is to comprehend cultural meanings, beliefs, values,
implicit norms and behaviours of target populations on specific and sensitive topics, such as tax compliance.

Identifying tax compliance as a sensitive topic, Lozza et al. (2013) decided to choose an online focus group method in the form of bulletin boards, where participants were able to interact with each other without having to be online at the same time and exchange messages with each other over a certain period of time. The online bulletin board provided the participants with a greater sense of anonymity given the sensitivity surrounding tax compliance, leading to a good level of disclosure by participants.

1.3.1.2 Tax officer focus group – record keeping practices and tax compliance

Focus groups are also sometimes used in triangulation with other types of research method, particularly quantitative methods. Evans et al. (2005) seek to explore the views and experiences of the principal stakeholders involved in tax compliance issues for the SME sector - the owners/managers, accountants/advisors and tax officials. In their research, a mixture of qualitative and quantitative methods is employed through three distinct phases in an attempt to draw a comprehensive picture of the relationship between record keeping and tax compliance. The first phase comprised two focus groups designed to obtain a practical benchmark for small business record keeping, the second phase consisted of surveying small business clients and the third phase examined compliance risks.

Evans et al (2005) argue that although there are considerable limitations in the findings of the research, one can identify the dissonance between perceptions and reality so far as record keeping and tax compliance issues are concerned. All of the stakeholders perceived direct relationship between poor SME record keeping practices and adverse tax compliance outcomes, even if evidence of actual behaviour was not always present. The study also found that there is no correlation between poor record keeping and greater exposure to higher compliance cost, cash flow and liquidity or audit vulnerability.

1.3.2 The use of focus group for policy analysis

Kahan (2001) assesses focus groups as a tool for policy analysis and provides several guidelines for designing policy analysis focus groups, namely:

1. Achieve breadth and depth – homogeneity is an important quality of focus groups. However, when discussing policies, homogenous groups may end up providing one side of the issue only. Therefore in order to explore both depth and breadth of policy issues, multiple homogenous groups should be conducted.

2. Spiral the discussion – for policy analysis groups, it is best not to start with the main policy issue in order to avoid making the participant feel uncomfortable. Instead, a spiralling-in-technique is recommended by starting off with general considerations and slowly spiralling in on the main topic. By placing the main issue at the centre of the focus group, this allows policy options to be addressed in the context of wider effects and not just the main impact.

1.4 The Method

The literature often concerns itself with the practicality and technicality of issues involved in conducting focus groups and their advantages and limitations. Many authors experienced in focus group methodology describe its use and recognize its evolution as a tool over time (Kitzinger, 1994; Robinsons, 1999; Morgan and Krueger, 1993).
The focus group is a type of methodology that requires group interviewing techniques. It is not a discussion, a problem solving group or decision making group. It is simply an interview (Robinson, 1999). It is an interview that involves a homogenous group of people who have been invited to reflect on questions posed by the interviewer. The group setting allows participants to share their opinions, make comments and interact. An agreement and consensus is not necessary to reach, as long as accurate data is obtained.

The philosophical underpinning of this methodology is the belief that attitudes and perceptions are not developed in isolation but through interaction with other people (Mummery, 1998). Hence, an integral part of focus group methodology is undoubtedly the interaction between participants that provides rich data. Through the process of conducting the focus group, the participants are encouraged to talk and listen to each other, share opinion, comment on experiences and exchange anecdotes (Kitzinger, 1994). By expertly using everyday communication techniques and moderating the group, researchers have the opportunity to unravel complex dimensions that are hard to access by more traditional methods such as surveys, and can help identify cultural values, group norms etc. (Robinson, 1999).

The aim of focus groups is therefore not to reach an overall consensus and develop generalized ideas and/or representative statements as in the case of surveys. Instead, they help understand the underlying assumptions that lead to particular views or opinions. They help understand why people think the way they do, how they got to think that way and how their opinions shift under specific influences or circumstances in the group interview (Kitzinger, 1996). Participants of the focus group are selected based on criteria that allow the researcher to create a homogenous group, where everyone feels comfortable enough to share their ideas, experiences and opinions. If the group is well selected, a synergy between participants is likely to develop leading to reinforced feelings, emotions, criticisms etc. If the aim of research is to improve a certain service, in this case policy, then the focus group undoubtedly facilitates the expression of criticism and explorations of different types of solution (Robinson, 1999).

There are many advantages in favour of focus groups including the natural setting environment, the freedom of expression and natural flow of thought, which is created. However, there are certain disadvantages to consider as well, discussed below.

1.5 The flow of focus group research
Regardless of the specific purpose of the focus group and what it is going to be used for, all focus group research should go through a certain process/flow to ensure the quality.

1.6 Organizing the focus group
1.6.1 Participant selection
Though there are small variations in the number of participants one should recruit for a focus group, there is a general consensus that small groups work better (Roberts, 1997; Asbury, 1995, Krueger, 1994). Stewart and Shamdasani (1990) found that in small groups one or two individuals tend to dominate over the rest of participants, whilst Harvey-Jordan and Long (2002) found that a larger group that consisted of 15 participants, over the course of discussion became unmanageable with huge time constraints and limited participation by the members. Most scholars therefore, advocate a good focus group to consist of six to ten participants, who are strangers to each other, but have been recruited for the common characteristics they share. In this way participants are unlikely to be
intimidated by others and intra-group differences are reduced to a minimum (e.g. higher authoritative positions), leading to an atmosphere that encourages disclosure of personal critical views and experiences. Some authors however, suggest that it may be a good idea to over-recruit for a focus group by at least two, as there is a possibility of last minute participation cancellation (Robinson, 1999; Stewart and Shamdasani, 1990). It is also common practice to reward participants with a small incentive, ideally a non-monetary one, to express gratitude for their participation and contribution (Powell et al., 1996).

It is important that great efforts are made when selecting participants for the focus group to avoid any bias in the process of recruitment. Ideally the selection of participants should be randomized. This can be achieved by using ‘theoretical’ sampling, by researchers drawing upon their own existing knowledge on the topic and deliberately choosing participants based on their individual characteristics and are expected to be a rich source of data (Roberts, 1997). Two other options of choosing participants are non-randomized and can be referred to as ‘convenience’ sampling (participants are recruited as a result of ease to their access) and ‘snow-ball’ sampling (participants are recruited based on referral from other participants) (Roberts and Burke, 1989).

The group dynamic is crucial for the success of a focus group, which is why participant recruitment is very important. Stewart and Shamdasani (1990) suggest that group effectiveness is dependent upon group compatibility. Researchers should bear in mind that only a good group composition is likely to produce the positive results desired and any problems should be identified and dealt with during the planning stage. Homogenous groups create positive group dynamics and permit open and active discussion for the participants (Kruger, 1994). However, selective bias may lead to unwanted data contamination (Robinson, 1999). Therefore, when one talks about creating homogenous groups, one should keep in mind that the homogeneity should be based on the desire of promoting open discussion, rather than choosing participants who share similar opinions.

Literature suggests that one should ensure the focus group consists of strangers only, yet others advocate that working with pre-existing groups or acquaintances equally provides a social context where ideas are formed. One should however, be careful about pre-existing hierarchical structures that may affect group discussion (Kitzinger, 1994). Morgan and Krueger (1993) note that in certain settings (organizations, communities), it may be difficult to compose a group of total strangers. They argue that even groups consisting of acquaintances may produce good results, when properly moderated.

1.6.2 Number, duration and scheduling of focus group sessions
A focus group session lasts approximately 90-120 minutes (Robinson, 1999), depending on the complexity of the subject under investigation and the number of participants in the group. The number of sessions can be anywhere from one to ten sessions. Sometimes sessions will replicate the data from previous sessions indicating there in no need for future sessions. It is advisable to provide participants with a focus group schedule well in advance (approx. two weeks), hence allowing the participants to clear up their personal schedules and obligations.

1.6.3 Meeting setting and site selection
Establishing optimal conditions and creating good atmosphere for the participants is crucial, when running a focus group. Many researchers agree it is best to seek out a place that provides natural setting, is easily accessible, comfortable and bears no special significance to the participant in
relation to the subject matter we are researching (Kingry et al. 1990; Robinson 1999, Powell et al. 1996). Places with good acoustics are beneficial, as they provide a better sound quality and result in better voice-recorded material (Asbury, 1995).

Once at the site, participants should be seated in a manner of a ‘round table’ and at similar eye level. If the researcher has prior knowledge on some of the participants, a pre-determined seating arrangement can be made. This allows the researcher to sit more dominant participants closer to the moderator, making it easier for the moderator to control possible over-participation. The moderator should likewise be seated in the circle to facilitate discussions and reduce over-domination of certain participants (Kreuger, 1995).

It is advisable to provide light refreshments as they help create a more sociable and relaxed environment for the participants and help promote open conversation between them. Refreshments are commonly used as an incentive to help recruit participants (Roberts, 1997).

Figure 2 possible group arrangement

1.6.4 Moderator role and preparation

Facilitating an open uninhibited dialogue is the central role of the moderator. A good moderator should possess an array of skills and abilities, and preferably be in some way close to participant’s demographics (age, sex, language) in order to help participants feel more comfortable.

It may be difficult to provide an exact prescription of what abilities a good moderator should possess, but there is a range of plausible ways to conduct a successful focus group. Kreuger (1998) identified some general personal qualities required:

1. The moderator should be confident about group processes and dynamics (this includes mild control over the group)
2. The moderator should possess curiosity about the subject and participants. Cynicism, indifference and apathy are quickly spotted and affect the participants.
3. The moderator should possess excellent communication skills. Clear and concise communication helps avoid confusion amongst participants.
4. The moderator should be friendly and have a sense of humour.
5. The moderator should have genuine interest in people and be respectful.
6. A good moderator should embrace multiple realities. And should be open to other methods, suggestions, approaches with being closure to the conversation.
7. The moderator should also possess good listening skills and be able to intervene in conversation, if needed.

The moderator will be provided with a moderator’s guide that will provide a non-prescriptive semi-structured interview with the direction for asking questions to obtain the information of interest to the project. The moderator must be familiar with all the objectives of the study, as this is essential to explore responses that are given during the focus group and may not be expected by the planning team. The moderator must be familiar with the subject of the project in order to identify when important information is shared by the participant, in order to follow-up with sub-questions that will help clarify participants’ answers in more detail. Ideally, five to six open-ended questions should be selected for the discussion. The questions should be simple, concise and easy to understand. Drawing up examples to illustrate the picture might be useful for the participants to set-off the discussion. If necessary the questions should be asked in a gradual manner from less sensitive to more sensitive questions, particularly when discussing sensitive topics (Smith, 1995). Morgan and Krueger (1993) address the myth surrounding sensitive topics in focus groups and the unwillingness of participants to discuss such topics. Morgan and Krueger (1993) found that in actual experience people readily talk about a wide range of sensitive topics in a focus group setting. In fact, they find that in practice we might face a different problem of over-disclosure of sensitive information. This happens when a certain level of thrill appears amongst participants in the open discussion of taboo topics and participants disclose oversensitive information. It is the moderator’s role to pull back the group should the discussion become over-disclosing in order to avoid ethical issues posed, especially if the group session is recorded. Therefore, research involving sensitive topics does require extra planning and careful execution.

One of the major concerns of the focus group is ensuring confidentiality among group members and ensuring that none of the sensitive information discussed will be disclosed. Special preventive measures can be put in place prior to the start of the discussion to deal with such situation. One possible way of dealing with such matters is to ask participants to sign a declaration before the start of the discussion group, that they will not disclose what they hear in the group setting, and should they disclose anything this declaration will be used to counter the problem (Powel et al. 1996).

1.6.5 Informed consent
Participants need to receive assurance from the research team that all of the information gathered, audio material and personal information will be kept strictly confidential. The participants should be ensured of their anonymity and that information provided will be used for research purposes only. A good solution is to provide participants with a consent form and a confidentiality agreement prior to the start of the session. The participants should also be given an option of withdrawal from the focus group, should they feel uncomfortable at any given point and the possibility to request destruction of information he or she provided during the session.

1.6.6 Data collection and analysis
Data collection from the focus group includes the interview, observation and questionnaire data. A demographic questionnaire is prepared prior to conducting the focus group and is filled in by the participants. The demographic data provides a basis for comprehensive and comparative data analysis. Observation notes are taken during the interview and can be facilitated by audio-visual instruments. These notes are very important aspect of the focus group methodology which is dependent upon the group dynamics. Before the start of the focus group a question guide is
designed to help the moderator focus the interview on the topics of our interest. The question guide should be designed in a way that allows the moderator to conduct unstructured to semi-structured sessions, with the moderator guiding the discussion with open-ended questions to facilitate participant freedom in providing multidimensional responses. Data collected from the focus group session can be taken in note form, voice-recorded or audio-recorded. Voice and/or audio recording can be intimidating for participants and difficult to transcribe, therefore voice identification round is advised before the start of the session by going around the table allowing participants to identify themselves with their voices. The use of stimuli can also be used to provoke thoughts on related research topics and encourage the discussion (Jackson, 1998; Krueger, 1994). Posters, videos, pictures and other material may be used to stimulate discussion, if found beneficial by the researcher. The moderator has a significant impact on the data collection. Depending on the moderator’s skills, the quality and extensiveness of collected data may be affected. Therefore, it may be useful to provide the moderator with a moderator’s guide to provide at least some framework for the data we wish to collect.

Once the data is collected, researchers are faced with the most difficult and time-consuming stage of the focus group – data analysis. There is no agreement on one best way on how to analyse the data, but we can roughly divide the data analysis process into two stages:

**Stage 1:**

Coding and classifying the raw data. Reviewing the transcriptions to help identify potential conceptual categories by using the focus group guideline questions as initial categories.

**Stage 2:**

Analysing the original data with the transformed conceptual data. Comparisons are carried out with the data in order to detect any sort of divergent views amongst participants and to contrast observations.

1.7 **Step-by-step guide to running focus groups**

When conducting focus groups on evaluating policy measures and approaches, particularly on topics such as tax compliance/tax evasion, one has to consider the nature of topic itself and the methodological issues concerning the topic. As Lozze et al. (2013) identified, issues of tax compliance are sensitive topics, and may result in reluctance of participation in the focus group. Therefore it is viable to consider guidelines set out by Kahan (2001) and adopt a spiralling-in technique when developing questions for the focus group. Furthermore a number of homogenous groups should be recruited to ensure good data generation and avoid polarization. Ideally, at least three homogenous focus groups should be carried out in each individual country, each of them consisting of policy-takers, who have to comply with policies at both the social and economic level. These should be recruited with careful consideration. The focus group should be carried out in a comfortable setting.
1.7.1 Guide:

1.7.1.1 Step 1: Select the team
Conducting a focus group requires a small team, which should comprise a FACILITATOR – discussion guide and a NOTE-TAKER who will take hand-written notes and observations during the discussion as a ‘back-up’ in case something goes wrong with the recording equipment.

1.7.1.2 Step 2: Select the participants:
The goal and purpose of the focus group are the core determinants for selecting the participants. Some of the following considerations may be helpful:

- Seek diversity – age, gender, culture, geography, profession, educational level;
- Select participants who will tell you what you need to hear over those who will tell you what you want to hear;
- Utilize professional networks – these may help you identify the appropriate candidates who may have relevant information to contribute, and
- Participant list should be a secret – avoid sharing names of focus group participants with other participants to avoid advance preparation.

1.7.1.3 Step 3: Decide on the time and location
A focus group session usually takes between 1.5hrs and 2hrs, though they may be even longer in some cases. Therefore, it is essential to choose a day and time of day which is convenient for all of the participants, considering their life circumstances. The location chosen should be convenient and comfortable for all the participants, preferably accessible by public transportation and adequate parking places. The room should be large enough to accommodate all the participants and yet intimate enough to allow open discussions. The most effective room set-up is that of a round table of horse shoe with the facilitator sat at an open end. It is up to the facilitator to decide on the location of the focus group. Once decided, the facilitator should set a date, reserve the space, and arrange for drinks and snacks.

Special attention should be given to the audio/visual equipment and other resources needed by the participants.

Typical audio/visual equipment should include:

- Tear sheet pads and colourful felt pens
- Projector or other similar equipment
- Audio/video recording equipment (sound quality of the room should be checked beforehand)
- Laptop to record notations from the discussion

Participant’s resources:

- Pads and papers
- Pens
- Name tags
- Tissues
- Refreshments
1.7.1.4 Step 4: Invite the participants

Before the date of the focus group invite appropriate participants, using established selection criteria. For a group of 6-10 participants a list of 12-15 potential participants should be developed. It is helpful to send the participants a reminder of the time and location of the session one day before in order to once again confirm their participation.

The participant information/invitation should include:

- Information about the project
- Role and goals of the focus group
- Any related confidentiality issues
- Group size
- Project length
- Information about the facilitator
- Date/time/location of the group (including clear directions)
- Any remuneration offered
- Any refreshments/ snack provided
- How to confirm participation
- Contact details for further information/concerns

PARTICIPANT INVITATION LETTER

Dear (       ),

You are invited to participate in a focus group as part of the European Commission’s Framework 7 Industry-Academia Partnerships Programme (IAPP) grant no. 611259 entitled “Out of the shadows: developing capacities and capabilities for tackling undeclared work in Bulgaria, Croatia and FYR Macedonia” (GREY). A key component of this process is obtaining important input from general public, and tapping into your experiences.

The goal of each focus group is to:

(List in the goals.)

We would like to invite you to attend a focus group on ‘Policy Approaches and Measures for Tackling Undeclared Work’ on: (date) from (start time) to (end time); at (location and address).

The two-hour focus group will consist of a max. 10 participants, and will be co-facilitated by (names), who are our full-time research fellows on the project. The focus-group will be audio-taped; however, all participants will remain anonymous.

Light refreshments and snack will be provided before and after the focus group, and we will reimburse you for your travel expenses. I have enclosed a map to (the location), along with other relevant information (e.g. parking). If you have any other specific needs, please let us know beforehand, so we can accommodate you.

You can (contact) at (tel. no./ email) to confirm your participation, or to request for additional information. We appreciate your consideration of our request and look forward to hearing from you soon.
1.7.1.5 Step 5: Sample focus group discussion guide
Discussion guide is an outline prepared in advance to help conduct the focus group and includes a set of questions previously developed for the purpose of the focus group.

1.7.2 DISCUSSION GUIDE

1.7.2.1 Set-up
The facilitator should arrive to the location well in advance and set up the room for discussion, including refreshments.

1.7.2.2 Welcoming and introductory briefing
After welcoming the participants the facilitator should:

- Introduce the team, their role, timescales etc.
- Ask people to introduce themselves, create nametags
- Explain once more the purpose of the focus group and its main objectives
- Explain the structure and planned progress of the group
- Ask for any questions/issues that need clarification
- Ensure everyone has signed the participant consent form
1.7.2.3 Sample question guide
A 1.5-2 hr focus group session should have a max. 5-6 open-ended questions prepared for discussion.

- 1. Tax-cheating: Why avoid/evade tax?
  (Can you tell me some more on......)
- 2. Tax compliance: Why would you comply?
  (Possible probes)
- 3. Punishments vs. incentives?
  (Possible probes)
- 4. Anything you would change?
  (Possible probes)
1.7.2.4 Questions in Focus Groups

The focus group is a semi-structured interview led by the facilitator, who should carefully sequence and balance questions aimed towards the focus group participants.

As a simple guide, a focus group facilitator should use two types of questions:

a) **Introductory questions** – these should be open-ended and inviting, so all the participants feel comfortable to talk at an early stage. They should be phrased in a neutral and positive manner.

b) **Linking questions** – these questions help the facilitator move on from certain topics and/or explore in greater depth if necessary. The facilitator can use either follow-up questions or make use of probes. These do not need to be prepared in advance, but it might be useful to prepare a few examples to use.

Types of questions can be further broken down into two categories:

a) **Questions to avoid**
   - i. **Leading questions** – avoid the use of questions, which may give a certain direction or imply an answer (e.g. Most people think…., Do you agree with the majority…)
   - ii. **Loaded questions** – avoid emotionally charged questions (e.g. Would you feel for or against a certain policy…)
   - iii. **Multiple questions** – avoid using more than one question at a time (e.g. Firstly I would like to know your opinion on A and then on B…)

b) **Questions to use**
   - i. **Open questions** – Open-ended questions are great to kick off a focus group and are most frequently used during the sessions. The open-ended structure gives the participants the necessary freedom to express themselves and does not constrain them to a single answer (e.g. what is your thought on the introduction of new policies…, How do you feel about…)
   - ii. **Closed questions** – these should be used with caution and preferably avoided at an early stage of the focus group, as we do not want to close down the discussion with a Yes/No type of question. However, this questions can be very useful, when we want to narrow down the discussion or check the understanding on something (e.g. Which of this issues need tackling first…Do you meant…). Once narrowed down they should be followed by an open-ended question to encourage further discussion.
   - iii. **Probes** – are questions used to ask for more information or more detail. They can be very assisting and helpful with the flow of the discussion.
   - iv. **Follow up questions** - similar to probes and equally useful. Often pre-planned into the question schedule (e.g. What are the main reasons for tax evasion? followed by What can we do about it?)
   - v. **Closing questions** – allow participants to express their overall view/ position on a topic (e.g. Following today’s discussion, if I were to ask you what we should do to help avoid tax evasions, what would you say?)
   - vi. **Summary questions** – at the end of the session the facilitator can summarize the discussion in a few bullet points and cross check with participants, if the
summary is correct (e.g. Have I managed to adequately summarize today’s discussion?)

1.7.2.5 Probes and Clarifying Questions in-depth

Probes and clarifying questions have two main purposes:

1. To help clarify what the participant has said.
2. To help obtain more detailed information on a particular topic.

Some example of probes used to clarify what the participant has said:

‘Can you please tell me (more) about…..’

‘Can you be a bit more detailed about…..’

‘Could you explain what you meant…’

‘Can you tell me something else….’

Be careful not to use probes like this:

‘So, you are telling me that…..Right?’ – you do not want to draw any conclusions on the behalf of the participant

Keep them talking

Ideally you do not want to interrupt or disturb the respondent as much as possible. If you feel the need to follow-up on something, make a note and ask them about it using probes once they have concluded their thoughts.

Do not use probes to finish the thoughts for them

As already said, you do not want to disturb the respondent and interrupt them, when they are talking. You are there to listen. Any sort of interruption may cause the respondent to change their initial thoughts and views and may influence the focus group purpose. In case the respondent strays off course, let them finish their thoughts and then bring them back on track using probes and questions.

Seeing things from respondent’s point of view

Probes help you gather more information to see things from the respondent’s perspective. Remember good probes make the respondent know they are the expert and that you are there to listen and learn from their answers, and that you would like to know more details about a particular topic.

Do not make assumptions and ask leading questions

Probes can be very useful to help you gain better understanding of what the respondent has been trying to say, but be careful you do not want to draw any assumptions for the respondents using the wrong probes. The rule that applies here is ‘less is more’. Remember to ask short simple questions and let the respondent lead you to the answer. Often the respondents want to be favoured by the moderator and will try to match their opinions with the moderator’s opinions, rather than sharing
what they truly believe in. Therefore it is advisable to avoid any leading questions, such as ‘Don’t you think...’ You need the respondent to trust you as an unbiased listener, who is there to listen and learn from their experiences.

1.7.3  **TIPS FOR GUIDING THE DISCUSSION:**
It is not uncommon for a few individual to dominate the discussion. To balance participation and to ensure all of the participants are given equal opportunity to talk, some of the following strategies can be considered:

1. Address questions to specific individuals who have not talked yet
2. Give non-verbal cues (e.g. stop taking notes or look in another direction when the participant is talking for too long)
3. Intervene, summarize the point and re-focus the discussion
4. Minimize pressure to conform to dominant view by using probe questions and addressing alternative views

1.7.4  **Note-taking**
Notes taken during the discussion need to be comprehensive and easy to understand. It is essential that the note-taker has good listening and observation skills. For more organized note taking it is worth preparing a note taking form, which provides the note-taker with essential framework of the focus group.
FOCUS GROUP NOTE TAKING FORM

This is a draft note taking form. All the notes taken should be extensive and accurately reflect the contents of the discussion, as well as salient observations of non-verbal behaviour (facial expressions, body gestures, group dynamics....)

Date of focus group:
Location of Focus group:
Name on Note Taker:

**KEY AREAS DISCUSSED**

**KEY AREA 1/ Question 1**

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<th>Observations:</th>
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**KEY AREA 2/ Question 2**

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**KEY AREA 3/ Question 3**

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**KEY AREA 4/ Question 4**

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2 Experiments

2.1 Introduction

When conducting experiments to evaluate policies, two key issues need to be considered from the outset. Firstly, there are cultural differences including social and informal institutional factors, which may affect the conduct of experiments and more importantly, their findings. Secondly, the subject of investigation (tax compliance) is recognised as a sensitive research topic given that the evasion of taxes is illegal in terms of the codified laws and regulations of formal institutions, even if deemed a socially legitimate endeavour in terms of the values, norms and beliefs that constitute the informal institutions of a society (Williams and Hordonic, 2015b).

There are generally two types of experiment that can be conducted, namely field and laboratory experiments. While field experiments are conducted implicitly without the consent of the participants, they provide the closest environment to lived practice. However, this imposes a limitation upon the possible experimental design and the findings that can be documented. Furthermore, there is an ethical dilemma in using such an approach when studying a sensitive topic. The other option is the use of the laboratory experiment in a controlled environment. This provides several advantages:

- The participants are aware that this is a controlled experiment and thus that they are not exposing their undeclared activities. It is more likely that socially undesirable responses could be performed in the laboratory setting in comparison with lived practice. Participants can ignore concerns about their tax behaviour and allow themselves to express themselves in the experiment scenario.
- It could be argued that the artificiality of the laboratory experiment setting secures more honest individual reporting decisions and the deployment of natural behavioural patterns. Consequently, this enables the researcher to bridge (extrapolate) the findings between the simulated environment, lived practice and current theory about the studied phenomena.
- When using experiments, there is an advantage of the ability to control several variables such as tax rate, enforcement effort and level of income. This enables an appraisal of different scenarios for the same set of participants, which is not otherwise possible. Taxpayers’ behaviour and responses to policy could be affected by specific circumstances difficult to control. The only way to facilitate almost immediate feedback is via experiments, which also allows a clearer discovery of any causal relationships.

It is important to note, moreover, that there is a trend towards the use of experiments in research scenarios related to the topic of tax compliance:

“there is an extensive – and growing – literature that argues convincingly that experimental results can contribute significantly to policy debates, as long as some conditions are met: the payoffs, and the experimental setting must capture the essential properties of the naturally occurring setting that is the object of investigation. Laboratory methods may offer the only opportunity to investigate the behavioral responses to policy changes”. (Alm, Jackson & McKee, Slemrod J, 1992, p.325 in Torgler, 2003, p. 106)
2.2 Literature review: experiments

Torgler (2003) has provided one of the most comprehensive reviews of experimental findings in the tax compliance literature. His review of the findings from experiments showcases the important trends in the use of relevant research instruments, along with their advantages and shortcomings. According to his appraisal of experimental findings, the results reveal that a higher audit rate leads to higher levels of compliance and that tax compliance is an increasing function of income and a decreasing function of the tax rate. For the needs of the current working paper, the literature review of experimental research will only concentrate on the major methodological contributions and highly relevant ones to the planned research objectives. We could trace the genesis of experiments (from a social science perspective) to the field of early experimental economics. It could be argued that at the core of economic experimentation lies the capability to infuse wider socio-economic dependencies into a microeconomic setting. Consequently, the discovered valuable insights could inform reflective changes in lived practice. This constitutes the strong methodological appeal of such approaches.

2.2.1 Classification of the different types of experiment

Roth (1995) makes an important contribution to the use of experiments in social research with his seminal historical review of the major pioneering trends to date – starting from work conducted in the 1930s, 1940s and 1950s. He acknowledges Rapoport and Orwant (1962) as one of the first to provide a generalised overview of experimental research. Roth (1995, p. 5) states that the early period of experiments (1930-1960) is characterised by three strands that left both substantive and methodological trails in the modern literature:

- The first strand concerns experiments designed to test theories of individual choice.
- The second strand tests game-theoretic hypotheses.
- The third strand is about early investigations in industrial organization.

Roth (1995, p. 22) suggests a well-accepted way of classifying the different types of experiment according to “how they were motivated and to whom they were intended to be persuasive”. His grouping is:

- “Speaking to Theorists”
  
  This category includes deductive experiments to test established theories and to discover unpredicted regularities, which then could be analysed in connection with the validity of theory. These types of experiment secure a dialogue between experimenters and theorists.

- “Searching for Fact”
  
  This is an inductive approach whereby experiments are used to search for facts, which are weakly or not known to theory. This type of experiment could be used to isolate the cause of observed regularities.

- “Searching for Meaning”
As these facts start to accumulate, then “Searching for Meaning” becomes possible, so theories could be constructed from the analysis of various cases and newly discovered new connections.

- “Whispering in the Ears of Princes”
This category of experiment represents the dialogue between experimenters and policymakers. Most often such experiments are motivated by questions raised by government agencies. The main characteristic is that these experiments are “designed to closely resemble, in certain respects, the naturally occurring environment that is the focus of interest for the policy purposes at hand...offers the possibility of bringing scientific methods to bear on one of the traditional responsibilities of economists, to formulate advice on questions of policy whose answers lie beyond the reliable scientific knowledge of the profession” (Roth, Kagel JH, 1995, p. 22).

An important methodological advancement was Becker–DeGroot–Marschak method (BDM), named after their paper "Measuring Utility by a Single-Response Sequential Method" (Becker, Degroot & Marschak, 1964). The core of the method is an incentive-compatible procedure, which measures the probability for a subject to choose between a set of actions – for instance their willingness to pay. It utilizes the expected utility hypothesis, but overcomes its weakness that it is almost impossible to measure directly for a given subject. The Becker–DeGroot–Marschak (BDM) method is a stochastic model of choice behaviour, which predicts the probability for a certain choice. There are many variants of the BDM methodology today, but its main significance is its ability to analyse behavioural models where certain alternative choices are required – for instance whether a tax payer is willing to pay or to face an audit risk. During the 1970s, the experimental economics literature became increasingly distinct from experimental psychology (Roth, Kagel JH, 1995, p. 21). Moreover, the field developed further in that different researchers started to experiment with the same issues, but from different angles, in an attempt to verify each other’s hypotheses. The resultant outcome was the accumulation of specific, more repeatable and reliable, patterns in terms of the findings.

2.2.2 Different perspectives towards experiments

Torgler (2003) suggests reviewing the experiments from three different perspectives:
- From the traditional tax compliance topics such as threat of detection and punishment and the level of tax rates;
- The role of social factors, and
- The relevance of institutions.

2.2.2.1 Economic factors – detection, punishment and tax rates.

It could be argued that early tax compliance experiments were heavily influenced by the seminal theoretical analysis grounded in the ‘rational economic actor’ view of tax-payers of Allingham and Sandmo (1972). Starting from the appraisal of the connection between taxation and risk taking, the authors developed a theoretical model to evaluate the individual taxpayer’s decision on whether and to what extent to avoid taxes by deliberate underreporting. Using Neumann-Morgenstern axioms for behaviour under uncertainty and optimal taxation theory, Allingham and Sandmo approach the issue with underreporting from two perspectives. They call the first one the static model, where the
argument is the income and the variable is the decision to evade. The conclusion is that absolute risk aversion decreases with income. However, the model is limited with regard to predicting what is happening with the relative risk aversion. Allingham and Sandmo' dynamic model, in contrast, assumes that once an individual is discovered to evade for a period under investigation, she or he is then discovered for all proceeding periods as well. Hence, this would reflect their tax behaviour in ways that thereafter (post discovery of evasion), the individual would declare everything.

Two distinctive issues started to emerge from this ‘rational economic actor’ literature:

- The utility model (theory) would predict a lower level of reported income in comparison with experiments (Alm, 1998, p. 10). This created a rationale for exploration of new facts and variables without pre-existing theory.

- Kahneman and Tversky (1979) critiqued the dominating expected utility theory and developed an alternative model, which they called prospect theory. They demonstrate several classes of choice where the axioms of the utility theory were violated and hence it proved an inadequate descriptive model. The key new concepts, which the authors introduced, were certainty and isolation effects accordingly. The first one contributes to “risk aversion in choices involving sure gains and to risk seeking in choices involving sure losses”, while the latter “leads to inconsistent preferences when the same choice is presented in different forms” (Kahneman & Tversky, 1979, p. 263). The main advantage of the new model (prospect theory) is the ability to suggest decision outcome where the eventual probabilities are not explicitly given. As such, it could be argued that this is a higher-level explanatory model in comparison with expected utility theory. In practical terms, this means that “people are expected to exhibit more risk seeking in deciding whether to accept a fair gamble than in deciding whether to purchase a gamble for a fair price.” (p. 288). The prospect theory led to development of new lines of inquiry. Alm, McCllelland and Schutz (1992) argued that “tax compliance occurs because some individuals overweight the low probability of audit, although such overweighting is not universal”.

2.2.2.2 Social factors, norms and the general quality of a society

In addition to deterrence and economic factors, tax compliance is also dependent on social factors, norms and the general quality of a society. The level of tax compliance is obviously the main contributor to the share of any given shadow economy. Therefore an interesting example is provided by the following figure:
X-axis: overall social cohesion index, where 1 represents the highest value and 5 the lowest social cohesion.

Figure 3 Simple correlation between shadow economy size and overall index of social cohesion. 
Note: This figure is produced by L. Mishkov based on data from Schneider (2013) for the shadow economies’ sizes and data from Dragolov, Ignácz, Lorenz, Delhey and Boehnke (2013) for the overall index of social cohesion. It has been firstly used in Mishkov’s thesis (unpublished).

Some very intriguing results are presented in Figure 3. It embodies a simple correlation between the size of the shadow economy and the overall index of social cohesion (OISC). The correlation is developed based on data from Schneider (2013) and a very topical study by foundation Bertelsmann Stiftung (Dragolov et al., 2013). The authors developed a definition of social cohesion to measure the quality of society comprised of nine dimensions: “A focus on the common good manifests itself in the level of solidarity and helpfulness, people’s willingness to abide by social rules and the extent to which they participate in society” (p. 13). The nine dimensions are measured using 58 indicators and are sub-entities of 3 top level spheres: social relations, focus on the common good, and connectedness. Dragolov et al. (2013) conduct a comprehensive international study, which leads to the development of overall social cohesion indices for the EU and Western OECD countries.
For the analytical purpose of Figure 3, 27 EU countries with their social cohesion indices are selected to correlate with the data on their shadow economies. Dragolov et al. (2013) use a coloured ranking scheme in their work for each country, but for the purpose of building the functional analysis and graphical representation, this needed numerical codification. The X-axis shows the values of the overall social cohesion index, where 1 represents the highest value and 5 the lowest social cohesion. The values on the X-axis are in inverted order – the higher the number, the lower the value. The 0 and 5.5 values are outside of the used measurement (which is 1 to 5) and have only an illustrative role. The following comments and conclusions can be made:

- In general, there is significant correlation between the social cohesion index and the size of the shadow economy at the cross-national level.
- As a general trend, a higher social cohesion index correlates positively with smaller undeclared economies. However, there are countries with a higher social cohesion index which have larger undeclared economies than others with a lower social cohesion index (for instance Sweden and United Kingdom).

These results outline some contemporary research questions about the connection between the size of the undeclared economy and the quality of those societies measured by their OISC. Two major areas of future research could be drafted:

- Why and how a lower OISC of a society leads to a larger undeclared economy and lower level of tax compliance? What are the social factors determining such trends and how could they be managed (if at all possible)?
- Why and how certain societies still have a higher level of tax compliance, although their OISC indices are relatively smaller than others? This is contrary to the observed general correlation.

The proposed experiment is designed in a way to evaluate multiple effects of how participants deal with beneficial and non-beneficial fiscal inequity in a varying policy environment under their direct control. Different experiment functionalities will test how the community (between experiment subjects) is feeling about tax morale and how this affects relevant compliance levels. It would be possible to see how the different groups react to simulated enforcement systems and in what direction they wish to change them. Furthermore, what is the effect of dissimilar social norms (in three different cultural contexts) and how they influence individual-reporting decisions.

Alm et al (1999, p. 141) argue from a tax compliance perspective that the “individual chooses how to behave based in part on his or her perceptions of how others will behave and how others will judge his or her actions.” This is where the social norms start to affect individual reporting decisions. An indirect representation of this phenomenon is the fact that some countries with less strict tax enforcement systems have generally much higher compliance levels than others with more punitive systems. Various reasons could be responsible for such differences, some of which are the different social norms, redistribution of public goods, level of social cohesion and procedural fairness. Alm et al (1999) argue and display empirically via an experiment that the social norm of tax compliance is affected by the ability to vote on different aspects of fiscal systems, along with the behaviour of
government institutions. A group of test subjects participate in a scenario where they pay taxes on voluntary reported income. In this experiment, participants start by facing a given level of the tax rate, the fine rate and the audit rate. The parameters were selected to approximate to the actual levels either faced or perceived by taxpayers. After several rounds, the participants then vote via majority rule using secret ballots on various aspects of the fiscal system they confront, where the vote is only two alternative levels of a single parameter (e.g., the tax rate, the audit rate, the fine rate). The participants then confront the fiscal system selected by the group vote for several subsequent rounds.” (Alm et al., 1999, p. 143).

The results indicate that the social norm of tax compliance is highly correlated with the ability of the tax payers to influence the level of enforcement by their vote. The test group’s decision to reject increased enforcement increases the individual tendency to evade taxes, so that the individual noncompliance level finds rationale in the revealed actions of others in their voting. The findings could be interpreted in many ways, but a relevant conclusion could be drawn for the project countries in question (Bulgarian, Croatia, Macedonia):

- Taking into consideration their higher level of tax noncompliance (in comparison with the EU) it could be argued that the current social norms of compliance in these countries are relatively low. Put another way, tax payers consider their evasive practices more as a socially accepted norm to which they are more likely to adhere. One of the contributing factors is the will of the individual tax payer to equalise their status to the average norm of accepted evasion. It is a compensatory behavioural mechanism.

- Potential ability to influence (by vote or somehow alternatively) tax enforcement policy, distribution of public goods, tax, fine and audit rates, may increase the compliance solidarity in these countries’ societies. Such a policy environment may serve as catalytic medium for an increased level of social cohesion and higher level of voluntary compliance and self-regulation.

It is now well understood that rewards/bribes work better than deterrence (i.e., positive reinforcement rather than negative reinforcement) in engendering compliance. Coricelli, Rusconi and Villeval (2014) evaluate this experimentally in a tax-game through two types of shaming – negative and positive. The first type being stigmatization of the offender and favours his exclusion from the community and the latter shaming that is followed by forgiveness and reintegration of the tax offender. The results display that after cheating is made public and the infringer is not successfully reintegrated, their level of evasions significantly increases compared with when one has public exposure followed by reintegration. Obviously, such psychological and procedural compliance methods could prove beneficial from policy perspective. This leads us logically to considering how the coercive and legitimate powers of tax authorities affect motivations to comply and perceived institutional service climate. Legitimate power is a term borrowed from social phycology (Raven, Schwarzwald & Koslowsky, 1998). In the context of tax compliance, it is the capacity of the tax office to influence and associate the target audience with its values and beliefs. Meanwhile, coercive power is the capability of the tax office to exercise its enforcement functions. Hofmann, Kirchler, Gangl and Stark (2014) appraise how both these powers (coercive and legitimate) affect tax compliance. Their experimental study is implemented with a convenience sample of 261 taxpayers. Hofmann et al. (2014) discover that coercive power and legitimate power affect intended compliance if applied
separately, but if applied simultaneously, it is solely legitimate power which positively affects tax compliance. As Hofmann et al. (2014, p. 308) note, this means that “Legitimate power and coercive power in combination might be perceived as legitimate expert power, inducing trust by creating the impression exploitative free riders will be penalized expertly while supporting honest taxpayers in order to elicit the highest intended tax compliance.”

2.2.2.3 Perceived fairness of a taxpayers’ exchange with the government and the adequacy of institutions

The perceived fairness of a taxpayer’s exchange with the government is a concept as old as the existence of taxation. It is ultimately one of the fundamental components of contemporary fiscal systems. Spicer and Becker (1980) are amongst the early researchers who have analysed the connection between fiscal inequity and tax evasion in an experimental manner. The reason to pursue an alternative methodology was their belief that although surveys had confirmed the existence of positive correlation between fiscal inequity and tax evasion (Song & Yarbrough, 1978) they still did not allow one “to infer unambiguously the causal relationship between inequity and tax evasion” (p. 171). Spicer and Becker hypothesized that the amount of tax evasion will increase for victims of fiscal inequity but decrease for beneficiaries of fiscal inequity, which was indeed confirmed by their experiment.

It could be assumed that for Bulgaria, the extremely low social cohesion index in combination with the obvious fiscal inequity drives significant interrelated tax evasion, which is widespread and uncontrollable with the traditional deterrence methods. Taking into account that the socio-economic profiles of the three project countries (Bulgaria, Croatia, and Macedonia) are relatively similar, it is recommended to further explore this correlation experimentally. A distinctive research narrative for evaluation of public good redistribution and its effect on tax evasion emerges as Alm (1998) reports. Tax compliance is confirmed to be a positive non-linear function of the presence of a public good financed by voluntary tax. The suggested experiment has an artificial mechanism, which simulates public goods redistribution to evaluate compliance as a function of the participants’ ability to have a say.

2.2.3 Limits and possibilities of tax compliance experiments

One of the main issues with experiments is the artificiality of the laboratory environment and the developed scenario. This makes the generalisation of findings and their extrapolation to the real world difficult and questionable. Spicer and Thomas (1982) are amongst the early researchers to recognise this specific weakness. However, Andreoni et al. (1998), in their detailed multi-method review, argue that theoretical models of non-compliance usually have the issue of over prediction. Given this reason and the difficulties in obtaining reliable third-party information about tax compliance behaviour, many researchers depend on acquiring their own experimental data.

Cummings, Martinez-Vazquez and McKee (2001) conducted an experimental study in the United States, South Africa and Botswana. They argue that the advantage of laboratory experiments in cross-cultural application is their capability to fix various tax characteristics as constants (such as tax,
enforcement effort, income levels). “Thus, the laboratory allows isolation of the cultural effects as a factor in tax evasion/compliance” (p. 7). A slightly different approach would be recommended for the purpose of the project. The main characteristics of the experiment will be the same for each country. However experiment participants will have the right to vary their parameters with the vote system according to their specific preferences as nationals of the given studied countries. This approach will allow for automatic accommodation of some local peculiarities into the experiment scenario and thus expose the participants’ behavioural logic in a purer form.

The UK Cabinet Office Behavioural Insights Team (2012) used randomised controlled trials (RCTs) with the help of government departments to evaluate various possible interventions. The finding was “that even relatively minor changes to processes, forms and language can have a significant, positive impact on behaviour, and can often save the public time and money too” (Office C, p. 21). The authors of the research achieved two types of impact – firstly they have made a contribution to behavioural theory and in particular how it could be used to tackle fraud, error and debt. Secondly, the application of RCTs proved viable in terms of proving what savings could be made if deployed at national level. The proposed three fold methodology “Test, learn, adapt” consists of:

- testing concepts and behavioural effects previously evaluated in academic research
- learning what the effect is on the trial groups
- adapting any possible interventions to the context and setting.

The approach allowed significant financial savings. It is the intention of the proposed experiment to follow the philosophy of this method in the first two phases. It will be then possible to make informed policy recommendations.

2.3 Recommendations for the form of focus groups experiments

For the purpose of conducting experiments with policy beneficiaries in three different countries, it is viable to follow Torgler’s cultural narrative – to isolate cultural effects of conducting the same experiments in various countries. Such an approach has specific methodological advantages. If one considers the alternative strategy of adjusting the experiments to account for cultural differences, this would be a very difficult task. Instead of exposing these differences and their relevant effects on tax compliance behaviour, there is a higher risk of masking them via misalignment of the design. Torgler (2003, p. 23) argued that “most experiments have focused on the effect of horizontal equity, without analysing the perceived fairness of a taxpayer’s exchange with the government.” The term of horizontal equity is connected with the utility of tax from the tax payer’s perspective, or how much tax they consider fair to pay as a proportion of their income, whereas vertical equity would be the provision of public good in exchange for the paid taxes. This is an important distinguisher, which connects very well with the procedural fairness and redistributive justice concepts discussed by Williams (2014, p. 26).

It could be argued that in the three surveyed countries, the appreciation of procedural fairness by the tax payers is lower compared with countries with correspondingly higher rates of tax compliance. Consequently, it is a justifiable strategy to include experiment instruments through which participants could influence procedural fairness. In addition, the experiment should incorporate features to control the perceived exchange between the policy takers (tax payers) and the
institutional framework or the way they see and influence what public good is created with their tax contributions. Furthermore, what is the level of correlation between tax compliance behaviour in function with the expected or acquired government service/s. Alm et al. (1992) conduct a role playing laboratory experiment, which provides a rationale for further similar inquiries. They discovered that individuals pay taxes because they value the public goods that their taxes finance. The experimental operationalization of such a course of investigation could be to explore the level of compliance for tax payers who have the right to determine how their taxes will be spent. Rather than testing various policy approaches and measures, the recommendation is to test a major shift in policy attitude instead. The suggested experiment is carefully designed to act as a testing framework for that purpose. It is recommended to have three rounds of the same experiment with three control groups in each country. Each control group will have 3 experiment rounds, which means 9 rounds in total (3 groups x 3 game rounds each). The main characteristics of the experiment are informed by contemporary literature trends and should be the following:

1. A cross-country experiment with triple replication in each country.
2. Insensitivity to the cultural differences in each national setting – same experimental setting.
3. Beneficial and non-beneficial fiscal inequity embedded into the scenario.
4. Voting capability, so that experiment subjects could influence re-distribution of public goods in addition to tax, audit and fine rates.
5. Sufficiently short and not over complicated design, so that participants could easily understand it.

The proposed experiment provides embedded social/fiscal inequity. While this is clearly advertised to all participants (see the experiment design), there are implanted capabilities with which the remaining experiment participants could respond to the social/fiscal inequity. The ability to vote on changes of the tax, audit and fine rates enable all members of the simulation to counteract to the embedded unfairness as well as to experience fairer communication with the government.

The concept of the perceived fair exchange with the government (public goods in return for tax) is represented by the ability of participants to vote for partial reimbursement of paid tax. This design characteristic is provided to simulate tax payers who can influence how their tax should be spent. It is only compliant tax payers who are allowed to vote on these matters. Those who are fined for tax evasion are not allowed to vote. Therefore, the experiment incorporates implicitly a shaming mechanism where game participants see who is eligible to vote and who is not. Not all evaders are discovered and fined during the game, so it might be the case that underreporting tax payers are also qualified to vote. It is intentionally planned to be so in order to mimic a possible real world setting. This specific game feature supports and cultivates tax morale amongst the game players while at the same time discourage and punish evasive practices.

Analysis of the potential findings in this experimental aspect would allow for theorisation about the role of extrinsic and intrinsic motivations for tax compliance as Dwenger, Kleven, Rasul and Rincke (2014) argue. It is also valuable to observe the social recognition of tax behaviour in the group and what effects it has on game members’ behaviour. Frey and Torgler (2007) investigated a strong positive correlation between institutional quality and tax morale. Their concept of conditional cooperation “the more other taxpayers are perceived to be honest, the more willing individuals are
to pay their own taxes” (p. 137), could be appraised through that part of the experiment. It could be interesting to compare experiment results with what survey data indicated.

The proposed reward for the top two game performers in the form of restaurant vouchers is designed to ensure higher concentration from the participants and motivate them to win in the controlled game (play the game to the rules in exchange of a tangible reward). It is considered to be an acceptable incentive, which would increase the validity of the findings. In order to win the game, experiment subjects will need to carefully decide what tax strategy to employ simultaneously with their varying level of compliance, the associated danger of tax audits and fines. All experiment characteristics are developed as an attempt to artificially recreate the bidirectional financial stimuli to be compliant or not. The design of the experiment is such as to enable theorisation about developing responsive regulation as discussed by Williams (2014, p. 29). It is expected that the experimental data will provide insights into how various policy instruments could be used to influence compliance levels through exploiting tax morale, social equity (horizontal and vertical), utility theory, redistributive justice, procedural fairness.

2.4 Practical implementation plan

Based on contemporary trends from the literature, the following experiment scenario and practical implementation plan is proposed. Functionally, the successful implementation of the experiment requires at least one moderator and one assistant-moderator. Ideally there should be one moderator and two assistant moderators. The rationale for this is the amount of analytical and processing tasks during the experiment such as distribution of the required sheets, analysis of votes, filling the right details into the participants’ main sheets, activities of the Tax Office. Failing to fulfil these tasks correctly and in sufficiently short time to provide a level of game smoothness, may affect the overall quality of the experiment results.

1. The experiment moderator will be the main communicator with the experiment group. They will be responsible to communicate the game scenario, rules and responsibilities to the participants. Furthermore, to monitor that the experiment is being conducted exactly according to the rules and scenario.

2. The first assistant-moderator will be responsible for activities such as distributing and collecting participants’ sheets and entering relevant details during the game. Analysis of voting results together with the moderator and the other assistant moderator.

3. The second assistant moderator will be responsible for playing the Tax Office. That will include collection of tax payments, conduction of audits, imposing fines and distribution of rewards where applicable.

2.4.1 Scenario of the experiment

Dear Participant,
You are being invited to be included in a tax game (simulation), which is part of a research project. We would like to introduce you to the game scenario and kindly request your support. You will be given the following templates required for the game:

1. General instructions and scenario sheet – this is the document you are currently reading (this document).
2. Main personalised sheet of paper for each participant.
3. 3 sheets of paper to report income to the Tax Office – one for each round of the game.
4. 2 voting sheets – vote for change in tax, audit and fine rates.

### 2.4.2 Game profile and rules

1. This Game will have two winners who will be awarded with restaurant vouchers (40EUR per winner) for a well-known restaurant chain.

2. The two winners will be those participants who at the end of the game have the highest game balance – the highest amount of game money accumulated.

3. For the purpose of the game you are assigned a participant number at the very beginning. Please make sure that you always write on sheets with your relevant participant number, which will not change.

4. Artificial game money will be used to aid the purpose of the game. The money will be called EUR. You will be given 550EUR of game money at the start, from which you are expected to pay your income tax to the Tax Office after each game round. This amount is more than enough to pay all your taxes if you always report 100% of your income.

5. It may happen that you run out of money due to your personal game strategy and potentially paying any imposed fines. In such circumstances you will be still in the game with accumulation of debt, which will be recorded on your main participant sheet.

6. You are a regular tax payer who is a citizen of (Bulgaria, Croatia or Macedonia). You receive monthly income of 600 EUR and pay taxes on your voluntarily reported income – you chose what proportion of your income to declare to the Tax Office.

7. There will be 3 game rounds. The tax rate for the purpose of the game is set to be 20% in the first game round, audit rate 20% or a minimum of one audit and the fine rate 150% of the underreported income. This will change for the other two rounds according to your votes.

8. The Tax Office does not know how much your income is, but they can find out during a tax audit at any point in time during the game.

9. To replicate the existence of inequality in the society each participant will be given the chance to draw a lottery at the very beginning, so that they could acquire a special ticket entitled: “I have connections and can reject a tax audit.” Only some of you will be “lucky” to acquire the right to
reject a tax audit during the game. The lucky participants should clearly display their ticket for the duration of the game on their dedicated desk area, so that all other participants know who they are.

10. Those participants who have not been fined due to tax evasion (in game terms) will have the right to vote what proportion of their paid taxes to be reimbursed by the Tax Office. Reimbursements will be distributed only to compliant game members. Participants who have been fined do not have a right to vote.

2.4.3 Game Strategy – from participants’ perspective

1. Please remember that there are multiple possible strategies, so that you could finish with better result than the other participants.

   ➢ Underreporting your income to the Tax Office will make you pay less taxes (keep more game money), but will expose you to a risk of being fined if audited and lose game money to pay the fine(s).

   ➢ Participants without lucky tickets (allowing them to reject Tax Audits) may want to vote for higher audit rate to neutralise the effect of game/social inequity. The supporters of a higher audit rate will need to be more compliant or otherwise face the high risk of a fine as a consequence of a tax audit.

   ➢ Depending on your chosen game strategy you may want to vote for higher/lower tax, audit and fine rates. This will affect the game development and your personal result positively or negatively.

2. In order to win the game, you need to be one of the top two participants with the best results (highest amount of game money at the end).

2.4.4 Game Round 1

This is the beginning of the game.

1. You are invited to draw the lottery with the lucky tickets “I have connections and can reject a tax audit.” You can spend your ticket against an audit, if you so wish. Please display your lucky ticket (if drawn) in front of you for the duration of the game, so that all other participants could see it.

2. The game moderator will ask each participant to report their income for taxation purposes in writing. You decide what proportion of your income to report from 0% to 100%. According to the law you should always report 100%.
Please report your income on the provided sheet of paper entitled “Game Round 1” with your participant number on it.

Please, provide your sheet of paper to the game assistant-moderator.

You will be called to pay your income tax to the Tax Office, which will be located on a nearby desk. At this stage the game organisers will compare what income you have declared and how much tax you owe. You will then pay the amount due from your game money to the Tax Office. Remember that the Tax Office does not know your monthly income until after and if they conduct an audit.

3. There is a probability of minimum 20% (1 in 5) for a tax audit to find out whether you have reported your true income and paid the right amount of tax accordingly. During each game round at least one participant will be audited and this will be decided through a random lottery selection in front of all participants. Via the audit the Tax Office will find out whether you have reported your true income or not. Two possible outcomes from an audit will emerge:

- Option 1: You have reported the true amount of income (100%) to the Tax Office. You will be rewarded with 50 EUR of game money for being fully compliant.

- Option 2: You have not reported the true amount of income to the Tax Office, which means that you have evaded taxes. You will be fined proportionally – the bigger part of your income unreported the bigger the fine would be. The fine is 150% of the underreported income. For instance, you have reported only one third or 200EUR from your true income to the Tax Office. You will be fined with 300EUR = 200EUR x 150%.

4. Participants, who have not been fined, are eligible to vote and receive part of their paid tax back. Please indicate your preference (if you qualify) on the voting sheet and provide it to the assistant moderator. Based on the most popular choice, the Tax Office will reimburse a proportion of the paid taxes and that information will be advertised to all participants. This is how the voting sheet looks like:

<table>
<thead>
<tr>
<th>Participant No.</th>
<th>I vote that all participants who have not been fined should receive back:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0% of their tax payment</td>
</tr>
<tr>
<td></td>
<td>10% of their tax payment</td>
</tr>
<tr>
<td></td>
<td>20% of their tax payment</td>
</tr>
</tbody>
</table>

2.4.5 Game Round 2.

1. During Game Round 1 the tax rate was determined to be 20% and the probability for a tax audit to be 20% as well. The fine rate was 150% of any underreported income. Now all participants have to vote secretly what changes do they prefer for Game Round 2.
<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>Tax Audit Rate</th>
<th>Fine Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease to 10%</td>
<td>Only one participant will be audited.</td>
<td>Decrease to 50%</td>
</tr>
<tr>
<td>Decrease to 15%</td>
<td>No change.</td>
<td>Decrease to 100%</td>
</tr>
<tr>
<td>No change – 20%</td>
<td>Two participants will be audited.</td>
<td>No change – 150%</td>
</tr>
<tr>
<td>Increase to 25%</td>
<td>Three participants will be audited</td>
<td>Increase to 200%</td>
</tr>
<tr>
<td>Increase to 30%</td>
<td>All participants will be audited.</td>
<td>Increase to 300%</td>
</tr>
</tbody>
</table>

2. Please fill in the voting sheets with your participants numbers on it and submit them to the assistant-moderator. Your votes will be quickly analysed.

3. The game moderator together with their assistants will make the changes to tax, audit and fine rates. The tax, audit and fine rates will be adjusted according to the most popular choices and advertised openly to all participants.

4. The steps from Game Round 1 will be repeated with the enforcement of the new rates (tax, audit and fines)

   - You are being asked to report your income to the Tax Office for a second time. You may report a proportion of your income (0%-100%) according to your preferences.

   - A tax audit may be implemented with the updated probability rate. Those who are found to be fully compliant will be rewarded as in Game Round 1 and those who are found to evade taxes will be fined accordingly to the newly established fine rates.

5. Participants, who have not been fined, could now vote again to receive part of their paid tax back. Please indicate your preference on the voting sheet and provide it to the assistant moderator. Based on the most popular choice, the Tax Office will reimburse a proportion of the paid taxes and advertise the relevant information to all participants.

2.4.6 Game Round 3

1. Please vote secretly on the provided voting sheets what rates would you prefer for the final game round. You may fill in the voting sheets with your participant’s numbers on it and submit them to the assistant-moderator. Your votes will be quickly analysed.

Just an example of the voting sheet with which you will be provided:

<table>
<thead>
<tr>
<th>Participant No.</th>
<th>Tax Rate</th>
<th>Tax Audit Rate</th>
<th>Fine Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease to 10%</td>
<td>Only one participant will be audited.</td>
<td>Decrease to 50%</td>
<td></td>
</tr>
<tr>
<td>Decrease to 15%</td>
<td>No change.</td>
<td>Decrease to 100%</td>
<td></td>
</tr>
<tr>
<td>No change</td>
<td>Two participants will be audited.</td>
<td>No change – 150%</td>
<td></td>
</tr>
<tr>
<td>Increase to 25%</td>
<td>Three participants will be audited</td>
<td>Increase to 200%</td>
<td></td>
</tr>
</tbody>
</table>
2. The game moderator together with their assistant will make the changes to tax, audit and fine rates. The tax, audit and fine rates will be adjusted according to the most popular choices and advertised openly to all participants.

3. The steps from Game Round 1 will be repeated with the enforcement of the new rates (tax, audit and fines).

   ➢ You are being asked to report your income to the Tax Office. You may report a proportion of your income (0%-100%) according to your preferences.

   ➢ A tax audit may be implemented with the updated probability rate. Those who are found to be fully compliant will be rewarded with 50EUR and those who are found to evade taxes will be fined accordingly to the newly established rates.

4. Participants, who have not been fined, could now vote to receive part of their paid tax back. Please indicate your preference on the voting sheet and provide it to the assistant moderator. Based on the most popular choice, the Tax Office will reimburse a proportion of the paid taxes and advertise the relevant information to all participants.

5. Your remaining game money will need to be counted and recorded on your main participant sheets. This will be done with the help of the game moderator and their assistants.

   ➢ Consequentially, the top two participants (with the highest amount of game money left) will be the winners.

   ➢ If there are more than two participants with equal game money additional game rounds will be run for them under the same rules, while only two are elected.

   This is the End of the Game
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