MODERATING EFFECTS OF INSTITUTIONAL LOGICS

ON STRATEGIC RESPONSE TO COERCIVE

INSTITUTIONAL CHANGE

by

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Abstract

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Using institutional theory, the study examines the relationship between compliance behaviors and attitudes of small business owners and managers toward external coercive institutional change pressures. Organizations can experience conflicting institutional pressures (Pache & Santos, 2010). Variation in change pressures suggest heterogeneous impacts from institutional demands for change (e.g. Herremans, Herschovis, & Bertels, 2009). This study traces Internal Revenue Service regulatory, normative and cognitive-cultural changes targeting the tax preparation industry and examines the relationship between owner/manager attitudes about the changes and their compliance behaviors. Additionally, this study traces the historical development of commercial and professional institutional logics in tax preparation and further examines the moderating effect of the two logics on the attitude – compliance relationship.

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Chapter 1

INTRODUCTION

In April 1972, in a speech before the National Association of Broadcasters, United States Treasury Secretary John Connally stated that a survey in the southeastern United States found that 97 percent of tax returns prepared by persons other than the taxpayer were "fraudulent"… (Simonetti Jr, 1972). A few days later, the Internal Revenues Service Commissioner, Johnnie Walters, issued a correction stating that the tax preparers referred to by Secretary Connally were already under suspicion of preparing fraudulent returns. However, Connally's speech was already widely reported in the media and later that month it became the backdrop for congressional hearings to investigate tax preparer fraud. Also at that time, John Monagan, chairperson of the Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations, drafted a bill to require the Internal Revenue Service (IRS) to formulate regulations governing tax return preparers. But, after the hearings, no action was taken on the bill. Over forty years have passed since the Monagan hearings. Congress and the IRS have held several hearings to discuss tax preparer fraud, preparer qualifications and conflicts of interest in the field. Proposals have been drafted and steps taken, yet, there exists no comprehensive regulatory oversight of tax return preparers.

The population of tax return preparers in the United States can be likened to the population as a whole. Preparers comprise a broad array of individuals and organizations from attorneys and CPAs who perform services for taxpayers year round, to blue collar workers and stay at home moms who earn additional money preparing returns during the "tax season." Any regulatory scheme that attempts to oversee this level of diversity is vigorously debated. In the case of tax return preparers, regulatory initiatives represent the 'perfect storm' of institutional conflicts pitting state logics against commercial and professional core logics (Friedland & Alford, 1991).

This study addresses the primary question, why and under what conditions do organizations in a field respond differently to institutional change pressures? The study examines the on-going attempt by the IRS to devise regulations that apply to the population of tax preparers. The attempt to regulate the organizational field can be conceived of as an institutional struggle by the IRS to act in accord with the core logic of the state, i.e. to rationalize and regulate human activity by legal and bureaucratic means (Friedland & Alford, 1991).

1.1 Overview

In the United States the service industry that provides tax preparation is just over one hundred years old. Participants in the burgeoning industry crafted routines, negotiated stakeholder relationships, created identity and built legitimacy. As the industry matured, institutional forces influenced the patterns of organizational structures and the strength and formality of stakeholder relationships. The Internal Revenue Service is a key stakeholder for the field. Movements seeking to change the stakeholder relationship threaten to disrupt its formal and taken for granted nature (Zucker, 1977). The nature and extent of disruption among industry players may threaten organizational legitimacy. The belief systems that make up the institutional logics of industry players encode the criteria for legitimacy, shaping understandings of what conditions are problematic and what practices represent solutions (Green Jr, Yuan, & Nohria, 2009). Thus, the legitimacy threat faced by industry actors may vary according to the institutional logics of players at the organizational level.

In this study, I seek to test theory related to proposed relationships between the direct impact of owner/manager attitudes stemming from coercive institutional change processes (DiMaggio & Powell, 1983) occurring in the regulatory, normative and cultural-cognitive environments (Scott, 2003), and strategic responses (Oliver, 1991) to those changes. Organizations in environments undergoing institutional change can experience conflicting institutional pressures (Pache & Santos, 2010), and variations that exist among organizations across an industry suggest heterogeneous impacts from institutional demands for change (e.g. Herremans et al., 2009). I propose that the direct effects between owner/manager attitudes from institutional change processes and the strategic responses to change processes are moderated by the institutional logics (Friedland & Alford, 1991; Thornton, Ocasio, & Lounsbury, 2012) of the organizations in the field. I further propose that the direct effects are also moderated by prior institutional change experience (e.g. Thornton & Ocasio, 1999).

The tax preparer industry can be characterized as a fragmented field, made up of uncoordinated organizations on which field members depend for resources (Meyer, Scott, & Strang, 1987). Conflicting institutional demands regarding what constitutes legitimated behavior by field members (e.g. Deephouse, 1996) are more likely in fragmented fields (Pache & Santos, 2010). Fragmentation increases the likelihood that powerful actors may compete to centralize the field. Centralization is a function of the presence of actors in resource dependent relationships that have the ability to enforce their demands with coercive power--for example, regulating authorities (Pache & Santos, 2010).

Pache & Santos (2010) propose that a centralized field relies on one formalized and recognized constituent whereas a decentralized field is poorly formalized. Organizations in a poorly formalized field are absent the presence of dominant actors who are able to monitor and enforce constraints on behaviors. Without constraints, incompatibilities in institutionalized expectations can be ignored or challenged. The referent organizations exerting these expectations have little enforcement ability. By contrast, a centralized field has central actors with sufficient legitimacy and authority to resolve incompatibilities by providing “coherent demands on organizations” (Pache & Santos, 2010).

Pache and Santos (2010) also propose that the most difficult organizational environment is moderate centralization. Moderate centralization offers no dominant player but, instead, there exists multiple mis-aligned players comprising competing influences.

States maintain a core logic of “rationalization and regulation of human activity by legal and bureaucratic hierarchies” (Friedland & Alford, 1991). This logic drives the state toward centralization of the field by putting in place the mechanisms to uncover and resolve institutional inconsistencies. In the case of the IRS, the centralizing mechanisms implemented encompass regulatory, normative and cultural-cognitive institutional dimensions (Scott, 2014). These mechanisms present institutional demands that conflict with existing norms of practice and cognitive conceptions revolving around the taken for granted relationships between the IRS, the taxpayer and the tax preparer.

Not all organizations in a field experience conflicting institutional demands in similar ways; “field level institutional processes are filtered and enacted in different ways by different organizations” (Pache & Santos, 2010). Pache and Santos (2010) suggest that institutional demands permeate organizational boundaries in two ways, externally and internally. External actors include: regulators, professional associations, funding sources and customers. Internal sources are those that permeate through the education, experience and the backgrounds of new employee hires and board members (e.g Herremans et al., 2009; Lounsbury, 2001). This further suggests that the impacts of the coercive changes on organizational strategies are not homogeneous.

This study proposes that the tax preparer community is comprised of members with varying institutional logics. The impacts of centralizing processes of IRS changes may threaten actor legitimacy. Legitimacy threat may be manifest in the attitudes of the owner-managers of tax preparer organizations. The favorability of these attitudes may signal strategic intentions regarding organizational practices. Further, the attitude – practice relationships may be moderated by the institutional logics of the tax preparer organizations and by the prior institutional change experience of the preparer organizations.

1.2 Study Setting

The United States has collected taxes from its citizens based on the amount of an individual’s annual income for over one hundred years. From the beginning, individuals and organizations have assisted taxpayers in planning for and complying with their annual income tax obligation. The industry that grew from this service had estimated annual U.S. sales of $10bn in 2013 with an annual growth rate of 1.3% from 2009 – 2014 (Edwards, 2014). Professional tax services are involved in preparing, either through direct tax preparation or through software based assistance, eighty three percent of all individual income tax returns filed in the United States (IRS, 2014a).

The IRS is a key stakeholder of this industry. As a stakeholder, the IRS provides operational resources such as tax forms, instructive publications and tax filing conduits. It also exercises regulatory power by promulgating rules and regulations, stipulating sanction provisions and providing dispute resolution mechanisms. Regulatory mechanisms are on-going points of contact with industry players. Maintaining connections to IRS resources is vital to the organizational field's continued legitimacy.

Through a lookback approach, I examine the stakeholder relationships between the IRS and the tax preparer community. I show that over the last two decades the IRS reframed its regulatory posture in an institutional change initiative that repositioned its formal and informal relationships with tax preparers as it implemented what is known as the "return preparer initiative" (Congressional_Quarterly_Inc, 2011). Study of prepared statements and contemporaneous transcripts of congressional hearings, transcripts of IRS public forums and media articles spanning the timeframe of the IRS' institutional change initiative reveals expanded emphasis by the IRS on tax preparer responsibilities for taxpayer compliance with tax obligations. I propose that these changes encompass the three institutional pillars (Scott, 2003) consisting of shared conceptions comprising cultural-cognitive elements, the creation of expectations and obligatory dimensions making up normative elements and formal regulatory changes comprising rules enforced by sanctions.

In this study, I also trace the historic evolution of the tax preparer industry, its growth, and the development of distinctive institutional logics. I propose that separate institutional logics in the field of tax return preparation have their source in congressional actions, business model innovation, changes in IRS mission and technological innovations. Uncovering the historical roots of these institutional logics informs the identification of institutional logics in current practice.

1.3 Purpose of Study

This research is intended to extend the study of institutional change by examining the varied strategic responses of organizations in a field that is the target of a coercive institutional change effort from a legitimated external stakeholder. Additionally, it is hoped that this work will contribute to the study of institutional logics and their impacts on beliefs and rules which structure cognition and guide decision making (Lounsbury, 2007). The existence of identifiable institutional logics across an organizational field should give rise to understanding strategic responses to institutional change.

This project seeks to add to the body of institutional research directed toward the assumption of historical contingency of institutional logics (Thornton & Ocasio, 2008). The historical contingency assumption considers the influence of larger institutions on organizational behavior. In this project, I examine the influence of prior industry level coercive institutional change on strategic responses to current change. Additionally, it is hoped that this research will provide insight into how logics are transformed at the practice level.

1.4 Study Outline

Following this introductory chapter, the dissertation is arranged as follows. Chapter 2 provides a review of relevant literature outlining institutional theory and institutional logics that form the theoretical foundation for the current study. The context for the study is provided in Chapter 3 through a brief history of the IRS, the emergence of tax preparation services and the formation of competing institutional logics. Chapter 4 presents the theory and hypotheses. Chapter 5 provides the study method and Chapter 6 provides the results and conclusions.

Chapter 2

LITERATURE REVIEW

This chapter presents background for the current study by examining the existing work in theory development and prior research. It also provides a brief description of institutional theory across early work in organization studies and on to more recent perspectives on institutional change, the carriers of change, and institutional logics. This review provides the backdrop for the question of why organizations respond differently to conflicting institutional demands in a coercive institutional change environment.

2.1 Institutional Theory

Organizations often choose actions that cannot be explained by references to norms of economic rationality. Institutional theory offers an alternative perspective that enables predictions of actor behaviors that fail economic logics (Suddaby, 2010). The theory examines the attachment of meanings or symbols to elements of the institutional environment that patterns roles and actions of individuals, activities of organizations and movements in society in the construction, perpetuation and change of social structures (Friedland, 2012; Thornton et al., 2012 pg. 343). There is general agreement among institutional theorists that to speak of institution is to refer to a persistent social arrangement (Hughes, 1936), but beyond that common element, institutional theory takes different courses (DeJordy, 2010). Institutional theory today stands on two centuries of theory building and research in the disciplines of political science, economics, sociology and, in a more recent timeframe, the social/cultural arena of organizations and their environments.

The strands of institutional theory in organization studies wrestle with competing notions of structure and action (Sewell, 1992). The concept of structure has a dual character. First, it is made up of cultural rules or schemas and, second, it is made up of resources that are capable of extension to a range of circumstances across multiple contexts (Sewell, 1992). Structure is phenomenological, i.e. a focus on the observable, that is an orientation that lends itself to environmental explanations of occurrences and viewed at high levels of abstraction (DiMaggio &

Powell, 1983). In contrast, notions of action stress the capacity of people and organizations to construct and intentionally enact their environments, infusing them with values and norms (Hirsch & Lounsbury, 1997).

The struggle among institutional theorists, defining the boundaries between structure and action, framed the debate that lead to two schools of institutional theory. For early institutional theorists, the role of agents is woven into the narrative of creating and perpetuating institutions while new institutional theory eschews the role of the actor and gives primacy to structure.

2.1.1 Early Institutional Theory

Early institutional theorists view formal structures as instruments for goal achievement and structural expressions of rational action (Selznick, 1948, 1949, 1957). But, unlike rational action models, early institution theory recognizes that the organization is an adaptive social structure that is institutionalized in response to social pressures in the environment. The environment influences actions through leaders who act as a whole person with responses and actions from their "extra-organizational roles" (Selznick, 1948).

The role of actors is recognized as purposeful in establishing and maintaining institutions (Selznick, 1948, 1957; Stinchcombe, 1997) such as labor unions (Lipset, Trow, & Coleman, 1956) and government agencies (Selznick, 1949). But, while rational action models suggest organizations maintain a strict instrumental utility, the official goals of the organization are transformed into a distinctive identity. Selznick (1957: 17) observes that institutionalization involves tasks that become imbued with social meaning and become "infused with value beyond the technical requirements of the task at hand."

Early institutional theorists focused attention on the institutionalization of the organization as a whole. Institutionalization is a process that takes place over time when the executive becomes a statesman as he makes the transition from administrative manager to institutional leader (Selznick, 1957). This view places the process of institutionalization as both a function of the organization and of its leadership. The institutionalization of the organization results from social environmental pressures but actors are key to the establishment and maintenance of institutions through a process of co-opting the environment and giving tasks social meanings outside of their instrumental utility.

2.1.2 Neo-institutional Theory

In a turn toward cognitive (symbolic) and cultural (societal) explanations (Powell & DiMaggio, 1991), an alternative approach to institutional analysis emerged. New or neo-institutionalism rejects the evaluation of actor agency, suggesting that the most appropriate analysis occurs in conditions where actors are unable to rationally act or unable to recognize their interests. It is steeped in the tradition of Durkheim's societal collectivism (Durkheim, 1950) which suggests that social relationships should be studied as "facts" with thing-like qualities.

Whereas early institutional theory views societal influences and actor agency as acting together, neo-institutionalism places society over agency, one acting on the other. Meyer and Rowen (1977) propose that "Institutionalization involves the processes by which social processes, obligations, or actualities come to take on a rule-like status in social thought and action." They term the primacy of societal influences over technical requirements as myths. Myths are arguments used to rationalize the selection of products, services, techniques, policies or programs for which a strict adherence to efficiency could argue against. "Organizations are driven to incorporate practices and procedures defined by prevailing rationalized concepts of organizational work and institutionalized in society" (Meyer & Rowan, 1977). These practices and concepts may be simply taken for granted or imposed by public opinion or important constituents. Adopting prevailing practices may be a form of ceremony or enforced by law such as through mandated product or service standards.

Neo-institutional theory emphasizes securing legitimacy rather than efficiency in explanations of firm survival. Legitimacy is the perception "that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995). Incorporating institutionalized concepts in highly elaborated institutional environments is the path to increased legitimacy. Because constituents are more likely to supply resources to organizations that appear desirable (Parsons, 1960), legitimacy acquisition increases access to needed resources and increases survival prospects even if doing so conflicts with efficiency criteria.

Legitimated organizations that incorporate practices and procedures defined by prevailing rationalized concepts become self-replicating (Suchman, 1995). For groups of organizations to attain legitimacy they must conform to the requirements of external environments; they must become isomorphic. Meyer and Rowan (1977) posit that the isomorphism of formal organizational structures results from the role modernization plays in rationalizing action through taken for granted institutionalized rules. By conforming, organizations are matched with their environment by structurally reflecting socially constructed reality (Berger & Luckmann, 1967). Zucker (1977, 1986) emphasizes cultural persistence and the taken for granted nature of institutions where, once established, institutions may persist even though they are collectively suboptimal.

DiMaggio and Powell (1983) elaborate on the concept of isomorphism at the organization level of analysis by proposing three isomorphic pressures: mimetic, normative and coercive. Mimetic isomorphism stresses actions based on uncertainty. In ambiguous environments, behaviors and structures may be patterned after behaviors and structures of others. Mimetic isomorphic pressures may stem from economization of search costs and bounded rationality (March and Simon, 1958).

Normative isomorphic pressures come from the professionalization of a field of endeavor. Members of a field are pressured, as a collective, to adopt and adhere to defined methods and conditions of their work. Sources of normative isomorphism can involve the creation of education and certification standards, formalization of member based networks such as professional associations, or pressures of a group where the benefits derived stem from constituent connections from the state of belonging and formal membership.

Coercive isomorphic pressures result from power exerted by legitimated institutions upon which the organization depends for resources. Compliance or non-compliance can alter power relations. Coercive pressures are experienced as force, persuasion or sanctions.

2.1.3 Institutional Pillars

In a typology similar to DiMaggio and Powell's (1983) three organization level isomorphic pressures, Scott (2003) presents an analytical framework comprised of three elements or institutional pillars: the regulative, normative and cultural-cognitive. Instead of emphasizing isomorphic effects of institutional pressures, Scott contends that the institutional environment is made up of these three dimensions.

Scott emphasizes that each pillar has distinct underlying assumptions, mechanisms and indicators. The regulative pillar of society influences behaviors with the capacity to codify rules, provide oversight, and enforce sanctions. Regulatory structures include the state, professional associations, and bureaucratic organizational structures (Kostova, 1997; Scott, 2014; Scott, 2003). The normative pillar refers to socially shared norms, values, and beliefs that influence behaviors through binding social obligations. Mechanisms include expectations, behavioral regulation, and moral governance (Kostova, 1997; Scott, 2014; Scott, 2003). The third pillar, the cultural-cognitive pillar, places behavioral influences in the taken-for-granted beliefs and shared conceptions involved in social sense-making. New institutional ideas are carried across social structures by symbols, relational linkages, routines, and material cultural artifacts (Kostova, 1997; Scott, 2014; Scott, 2003).

In this section I have provided a brief review of institutional theory as an introduction to institutional change. The next section examines institutional change--first, views on the sources of regulatory change and, secondly, the effects of change on strategic responses of the target organizations of regulatory change.

2.2 State Level Institutional Change

The focus of the proposed study is the question of how institutional change at one institutional level, the state, impacts another institutional level, an organizational group. In this section, I review the literature linking legitimacy seeking to institutional change at the state level.

Particularly challenging to scholars of institutional theory is explaining the sources, mechanisms and range of responses to institutional change. Neo-institutional theory, with its emphasis on isomorphic pressures, argues for convergence of organizations through adherence to taken-for-granted rules, norms, and routines. These pressures bear on groups and organizations in pursuits of gaining legitimacy (Friedland & Alford, 1991; Meyer & Rowan, 1977). But while neo-institutional arguments suggest non-agentic actions, the pursuit of legitimacy suggests notions of discretion in response to institutional change (Oliver, 1991). With its focus of attention away from economic rationalization toward an emphasis on societal pressures, legitimacy pursuits are key to neo-institutional theorist's explanations for institutional change.

The authority of the state to create and impose rules derives from the legitimacy granted it by powerful members and coalitions of its citizenry. Legitimacy provides a basis for analysis of the sources of changes in regulation:

> "From an institutionalists perspective, organizations which adopt appropriate forms perform well not because they are most efficient, but because these forms are most effective at eliciting resources from other organizations which take them to be legitimate" (Friedland & Alford, 1991).

For the state, eliciting resources from citizens is key to the selection of appropriate forms and attaining legitimacy.

One strain of institutional research on regulation is culturally grounded work on organizational fields which views state regulation as a response to legitimacy crises (Schneiberg & Bartley, 2001). Legitimacy is a social structure shaped by alignments embedded in social relationships. Legitimacy of a state stems from the alignment of notions of justice and positive evaluation from stakeholder constituents in the environment as they relate to the authority and capacity of the state to carry out rules. Legitimacy crises are constituent's challenges to these alignments (Lemay-Hebert, 2011). Constituent stakeholders engage in categorization, identification, and comparison of the state to their constructed identity of the state (Rao, Davis, & Ward, 2000). To attain legitimacy is to achieve a degree of resilience in embedded social relationships. Preserving legitimacy involves continuing positive evaluations by stakeholder constituents. Failure to preserve legitimacy suggests disconnectedness between state rule and constructed constituent identity. Based on theory, a lack of legitimacy threatens state authority and creates legitimacy crises. Thus, a state's response to legitimacy crises targets realignment of the state with constituent expectations (Schneiberg & Bartley, 2001 p.108).

An essential task of the state is regulation. Regulation is a coercive mechanism for influencing behavior of individuals and organizations. It involves the capacity of a third party to set rules, monitor compliance, and enforce with sanctions. Most conceptions of regulation center on aspects of behavioral constraints but regulations may also empower social sectors conferring privilege and license. At the state level, regulation is the formal execution of the order of law. It is an institutionally embedded process (Schneiberg & Bartley, 2001) resulting from political struggles among social constituents with unequal power (Seo & Creed, 2002). At the organization level, it is the state's formal "mechanism for aligning an industry's practices with prevailing principles of fairness, progress and rational order" (Schneiberg & Bartley, 2001 p.108).

Institutional arguments for state regulation go beyond crafting formal rules and sanctions to include underlying and unwritten codes of conduct. A state's response to legitimacy crisis may encompass all three pillars in an institutional change project. "Institutions supported by one pillar may…be sustained by different pillars" with the regulatory pillar relying "more on cognitive and normative than coercive elements for its effects" (Scott, 2014 p.62). The process of realignments from formal regulatory changes may force realignments in the prescriptive expectations of the normative pillar and the shared conceptions that constitute the cultural-cognitive pillar.

Normative elements of social conduct revolve around the notions of the way things "should be" and the way things "should not be." Norms are based on the logic of appropriateness upheld by the expectations of salient actors. Constituent realignments that are manifest in state regulatory change to regain legitimacy can carry the external pressures and prescriptive expectations that alter norms. For organizations under coercive regulatory pressures, what is deemed as legitimate means for pursuing ends may require new behaviors or prohibit previously acceptable ones. For focal actors to satisfy expectations and retain legitimacy, new norms may be required.

The cultural-cognitive elements of institutions may likewise be impacted by regulatory changes in response to legitimacy crises. Neo-institutional theorists represent the cultural-cognitive dimension as the mediation between the stimuli of the external world and the internal response processes through which meaning is derived. Meaning comes through the symbolic (words, signs, gestures) interpretation of activities and frameworks in the environment. The collection of internalized symbolic representations and meanings shape actors behaviors. The impact of regulatory changes may force shifts in the relationship between actors in an organizational field and a legitimated resource provider. The shift can influence behavior through disruption of shared and taken-for-granted arrangements.

The culturally grounded conception of regulatory change provides a theoretical link between regulation as a response to legitimacy crises of a regulator and the prescriptive expectations influencing behavioral norms. The link extends also to cognitive-cultural change as legitimated pressures of the institutional change agent impact the internal response processes of the institutional change target.

This section attempted to show theoretical arguments in the literature that link institutional theory's emphasis on legitimacy to a state's use of regulation. It also sought to show, through the literature, a broadened conception of state regulation as an institutional change project that impacts the three pillars of institutions. The next section reviews the literature on institutional logics and relates them to the institutional change target.

2.3 Institutional Logics

Logics are "the underlying, deeply held, and often unexamined assumptions from which form a framework within which reasoning takes place" (Horn, 1983 in Suddaby & Greenwood, 2005). The institutional logics perspective extends the notion of logic beyond the individual to encompass groups across individual, organizational, and societal levels. The perspective comprises frames of reference that "condition actors' choices for sensemaking, and involve the vocabulary they use to motivate action, and their sense of self and identity" (Thornton et al., 2012 pg 2). It is a perspective that eschews notions from early institutional theory that emphasized institutionalization of organizations and moves away from neo-institutional theory's focus on mimesis and shared norms to include what Friedland and Alford (1991) refer to as the "interior cognitive." The prospective helps with questions of "how individual and organizational actors are influenced by their situation in multiple social locations in an interinstitutional system" (Thornton et al., 2012 pg. 2).

Institutional logics represent enduring positions. Yet, changes in logic occur over time as in the transformation from professional to market institutional logics in higher education textbook publishing (Thornton, Jones, & Kury, 2005a), the change in regimes of practice in the transformation of French cuisine (Rao, Monin, & Durand, 2003) and the mutual fund intra-industry change from passive trusteeship asset conservation investment to speculative portfolio growth (Lounsbury 2007 and Lounsbury and Crumley 2007).

Institutional logics research suggests that fields are composed of multiple or competing logics. Competing logics have been shown to create transformational struggles as in healthcare (Kitchener, 2002; Reay & Hinings, 2005; Reay & Hinings, 2009) and accounting firms (Suddaby and Greenwood 2005). Logics are also shown to vary with distance and time (Lounsbury, 2007). One approach to understanding competing logics is to evaluate organizations by comparing them to a set of "idealized" institutional logics.

Ideal types (Weber, 1978) are analytical abstractions that form a typology described by two sets of assertions that form the boundaries or limits of two idealized competing organizations. Neither abstraction at the assertion limits represent any single organization; instead, it is assumed that all members of the population of competing organizations fall between the limits.

The proposed research seeks understanding in how opposing institutional logics impact the strategic response to coercive institutional pressures manifest in changes in regulation, norms of practice, and cultural cognitive relationships between the source of change and its target.

2.4 Conclusion

Institutional theory offers an alternative approach to economic evaluations of responses to external pressures. An alternative perspective offered by institutional theory is that responses to institutional change pressures are also institutionally informed. This chapter briefly reviewed the historic progression of institutional theory from an emphasis on the importance of agency in the process of institutionalization to the shift toward mimetic and legitimacy seeking explanations. Finally, the institutional logics perspective was examined for its usefulness in understanding society's influence on reasoning and sensemaking.

This review sets the stage for the preceding study of coercive institutional change and institutional logics on strategic responses in organizations. The next chapter offers a review of the research context. It is an historic review of the tax preparation industry, the factors behind its growth, and its split into two predominant institutional logics.

Chapter 3

RESEARCH CONTEXT

3.1 Overview

Taxpayers in the United States have sought the assistance of third parties for income tax advice and tax return preparation services since the first federal income tax levy in 1862. In recent years the number of taxpayers seeking advice and assistance has grown. Each year the majority of tax returns filed with the Internal Revenue Service are prepared by a third party. The IRS states that the work of third party tax return preparers is an integral part of the citizenry's compliance with the country's annual financial obligation.

This section provides a brief history of third party tax preparation services. First, I review the historic origins of the federal income tax in the United States. Second, I examine factors which account for the growth of third party income tax preparation. I next provide a brief summary of tax preparer qualifications. Finally, I explore the development of competing institutional logics in the field.

3.2 Origins of the Federal Income Tax in the United States

The first nationwide personal income tax was introduced in the United Kingdom in 1842. This tax collecting innovation reduced administrative costs and became the model tax collecting mechanism in all advanced democratic societies (Aidt & Jensen, 2009). The first national income tax in the United States was made law with passage of The Revenue Act of 1861. The act established the Commissioner of Internal Revenue and granted the office the authority and the power to enforce tax laws on behalf of the United States. The act took effect in 1862 during the American Civil War and enabled the United States government, known as the Union during the war from 1861 to 1865, to levy and collect taxes based on the income of individual citizens of the Union. Proceeds of the tax supported the Union's Civil War effort and aided the United States to pay its war debts subsequent to cessation of conflict. In 1873, Congress allowed the tax to expire yet retained the office of the Commissioner of Internal Revenue.

In 1913, ratification of the Sixteenth Amendment of the United States Constitution instated the modern version of the federal income tax. The amendment authorizes the United States Congress to collect taxes on incomes from "whatever source derived" including income from legal as well as illegal sources. Congress delegated the responsibility to discharge Congressional legislation authorized by the amendment to the Department of the Treasury. The Department of the Treasury charged The Bureau of the Internal Revenue (later changed to the Internal Revenue Service (IRS)) with the task of administering and enforcing tax laws.

To carry out its task, the IRS applies enacted tax legislation by promulgating the Internal Revenue Code (IRC). The IRC has the force of law in the United States and applies to financial transactions of individuals, businesses and other entities. Broadly, the IRC provides rules for compliance covering the amount and timing of income recognition, the methods and appropriateness of reductions from income, the methods of calculating tax liabilities or credits, the timing and method of remittances, and penalties for compliance failures.

Prior to 2014 there were two regulatory tiers in tax preparation, those who could "practice before the IRS"—restricted to attorneys, CPAs, and EAs-- and those who could not. Two regulatory tiers for tax practitioners was an institutional carry over from the period of Civil War Reconstruction. The Horse Act of 1884 gave the Secretary of the Treasury the authority to regulate admission of attorneys and agents who represented claimants before the Treasury Department. The Act also authorized the Secretary to take disciplinary action against those who failed to comply with regulations and those who were incompetent (Muller, 2011). The rules regulating attorneys and agents, stemming from the 1884 Act, were compiled into a single document in 1921 called Circular 230. Today's updated Circular 230 expands the scope of IRS statutory authority over who may practice before the IRS and under what circumstances (Blattmachr, Gans, & Rios, 2013). Practice before the IRS now includes everyone who prepares a tax return for a fee.

Taxes paid by the citizens of the United States make up the primary source of tax revenue followed in order by employment taxes (before refunds), corporate income tax revenues, excise taxes, estate taxes and gift taxes (IRS, 2010).

The tax system is termed a “voluntary” system, referring to the aspect of the tax system allowing each individual taxpayer to calculate and remit the appropriate tax owed. Through its various tax forms, instructions, and publications, the IRS instructs taxpayers on the correct way to calculate the amount of tax they owe as well as when and where to pay the taxes due.

3.3 Growth of Third Party Tax Services

For individual taxpayers in the United States the primary tax form is the IRS Form 1040. The 1040 form acts as a summary form for all supporting forms and tax schedules necessary to determine the amount of income tax owed. The Form 1040 was first used by individuals to file their income taxes for the tax year 1913. From the first year, the IRS allowed taxpayers to engage a third party to provide assistance in preparing their tax return. A third party who prepared a return for someone else was required to sign an affidavit on the 1040 affirming that they had sufficient knowledge of the taxpayer’s affairs to make a true and complete return. The requirement for third party tax return preparers to sign the tax return continues today.

Up to the time the United States entered into World War II (WWII), taxpayers could prepare their own tax return, allow a third party to prepare their return, or make an appointment to have their local IRS office fill out their return. Third party tax return preparation was primarily an ancillary service provided at little to no charge by accountants, bookkeepers and lawyers as an extension of other services conducted for their clients (IRS, 2009). Notably, prior to WWII, only a small minority of U.S. citizens had earned enough income to trigger a tax obligation.

As late as 1939, approximately five percent of U.S. citizens had sufficient income to require filing an income tax return. During WWII the United States Congress debated how to pay the federal war debt at the end of the conflict. The subsequent legislation dramatically increased the size and scope of the federal income tax. For example, in 1939 a single taxpayer did not need to file a tax return if their gross income did not exceed $5,000, but by 1949 a single taxpayer owed a tax liability if gross income exceeded $600. By the end of WWII more than 74 percent of Americans had an income tax obligation (Goode, 1964). Increases in the number of citizens on the tax rolls played a large part, but not a singular role,in the subsequent growth of third party taxpayer services.

In the years subsequent to WWII, researchers have examined factors which drive taxpayers usage of third party tax return preparers. The focus of this research agenda involved two factors exogenous to the industry, tax law compliance and tax law complexity. In addition to briefly examining the literature on compliance and complexity, I discuss a third area, the impact of innovations endogenous to tax preparation services.

3.3.1 Income Tax Law Compliance

The success of a voluntary income tax system hinges on taxpayer compliance with tax regulations in the calculation and payment of tax. The payroll tax withholding system was the first major effort to increase tax compliance. The cost of the war effort in WWII required the United States government to seek substantial increases in revenues. Congress chose to use the income tax system as one means to raise the needed revenue to repay the government's war debts. To successfully raise the needed revenue, Congress lowered the income threshold for filing taxes. The impact of lowering the income threshold was to introduce income tax compliance obligations to a segment of society previously unaccustomed to paying income taxes.

Prior to WWII, the U.S. citizens who were subject to income tax made their tax payment at the end of the tax year. Members of congress believed that requiring lower income citizens to pay their tax obligation on a once annual basis would be an insurmountable year-end financial burden. In response, Congress passed the Current Tax Payment Act of 1943. The Act required employers to withhold and remit to the IRS, throughout the calendar year, a portion of an employee's wages from his or her income. The intent of the legislation, according to the Congressional Record, was to "enable the average individual to have enough money on hand to meet the taxes to be imposed upon him under the high rates levied by the bill." The Current Tax Payment Act instituted the first long-term pay as you go system of payroll tax withholdings.

Increases in the number of taxpayers required to comply with tax filings drove demand in the market for third party tax service providers. The story of Henry and Richard Bloch, founders of H&R Block Income Tax Service, illustrates the level of demand for tax preparer services at the time.

After WWII, the IRS continued the practice of filling out tax returns at no charge for taxpayers who went to their local tax office. Errors were common and when taxpayers began to complain the IRS began to eliminate the service. In 1955, acting on a suggestion from a client, the Bloch brothers advertised tax preparation services in The Kansas City Star newspaper. Response to the advertisement overwhelmed their bookkeeping business. The extent of customer demand prompted the brothers to focus their business exclusively on income tax preparation (Block, 2008).

Adding to the market driven increase in third party tax preparation services is the threat of taxpayer audits. Whereas the “pay as you go” system of payroll withholdings increases taxpayer compliance by shifting the burden of tax collection from the individual to employers, the threat of examination also has a strong influence. Sixty-four percent of taxpayers say fear of an examination is a major factor influencing taxpayers to report taxes honestly (IRS, 2014b). A traditional method of ensuring that taxpayers comply with their annual tax filing requirement is the IRS’s use of after the fact compliance checks. Instead of random selection of tax returns for audit, the IRS uses endogenous selection. Endogenous selection is the practice of varying audit probability based on information provided by the taxpayer in their tax return. After a tax return is filed, the IRS compares the return to “norms” of similar returns. Tax returns which deviate from the norm have a higher probability of being selected for audit (IRS, 2007). Research simulating a tax audit scenario indicates that individual compliance behavior over voluntary income reporting and taxpaying is enhanced when an individual has knowledge of the use of endogenous selection rules for compliance purposes (Alm & Cronshaw, 1993). Studies in the area of demand for third party tax preparation services provides evidence that increases in IRS audit rates are positively related to increases in demand for CPA services (Dubin, Greatz, Udell, & Wilde, 1992; Long &

Caudill, 1993). Taxpayers with prior audit experience are more likely to have their tax returns prepared by CPAs and lawyers than to prepare their own returns (Erard, 1993).

Accompanying the threat that an IRS taxpayer audit will uncover a tax deficiency is the threat of tax penalties. The IRS imposes different types of penalties ranging from civil fines for compliance failures to imprisonment for criminal tax evasion. Monetary penalties are assessed for late filing, late tax payment, understatement of income and overstatement of deductions regardless of whether the misstatement is in error or intentional. A negligence penalty is asserted if there is a careless, reckless, or intentional disregard for IRS rules and regulations. Criminal penalties can be pursued if IRS examiners find strong evidence of fraud (IRS, 2008). Evidence indicates that the significance of taxpayer penalties increases the likelihood of taxpayer use of CPAs (Dubin et al., 1992; Long & Caudill, 1993). These taxpayers may seek professional help to avoid the possibility of incurring an IRS penalty when there is perceived uncertainty regarding the taxation of certain types of income and the validity of claiming certain tax deductions (Fleischman & Stephenson, 2012). Additionally, taxpayers may seek professionals whose knowledge of legal and regulatory requirements can aid in tax planning. In these cases, the tax preparer informs clients of potential tax liabilities, develops strategies for reducing the tax liability, and provides counsel on the risks of executing the strategies (Mazur & Nagin, 1991).

Scotchmer (1989) suggests that growth of third party tax return preparation is associated with the informational aspects of the assistance given. Under her model, risk neutral taxpayers who are not sure of their true taxable income will tend to overstate their tax liability because the IRS penalty cost associated with underreporting exceeds the cost of over reporting. These taxpayers are more likely to hire the services of an informed third party who may reduce or eliminate the uncertainty and, thereby, reduce the amount of reported tax liability.

This research gives weight to the assertion that compulsory compliance with federal tax law and the penalty threat for compliance failure are historical growth drivers for the tax preparation industry. Adding to these arguments is the additional compliance requirement of forty-one of the fifty states which impose their own state income tax. Most state income tax systems mirror the provisions of the federal income tax system in the recognition of income and deductions. These states seek to enforce compliance with their tax laws in a manner similar to the IRS. Additionally, to help insure compliance with both federal and state laws, most states cooperate and share information with the IRS to cross check for differences in income recognized and deductions taken by individuals on their separate federal and state income tax returns (IRS, 2003).

To verify the recognition of income and the appropriateness of deductions, the IRS performs cross checks across taxpayers. Deductions claimed by taxpayers for certain payments made to other taxpayers are matched against the income recognized by the taxpayers receiving the payments. Using information returns, such as Forms W-2, 1099, and K-1, the IRS enforces compliance by conducting taxpayer cross checks. This information is also shared with state revenue agencies to enable states to ensure compliance with their tax laws.

3.3.2 Income Tax Law Complexity

A second growth driver in tax preparation services is tax law complexity and tax compliance complexity. Tax law complexity relates to the perception of ambiguity in the interpretation of tax law while tax compliance complexity is measured by the amount of time and number of tax forms needed to complete the taxpayers tax return. Tax regulations for the United States are provided in The Internal Revenue Code as contained in Title 26 of the United States Code. The Internal Revenue Code is interpreted by Treasury Regulations promulgated by the IRS. The IRS issues authoritative, non-binding guidance in the form of IRS Publications to aid in the interpretation of Treasury Regulations. IRS Publications seek to explain the law in plain language. These IRS Publications assist taxpayers and tax practitioners in preparing specific tax returns and, although the publications provide examples to help taxpayers apply the law to their situation, they do not cover all situations.

Evidence indicates that tax law complexity, related to the number of tax forms, and the tax compliance complexity, related to time savings, is significantly associated with engaging a third party tax preparer (Christian, Gupta, & Lin, 1993; Dubin et al., 1992; Erard, 1993;

Fleischman & Stephenson, 2012; Huang, 1995; Long & Caudill, 1993). Taxpayer difficulty in interpreting the tax significance of their situation can derive from unfamiliarity with the vocabulary of tax forms and publications, and the perceived complexity of the math involved in completing tax form calculations. Taxpayers who live in states which impose a state income tax encounter the added burden of determining their state income tax liability.

The social climate of the 1960s prompted tax law changes which, in addition to revenue collection, expanded the IRS's role in carrying out certain social objectives (Hollenbeck & Kahr, 2008). Examples of social objectives include the home mortgage interest deduction and property tax deduction to encourage home ownership, medical and dental expense deduction to ease the burden of catastrophic medical expenses, charitable contributions deduction to reward support of charitable organizations, and the individual retirement account (IRA) contribution deduction to encourage saving for retirement. Some tax deductions apply to taxpayers whose itemized deductions exceed the standard deduction but these do not benefit the lowest income taxpayers. In 1975, Congress introduced the Earned Income Tax Credit (EITC) to insulate low-wage workers from the regressive effects of rising payroll taxes. The EITC is a refundable tax credit that, depending on the amount of the qualifying credit, remits back to the taxpayer an amount ranging from a portion of their tax liability up to an amount exceeding the tax liability. In 1975, 6.2 million families claimed $1.25 billion in credits (Holt, 2006). By 2008 the program had expanded to over 24 million families claiming $50.7 billion in credits (Bryan, 2010). Whereas, prior to 1975, the number of individuals filing tax returns included only those with incomes large enough to trigger a tax liability, individuals filing tax returns today include those who file a tax return only for the purpose of claiming a refundable tax credit.

Tax credit calculations increase the complexity of tax form preparation. Taxpayers who anticipate receipt of a refundable tax credit may be more likely to view the time and effort required to overcome the difficulties in preparing their own tax return to be a significant opportunity cost when compared with the cost of third party assistance. Thus, although not specifically addressed in the available research, refundable tax credits may be a driver of third party tax return preparation traffic.

Finally, complexity introduced by frequent tax law changes enacted by Congress may increase taxpayer uncertainty regarding their ability to apply the changes to their individual tax situation. This may impact the decision to seek professional help from a tax service provider.

3.3.3 Third Party Tax Services Innovation

Tax services innovation is the third factor fueling taxpayer services industry growth. Tax compliance and tax complexity are drivers of tax preparation services growth that are exogenous to the industry. By contrast, innovations in services provided to taxpayers by the industry are endogenous drivers of growth for the industry. A primary driver of innovation is the industry's adoption of technology. Before the personal computer age, tax return preparation was a labor intensive manual operation. Returns were prepared using pencil, paper, and adding machine. Personal computers and tax software fundamentally changed the way tax calculations are accomplished. Computers were used before the personal computer age, but only large accounting and law firms could afford to purchase time on a main frame computer from a computer tax service facility. The cost of using computers to aid in tax return preparation exceeded the revenue potential of all except the most complex tax returns. The first tax journal article devoted to studying the use of personal computers and tax software in tax return preparation was published in the Journal of the American Tax Association in 1985. In the article, the authors reflect on their recent experience, "only a few years ago, the use of computers in tax practice was limited to applications in batch-processed tax returns and, to a much lesser extent, computer timesharing for quantitative tax and tax-related problem solving" (Raabe, Fournier, & Black, 1985). By 1997 approximately sixty-eight percent of all individual tax returns were prepared using tax software. That percentage has grown to 90% filing tax returns prepared using tax software with 56% of tax returns prepared by paid tax preparers for tax year 2012 (IRS, 2014c) . The IRS notes that "the tax software industry has fundamentally changed the means of compliance with our civic tax obligations" (IRS, 2009).

The impact of personal computers, tax software, and use of the internet significantly changed how tax preparers conducted their work and enabled an expansion of the services offered to their clients. The technologies: 1) increased tax preparer productivity by automating manual calculations, 2) enabled tax preparers to prepare complex tax returns in a period of increased tax law complexity, 3) reduced requisite tax preparer experience, 4) fostered innovative ancillary services that provide taxpayers quicker access to their expected tax refund, and 5) enabled electronic filing of tax returns, direct access to taxpayer information and electronic tax research capabilities.

Client service innovations fueled growth by providing incentives for taxpayers to seek professional tax return preparation. One innovation revolved around service assurances. To reduce taxpayer anxiety, preparers asserted their experience, their up to date tax law knowledge, and offered representation before the IRS should their tax return be audited. Other ancillary product innovations centered on tax refunds.

Income tax refunds from over withholding payroll taxes and the earned income tax credit fueled demand for tax preparer services. Ancillary tax preparer services enabling taxpayers to quickly receive their refunds as a bolus of cash became popular. Electronic filing, piloted by the IRS in conjunction with tax preparers in the late 1980s, decreased IRS refund processing time. Direct deposit services decreased refund delivery times. Short term, unsecured loans or refund anticipation loans (RALs) and refund anticipation checks/cards (RACs) for taxpayers with no checking account answered demands for “instant” access to refund cash. The IRS facilitated RALs by providing the “debt indicator” to assure the lender that the taxpayer had no outstanding tax liability. In recent years, the IRS suspended the practice of providing a debt indicator causing almost all banks to terminate the practice. However, fast tax refunds continue to drive demand for tax preparer services.

In the arguments above, I suggest three factors that drove third party tax preparer growth,: increases in the scope of taxpayer compliance, increases in tax law complexity, and endogenous tax service provider innovations. Figures 3.1 and 3.2 illustrate a simple example, taken from a medium size city in the southeastern United States, of trends in third party tax preparer services that may be attributed to tax law complexity and tax service provider innovations. Figure 3.1 illustrates tax preparer office growth using the telephone business directory listings of tax preparer organizations under the heading tax return preparation for the period 1975 to 2010 (for supporting data for the chart see Appendix G). The number of franchise and non-franchise tax preparation office locations are plotted on the Y-Axis. The X-axis shows five year intervals for the years ending in zero and five. The plot shows the change in the total number of offices. The organizations listed in the tax return preparation section included attorneys, CPAs, EAs and non-enrolled tax return preparers. Attorneys and CPAs could also list their services under the business directory headings for their respective titles.

The chart shows significant growth in the number of tax preparer offices occurring after 1980 and continuing through 2010. In the market observed, H&R Block was the only nationally recognized tax preparation franchise until Jackson Hewitt entered in 1997.

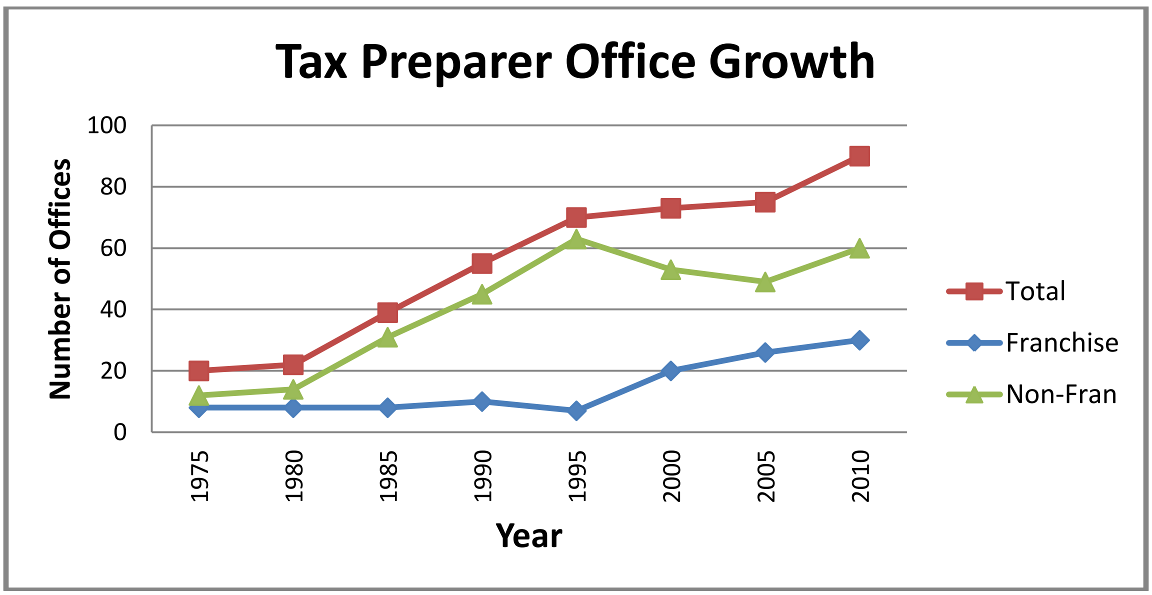


Figure 3.1 Tax Preparer Office Growth

Figure 3.2 shows the relationship between population and office growth for a medium size city in the southeastern United States from 1975 to 2000 (for supporting data for the chart see Appendix G). Office growth is based on the number of telephone business directory listings counted every five years. Population numbers come from the United States Census for each decade 1970 through 2010. The mid-decade population numbers are the average of the population at the beginning and ending of the decade. The city's telephone directory covered the entire county and the population numbers used for the figure are from the Population of Counties Decennial Census from the U.S. Census.

In Figure 3.2, the Y-axis shows the population per tax preparation office and the X-axis shows the period covered from 1975 to 2010. The figure indicates that preparer growth significantly exceeded the rate of population growth for the city during the twenty-year period from 1975 to 1995. Substantial tax preparer office growth compared to the population coincides with the introduction of the earned income tax credit in 1975 and continues through the era introducing personal computers and ancillary tax service innovations during the 1980s and mid 1990s. From 1995 through 2010, population and tax preparer offices grew at approximately the same rate.

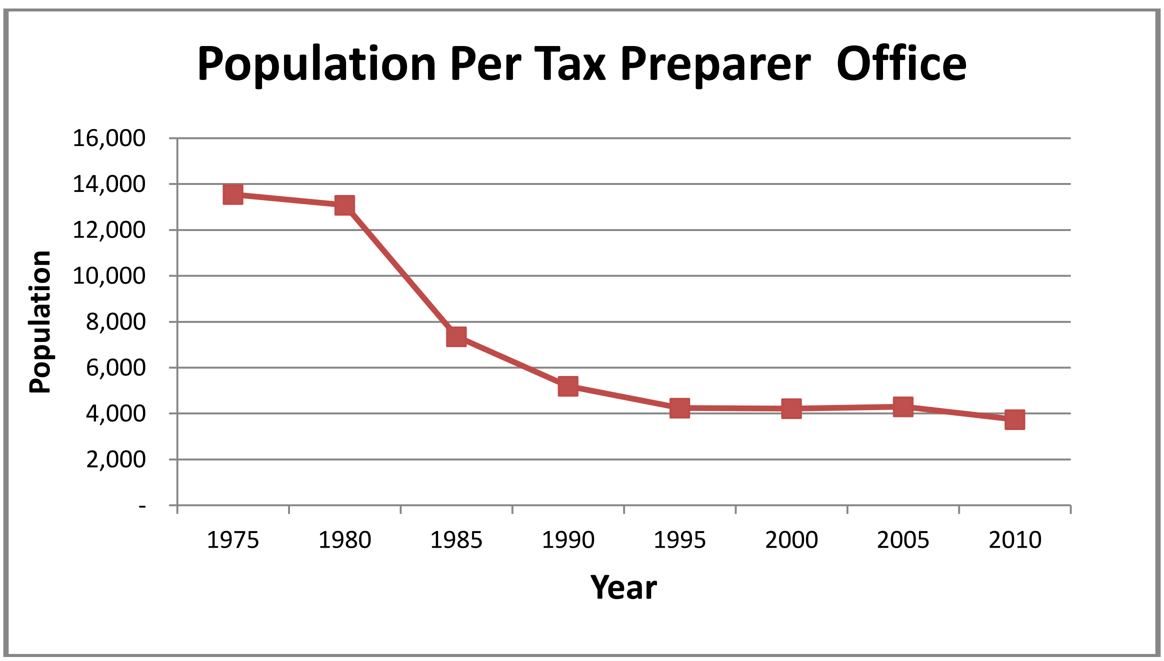


Figure 3.2 Population Per Tax Preparer Office

The arguments made in this section suggest reasons for tax return preparer industry growth. The next section describes the qualifications needed to become a tax return preparer.

3.4 Tax Preparer Qualifications

On January 1, 2011, the IRS required all tax return preparers who prepare taxes for a fee to register and obtain a Preparer Tax Identification Number (PTIN) from the IRS. Prior to 2011, the IRS maintained no formal registration for tax return preparers. Under prior rules, an individual could hold himself or herself out to be a tax return preparer and prepare tax returns for a fee without IRS approval or registration. Individuals could exercise the privilege of preparing tax returns indefinitely as long as they did not demonstrate a pattern of misconduct such as knowingly preparing a return that understated the taxpayer's tax liability or failed to sign and provide their social security number on the tax return. (IRS, 2009). The IRS confined their oversight over tax preparers prior to 2011 to three professional groups officially authorized to practice before the IRS as advocates for their clients. The three groups were Enrolled Agents, Certified Public Accountants (CPAs) and licensed attorneys.

3.4.1 Enrolled Agents

Enrolled Agents (EAs) were first known by the title Representing Agent. The professional designation was authorized in 1884 when Congress gave the Secretary of the Treasury the authority to regulate the practice of attorneys and agents representing citizens seeking equitable compensation for the government's confiscation of private property used during the Civil War (Mathisen, 2000). With the ratification of the 16th Amendment in 1913, the job of the Representing Agent expanded to include assistance with tax compliance and taxpayer advocacy. The privileges granted to Representing Agents were suspended in 1939 but reinstated in 1951 when a qualifying exam patterned on the Uniform CPA exam was administered. In 1959, to address a need for a greater number of Registered Agents, the Treasury Department implemented a new qualifying exam for Registered Agents based on 'practical knowledge' called the Special Enrollment Exam (Mathisen, 2000). In 1966 the title Representing Agent was replaced by Enrolled Agent.

Enrolled Agents are certified by the IRS and not by individual states. They are granted the privilege of practicing before the IRS upon passing a qualifying examination administered specifically by the IRS. Categories of agents recognized by the IRS are: Enrolled Agents, Enrolled Actuaries, Enrolled Retirement Plan Agents and Appraisers, collectively referred to here as Enrolled Agents.

3.4.2 Attorneys and Certified Public Accountants

Certified Public Accountants (CPAs) and Attorneys are licensed by their state of residence. They are granted the privilege of practice before the IRS by virtue of their license in good standing.

3.4.3 Registered Tax Return Preparer

In addition to CPAs, attorneys, and Enrolled Agents, the U.S. Department of the Treasury and the IRS issued final regulations in 2011 creating the Registered Tax Return Preparer (RTRP) as an 'all others' designation. The intent was to establish an all encompassing group of tax return preparers that would no longer allow persons to prepare individual tax returns for a fee without being an Enrolled Agent, CPA, attorney or Registered Tax Return Preparer. The IRS created the RTRP designation to expand oversight to all preparers of federal tax returns. Implementation of the RTRP designation was set in two stages. Stage one required all individuals who prepare tax returns for a fee, both certified (i.e. attorneys, CPAs and EAs) and non-certified, to acquire and annually renew a Preparer Tax Identification Number (PTIN) by January 1, 2011. The second stage required all RTRP candidates to submit fingerprints for a background check, pass a competency test and complete fifteen hours of annual continuing education (Williams, 2011). All formerly non-registered individuals meeting the first and second stage requirements were to be granted formal RTRP status. 'Practice before the IRS for RTRPs was to be limited to preparing and signing tax returns and representing taxpayers only for returns they personally signed, but with no tax court privileges.

On January 18, 2013, prior to full implementation of the Registered Tax Return Preparer initiative, the United States District Court for the District of Columbia in Loving vs. Commissioner issued an order enjoining the IRS from enforcing the registration requirement of all ‘un-enrolled’ tax return preparers. The court concluded that the U.S. Treasury and the IRS did not have statutory authority to govern those who did not practice before the IRS. The court ruling suspended the RTRP initiative but did not change the annual PTIN renewal requirements. In May 2014 the IRS declined to appeal the ruling and dismantled RTRP administration.

In June 2014, the IRS announced a voluntary program called the Annual Filing Season Program effective January 2015. The program provides preparers a Record of Completion upon satisfactory completion of training hours and a 70% score on a competency test. Annual renewal of the Record of Completion requires completion of an approved 15 hour refresher course. Tax preparers may use the term Record of Completion in their marketing solicitations.

3.4.4 Practice Before the IRS

As a voluntary tax system, the IRS views the content of the tax return and its preparation to be the responsibility of the individual taxpayer if a single individual or the joint responsibility of a couple if married. Taxpayers are required to sign the tax return declaring by their signature that, under penalties of perjury, they have examined the return and the accompanying schedules and to the best of their knowledge and belief the tax return is true, correct, and complete. A third party who prepares a tax return is required to sign the return and provide their PTIN. The third party preparer’s signature affirms that the tax return is based on all information of which the preparer has any knowledge.

The term “Practice Before the IRS” refers to the act of presenting to IRS personnel, at conferences, hearings or meetings, matters relating to a taxpayer’s rights, privileges, or liabilities as stipulated under Treasury Department Circular No. 230 titled Regulations Governing Practice before the Internal Revenue Service. Practice before the IRS had been restricted to attorneys, CPAs and Enrolled Agents, but in 2010 the IRS revised Circular 230 to expand the meaning of “practice before the IRS” to include “Registered Tax Return Preparers” as a new class of practitioner. With the 2013 Loving vs. Commissioner court injunction rejecting the IRS’s authority to register tax preparers, the IRS revised Circular 230 again. Effective December 31, 2015, unenrolled preparers may represent tax return prepares before the IRS if the tax return preparer prepared and signed the taxpayer’s return.

The annual PTIN renewal requirement was not restricted by the Loving vs. Commissioner court injunction. Thus the registration requirement for all tax return preparers did not change. This enables the IRS to maintain oversight of all tax return preparers through an individually identifying preparer number.

The next section examines the formation of competing institutional logics in the tax preparation field.

3.5 The Origins of Competing Institutional Logics

The tax preparation industry provides an opportunity to examine how a field undergoing transformative change can enable a highly fragmented industry (Dess, 1987) to develop competing institutional logics with sufficient constituent legitimacy in the marketplace to simultaneously support them. To understand the development of competing logics in the industry, I take as a model for analysis the classifying theories of organizational change (Meyer, Brooks, & Goes, 1990) using the sequencing of historical events (Sewell, 1996) to understand the influences of societal-level changes on the speciation of the organizational field. I propose that the development of competing logics occurred in three phases; initial isomorphism, institutional entrepreneurship, and evolutionary divergence.

3.5.1 Isomorphism in the Emerging Field

The emergence of third party income tax preparation as a separate organizational field can be traced to enabling legislation during WWII. As discussed previously in this chapter, a series of legislative initiatives substantially increased the demand for taxpayer assistance. Congressional initiatives lowered the income threshold for individual income tax filers. Legislation required employers to withhold income taxes from individual earnings and required employers to prospectively remit to the U.S. Treasury income taxes withheld from their pay. The effect of the legislation increased the number of taxpayers filing tax returns and created a new group of tax filer that needed to file a tax return to request a refund of taxes withheld in excess of the amount owed. In 1939, prior to WWII, 7.6 million tax returns were filed representing approximately five percent of U.S. citizens. Subsequent to WWII, tax filing activity increased and by 1949 a total of 51.8 million tax returns were filed representing seventy-five percent of all U.S. citizens (Hollenbeck & Kahr, 2008).

With dramatic increases in tax return filings, demand for new taxpayer assistance services from bookkeepers, accountants, and attorneys increased. Drawing from neo-institutional theory and its emphasis on legitimacy (DiMaggio & Powell, 1983) and organizational change theory (Meyer et al., 1990), extreme change in the institutional environment can inhibit organizational transformation (Newman, 2000). To gain immediate access to resources and legitimacy, new players in a field adopt existing templates and the field becomes homogeneous.

Industry legitimacy accrues to a population of organizations, a resource that is "equally available to any organization within this population" (Deeds & Yamakawa, 2006). Organizational legitimacy can affect or be affected by access to resources (George, Chattopadhyay, Sitkin, & Barden, 2006). Access to market resources subsequent to WWII provided legitimacy to the emerging tax preparer field. To attain legitimacy the field became isomorphic (DiMaggio & Powell, 1983) with the historic template provided by the legal and accounting professions.

One way to understand the movement of an industry is through the practices of its constituent organizations. Evidence of post WWII isomorphism with the legal and accounting professions is provided by comparing the advertising practices of the two fields. Before and after WWII, the professional associations governing the practices of the legal and accounting professions restricted solicitation and advertising for new business. The existing institutional template of the professions was of providing services to the public. Professionals were not to be conceived of as competitive businesses (Wood & Sylvestre, 1985). The prevailing notion for professionals held that advertising was not in the public's interest and undermined professional independence (Raby, 1966).

Analyzing historic telephone directory advertising for a large metropolitan area in the southeastern U.S. shows advertising patterns for organizations under the heading "Tax Services."

Advertising listings for non-CPAs and non-attorneys used the same font as those under the accountants heading. The practice was consistent for the period from 1946 through 1953. During that period, only the telephone directory's section heading changed. In 1952 the heading "Tax Services" was dropped and replaced by the title "Tax Return Preparation."

Advertising restrictions applied not only to members of the legal and accounting professions, but also to other licensed professionals such as physicians. Without outside restrictions, other service providers were free to advertise as they wished. For example, plumbing and heating services used large block telephone directory advertisements to solicit business. But bookkeepers and non-enrolled tax preparers show that they adopted the advertising restrictions of the legal and accounting professions even when it may not have been in their economic interest to do so.

However, arguments for isomorphism suggest that by adopting the structural templates of the licensed professionals it may have helped to secure legitimacy for non-enrolled tax preparers. Adopting the template lessened the need to learn new roles, provided institutional continuity, secured ties to markets and human resources, and provided compatibility with governmental bodies. Adopting existing templates can be critical to ongoing survival and success (Aldrich & Fiol, 1994).

3.5.2 Institutional Entrepreneurship in the Emerging Field

Institutional entrepreneurs are those who initiate divergent changes that break with the institutionalized template for organizing within a given institutional context (Battilana, Leca, & Boxenbaum, 2009). Institutional entrepreneurs live across societal sectors and recognize and exploit cultural discontinuities (Thornton, Jones, & Kury, 2005b). They can be "organizations or groups of organizations or individuals or groups of individuals" (Battilana et al., 2009). A case for analysis of institutional entrepreneurship in tax preparation is H&R Block, Inc. In 1946, after their military service in WWII, brothers Henry and Leon Bloch opened a bookkeeping firm in Kansas City, Missouri, called the United Business Company. Leon became discouraged and left the company to pursue a law degree. Henry then brought on his younger brother Richard. In January

1955, nearly a decade after the start of their business and in response to a suggestion from a client, the Bloch brothers placed an advertisement for tax preparation services in the *Kansas City Star* newspaper. Customer response to the advertisement was much larger than expected and in July 1955 the brothers started a new company specializing in income tax preparation called H&R Block.

Definitions of institutional entrepreneurship suggest that actors have the volition to initiate divergent change (DiMaggio, 1988) while other definitions suggest that agents may have no grand plan and may unintentionally depart from existing templates (Battilana et al., 2009; Lounsbury & Crumley, 2007). Analysis of the Bloch brothers actions suggest the former by initiating departures from existing industry arrangements. The year following their initial opening, the brothers expanded the company. They implemented a strategic growth plan to open seven offices in New York City, a move that coincided with the IRS's plan to discontinue free tax preparation services in New York City district offices. Their strategic plan included opening the New York City H&R Block offices as close to the IRS offices as possible. Their success in New York led them to sell the New York City franchise rights to two CPAs. The following year they sold two additional franchises in the midwestern United States. In 1958 they sold three additional midwestern franchises and by 1962 the company had 206 franchise offices (Block, 2008).

The enabling conditions for institutional entrepreneurship are: 1) the characteristics of the field and 2) the actor's social position (Battilana et al., 2009). The Bloch brothers social position and the characteristics of the tax preparation field gave them the freedom to innovate organizational practice and structure. The sons of a prominent Kansas City lawyer, they chose not to follow their father's lead by rejecting the study of law and accounting. Instead, they followed an interest in entrepreneurship, a path encouraged by their parents. Without formal attachments to accounting and law, they had no requirement to adhere to the institutionalized ethics requirements of the professions. By adopting a commercial model to tax preparation, they approached their organization as a business rather than a profession.

The characteristics of the tax preparation field in the late 1940s and 1950s reflected a close affiliation with the accounting and legal professions. Magali Larson (1977) describes the members of professions as cognitively identifying themselves with the body of knowledge, their training, and the techniques of their work. The norms of a profession center on acting in the public interest. Evaluatively they compare their activities to other professions to underscore their singularity and autonomy. They look to institutional support to maintain their profession as a community whose members share in identity, affiliation, commitments, and loyalty. Not being bound by the formal institutional norms of a profession and not constrained to the mimetic institutional model adopted by non-professionals at the time (DiMaggio & Powell, 1983) the Bloch brothers adopted a new model.

Institutional entrepreneurs are change agents who fulfill two conditions: 1) initiate divergent change, and 2) actively participate in the implementation of those changes (Battilana et al., 2009). With an entrepreneurial orientation, the brothers were attentive to and acted on opportunities as they emerged. Adopting a commercial model allowed them to advertise their services in newspapers, telephone directories, radio and television. A commercial model freed the brothers from the restrictions that dictated the size and content restrictions in the advertisements of professionals. They were free to make business claims and price statements. Being without the laws that restricted professional practice across state jurisdictions, they were free to expand locations to other states without concern for state licensing reciprocity requirements. Finally, their adoption in the late 1950s of business format franchising was influenced by the institutional legitimacy granted to franchising as a socially accepted organizational model.

The direction taken by the Bloch brothers in forming H&R Block bifurcated the industry into two primary institutional logics, professional and commercial. Examining telephone directory listings in the metropolitan area described previously, advertisements for tax return preparation businesses from 1954 through 1979 were indistinguishable in size and content from those of accounting and legal professionals. Listing for tax preparation consisted only of small in-column advertisements. In the metropolitan area examined, the first listing in the telephone business advertising directory for H&R Block first appeared in 1962. The number of H&R Block offices increased to ten in 1963 and expanded to thirty-three by 1970. H&R Block was the only multi-office organization in the city until 1967 when Accounting Systems International and National Tax Service opened one office each. By 1985, just prior to the widespread introduction of personal computers and income tax preparation software, the tax return preparers heading of the telephone advertising directory showed 242 tax preparers with 61 H&R Block offices, six House Hold Finance tax offices, six Townsend Income Tax and Bookkeeping Services offices and two Beneficial Finance tax offices. It was not until 1979 that large block advertisements appeared in this section of the telephone advertising directory of the metropolitan area examined.

Industry disruption from H&R Block's institutional entrepreneurship did not occur quickly. It did, however, touch off a ramified sequence of occurrences that durably transformed structures and practices of the field (Sewell, 1996). In the tax return preparation field the professional template remained entrenched while simultaneously in another sector of the field a legitimacy seeking commercial logic evolved and developed.

3.5.3 Institutional Evolution in the Emerging Field

Industry level first-order change refers to the evolution of populations of competing organizations aligning with pressures to conform to expectations in the institutional environment (Meyer et al., 1990). Neo-institutional theory postulates that social norms, regulation and mimesis exercise isomorphic pressures on organizations (DiMaggio & Powell, 1983). In the period from the mid 1960s through the 1990s, institutional pressures acting on the tax preparation field varied across the two dominant institutional logics. This section examines the institutional forces and their impacts.

For professional logics, institutional influences on actors involved normative and coercive pressures to professionalize the field. For actors with commercial logics, professionalization of the field through actions of trade associations and regulatory institutions had less power and influence on organizational structure and practices. With commercial organizations, absent strong normative and regulatory influences, mimetic institutional pressures had the greatest isomorphic impact.

Institutions create pressures for organizations to seek legitimacy and to seek social conformity by adopting legitimized templates of structure and practice (DiMaggio & Powell, 1983). The dominant mode of rationality is concerned with making actions appear legitimate within prevailing systems of norms, values, and templates (Greenwood & Hinings, 1996). In accounting and law, the level of professionalization was well developed by the late 1940s and 1950s. What remained un-professionalized in the field were non-CPAs and non-attorneys.

As discussed previously, the IRS recognized the legitimacy of CPAs and attorneys from their legal standing within their individual states of licensure. The IRS had also an established mechanism in place to recognize the category of tax return preparers referred to as Representing Agents. During the 1950s and 1960s, the IRS updated rules to attract a greater number of individuals to seek the IRS's own professional designation. In 1959, the Treasury Department developed the Special Enrollment Exam. The IRS specified the subject matter for the exam to allow applicants to demonstrate competencies specific to tax practice. However, for those who passed the exam, there was no officially recognized title to distinguish their competency from other non-CPAs and non-attorneys. In1966, the IRS established the Enrolled Agent title for tax practitioners who successfully completed the Enrollment Exam and met annual continuing education requirements. Additionally the IRS revised Circular 230 to add Enrolled Agents to the groups qualified to 'practice before the IRS.' As a group, Enrolled Agents increased their professional legitimacy with the founding of the National Association of Enrolled Agents in 1972.

The Bloch brothers divergent actions formed a profit oriented organizing template. Sewell (1996) describes a historical event as "sequences of occurrences that result in transformations of structures." Sequences begin with a break of routine practice that "touch off occurrences that durably transforms previous structures and practices" (Sewell, 1996). The formation of H&R Block set off events that transformed the field. Between 1955 and 1985, no other income tax preparation firm competed on a national level. My review of historic telephone advertising directories in a large metropolitan area in the southeastern U.S. shows that after H&R Block commenced operations in the city in 1962 the next multi-office competitor entered the market in 1967. In the city, the number of H&R Block offices exceeded the number of all other multi-office competitors combined during fifteen of the twenty years from1967 through 1986. I contend that the H&R Block model was revolutionary at the industry level, sparking the speciation of the field situated in a commercially oriented logic.

Two historic events changed cultural schemas and accelerated the growth of the commercial logic, the earned income tax credit (EITC) in 1975 and the introduction of personal computers and income tax software in the mid 1980s. The EITC provides low-income wage earners a refundable tax credit. A refundable credit is a tax refund that can equal or exceed the amount of federal income taxes withheld from a worker's wages during the tax year. The amount of the tax credit is calculated when the tax return is prepared. The EITC had three impacts on the field: first, it significantly increased the complexity of low- income taxpayer returns, secondly, it increased the number of low-income taxpayers seeking assistance, and thirdly, EITC refunds gave taxpayers the funds to pay for tax preparation. This made the low-income segment of the taxpayer market attractive.

Preparing tax returns with EITC were more complex and time consuming but the introduction of affordable personal computers and income tax preparation software in the mid 1980s made tax preparation simpler. Technological breakthroughs enable quantum change (Meyer et al., 1990) and computers dramatically changed tax preparer practices. The most prominent aspect of computer technology is decreased processing time and increased accuracy. The advent of interview screens further reduced preparation complexity.

The ease of tax preparation opened the door for inexperienced preparers to enter the field. Inexperienced preparers can input information without fully understanding the underlying calculations. The changes enabled new players to exploit discontinuities (Thornton et al., 2005b) and further separated the practices of commercial and professional logics players.

Tax franchisors capitalized on reduced barriers to entry. In 1986, after thirty years, H&R Block encountered its first national franchise competitor, Jackson Hewitt , followed later by Colbert Ball Tax Services, Liberty Tax Services and Instant Tax Services. Tax franchisors used advertising claims such as “no experience necessary” and suggestions that the tax software does all the work (Rivlin, 2010) to recruit prospective franchisees.

Computerized tax return processing enabled preparers to expand services beyond tax preparation. Without regulatory action to restrain actors from engaging in additional services, professional and commercial tax return preparers increased the scope of their offerings by engaging in tax and non-tax related ancillary business practices.

3.6 Regulation

In the 1970s, 80s and early 90s, normative pressures across the tax preparation field were inconsistent. To acquire legitimacy, professionals look to mastery of a body of knowledge, a service orientation, autonomy, and prestige (Larson, 1977).They demonstrate their competency with credentials, formal titles, and affiliations with professional groups. With an eye toward professional associations, normative pressures are more acute for professionals than those with commercial logics. Legitimacy for commercial logics preparers is linked to market acceptance not to professionalization. During this period, market place opportunities and IRS regulation favored commercial logic preparers.

The conduct of IRS regulation favored commercial preparer logic. The mission of the IRS is to collect taxes from taxpayers, thus enforcement efforts have focused on the outcome of tax return preparation, not the process. By signing their tax return, taxpayers take responsibility for the contents of the return. When there is an error or deficiency in a tax return the IRS pursued the taxpayer. The tax preparer was not the primary target of tax preparation enforcement.

Coercive regulatory forces also favored commercial preparers. Neo-institutional theory suggests that coercive forces impose political and regulatory isomorphic pressures on a field (DiMaggio & Powell, 1983). However, the focus of coercive regulatory pressure was not directed toward commercial preparers. Regulation of tax preparers centered on professional preparers and the privileges of attorneys, CPAs, and EAs to practice before the IRS. This emphasis was codified in Circular 230 Practice Before the IRS. Coexistence of two separate institutional logics in the field may be attributed partly to asymmetric regulation.

Commercial tax preparers were isolated from the normative isomorphic pressures of professionals. Commercial preparers could voluntarily become Enrolled Agents, but with no coercive pressures to require it and weak normative and cultural pressures, only a minority chose it.

There has been much effort to regulate tax return preparers, but, as mentioned in Chapter 1, there exists no comprehensive regulatory oversight of tax return preparers. Attorneys are licensed by their state bar association, CPAs are licensed by their state board of accountancy and Enrolled Agents are licensed by the IRS directly. Multiple regulatory jurisdictions in the professional sector of the field make it difficult for the IRS to formulate uniform regulations for all preparers. The professional/commercial distinction in the field is a difficult roadblock to overcome.

3.7 Conclusion

In this section, I have provided a brief history of the origins of the federal income tax and the Internal Revenue Service as well as provide an overview of the institutional factors contributing to the growth of the third party tax preparation field and the institutional factors involved in the field's bifurcation into two competing institutional logics.

In the next chapter, I present theory and propositions for the empirical study into the strategic impacts of regulatory change pressures.

Chapter 4

THEORY AND HYPOTHESIS

4.1 Strategic Responses

Institutions are resilient social structures that “provide stability and meaning to social life” (Scott, 2014). The enduring nature of institutions enables the production of patterns of behavior and social relationships. Institutional change environments disrupt the taken for granted nature of behavior patterns and social relationships and bring about increased levels of sense making. I posit that owner-managers of organizations in the process of sense making about institutional change pressures, form attitudes toward those changes. An attitude denotes an “overall degree of favorability” (Ajzen, 2001) which influences intentions and, in-turn, response behaviors.

Scott (2003) suggests that strategic action is embedded in rules, norms, and belief systems. Each has a separate basis of order, motive for compliance, logics of action, and indicators of the presence of sources of legitimacy. The regulatory dimension involves the capacity to propagate rules supported by legitimated mechanisms of surveillance, sanctions, and enforcement (Scott 2003). According to institutional theory, in an institutional change environment, response choices are limited (Oliver, 1991) and organizations acquiesce to institutional pressures to retain legitimacy and reduced uncertainty.

I argue that the attitudes of an organization’s management are strongly linked to the firm’s behaviors and strategic choices (Banerjee, 2002; Hambrick & Mason, 1984). In the context of small business, the owner/manager, as the primary decision maker in the organization, is in a strong position to influence organizational behaviors (Quinn, 1997).

I propose that in an institutional change environment with coercive state regulatory pressures, owner/managers of organizations that are targets of institutional change, form attitudes about the regulative changes. According to the theory of planned behavior (Ajzen, 1991) people’s attitudes influence their intentions which in-turn influence the behaviors to which they have control. I propose that the more favorable, or more positive, owner/manager attitudes toward regulatory institutional change pressures, the greater will be the degree of organizational compliance to those pressures.

> Hypothesis 1a & b: Positive owner/manager attitudes toward regulatory institutional change pressures are positively related to organization compliance behaviors.

The cultural-cognitive element of Scott's (2003) institutional pillars of social stability involve the creation of culturally supported shared meanings. Training and socialization bolstered by patterns of activity and habit form shared meanings. Legitimated regulative changes may require re-orienting social and power orientations by the change target between its stakeholders and resource providers. What was once the taken for granted relationship between the source of regulation and the target may change schemas and identities.

Strategic responses to cultural-cognitive change involve a "social fact" quality that yields responses that are seen as the only or obvious way to conduct activity (Oliver, 1991). Uncertainty surrounds the context of cultural-cognitive change. Cultural-cognitive changes challenge former identities and mechanisms of institutional interconnectedness. Uncertainty impacts owner-manager attitudes which may lead to resistance to change. Consistent with a regulatory change environment, I propose that positive owner-manager attitudes toward cultural-cognitive institutional change pressures will exhibit greater levels of organizational compliance.

> Hypothesis 2a & b: Positive owner/manager attitudes toward cultural-cognitive institutional change pressures are positively related to organization compliance behaviors.

The normative element of Scott's (2003) three institutional pillars involve the creation of morally governed expectations and social obligations. Normative pillars provide stability in society through socially established rules of appropriateness and binding expectations. Unlike regulative changes that are transmitted through legitimated pressures backed by sanctions and enforcement infrastructure, normative changes are backed by socially communicated expectations. Normative changes can be antecedent to formally codified regulative changes or they can accompany regulative changes in the assembly of new socially binding expectations.

Strategic responses to normative institutional pressures are governed by the extent institutional change pressures are consistent with organizational goals (Oliver, 1991). I propose that small business owner-managers evaluate the organization's goals in relation to the nature of normative change pressures. Owner-manager attitudes toward the content of institutional pressures will determine the degree of resistance or acquiescence to changes in normative expectations. The more positive the owner-manager attitudes toward normative institutional change pressures, the greater will be the level of organizational compliance to those pressures.

> Hypothesis 3a & b: Positive owner/manager attitudes toward normative institutional change pressures are positively related to organization compliance behaviors.

4.2 Institutional Logics

Institutional logics help with conceptualizing the differences we see among organizations in an organizational field. I propose institutional logics (Friedland & Alford, 1991) as a lens to study differences in field level organizational intentions.

Institutional logics are contingently constructed rules that are formed and reformed through experience. The rules created through contingency processes make behavior regularized and predictable (Jackall, 1988). Yet, the processes of historic sense making and experiential rule formation are heterogeneous across an organizational field. The variance in sense making within a field creates sets of differentiated, contradictory, and competing institutional logics (Friedland & Alford, 1991).

Sources of conflicting institutional logics derive from contradictory institutions in society. Friedland and Alford (1991) posit that each of the institutional orders of modern western society have their own central logic that provide guiding principles, vocabularies and identities. They indicate that individuals use these to cobble together their own logics for use to their own advantage.

This research examines the impact of coercive institutional change on organizations in a field with differing institutional logics. I combine two areas of theory, neo-institutional theory and institutional logics, to address whether strategic responses of organizations in a field vary in relation to the organization's institutional logics when the field is undergoing coercive institutional change. If responses differ, what is the nature of the difference? Do the differences hold over time? The following propositions seek to add to the literature regarding the effects of competing institutional logics and strategic responses to institutional change.

Research in institutional logics suggests that logics provide actors with a sense of self and vocabulary for sense making (Thornton et al., 2012). While organizational actors have a hand in shaping institutional logics, these logics have influence in shaping rational behavior (Thornton & Ocasio, 2008). I propose that organizations will align with factors representing a commercial or professional logic. I also propose that separate institutional logics will exhibit strategic behaviors consistent with other organizations with similar alignments.

The organizations comprising the tax preparation field are diverse and vary widely across dimensions of size, target market, and workforce experience and skill. Such variation makes study of the field difficult. To facilitate the study, I use ideal types (Doty & Glick, 1994) as a method of analysis. Ideal types are a theoretical model for comparing the effects of various meanings with a definable boundary. I propose that the tax preparation field is made up of two broad groups or institutional logics--the professional and commercial (Table 5-8). Owner-managers of professional logics organizations view the field as a profession whose identity is tied to reputation and adherence to professional standards. Owner-managers of commercial logics organizations view their organization as a business and tie their identity to economic performance and capitalism. They are more likely to focus on the enabling aspects of regulation and the benefits accruing to compliance.

The legitimacy of organizations with professional institutional logics is more closely tied to the professional associations, accrediting bodies, and professional licensing authorities that act to regularize and professionalize a field. It is expected that, compared to organizations with commercial institutional logics, organizations with professional logics are less effected by regulatory change pressures. Professional logics organizations may also more closely tie their survival to the resources provided by pressuring constituents. Compared to commercial logics organizations, a professional logics organization may respond more favorably and acquiesce to regulatory pressures.

It is expected that professional logics organizations would be more willing to compromise and comply with regulatory institutional pressures. Thus, organizations with professional institutional logics will strengthen the positive relationship between owner/manager attitudes toward regulatory institutional change pressures and organizational compliance behaviors such that:

> Hypothesis 4 a & b: A professional institutional logic will positively moderate the positive relationship between owner-manager attitudes toward regulatory institutional change pressures and compliance behaviors.

The cognitive-cultural pillar (Scott, 2003) forms the shared conceptions and logics of action schema of social order. Cultural-cognitive institutional change pressures related to regulatory change can involve re-orientations of cognitive relationships between the institutional change target and the target's sources of legitimacy. For example, shared meanings of professional logics are established and reinforced by the adherence to rules of the profession and compliance to their shared understandings. Conformance with the profession adds constituent legitimacy. Regulations that change shared conceptions of a profession may form conflicting constituent pressures and disrupt the belief systems that support taken for granted relationships (Oliver, 1991).

Cognitive-cultural institutional change pressures that require a reorientation of the relationship between professional logics organizations and the source of regulatory change pressures, are proposed to negatively moderate the positive relationship between owner-managers and compliance response for professional logics organizations such that:

> Hypothesis 5 a & b: A professional institutional logic will negatively moderate the positive relationship between owner-manager attitudes toward cognitive-cultural institutional change pressures and compliance behaviors.

Strategic responses to normative institutional pressures are governed by the extent that institutional change pressures are consistent with organizational goals (Oliver, 1991). Normative institutional pressures are socially binding expectations. Owner-managers with professional institutional logics tend to share with other organizations through professional and civic affiliations where norms of practice and behavior are transmitted. I propose that professional institutional logics will strengthen the positive relationship between attitudes toward normative institutional change pressures and organizational compliance behaviors such that:

> Hypothesis 6 a & b: A professional institutional logic will positively moderate the positive relationship between owner-manager attitudes toward normative institutional change pressures and compliance behaviors.

4.3 Prior Institutional Change Experience

Institutional theory recognizes that institutions are resilient but not static. Organization studies reveal a historical contingency showing that findings can be valid at one point in time but not in others (Thornton et al., 2012). One factor in the historical contingency of institutions is exogenous pressures of the interinstitutional system. Exogenous regulatory change pressures from legitimated state authority is one example. In the timeframe subsequent to regulatory change, the ambiguities of the regulations are digested in the process of sensemaking (Scott, 2014: 214). Field level research findings in one timeframe will differ from findings post sensemaking. For purposes of this research, I refer to the environment in the subsequent timeframe as an enhanced regulatory environment.

Institutional research demonstrates that, over time, institutional change pressures impact groups of organizations (e.g. Cooper et. al. 1996; Edelman 1992; Oliver 1991). Comparing two groups of similar organizations, one group operating an enhanced regulatory environment and another group operating outside the enhanced environment, it is proposed that the two groups will exhibit different behaviors when faced with new regulatory change pressures that are common to both. I propose that owner-managers attitudes from the enhanced regulatory environment organizations will reflect a greater positive attitude toward regulatory institutional change pressures such that:

> Hypothesis 7 a & b: Organizations operating in an enhanced regulatory environment will positively moderate the positive relationship between owner-manager attitudes toward regulatory institutional change pressures and compliance behaviors.

The cultural-cognitive pillar represents the frames through which collections of internalized symbolic representations of the world attach meanings from which social reality is made (Scott, 2014). Patterns of activity, training, and habits create the taken for grantedness of relations between the organization and stakeholder parties. Regulators are third-parties to the organizations in a field when evaluated in relation to the parties the organizations serve. Regulatory change, with its accompanying formalization of rules and mechanisms of monitoring and enforcement, places organizations in a field in closer proximity to the regulator. The disruption to the existing relationships between the organizations in the field and its stakeholder parties presents sense-making challenges. I propose that owner-manager attitudes toward cultural-cognitive institutional change, in the non-enhanced regulatory environment, will reflect requirements for less sense-making while owner-manager attitudes of organizations in the enhanced regulatory environment will reflect the requirements for greater sense-making. I propose that owner-manager's attitudes from the enhanced regulatory environment organizations will exhibit a greater positive attitude toward the cognitive-cultural institutional change pressures such that:

> Hypothesis 8 a & b: Organizations operating in an enhanced regulatory environment will positively moderate the positive relationship between owner-manager attitudes toward cognitive-cultural institutional change pressures and compliance behaviors.

Social norms are binding expectations that specify legitimate means to pursue organizational goals (Oliver, 1991). They are supported by socially communicated expectations that are grounded in the logic of appropriateness (Scott, 2014). In a regulatory change environment, organizations face uncertainties related to the normative impacts that regulatory change will have on their legitimacy (George et al., 2006). It is proposed that owner-manager attitudes toward normative institutional change, in the non-enhanced regulatory environment, will reflect greater uncertainty while owner-manager attitudes in the enhanced regulatory environment will reflect less uncertainty. I propose that owner-managers attitudes from the enhanced regulatory environment organizations will exhibit a greater positive attitude toward normative institutional change pressures such that:

> Hypothesis 9 a & b: Organizations operating in an enhanced regulatory environment will positively moderate the positive relationship between owner-manager attitudes toward normative institutional change pressures and compliance behaviors.

Chapter 5

RESEARCH METHOD

5.1 Overview

This study is an examination of strategic responses to coercive institutional change in the tax preparation industry. Briefly, the research seeks evidence for the hypotheses that organizations express attitudes, as presented by the owner or manager, toward institutional change by a key resource provider to the industry. The attitudes are thought to vary based on three separate institutional change carriers: regulatory, normative, and cultural-cognitive (Scott, 2003). The attitudes are predicted to affect organizational behaviors. The theoretical model in Figure 5.1 suggests that the relationship between organizational attitudes and organizational behaviors are moderated by the organization's institutional logic (Doty & Glick, 1994) and by prior institutional change experience (Thornton et al., 2012).

The focal industry for the study is the population of organizations actively involved in the preparation of tax returns for taxpayers in the United States. The industry is the target of institutional changes by the IRS, a resource provider that is common to the industry as a whole. The research model proposes that the institutional change takes place with all three institutional carriers of change, the regulative, normative and cultural-cognitive dimensions.

Referring to the theoretical model in Figure 5.1, this chapter will proceed as follows: the first section presents the study of speech events that surround institutional changes at the IRS focused on the tax preparation industry. The next section discusses the study performed to derive an understanding of institutional logics. The next section presents a framework of the empirical study performed in Chapter 6.

5.2 IRS Institutional Change

There are three independent variables in the model: attitudes toward regulatory change, attitudes toward normative change and attitudes toward cultural-cognitive change (Figure 5.1). The independent variables were selected after performing an analysis of speech events that illuminate debates over regulation of the tax preparation industry.

I studied public debates surrounding proposed and enacted regulatory changes that were elaborated over an extended time period. Parties making up the debate were direct stakeholders such as taxpayers, tax preparers, and commercial interests in tax preparation including tax software providers and banking. Interested stakeholders included: public interest groups advocating on behalf of taxpayers, the U.S. Congress, and state revenue departments. Several of these groups questioned the ability of the IRS to oversee and enforce tax collection activities. Fueling these threats to the legitimacy of the IRS were sensational stories of tax fraud. Investigations often cited incidents of fraudulent tax preparer activities. As a result of open questions regarding ways to stem fraudulent activities, specific actions affecting the tax preparer industry were proposed and implemented.

New regulations represent the tangible reflections of changes in the way the IRS views its relationship with the tax preparer industry. The result of my study reveals that the debates also formed the basis for a change in logics regarding the approaches the IRS takes toward the tax return preparation industry. I propose a summary of changes in IRS logics (see Table 5-7). The following provides the process of my study of IRS changes.

5.2.1 Study of IRS Institutional Change

To study the debate over how the IRS should regulate preparers, I used selected data from various public sources. The primary source materials for the historic analysis include prepared statements, contemporaneous transcripts of congressional testimony, transcripts of IRS public hearings and industry journal accounts of public hearing testimony (Table 5.2). These documents comprise a history from 1972 to 2014. Taken together they capture the discourse from stakeholder parties.

I compiled the list of congressional hearings and IRS public hearings from search queries using ProQuest, LexisNexis and Ebsco Host databases. The testimony covers various proposed mechanisms for regulating tax return preparers and the rationale for new regulation. Prominent in the discussion is who to regulate and how the regulation will be implemented, administered and overseen. Included in the regulation proposals are: mechanisms for ensuring minimum preparer competency, continuing education, applicant screening, enforcement, monetary penalties, sanctions, and ethics standards. The testimony content includes: research findings, regulatory and legislative proposals, rationale, counter proposals, opinions, and stakeholder positions.

In addition to the primary source data, I used secondary data to provide additional context to the analysis of the primary data. Secondary data includes: articles from professional association journals, government documents, stakeholder comment letters on public hearings, news media, and web sources. I used these sources for additional regulatory insights as well as to construct the historic narrative earlier in Chapter 3. Together they provided descriptions and interpretations that aided the understanding of the primary data account.

To study the source documents, I followed the general guidelines outlined by Glaser & Strauss (1967) by using existing categories and systematically exploring their properties and the structure. For my analysis, I reference Scott's (2014) institutional pillars as the categorical framework through which institutional change occurs. I structure the qualitative research in a manner consistent with Miles and Huberman's (1994) coding, pattern coding and memoing. (Table 5.1).

5.2.2 Summary of Enacted and Proposed Preparer Regulations

Tax administration by the IRS includes: regulations that set tax rates, prescribe tax forms, set calculation methods and proscribed procedures, and set payment and submission deadlines. These regulations apply to everyone who prepares a tax return whether prepared by the taxpayer or a tax service provider. The intent of this analysis was to review the history of regulatory changes targeting tax return preparers and to categorize the nature of the changes.

Over the course of the debate the IRS, through legislative acts and regulatory enactments, established new procedural mandates and sanctions for preparers. A summary of tax preparer penalties is shown in Table 5.3 and Table 5.4. The expanded definition of a Tax Preparer is in Table 5.5 and the expanded application scope of tax preparer activities is in Table 5.6.

Three examples of the regulatory acts demonstrate impacts on behavioral norms of practice and impacts on the taken for granted assumptions of the cognitive cultural institutional pillar. The three examples are: stronger due diligence requirements, the electronic filing mandate for preparers, and the requirement that preparers register with the IRS and obtain and annually renew a preparer tax identification number.

The due diligence example involves tax returns claiming the Earned Income Tax Credit (EITC). Due diligence comprises steps taken by a reasonable person to satisfy a legal requirement. For a tax preparer, due diligence involves an appraisal of the reasonableness of taxpayer assertions regarding income and expenses and the circumstances surrounding their recognition as outlined in Section 10.22, 10.34 and 10.37 of U.S. Treasury Circular 230. Historically, the exercise of due diligence has centered on tax preparer judgment over what constitutes reliable taxpayer assertions. However, new due diligence requirements involving claims for the Earned Income Tax Credit change historic taken for granted assumptions that comprise the tax preparer – taxpayer relationship.

The Taxpayer Relief Act of 1997 required specific EITC due diligence procedures with Form 8867 *Paid Preparer's Earned Income Credit Checklist.* Initially the taxpayer completed and signed the form and the preparer retained it in the taxpayers file. However, the requirements were expanded for tax year 2006 and again for 2012. A preparer must now affirm and sign the due diligence form and file it with the return and, if the taxpayer claiming EITC includes self-employment income, the form specifies the particular documents that should be examined by the preparer.

The cultural-cognitive pillar emphasizes the taken-for-grantedness and shared understandings of social positions, roles and relationships (Scott, 2014). With expanded due diligence requirements, the cognitive positioning surrounding the relationship between the taxpayer and tax practitioner may be altered. Traditionally, the taxpayer engages the services of the tax preparer in the professional capacity to provide expertise as a social trustee (Suddaby & Greenwood, 2005). The social position of preparers assisting taxpayer compliance with tax obligations stressed independence between the taxpayer and tax preparer. The tax preparer provides advice and services but remains independent of the relationship that exists between the taxpayer and the IRS. The expanded requirement that the tax practitioner provide positive affirmation of the due diligence procedures they conduct changes the take-for-granted independence relationship. The tax preparer's affirmation of due-diligence places the preparer in the responsible position of validating taxpayer's assertions and places him or her in the chain of compliance.

One procedural change may impact the normative relationships between the IRS and tax preparers is a mandate to file taxpayer returns electronically. In 2011, the IRS began requiring all tax return preparers to register and obtain a Preparer Tax Identification Number (PTIN). Also in 2011, the IRS implemented a two year phase in of mandatory electronic filing by tax return preparers. Electronic filing requires preparers to retain, on behalf of the IRS, certain taxpayer information documents. These documents include the due diligence support documentation mentioned previously, copies of W-2s, 1099s and other information forms showing earnings and tax withholdings. In the years prior, taxpayers were responsible for filing their tax returns either by the due date by mail or by opting to file electronically. The electronic filing mandate shifts, in part, the norm of accountability for tax filing from taxpayer to tax preparer.

The PTIN, electronic filing mandate and due diligence requirements impact the cognitive-cultural pillar by shifting the roles and positions of the tax preparer in relation to the IRS. Traditionally tax preparer's relationship with the IRS could be considered adversarial based on the preparer's role as tax advisor and taxpayer advocate. The changes place the preparer in the role of compliance facilitator, assuming the position of helping the IRS fulfill its enforcement function.

These examples given above are intended to demonstrate regulatory, normative and cognitive elements IRS institutional changes. The results of my review of formulating debates for the regulatory proposals and enactments are synthesized in summary of IRS change in Table 5-

7. I use the changes in IRS logics in the formation of the three measurement scales that make up the independent variables for the study (see Appendix A).

5.3 Tax Preparer Institutional Logics

In this section, I explain the conduct of a qualitative analysis to explicate the extant competing institutional logics in the third party tax preparation industry. At the organization level, institutional logics link individual agency and cognition to socially constructed practices of organizations (Thornton & Ocasio, 2008). My purpose for investigating the institutional logics of the field was to test the proposition that logics moderate the relationship between owner-manager attitudes about IRS institutional change and strategic responses to change. Since the logics of institutional actors encompass both conscious and taken for granted symbols and practices I adopt an inductive qualitative study methodology as outlined by Weiss (1994).

Logics of tax return preparers across the field can be analyzed along a number of dimensions (Thornton & Ocasio, 2008). One mechanism for drawing out the differences between logics is the use of the “ideal types” analytical abstraction from Weber 1922 (1978). Ideal types are considered a parsimonious way to describe complex organizational forms and for explaining outcomes (Doty & Glick, 1994)

5.3.1 Summary of Institutional Logics Study

Drawing on the work of Dotty and Glick (1994) in the development of typologies as well as the literature using ideal types of institutional logics (Almandoz, 2012; Suddaby & Greenwood, 2005; Thornton et al., 2005b; Thornton & Ocasio, 2008), I develop ideal types for professional and commercial tax return preparers (Table 5.8).

In his work on classifications of organizations, McKelvey (1982) describes classification systems as rules for assigning organizations to mutually exclusive groups. His work extends our understanding of organizational classification tools through analogy to classifications systems of scientific disciplines such as biology. Doty and Glick (1994) add to our understanding of types by providing precision to the definitions that distinguish typologies from classification schemes and taxonomies. They point out that classifications are exhaustive sets of attributes with discrete decision rules enabling placement of organizations into groups (Doty & Glick, 1994). A taxonomy is a type of classification system that differentiates groups into mutually exclusive sets using hierarchically nested decision rules (Doty & Glick, 1994) . Typologies identify and describe multiple ideal types, “each of which represents a unique combination of the organizational attributes” that can be used to form assertions that relate the ideal types to a dependent variable (Doty & Glick, 1994). Used as a tool to analyze organizations, ideal types are complex, multi-dimensional combinations of characteristics of organizations that represent a certain unattainable ideal. They are forms that "might exist rather than existing organizations" (Doty & Glick, 1994). A single ideal type is the extreme of a group of characteristics that no single organization possesses. "Actual organizations may be more or less similar to an ideal type, but they should not be assigned to one of the ideal types in the typology" (Doty & Glick, 1994).

Ideal types were used to facilitate comparisons by classical theorists and can be used in interpretive analysis to better understand “the meaning that actors invest their actions with” (Thornton & Ocasio, 2008). For example, a community logic was shown to be a significant predictor of success in new bank establishment (Almandoz, 2012). The method was employed to derive the dependent variable in the investigation of executive succession in higher education publishing (Thornton & Ocasio, 1999), in understanding how new logics displaced old in the examination of French culinary change (Rao et al., 2003), and in the study of museum model logics (DiMaggio & Powell, 1991).

Patricia Thornton’s (Thornton, et al 2005) use of the term ‘commercial’ to label a category of ideal type institutional logics stems from the 1980 address to the American Institute of Certified Public Accountants by Wm. R. Gregory, the then outgoing chairman of the AICPA’s Public Oversight Board. Mr. Gregory portrayed as ‘commercial’ those accountants who are devoid of high-principled conduct, who lack respect, self-restraint and fairness. He characterized them as preoccupied with the bottom line, selling services, generating profits and whose legitimacy status comes from growing the size of the firm (Thornton et al., 2005a)

I apply this description to the idealized tax return preparer who sees tax preparation as one of a potential group of capitalistic opportunities to be exploited. Under these assumptions, I propose that the commercial tax preparer organization seeks to expand market share in its core tax preparation endeavor by maximizing preparation speed, reducing costs, and seeking a high level of visibility across a broad spectrum of the market. Additionally, the commercial organization will seek additional revenue streams through the creation and expansion of transactional services which are ancillary to its core service.

Professional logics derive from nineteenth-century archetypes of aristocratic gentlemen in which "overt commercialism is suppressed" and who are motivated by the acquisition of "an esoteric body of knowledge rather than for personal compensation" (Suddaby & Greenwood, 2005). Drawing on the notion of "social trustee," the professional "is that of a profession similar to educators, priests, lawyers and physicians with responsibilities to the broader community" (Thornton et al., 2005a). Professional logics stress the creation of a social space that is independent and autonomous from the state and the market (Suddaby & Greenwood, 2005). Sources of legitimacy and status come from their "work, reputation, standardization, and conservatism in an otherwise unscrupulous business environment" (Thornton et al., 2005a). Interests regarding regulation focus on autonomy, the notion that professionals are capable of self-regulating and act independently of the state and the market (Larson, 1977).

Suddaby and Greenwood's (2005) study of rhetorical strategies of competing logics in the accounting profession details two separate but similar models of professional accounting organizations: the social trustee model and the expertise model. The social trustee model focuses on the asymmetries of knowledge and expertise of professional and client and links expert knowledge with a higher social purpose. The alternative perspective, the expertise model sees its knowledge of an abstract body of knowledge as the means through which superior market rents can be extracted.

The notion of the professional applies to the idealized individual who holds a strong identification to their work as a profession through certification or licensure. The idealized professional is one who forms close affiliations to others in the profession through membership and participation with professional groups such as a trade or professional organization.

To become familiar with the various approaches to tax practice across the field, I conducted interviews of tax return preparers. I visited and conducted interviews in offices in three separate states: Georgia, Tennessee and Texas (see Appendix G for a summary). The interviews and office visits covered a wide range of organizations from legal and accounting firms to finance companies and preparers who work from home. The interviewees included attorneys, CPAs, Enrolled Agents and Unenrolled preparers. They included solo-practitioners, tax managers of CPA firms and owners of franchises. The qualitative study to derive tax return preparer's ideal institutional logics involved semi-structured interviews, observations of industry practices and practice settings.

In conjunction with a review of the literature on ideal logics and the tax preparer interviews, I prepared the summary of ideal logics as shown on Table 5.8. The categories on the Y-axis of the ideal types are the form of capitalism, sources of identity, sources of legitimacy, basis of attention and structural overlap. The X-axis specifies how the emergent commercial and professional logics vary on these general categories.

Part of the unstructured aspects of the interviews focused on evoked vocabularies used by the interviewees. Vocabularies are instrumental in the social construction of meaning (Loewenstein, Ocasio, & Jones, 2012) and "institutional vocabularies" are a means by which institutional logics are articulated (Suddaby & Greenwood, 2005). I use vocabularies derived from the interviews to develop a scale to measure ideal type organizations across a continuum of professional and commercial logics. The scale is discussed in the following section and shown in Appendix A.

I sought also to understand those who pursued the services of various preparers. From the interviews conducted, I developed a scale intended to measure professional and commercial logics based on the expectations of the individuals served by the organizations. The scale is shown in Appendix A and discussed in the following section.

5.4 Empirical Study

As outlined in Chapter 1, my study seeks to address the primary question; why and under what conditions do organizations in a field respond differently to institutional change pressures? To do this, I conducted a quantitative study to test theory regarding the relationships between owner-manager attitudes related to state level coercive institutional change pressures and strategic responses to those pressures. Additionally, the empirical study proposes that organizations with professional institutional logics compared to commercial institutional logics moderate this relationship. Also, in the context of attitudes toward institutional change, an additional moderator is tested related to the organization's experience in a strong regulatory environment as opposed to a less stringent regulatory environment.

The study was a multilevel study of individual owner-manager attitudes toward institutional change at the state level and institutional logics at the organization level to strategic responses at the organization level. I use a mixed methods research approach (Tashakkori & Teddlie, 1998) to triangulate the different data sources and methodologies for the study (Denzin, 1978). To understand the regulatory, normative and cultural-cognitive elements of the institutional environment, I studied the testimony of stakeholders advocating for institutional change. A summary of institutional change is shown on Table 5.7. This study aided the development of the items of the independent variable.

To develop theory for the moderator relationships on the dependent variable, I sought to gain an understanding of the institutional setting surrounding the tax preparation field. Based on the review of institutional logics literature, observations from the field and semi-structured interviews with owner-managers of tax preparation firms, I developed a typology of competing institutional logics in the field shown on Table 5.8.

The quantitative analysis extended the reach of this study beyond theory development. For the study of organization level strategic responses to state level change pressures, I used the survey method to elicit responses from owner-managers of a sample of organizations engaged in professional tax preparation for individual U.S. taxpayers.

5.4.1 Independent Variable - Attitudes Regarding Institutional Change

The link of institutional change to strategic organizational response is owner manager attitudes. An attitude is a term used to denote an "overall degree of favorability" (Ajzen, 2001). According to the theory of planned behavior, people's attitudes influence their intentions which, in-turn, influence the behaviors to which they have control (Ajzen, 1991).They are evaluative judgments of psychological objects that are captured in attribute dimensions such as good-bad and likeable-dislikeable (Ajzen, 2001).

To measure the attitudes regarding institutional change of owner-managers of tax return preparer organizations, I followed Lau & Woodman's (1995) approach by preparing a narrative description of institutional change pressures and asking respondents to rate their agreement or disagreement with the change. I developed three narratives (See Appendix A, Table 1), one each describing regulatory, cultural-cognitive and normative change pressures impacting the tax return preparation field. Constructing an institutional measure in an issue related to institutional change is consistent with the research of Kostova & Roth (2002) by making the categories issue specific.

The first narrative covers regulatory institutional change. It describes enacted regulations stemming from the IRS oversight initiative that apply to all tax return preparers. Owner-manager attitudes are measured by responses to the preparer regulations cited in the narrative.

The cultural-cognitive institutional change narrative focused on the taken for granted relationship between tax preparers and the IRS. Traditionally, the IRS and tax preparers maintained an adversarial relationship. Tax preparers view their role as taxpayer advocates. In Congressional Hearings and IRS public forums, IRS officials expressed the position that the relationship between tax preparer and the IRS is a "partnership." The narrative seeks to gauge owner-manager attitudes regarding shifts in the cognitive distance between the IRS and preparer.

The third institutional change narrative described normative pressures impacting tax return preparers. The narrative taps into prescriptive expectations of private and governmental stakeholders of the industry expressed in public forums and congressional hearings. These stakeholders argue for greater tax preparer industry accountability for member competency.

Attitude toward change for each institutional pillar was measured using Lau & Woodman's (1995) attitude toward specific change scale. Respondents are asked to express their agreement with the narrative by checking the box that most closely matches their level of agreement with questions such as "I don't want to be involved in this change" and "Everyone should support this change." Responses are measured on a five point Likert scale ranging from Strongly Agree, Agree, Neutral, Disagree and Strongly Disagree. The scale has 8 items and has shown a coefficient alpha of .88, (see Appendix A, Table 1).

5.4.2 Dependent Variables – Organizational Compliance Behaviors

Institutional theory directs predictions toward procedural conformity to the environment. In an environment of institutional change with accompanying rules, behavioral expectations and oversight, organizations may move without question toward refining the structure of activities (Oliver, 1991). It may be predicted that organizations may conform to externally validated practices, such as quality management, and emphasize performance when faced with change pressures. Two general categories of variables, two performance measures and two quality measures each, were used to measure the outcomes to attitudes toward institutional change. The first of the two quality measures is the Quality Assurance Time Commitment scale. The scale was developed for this study as an assessment of time based resources committed to quality practices. The scale is made up of seven items using a five point likert scale that rates the time put towards each item in the scale from Very Low to Very High, (see Appendix A, Table 2).

The second quality measure is Quality Intentions. The study adapted five items from the seven item Survey on Performance Measures scale (Sousa, Aspinwall, Sampaio, Rodrigues, atildel, & es, 2005). The likert options for their scale range from Not a Current Priority to Already in Place. The reported reliabilities for the original scale is α = 0.70 (see Appendix A, Table 2).

Two scales make up the dependent variable for performance. The first is Comparative Performance made up of five items adapted from research on self-report subjective performance measures (Dess & Robinson Jr, 1984). The items involve self-reported organizational performance comparisons to a similar referent organization. The comparison response options used a five point likert scale ranging from Much Worse to Much Better (see Appendix A, Table 2).

The second performance measure is the Growth Prospects scale. Growth Prospects is a seven item scale developed for this study to measure growth intentions. The likert options range from Definitely Decrease to Definitely Increase (see Appendix A, Table 2).

5.4.3 Moderating Variables – Institutional Logics

Logics are deeply held and often unexamined assumptions where reasoning takes place (Horn, 1983). Extrapolating beyond the individual, institutional logics encompass groups of individuals in society. The institutional logics construct emphasizes multiple elements that influence organizational practice, identity and social interconnectedness. Table 5.8 summarizes on the X-axis the characteristics of the ideal institutional logics of commercial and professional tax return preparer organizations in the tax preparation field. The characteristics on the Y-axis related to economic system, sources of legitimacy, basis of attention and structural overlap.

In this study, institutional logics are proposed as a moderator of the relationship between institutional change attitudes and strategic response behaviors. Two scales were developed for this study to measure the institutional logics construct The groups represent common characteristics and activities of actual tax practice exhibited by tax preparer organizations. The items are arranged in groups that together are proposed to tease out the unexamined and taken for granted assumptions that make up the professional and commercial institutional logics of tax practice.

Institutional logics is made up of two sub-scales, Words You Use and Service Expectations. The Words You Use sub-scale asks respondents to indicate the use frequency of words that make up rhetorical keys differentiating respondent organizations by commercial versus professional logics. The scale consists of seven questions measured with a five point likert scale ranging from Always, Very Often, Often, Seldom and Never. An example of an item in the scale is “Our organization provides services to customers” with the word ‘customers’ as the rhetorical key.

Commercial organizations may refer to those they serve more often as customers (see Appendix A, Table 3).

The second institutional logics subscale is Service Expectations. Service Expectations is a twelve item five point likert scale that ranges from strongly agree to strongly disagree regarding the services taxpayers seek from tax preparers. Institutional logics may be observed indirectly through the expectations of the typical recipient of services. Using the Commercial versus Professional Ideal Types, Table 5-8, as the basis for survey items, respondents are asked their agreement with statements such as “Those we serve value a conservative organization” and “Those we serve come to us for our convenient location” (see Appendix A, Table 3).

5.4.4 Moderator Variable - Prior Institutional Change Experience

Prior institutional change experience refers to the experience Oregon tax return preparers have under Oregon’s regulatory regime. Oregon has maintained a two tiered licensure requirement for tax return preparers since 1973. The highest level is the Oregon Licensed Tax Consultant (LTC). A LTC can prepare Oregon tax returns for a fee. The second licensure level is the Oregon Licensed Tax Preparer (LTP). A LTP may prepare tax returns but only under the supervision of an LTP.

To contrast Oregon preparers with preparers in Tennessee and Georgia, Oregon has a state income tax and requires tax preparers be licensed. Georgia has a state income tax but does not require state licensure of tax preparers. Tennessee has no state income tax and has no state licensure requirement.

Coding for the moderator variable is for Tennessee and Georgia = 0 and Oregon = 1 (see Appendix A, Table 3).

5.4.5 Control Variables

The *size of organization* can potentially explain variations in the strategic responses to institutional change pressures. The annual number of tax returns prepared is used as a proxy for organizational size. *Age* of the firm can also potentially explain variation in attitudes regarding institutional change. Age of the respondent is a single self report item. Respondent gender is also used as a control (see Appendix A, Table 4).

5.5 Study Sample

The population for this study is the group of organizations who prepare U.S. income tax returns. Source data to access the target population is best found on the IRS Provider Tax Identification Number (PTIN) database. The PTIN database is made available to the public through a Freedom of Information Act (FOIA) request with the Atlanta office of the Internal Revenue Service. For a list of the data fields on the PTIN database see Table 5.9. Data cleaning, sample selection and data gathering procedures are discussed in Appendix E.

It was determined that surveys would be sent to a sample of tax return preparer organizations in three states in the United States, Georgia, Oregon and Tennessee. As explained earlier, Oregon was selected for its state income tax and licensure of income tax preparers. Georgia was selected for its combination of state income tax and no state licensure requirement. Finally, Tennessee was selected because there is no state income tax and no state licensure. See Table 5.10 for a demographic summary and comparison of all three states.

In addition to selecting the three separate states, it was determined that individual owners or managers of tax preparation organizations would be sampled from two metropolitan areas in each of the three states. One urban city area and one smaller municipality, see Table 6.4 for a breakdown by state of surveys sent and surveys received. The cities selected for sampling in Georgia were Atlanta and Dalton. The cities selected in Oregon were Portland and Medford. For Tennessee, the cities selected were Knoxville and Maryville.

Organizations were selected at random for sampling. The individual within the organization determined to have the highest probability for being the owner or manager of the organization was sent the survey, see Appendix E for sample selection method.

5.6 Conclusion

This chapter introduced the relationships in the theoretical model in Figure 5.1, the sources of the variables in the model and the content of the components of the survey to test the model. The next chapter examines the results of the tests of hypotheses.

Table 5.1. Codebook Arranged by Institutional Carrier

Statement of Problem			
	Theme : Status (State of Reality)		
	RSI	Interest Conflict	For statements about commingling mercantilism with filing
	RSQ	Quality	For statements about ability, qualifications, training
	RSC	Complexity	For statements about errors
	RSF	Fraud	For statements about willful misstatement, misrepresentations
	RSR	Regulation	For statements about regulation sufficiency
	RSJ	Jurisdiction	For statements about who to regulate
	RSL	Legitimacy Threat	IRS image, faith in system
Regulation			
	Theme : Actions		
	RAR	Regulation	For references to overt regulation, oversight
	RAC	Certification	For references to licensing, certification, continuing education
	RAP	Penalties	For references to changing type, amount, enforcement
Normative (Preparer Norms)			
	Theme : Activities		
	NC	Competency	For references to competency exam, education, duty of competency
	ND	Due Diligence	For references to evaluating taxpayer data, evidence auditing
	NR	Responsibilities	Tax position, compliance, rules of conduct, sign return
	NB	Burden Shift	Record retention, filing
	NT	Standard of Conduct	Accountability
Cognitive Cultural			
	Theme : Roles, Positions, Relationships		
	CR	Relationship	Link between taxpayer and IRS, gate keeper to tax system
	CF	Facilitator	Extension of IRS, mission enabler
	CJ	Justice	Level playing field
	CD	Duty	Patriotism, civic duty
	CP	Professionalism	Protect public, service to public trust, relation with client and preparers
Stakeholder Parties			
	C	Congress / Public / Taxpayers / Watchdog / Advocates	
	I	Internal Revenue Service	
	P	Preparers	
	G	Commercial Interest Groups (Non-Preparers)	
	S	State Revenue Entities	

Table 5.2 Primary Data for Institutional Change Analysis

Item #	Source Type	Source Description	Number Of Pgs
1	Congressional Quarterly	Regulation of Income Tax Return Preparers: Hearings Before a Subcommittee of the Committee on Government Operations, House of Representatives, Ninety-second Congress, Second Session, on H.R. 7590 April 10, 1972	3
2	Journal Account	Practitioner Communique: Report of the Commercial Preparers Subgroup Hearing for the Commissioner's Advisory Group. National Accountant, January 18, 1995	3
3	Testimony	Improving the Design of the Earned Income Tax Credit. Senate Committee on Governmental Affairs April 5, 1995	108
4	Testimony	Report of the National Commission on Restructuring the Internal Revenue Service; Hearing before the Subcommittee on Oversight of the Committee on Ways and Means House of Representatives; One Hundred Fifth Congress; July 24, 1997	137
5	Testimony	Choosing a Tax Preparer Charitable Car Donations, Committee on Senate Finance; April 1, 2003	27
6	Testimony	Costs and Marketing Practices of Tax-Related Financial Products; Committee on Senate Homeland Security and Governmental Affairs Subcommittee on Permanent Investigations; April 15, 2005	20
7	Testimony	Fraud in Income Tax Preparation: House Ways and Means Oversight Subcommittee, July 20, 2005	38
8	Testimony	Tax Preparation Costs: Committee on Senate Finance, April 4, 2006	46
9	Testimony	Return Preparer Review Public Hearing; Internal Revenue Service, Washington, D.C. July 30, 2009	126
10	Testimony	Return Preparer Review Public Hearing; Internal Revenue Service, Washington, D.C. September 2, 2009	93
11	Testimony	Return Preparer Review Public Hearing; Internal Revenue Service, Chicago, IL. September 30, 2009	113
12	Testimony	IRS Regulations on Paid Tax Return Preparers; House Ways and Means Oversight Subcommittee, July 28, 2011	93
13	Testimony	Regulation of Tax Return Preparers; Senate Finance Committee, April 8, 2014	238

Table 5.3 IRC § 6694 – Tax Underpayment Preparer Penalties per Tax Return (rtn)

IRC Code	Infraction	Penalty – Pre 2008	Penalty 2008 (greater of)	Proposed in 2014 (greater of)
IRC § 6694(a)	Unreasonable Tax Position	$250/rtn	$1,000/rtn or 50% of rtn income	
IRC § 6694(b)	Willful or Reckless Conduct	$1,000/rtn	$5,000/rtn or 50% of rtn income	$5,000/rtn or 75% of rtn income

Table 5.4 Other Assessable Preparer Penalties

IRC Code	Infraction	Penalty – Pre 2008	Penalty 2008	Penalty 2012
IRC § 6695(a)	Fail to Furnish Copy	$50 per failure	$50 per failure	
IRC § 6695(b)	Fail to Sign Rtns	$50 per failure	$50 per failure	
IRC § 6695(c)	Fail to Furnish PTIN	$50 per failure	$50 per failure	
IRC § 6695(d)	Fail to Retain Copy	$50 per failure	$50 per failure	
IRC § 6695(e)	Fail to File Correct Info Rtns	$50 per failure	$50 per failure	
IRC § 6695(f)	Negotiation of Check	$500 per check	$500 per check	
IRC § 6695(g)	Fail of EIC Due Diligence	$100 per failure	$100 per failure	$500 per failure
IRC § 6701	Aiding Tax Liab Understatmt	$1,000 per Incident	$1,000 per Incident	
IRC § 6713	Unauthorized Info Disclosure	$250 per Disclosure	$250 per Disclosure	
IRC § 7206	Fraud and False Stmts	≤ $100,000 and/or 3 yr	≤ $100,000 and/or 3 yr	
IRC § 7207	Fraudulent Returns	≤ $10,000 and/or 1yr	≤ $10,000 and/or 1yr	
IRC § 7216	Reckless Info Disclosure	≤ $1,000 and/or 1 yr	≤ $1,000 and/or 1 yr	
IRC § 7407	Preparation Enjoinment			

Table 5.5 Tax Preparer Defined Sec 7701(a)(36)

Before; The Small Business and Work Opportunity Act of 2007	The Small Business and Work Opportunity Act of 2007
Any person who prepares, or employs other people to prepare, all or a significant part **of an income tax return or refund claim** for compensation	Any person who prepares, or employs other people to prepare, any **return of tax imposed under the Code or refund claim for tax** (including estate, gift, employment, excise and returns of exempt organizations).

Table 5.6 IRC § 6694 – Expanded Scope of Preparer Penalties

Before; The Small Business and Work Opportunity Act of 2007	The Small Business and Work Opportunity Act of 2007
Preparer penalties apply to Federal Income Tax Returns	Preparer penalties apply to all Federal Returns

Table 5.7 IRS Institutional Change

Change in Regulatory Pillars	
Old IRS Logic	New IRS Logic
Partial Circular 230 Regulation (only EAs, CPAs and attorneys)	Full Circular 230 Regulation (all tax preparers)
No minimum tax preparer competency requirement	Tax return preparer examination required
Preparer signature required	Preparer tax identification number required
Unknown to IRS (Signature Only)	Known to IRS (PTIN Registration)
Criminal Sanctions Apply to All	Criminal Sanctions Apply to All
Livelihood Sanctions Apply to Enrolled	Livelihood Sanctions Apply to All Preparers
Monetary Sanctions Apply to Tax Returns	Monetary Sanctions Apply to All Returns

Change in Cultural-Cognitive Pillars	
Old IRS Logic	New IRS Logic
Adversarial relationship with tax preparer industry	Partner relationship with the tax preparer industry
Industry comes between taxpayer and the IRS	Industry helps facilitate IRS mission
Functions of the IRS and tax preparers are separate	Tax preparers are a link in the chain of taxpayer compliance
IRS role is to ensure taxpayer compliance	Tax preparers share in the role to ensure taxpayer compliance
Tax preparers are private enterprise	IRS regulates to maintain a level playing field for tax preparers

Change in Normative Pillars	
Old IRS Logic	New IRS Logic
No minimum tax preparer competency	Minimum competency requirement
Reliance on taxpayer assertions	Evaluate-question taxpayer assertions List due diligence documents
Provide requested client services	Alert client to all filing requirements
Tax practice consists of tax return preparation	Tax practice consists of tax return preparation, tax consultation & advice
No registration of non-enrolled preparers	Registration of all preparers
IRS retains tax information documents	Practitioner retains tax information documents
Taxpayer responsible to file return	Preparer responsible to e-file return

Table 5.8 Ideal Types of Institutional Logics

Ideal Types of Institutional Logics in the Tax Preparation Field		
Institutional Logics/ Sectors (Rows)	Professional Logic	Commercial Logic
Economic System	Personal Capitalism	Managerial Capitalism
Sources of Identity	Field is a Profession Serve Clients Perform duties in an office Organization is a Firm Work is a profession Work variety Advancement based on tenure Status from office size/location Close proximity to professionals	Field is a Business Serve Customers Perform duties in a store Organization is a Business Work is a job Work routinization Advancement based on merit Egalitarian office-open office Close proximity to customers
Sources of Legitimacy	Reputation Conservatism Certification or License High education level Prestigious Address Professional Assn Membership Civic Organization Membership	Size and Scale of Firm Efficiency - speed
Basis of Attention	Word of Mouth Civic Engagement – Networking Event Sponsorship	Paid Media Advertising Price Discounts Promotional Coupons
Structural Overlap	Full Service Tax Services CPAs Attorneys Attest Services Investment Advising Estate & Retirement Planning	Individual Tax Returns Rapid Refund Non-Collateralized Lending Deferred Presentment Prepaid Cash Card Sales Insurance Sales Security Sales

Table 5.9 IRS Preparer Tax Identification Number Database Fields

Last Name	Business Address Line 2	Email Address
First Name	Business Address Line 3	Website
Middle Name	Business Address City	Business Phone Number
Suffix	Business State Code	Profession
Name of Business	Business Address Zip	
Business Address Line 1	Business Country	

Table 5.10 Georgia, Oregon and Tennessee Demographic Comparison

Demographic Element	Georgia	Oregon	Tennessee	USA
Population (2014)				
Estimated total	10,097,343	3,970,239	6,549,352	318,857,056
Persons < 18	24.7%	21.6%	22.8%	23.1%
Persons ≥ 65	12.4%	16.0%	15.1%	14.5%
Ethnic Makeup (2012)				
White alone	62.1%	87.9%	78.9%	77.4%
Black or African American	31.5%	2.0%	17.1%	13.2%
American Indian or Alaskan	0.5%	1.8%	.4%	1.2%
Asian alone	3.8%	4.3%	1.7%	5.4%
Native Hawaiian or Islander	.01%	0.4%	0.1%	0.2%
Two or More Races	2.0%	3.6%	1.7%	2.5%
Total	100%	100%	99.9%	99.9%
Hispanic or Latino (in above)	9.3%	12.5%	5.0%	17.4%
White not Hispanic or Latino	54.3%	77.0%	74.6%	62.1%
Education (2009-2013)				
High School Graduate age 25+	84.7%	89.4%	84.4%	86.0%
Bachelor's Degree 25+	28.0%	29.7%	23.8%	28.8%
Income (2013 dollars)				
Per capita money income in past 12 months (2009-2013)	$25,182	$26,809	$24,298	$28,155
Median household income (2009-2013)	$49,179	$50,229	$44,298	$53,046
Persons below poverty level, percent, (2009-2013)	18.2%	16.2%	17.6%	15.4%
Sales				
Retail sales per capita (2007)	$12,326	$13,494	$12,563	$12,990
Geography (2010)				
Land area in sq miles	57,513.49	95,988.01	41,234.90	3,531,905.43
Persons per sq mile	168.4	41	153.9	87.4

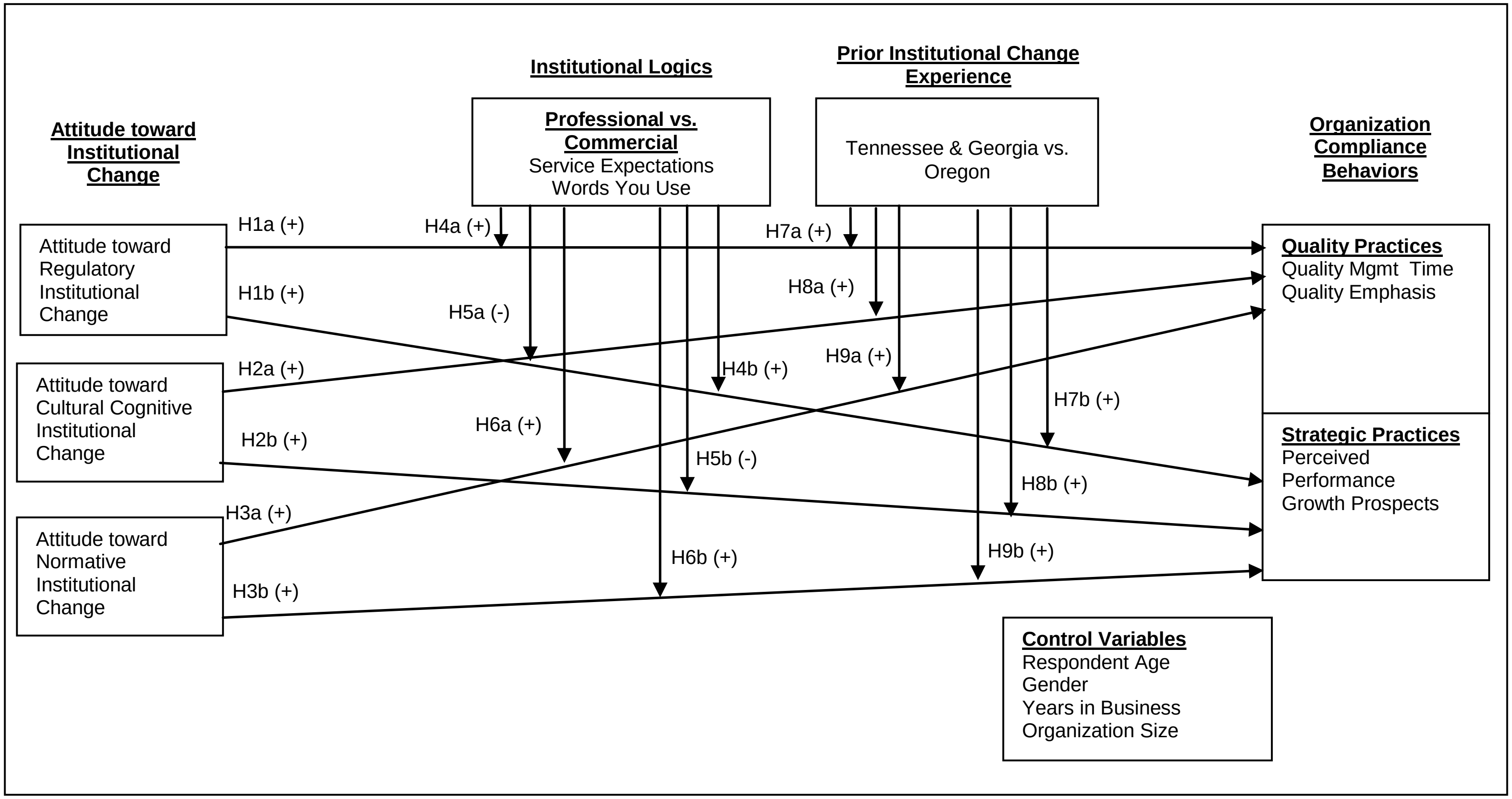


Figure 5.1 Theoretical Model

Chapter 6

RESULTS

6.1 Introduction

This chapter discusses the data gathering process, the test of hypotheses, and concludes with discussion of the findings and study applications. Data acquisition took place over the period from January through October 2015. Surveys were sent to individuals in 1260 organizations that made up the sample of organizations selected from the IRS PTIN database. The surveys were distributed by e-mail using the Qualtrics on-line survey system. The complete survey instrument is located in Appendix A and a copy of the Informed Consent letter accompanying the survey is in Appendix B.

6.2 Data Collection Procedures

The Qualtrics survey system allows direct input of e-mail addresses and mass distribution of surveys. Surveys were sent in waves beginning at the end of January. The timing for this distribution coincided with the beginning of tax preparation season that goes from late January to April 15. The January period is both the best and worst time for contacting tax return preparers. Many tax preparers only work seasonally. Pilot testing in the fall and early winter of 2014 showed that seasonal tax preparers are difficult to contact. The tradeoff for increased preparer accessibility during tax season is increased preparer time demands. Seasonal preparers make themselves available to the public during tax season and seek to maximize their tax return output as well. So, while accessible during tax season, tax return preparers restrict additional demands on their time.

A problem that surfaced during the data collection was the tax preparer community's increasing awareness of on-line threats. Organizations have increased the use of e-mail firewalls and spam blockers to prevent potential cyber attacks. Threat awareness increased during the 2015 tax season when news reports circulated at the beginning of the season that tax preparers were being targeted for on-line scams. On February 6, 2015, Intuit, a leader in consumer and professional tax software, temporarily suspended operations to trace suspicious activity with their tax software related to fraudulent state tax refunds (Intuit, 2015). Increasing scrutiny by tax preparers and their on-line filters meant that on-line surveys were viewed with heightened suspicion.

To allay the fear that the survey was a scam and to ease the concern that clicking the hyperlink to the on-line survey linked to a computer virus, volunteers were recruited to contact the survey recipients by phone. The volunteers were instructed about the study, the survey and how the survey was administered. Each was given a list of individuals who had received the on-line survey. The survey recipient list included the name of the individual, the company name and address, the e-mail address where the survey was sent and the telephone number. The volunteers also received a script to follow when making follow up telephone calls. A copy of the telephone script is in Appendix C. The volunteers coded their encounter in the notes section of the sample list. Information recorded by the volunteers included the date of the phone call, whether or not they spoke with the survey recipient, the accuracy of the listed e-mail address and whether or not the recipient intended to respond. Surveys were resent upon request.

As discussed in the previous chapter, three states were selected for the study. Of the 1261 surveys distributed, 483 were sent to Tennessee tax preparer organizations, 452 to Georgia and 326 to Oregon. Combined responses totaled 307 from all three states. Maps of physical locations of all respondents for Tennessee, Georgia and Oregon are located in Appendix D

An evaluation of survey responses revealed respondent survey fatigue leading to abandonment prior to completing all 39 question sets on the survey. To address this source of missing data, all cases where abandonment occurred prior to answering the dependent variable in question set 18 were deleted listwise.

After the listwise deletion for systematic non-response, an additional analysis for missing data items was conducted. A visual analysis showed that items missing appeared to be at random. Generally missing responses at the question level totaling greater than five percent are considered problematic (Hair, Black, Babin, Anderson, & Tatham, 2003). After the listwise deletion the percent of missing survey responses was calculated for each survey question. The percentage of missing responses for all items of interest in this study did not exceed 5%. The missing response items were completed using the mean substitution technique in SPSS.

Out of the 307 total respondents, 255 surveys were deemed sufficiently complete for analysis yielding an overall response rate of 15.5%. The distribution of completed responses were 102 from Tennessee, 62 from Georgia and 91 from Oregon. There were 140 male and 115 female respondents. An equal number of male and female respondents came from Georgia and Oregon. For Tennessee, however, the proportion of male to female respondents was 63% male and 37% female. The number of respondents who self reported that their organization was family owned totaled 51% for Tennessee, 44% in Georgia and 48% in Oregon. The percentages of respondents who indicated that tax preparation is their primary occupation were 61% for Tennessee, 52% for Georgia and 67% for Oregon. Respondents ranged in age from 23 to 86 with a mean age of 56.24 years and a median age of 59 with a standard deviation of 12.3.

Respondents were asked to indicate their level of education in achievement categories ranging from High School – GED to PhD. The detail of the respondent's education is shown in Table 6.1.

Table 6.1 Respondent Education Level

	State			
Education Level	TN	GA	OR	Total
High School Diploma or GED	5	1	7	13
Associates Degree	10	5	11	25
Bachelors Degree	44	17	36	96
Post Baccalaureate work	7	9	14	30
Masters Degree	31	23	18	72
Juris Doctorate Degree	3	6	4	13
PhD Degree	2	1	1	4
Total	102	62	91	255

Respondents were asked to indicated their professional qualifications. The detail of respondent' professional certification by state is shown in Table 6.2.

Table 6.2 Respondent Professional Certification By State

Professional Certification	State TN	GA	OR	Total
Unenrolled Tax Preparer	9	5	1	15
Annual Filing Participant & Oregon Licensed Tax Preparer	19	15	8	42
Enrolled Agent & Oregon Licensed Tax Consultant	9	8	43	60
Certified Public Accountant	63	29	35	127
Attorney	2	5	4	11
Total	102	62	91	255

Of the 255 substantially complete surveys, 249 indicted their organization's entity type. The largest group are solo practitioners with 152, with 67 from Tennessee, 26 from Georgia and 59 from Oregon. Partnerships comprised the second largest group consisting of 77 partnerships. Totals by state are Tennessee with 24, Georgia with 27 and Oregon with 26. Franchisees made up 15 organizations, followed by Joint Operations totaling 5. Table 6.3 shows respondent entity type by State.

Table 6.3 Respondent Entity Type By State

Entity Type	State TN	GA	OR	Total
Solo Practitioner	67	26	59	152
Partnership	24	27	26	77
Franchisee	5	6	4	15
Joint Operation	3	2	0	5
Total	99	61	89	249

The tax return preparer population is comprised of all individuals listed on the IRS PTIN database. The states chosen were selected for their three separate tax and regulatory regimes. Oregon was selected because of its state income tax for individual taxpayers and because the state requires tax return preparers to be licensed. Georgia was selected because it has a state income tax and Tennessee was selected because it has no state income tax for individual tax payers. Additionally, neither Georgia nor Tennessee require a license for tax preparers in their state. Within each state tax return preparers were selected randomly from within two separate geographic areas. The two geographic areas were selected for their relative city size, one large and one small. Table 6.4 shows survey distributions by locale and maps of the selected locations are located in Appendix D.

Table 6.4 Surveys Sent and Received by State

Locale	State			Total
	TN	GA	OR	
Sent – Large City	388	383	223	994
Responses – Large City	109	68	76	253
Sent – Small City	95	69	103	267
Responses – Small City	17	12	31	60
Total Sent	483	452	326	1260
Total Responses	126	80	107	313

6.3 Empirical Study

6.3.1 Scale Reliabilities

The three independent variables measure attitudes toward regulatory, cognitive-cultural and normative dimensions of institutional change. Each institutional change dimension was measured using a scale comprised of the eight survey items shown in Appendix A Table 1. Items in the instrument were adapted from the Attitude Toward Specific Change scale developed by Lau & Woodman (1995). Reliabilities for the scale show Cronbach's $\alpha = .88$. The eight items comprising each of the three composite variables used a five point likert scale ranging from strongly disagree to strongly agree.

Scale statistics for the independent variables show reliabilities consistent with the Attitude Toward Specific Change scale (Lau & Woodman, 1995). The independent variables responses, for $n = 255$, shows the following reliabilities; for the Attitudes Toward Regulatory Institutional Change Scale (regulatory scale) the Cronbach's Alpha = .895 the mean = 3.22 on a five point scale, and the standard deviation = .842; for the Attitude toward Cultural-Cognitive Institutional

Change Scale (cultural-cognitive scale), the Cronbach's alpha = .917 the mean = 3.41 and the standard deviation = .876; for the Attitude toward Normative Institutional Change Scale (normative scale) the Cronbach's alpha = .911 with a mean = 3.57 and a standard deviation = .876.

For the dependent variables, the Chronbach's alpha reliabilities for the Organizational Compliance Behaviors scale, n=255, with 24 items on a five point likert scale is .894 with a mean of 3.49 and standard deviation of 15.19. The set of items developed to assess organizational outcomes are in Appendix A Table 2. To test assumption of normality a visual examination of the histogram for Organizational Compliance Behaviors showed a negative skew. To further investigate, differences from a normal distribution were tested using the Kolmogorov-Smirnov (K-S) test of normality. The test results for the scale show the K-S test at D(255) = 0.113, $p < .05$, indicating the scale was non-normal (Hair et al., 2003). As with the scales for the model predictors, the large sample size is considered effective in mitigating the effects of failing the assumption of normality.

The moderators for the study represent the institutional logics of the respondent organizations. Institutional logics are measured using two scales, Words You Use and Service Expectations, see Appendix A Table 3. The Chronbach's alpha reliabilities for the Institutional Logics scale, n=255, with 20 items using a five point likert scale is .884 with a mean of 3.45 and standard deviation of 14.7. An examination of the histogram for normality of the scale indicates a negative skew in the data. The Kolmogorov – Smirnov test of normality, D(255) = .134, $p < .05$ does not fail the null hypothesis of non-normality (Hair et al., 2003). Again the large sample size is believed to mitigate the effects of non-normality.

6.3.2 Scale Diagnostics

The independent variables tests for outliers was conducted using the Mahalanobis D^2 (D^2/df) measure for multivariate analysis. Outliers are defined as combinations of characteristics in the data that are distinctly different from the other observation characteristics (Hair et al., 2003). A threshold level of significance = .001 was used for designation of an outlier in the data.

The test designated four outliers. Generally outliers should be retained absent significant evidence that they are actually aberrant (Hair et al., 2003). An investigation was performed on the outlier responses to compare to other respondents. In each case the respondents did not exhibit aberrant responses to the other survey items that were not included in the focal study. It appears likely the responses from this group represent members from the population.

To test the assumption of normality, a visual examination of the histograms for all three independent variables was conducted. The histogram for the Regulatory Change Scale appeared to exhibit responses that approximated a normal distribution but the Cognitive-Cultural and Normative Change Scales appeared negatively skewed.

The Kolmogorov-Smirnov (K-S) test of normality was conducted. Results for the Regulatory Change Scale, D(255) = 0.055, $p > .05$, were not significant indicating the scale was normal. Results for the Cultural-Cognative Change Scale, D(255) = .087, $p < .01$ and the Normative Change Scale, D(255) = .114, $p < .01$ were both significantly non-normal. Hair (2003) suggests that decisions regarding remedies to normality should weigh the potential detrimental effect of non-normality against the mitigating effect of large sample sizes. Based on the sample size greater than 200, no further remedies are considered needed.

Multicollinearity refers to the correlation among three or more independent variables. The correlation matrix (Table 6.5) indicates that the independent variables are significantly but not highly correlated, less than .90, with each other (Hair et al., 2003).

To further test for multicollinearity, each of the three independent variables were regressed on the other two to calculate the Variance Inflation Factor (VIF) and Tolerance (Hair et al., 2003). The examination of the VIF when regressed on each other shows VIF values for the three independent variables of 1.8, 1.5 and 1.5. and a VIF of 1.0 for all three independent variables for Model 2 (Table 6.6) and Model 6 (Table 6.7). In all cases the VIF is well below 10 which is the level multi-collinearity becomes a major concern (Hair et al., 2003). The more conservative test is tolerance. Tolerance is the amount of variability of one independent variable not explained by the other (Hair et al., 2003). Calculated using SPSS, the tolerance for the three independent variables shows tolerance ranging from a low of .553 to a high of .626. The tolerance for all three independent variables in Model 2 (Table 6.6) and Model 5 (Table 6.7) is .76. Multicollinearity is of decreasing concern as tolerance goes above zero. The test for tolerance is greater than .1 which is greater than a common cutoff threshold. The results of the VIF and tolerance tests suggest a moderate concern for the suppression effects of multicollinearity (Hair et al., 2003).

A concern arises with the zero-order correlations (Table 6.5) showing that the independent variables having a larger correlation with each other than with dependent variables. Addressing this concern, the regression models were tested using a hierarchical method. Each group of variables were added to the regression sequentially after the other variables were added to reveal their unique effect. The results of the hierarchical regression is discussed in the next section.

6.3.3 Test Results

Table 6.6 displays the regression results for the combinations of the independent variables with the Quality Practices dependent variable. The model including only the control variables (Model 1) is not significant. The regression of Attitude Toward Institutional Change on Quality Practices dependent variable is shown in Model 2. This model captures the main effects of attitudes of the three institutional change dimensions. The model is significant at the $p < .001$ level ($F = 20.77$, $R^2 = .37$, adjusted $R^2 = .35$).

Potential concerns for multi-collinearity do not affect the assessment of significance of Model 2 overall. However, likelihood of multi-collinearity in the independent variables combined with the greater correlation between the dependent variables than the dependent variables makes interpretation of the individual coefficients problematic. An initial exploration of the three separate institutional change attitude scales was conducted with each entered into the regression with the controls separately. All three showed a significant correlation with the dependent variable independently. This agrees with the bivariate positive correlations between Quality Practices and all three Attitude Toward Institutional Change measures (Table 6.5). When entering the three dependent variables in Model 2 so to parse out their shared variance, the attitudes toward regulatory and the attitudes toward cultural-cognitive change are not significant predictors, whereas, attitudes toward normative change is significantly related to Quality Practices, $p < .001$, (Table 6.5).

Model 3 is the full model that incorporates controls plus the independent variables and the inclusion of the institutional logics interaction terms. To reduce the potential effect of multi-collinearity in the interaction terms, centered variables were calculated. The centered variables were formed by finding the mean for each independent variable and subtracting it from the independent variables. These differences, or residuals, are multiplied together to produce a centered product term. The centered interaction terms were added to the regression model.

When the interaction terms were added in Model 3, the beta weights in the relationship between Attitudes toward Normative Change and Quality Practices remained significant ($p < .001$). Also, the addition of Institutional Logics measures yielded additional explanatory value to the overall model ($p < .001$) with a change in $R^2 = .072$. The overall model remains significant ($F = 19.13$, $p < .001$), with an $R^2 = .443$ and an adjusted $R^2 = .420$, Model 3 (Table 6.5).

The purpose for inclusion of institutional logics in the regression is to test the hypothesis that institutional logics moderate the direct relationship between the three separate Attitudes Toward Institutional Change measures and Quality Practices. The model indicates that the interactions of Institutional Logics and the Attitudes toward Regulatory Change and the interaction of Institutional Logics and Attitudes toward Normative Change are not significantly related to Quality Practices. The model does indicate that the interaction between Attitudes toward Cultural-Cognitive Institutional Change and Institutional Logics does significantly moderate the relationship between and Attitudes toward Cultural-Cognitive Change and Quality Practices ($p < .001$).

To test the interaction, the centered Attitude toward Cultural-Cognitive Institutional Change term, Centered Institutional Logics term, and the centered Cultural-Cognitive Institutional Logics interaction term were entered into the regression model as independent variables and regressed on the Practice Quality dependent variable.

Model 4 is the full model with the prior experience interaction terms added. The prior experience moderator variable compares the combined responses for Tennessee and Georgia to the Oregon responses. Oregon has prior experience with a coercive institutional change in their licensure of tax return preparers for state income tax returns. Neither Georgia nor Tennessee have prior experience with a regulation stipulating tax preparer licensing. The interaction terms were entered into Model 4 using 0 for the combined responders from Tennessee and Georgia and 1 for Oregon preparers. None of the interaction terms are significant. Also no improvement in the model is realized by adding the Prior Experience interaction terms.

Table 6.7 shows the regression models of the predictors on Practice Strategies. Model 5 includes only the control variables. The model is significant at the $p < .05$ level ($F = 3.20$, $R^2 = .049$, adjusted $R^2 = .24$). The coefficients for both age and organization size show significance in the regression. The correlation of age on Practice Strategies is significant ($p < .01$). The significant negative correlation between age and practice strategies (Table 6.5) suggests that as age increases prospects for growth and performance comparisons to referent organizations decrease. Organization size is also a predictor of Practice Strategies ($p < .05$). The significant positive correlation indicates that as size increases there is a positive correlation to growth prospects and to perceived performance.

Model 6 captures the effects of attitudes toward institutional change on practice strategies. The model is significant at the $p < .001$ level ($F = 12.21$, $R^2 = .257$, adjusted $R^2 = .236$). The coefficient for normative institutional change attitude is significant ($p < .001$).

Model 7 is the model with the centered institutional logics interaction terms added. Two of the interaction terms are significant, the cultural-cognitive – institutional logics term ($p < .001$) and the normative - institutional logics term ($p < .05$). The model is significant at the $p < .001$ level ($F = 13.41$, $R^2 = .355$, adjusted $R^2 = .328$). Because of multi-colliniarity no reliable interpretation of the individual coefficients in the multi-variate models can be made.

Model 8 has the addition of prior experience interaction terms. None of the prior experience interactions are significant and their inclusion has a small incremental increase in the model (R^2 increase of .007).

Table 6.5 Pearson Correlation Matrix

Means, standard deviations and correlations for all variables and scale reliabilities on the diagonals.

	Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1	IV Regulatory Change Scale	3.22	0.84	0.895										
2	IV Cog Cult Change Scale	3.41	0.88	.612**	0.917									
3	IV Norm Change Scale	3.57	0.88	.611**	.668**	0.911								
4	MV Institutional Practice Logic	3.45	0.73	.184**	.404**	.603**	0.868							
5	MV Prior Regulatory Experience	.36	.48	.163**	.206**	.254**	.220**	n.a.						
6	DV Practice Quality	3.73	0.87	.297**	.382**	.595**	.584**	.195**	0.868					
7	DV Practice Strategies	3.26	0.50	.194**	.282**	.461**	.510**	.083	.621**	0.801				
8	CV Age	56.24	12.30	.074	-.008	-.065	-.012	.054	-.009	-.179**	n.a.			
9	CV Gender	23.90	14.49	.068	.113	.082	.031	.082	.079	.040	-.099	n.a.		
10	CV Yrs in Bus	0.45	0.50	-.046	-.061	-.078	.106	-.049	.026	-.059	.470**	-.143*	n.a.	
11	CF Organization Size	504.80	1911.63	.021	.042	.029	-.022	.062	.068	.129*	.000	.058	.089	n.a.

n.a. Reliabilities not applicable

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 6.6 Regression on Quality Practices

Results of regression analysis with Quality Practices as Dependent Variable (Centered Interactions)				
Variables	Model 1 Control Variables	Model 2 Institutional Change	Model 3 Inst Logics Interactions	Model 4 Prior Experience Interactions
Control Variables				
Age	-.021	.014	.013	.013
Gender	.080	.040	.040	.042
Years in Business	.042	.068	.025	.027
Size; Tax Returns Prepared	.059	.043	.064	.064
Attitude Toward Inst Chg				
Regulatory Change		-.113	.018	-.002
Cultural-Cognitive Change		.008	-.043	-.067
Normative Change		.661***	.381***	.411***
Interactions – Institutional Logics				
Regulatory X Inst Logics			-.031	-.041
Cult-Cog X Inst Logics			.332***	.329***
Normative X Inst Logics			-.037	-.024
Interactions – Prior Experience				
Regulatory X Exp				.154
Cult-Cog X Exp				.128
Normative X Exp				-.260
R^2	.012	.371	.443	.445
Adjusted R^2	-.004	.353	.420	.415
F	.736	20.77***	19.43***	14.86***
Change in *F*		46.94***	10.635***	.248

β Values are standardized coefficients, N=255
$^{*}p < .05$
$^{**}p < .01$
$^{***}p < .001$

Table 6.7 Regression on Practice Strategies

Results of regression analysis with Practice Strategies as Dependent Variable (Centered Interactions)				
Variables	Model 5 Control Variables	Model 6 Institutional Change	Model 7 Inst Logics Interactions	Model 8 Prior Experience Interactions
Control Variables				
Age	-.019**	-.156*	-.172**	-.164**
Gender	.016	-.012	-.020	-.011
Years in Business	.019	.037	.023	.017
Size; Tax Returns Prepared	.124*	.112*	.139**	.134*
Attitude Toward Inst Chg				
Regulatory Change		-.113	.029	-.020
Cultural-Cognitive Change		.002	-.056	-.060
Normative Change		.519***	.184*	.236*
Interactions – Institutional Logics				
Regulatory X Inst Logics			-.031	.017
Cult-Cog X Inst Logics			.311***	.313***
Normative X Inst Logics			-.191*	-.174
Interactions – Prior Experience				
Regulatory X Exp				.378
Cult-Cog X Exp				.015
Normative X Exp				-.444
R^2	.049	.257	.355	.362
Adjusted R^2	.034	.236	.328	.328
F	3.20*	12.21***	13.41***	10.53***
Change in F		23.09***	12.30***	.97

β Values are standardized coefficients, N=255
* $p < .05$
** $p < .01$
*** $p < .001$

Table 6.8 Outcomes of Research Hypotheses

	Hypothesized Relationship	Model	Finding
H1a	Positive owner/manager attitudes toward regulatory institutional change pressures are positively related to organization **compliance behaviors**. (Quality Practices)	2	Not Supported
H2a	Positive owner/manager attitudes toward cultural-cognitive institutional change pressures are positively related to organization **compliance behaviors**. (Quality Practices)	2	Not Supported
H3a	Positive owner/manager attitudes toward normative institutional change pressures are positively related to organization **compliance behaviors**. (Quality Practices)	2	Supported $P < .001$
H1b	Positive owner/manager attitudes toward regulatory institutional change pressures are positively related to organization **compliance behaviors**. (Practice Strategies)	6	Not Supported
H2b	Positive owner/manager attitudes toward cultural-cognitive institutional change pressures are positively related to organization **compliance behaviors**. (Practice Strategies)	6	Not Supported
H3b	Positive owner/manager attitudes toward normative institutional change pressures are positively related to organization **compliance behaviors**. (Practice Strategies)	6	Supported $P < .001$
H4a	A professional institutional logic will positively moderate the positive relationship between owner-manager attitudes toward regulatory institutional change pressures and **compliance behaviors**. (Quality Practices)	3	Not Supported
H5a	A professional institutional logic will negatively moderate the positive relationship between owner-manager attitudes toward cultural-cognitive institutional change pressures and **compliance behaviors**. (Quality Practices)	3	Significant $P < .001$ in the opposite direction
H6a	A professional institutional logic will positively moderate the positive relationship between owner-manager attitudes toward normative institutional change pressures and **compliance behaviors**. (Quality Practices)	3	Not Supported
H4b	A professional institutional logic will positively moderate the positive relationship between owner-manager attitudes toward regulatory institutional change pressures and **compliance behaviors**. (Practice Strategies)	7	Not Supported
H5b	A professional institutional logic will negatively moderate the positive relationship between owner-manager attitudes toward cultural-cognitive institutional change pressures and **compliance behaviors**. (Practice Strategies)	7	Significant $P < .001$ in opposite direction
H6b	A professional institutional logic will positively moderate the positive relationship between owner-manager attitudes toward normative institutional change pressures and **compliance behaviors**. (Practice Strategies)	7	Significant $P < .05$ in opposite direction

Table 6.8—*Continued*

	Hypothesized Relationship	Model	Finding
H7a	Organizations operating in an enhanced regulatory environment will positively moderate the positive relationship between owner-manager attitudes toward regulatory institutional change pressures and **compliance behaviors**. (Quality Practices)	4	Not Supported
H8a	Organizations operating in an enhanced regulatory environment will positively moderate the positive relationship between owner-manager attitudes toward cultural-cognitive institutional change pressures and **compliance behaviors**. (Quality Practices)	4	Not Supported
H9a	Organizations operating in an enhanced regulatory environment will positively moderate the positive relationship between owner-manager attitudes toward normative institutional change pressures and **compliance behaviors**. (Quality Practices)	4	Not Supported
H7b	Organizations operating in an enhanced regulatory environment will positively moderate the positive relationship between owner-manager attitudes toward regulatory institutional change pressures and **compliance behaviors**. (Practice Strategies)	8	Not Supported
H8b	Organizations operating in an enhanced regulatory environment will positively moderate the positive relationship between owner-manager attitudes toward cultural-cognitive institutional change pressures and **compliance behaviors**. (Practice Strategies)	8	Not Supported
H9b	Organizations operating in an enhanced regulatory environment will positively moderate the positive relationship between owner-manager attitudes toward normative institutional change pressures and **compliance behaviors**. (Practice Strategies)	8	Not Supported

6.4 Discussion

The relationships proposed in the theoretical model, Figure 5-1, derives from a study of theory and from the qualitative study of the tax return preparer organizations and changes at the IRS as they related to the tax preparer industry. The hypothesized main effects suggest that the owners and managers of organizations develop attitudes toward change pressures. In small organizations, that are typical of those engaged in preparing tax returns, the owner or manager may exercise significant influence over the behaviors of their organizations. A positive attitude toward change by the owner manager is considered to have a greater probability of exhibiting behaviors that comply with the institutional change (Banerjee, 2002; Hambrick & Mason, 1984). Additionally, the study proposed that institutional logics of organizations in an industry would moderate the attitude – behavior relationship.

In the test of hypotheses, only five of the 18 hypothesized relationships are significant. With the tests of main effects, the overall model for the regressions in Model 2 and Model 6 shows improvement over the control variables alone with a significant *F* and Change in *F* and a large R^2 and Adjusted R^2. But, when the shared variance is parsed out, the significance of two of the three predictors drops out leaving only one significant predictor. This makes interpretation of the regression and subsequent tests of moderators problematic.

Examining the direct effects model, the attitude toward normative institutional change and quality practices, Hypothesis 3a, show a significant positive relationship, $p < .001$. The attitude toward normative institutional change is also significantly positively related to practice strategies, Hypothesis 3b, $p < .001$. Normative changes represent the expectation that preparers as a whole will increase their level of knowledge and expertise. This result indicates that, all things being equal, respondents had a more positive attitude toward IRS normative institutional change than either regulatory change or cultural-cognitive change.

Given the positive evaluation of normative change the next examination is to look for interaction effects. The test of interaction of institutional logics in the relationship between attitudes toward normative institutional change and quality practices, Hypothesis 6a, is insignificant. The test of interaction of institutional logics in the relationship between attitudes toward normative institutional change and practice strategies, Hypothesis 6b, is significant, $p < .05$, but not in the direction hypothesized. This suggests that professional organizations with high evaluations of practice strategies hold a less positive attitude toward normative institutional change than those with commercial institutional logics. This suggests that professional logics organizations see the increase in learning as more threatening than those from commercial logics organizations.

The interaction effect of institutional logics on the relationship between attitudes toward cultural-cognitive change and quality practices, Hypothesis H5a is significant, $p < .001$. Also, the interaction effect of institutional logics on the relationship between attitudes toward cultural-cognitive change and practices strategies, Hypothesis H5b is significant, $p < .001$. In both cases the relationship is in the opposite direction of that hypothesized. It was hypothesized that professional logics organizations would view a closer relationship to the IRS with skepticism. The hypothesis was based on the notion that professional logic would adhere to the loyalties of their profession and view the notion of a partnership with IRS unfavorably. However, this result indicates that professional logics organizations view a closer relationship with the IRS more positively than commercial logics organizations. A possible perspective on this outcome is that commercial institutional logics organizations may view a ‘partnership’ with the IRS as an intrusion into the commercial model.

The proposed interaction effect of Hypothesis 6b is significant, $p < .05$ but also in the opposite direction of what was hypothesized. The hypothesized relationship indicted that professional institutional logics will positively moderate the positive relationship between owner-manager attitudes toward normative institutional change pressure and practice strategies. This result indicates that professionals have a more negative attitude toward normative institutional change than commercial preparers. It indicates that professionals have a less positive view over increasing levels of preparer competency than commercial preparers.

The theoretical model, Figure 5-1, proposes that prior experience in an “enhanced” regulatory environment would positively moderate the relationships between attitudes toward institutional change and quality practices and practice strategies. For both dependent variables, none of the interactions were significant.

6.5 Implications of the Findings

Implications for researchers present what the study accomplished and what the study failed to accomplish.

The empirical portion of this study failed to find the full complement of objectives set out in the hypotheses. This leads to the conclusion that the constructs used in the study were mis-specified. The first problem is the measure of attitudes. The scale adapted was a validated scale. The problem encountered is its use to measure attitudes of three separate institutional changes. The similar wording and their close proximity to each other in the survey appears to have resulted in learning across the scales.

In addition, for the attitude measures, the scenarios used to set the stage for the survey questions used the words of the IRS commissioner to communicate the change. This was an attempt to be true to the IRS change message. The approach may have been too subtle in communicating the distinctions between the three institutional change pressures.

The empirical results do demonstrate some support that attitudes, as measured by levels of agreement toward institutional change, provide explanatory value for compliance behaviors. When the three predictors were added to the overall model the regression results demonstrate that variances in attitudes are related to differences in quality practices and organizational strategies in this cross-sectional study.

This study provides some support for the validity of two measures of institutional logics, words people use and service expectations. Interviews with tax return preparers showed that individuals within commercial organizations use vocabularies that differ from professional organizations. Differences in words people use enable measurement of institutional logics useful for the measure of ideal types.

Observations and interviews of tax preparation organizations showed that different organization’s strategies attracted individuals with differing characteristics for their services. The characterization of customer needs and expectations provided an in-direct measure of institutional logics for the measure of taxpayer expectations.

The qualitative study of regulatory change provided insight in the mechanisms through which institutional change takes place. The results of the study suggests that coercive institutional change encompasses the three institutional carriers (Scott, 2003).

Finally, what this study did not accomplish has relevance to the study of institutional theory and logics. This study did not find evidence that attitudes to regulatory change is significant. The study did not support the historic contingency of institutional logics in the interaction effect of prior regulation for Oregon preparer attitudes.

6.6 Study Limitations

The study is confined to the context of tax preparation. It is also fixed in time in relation to the current changes taking place between the IRS and tax return preparers.

The study and its model was broad in its scope and the objectives were too far reaching. The survey instrument became large resulting in early abandonment so that some questions of interest were not answered.

I recommend that the scope of future research should be reduced to examine portions of the model. Some of the test objectives should be changed, particularly the outcome measures. Future outcome should be more closely related to institutional outcomes.

APPENDIX A

STUDY VARIABLES LISTS

Table 1: Independent Variables Scales

Attitudes	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
Attitudes Toward Regulatory Institutional Change	I think the IRS oversight initiative is excellent If I can, I will do my best to help this initiative Nothing is worse than this (R) I enjoy changes like this I believe the IRS has done a great job in bringing about this change I don't want to be involved in this initiative (R) Everyone should support the oversight initiative I don't want to see this change (R)				
Attitudes Toward Cognitive-Cultural Change Scale	I think the change in perspective is excellent If I can, I will do my best to support this change Nothing is worse than this (R) I enjoy changes like this I believe the IRS is doing a great job by bringing about this change I don't want to be involved in this change (R) Everyone should support this change I don't want to see this change happen (R)				
Attitudes Toward Normative Change Scale	I think the change to increase preparer competency is excellent If I can, I will do my best to help this happen Nothing is worse than this (R) I enjoy changes like this I believe the tax preparer field will do a great job in bringing about this change I don't want to be involved in this change (R) Everyone should support this change I don't want to see this change happen (R)				

Table 2: Dependent Variables List

Quality Management	Very Low	Low	Neither Low Nor High	High	Very High
Quality Assurance Time Commitment	Soliciting feedback from the taxpayers we serve Establishing procedures to screen out high-risk taxpayers Thoroughly reviewing completed tax returns Discussing how to improve the quality of tax preparation Allocating resources towards better tax preparation Continuously improving tax preparation quality Focusing on tax preparation quality as opposed to speed				
	Not a Current Priority	Unlikely to Develop	Plan to Develop	In Develop-ment	Already In Place
Organizational Quality Intentions	We have a clear mission We have concise objectives We have stated quality goals We have quality performance measurement criteria We have quality performance monitoring & review				
Practice Strategies	Much Worse	Worse	About the Same	Better	Much Better
Comparative Performance	Net Income Total Sales Number of Taxpayers We Serve Overall Satisfaction of Those We Serve Overall Performance				
	Definitely Decrease	Likely Decrease	No Change	Likely Increase	Definitely Increase
Growth Prospects	The number of tax returns prepared in our location/s The types of tax services The number of tax return preparers The number of locations The types of Related Services The types of Financial Services The types of Community Services				

Table 3: Moderating Variables List

Institutional Logics	Never	Rarely	Sometimes	Often	All of the Time
Words You Use	Our organization provides services to **<u>customers</u>** (R) We provide services to **<u>clients</u>** We provide our services in a **<u>store</u>** (R) We provide our services in an **<u>office</u>** We refer to our organization as a **<u>business</u>** (R) We refer to our organization as a **<u>firm</u>** We refer to our work as a **<u>job</u>** (R) We refer to our work as a **<u>profession</u>**				
	Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree
Service Expectations	Typically the taxpayers we serve want their tax returns prepared as quickly as possible. (R) The taxpayers we serve value a conservative organization. People seek us for highly technical tax services. Those we serve are mainly interested in receiving a tax refund. (R) Those we serve seek highly qualified tax preparers. Those we serve come to us for our convenient location. (R) Those we serve are considered high net income taxpayers. Those we serve come to us because of our advertising and promotion. (R) Professionals in the community refer taxpayers to us. Those we serve come to us because of the prestige we hold in the community. Those we serve want convenient ways to pay for our services. (R) Those we serve care little about their tax preparer's qualifications. (R)				

Prior Institutional Change Experience	Associated Items
State	0 = Tennessee 0 = Georgia 1 = Oregon

Table 4: Control Variables

Controls	Associated Items
Respondent Age	What is Your Age
Respondent Gender	Male = 0 Female = 1
Age of Firm	Number of Years in Business
Size of Firm	Approximate Number of 1040s per Year

APPENDIX B

INFORMED CONSENT

The University of Texas
ARLINGTON™

My name is Leon Weeks. I am a doctoral student at the University of Texas at Arlington, Texas and an Associate Professor of Management at Southern Adventist University in Tennessee.

As part of my doctoral dissertation research, I am studying the relationship between tax preparers and the IRS. I am asking tax return preparers like you to help me by taking a few minutes to complete the attached survey. You may access the survey by clicking on the link at the bottom of this page.

I expect that the survey will take not more than 15 minutes of your time. The responses will be kept confidential and any findings will be presented in aggregate and will be for academic research only. This study has been reviewed by the UT Arlington Institutional Review Board..

Your participation is of course voluntary.

At the conclusion of the survey, you may select to receive a **$10 Gift Certificate** from either Amazon or Starbucks as my gift to say thanks for your completed response. You will be prompted to type in your mailing address. Your gift card will be sent to the address you provide.

I appreciate your help and input. If you have questions, please do not hesitate to contact me at weeks@uta.edu Questions about this research may also be directed to my Advisor Professor Susanna Khavul skhavul@uta.edu. Any questions about your rights as a research participant or a research-related injury may be directed to the Office of Research Administration; Regulatory Services at 817-272-2105 or regulatoryservices@uta.edu. Refer to IRB Protocol: 2015-0387.

Click the link below to start the survey.
I appreciate your help and input. If you have questions, please do not hesitate to contact me at weeks@uta.edu Questions about this research may also be directed to my Advisor Professor Susanna Khavul skhavul@uta.edu. Any questions about your rights as a research participant or a research-related injury may be directed to the Office of Research Administration; Regulatory Services at 817-272-2105 or regulatoryservices@uta.edu. Refer to IRB Protocol: 2015-0387.

Click the link below to start the survey.

APPENDIX C

VOLUNTEER CALLER SCRIPT

Survey Follow up Telephone Call Script

Hi, my name is _________. I am calling on behalf of Leon Weeks a Professor at Southern Adventist University in Collegedale Tennessee and a PhD. student working to complete his PhD. dissertation study at the University of Texas at Arlington Texas. He is studying the attitudes tax return preparers have about certain changes at the IRS.

Your name was selected at random from the Preparer Tax Identification Number (PTIN) database that the IRS makes available to the public.

Is it correct that you prepare income taxes?

<u>If NOT Doing Taxes</u> (retired, deceased, not doing taxes, tax consultant)
Thank you anyway – Goodbye (write "Does not do Taxes" in the NOTES column).

<u>If YES to Doing Taxes</u>
Last week an invitation was sent to you by e-mail asking your participation in the tax preparer study, do you recall the e-mail?

<u>If NO to receiving the e-mail,</u>
This call is to invite you to participate in the study. As a thank you for your participation you can select a $10 Starbucks or Amazon gift certificate at the end of the survey. I will arrange to have the survey sent again, is ____________________ the correct e-mail address?

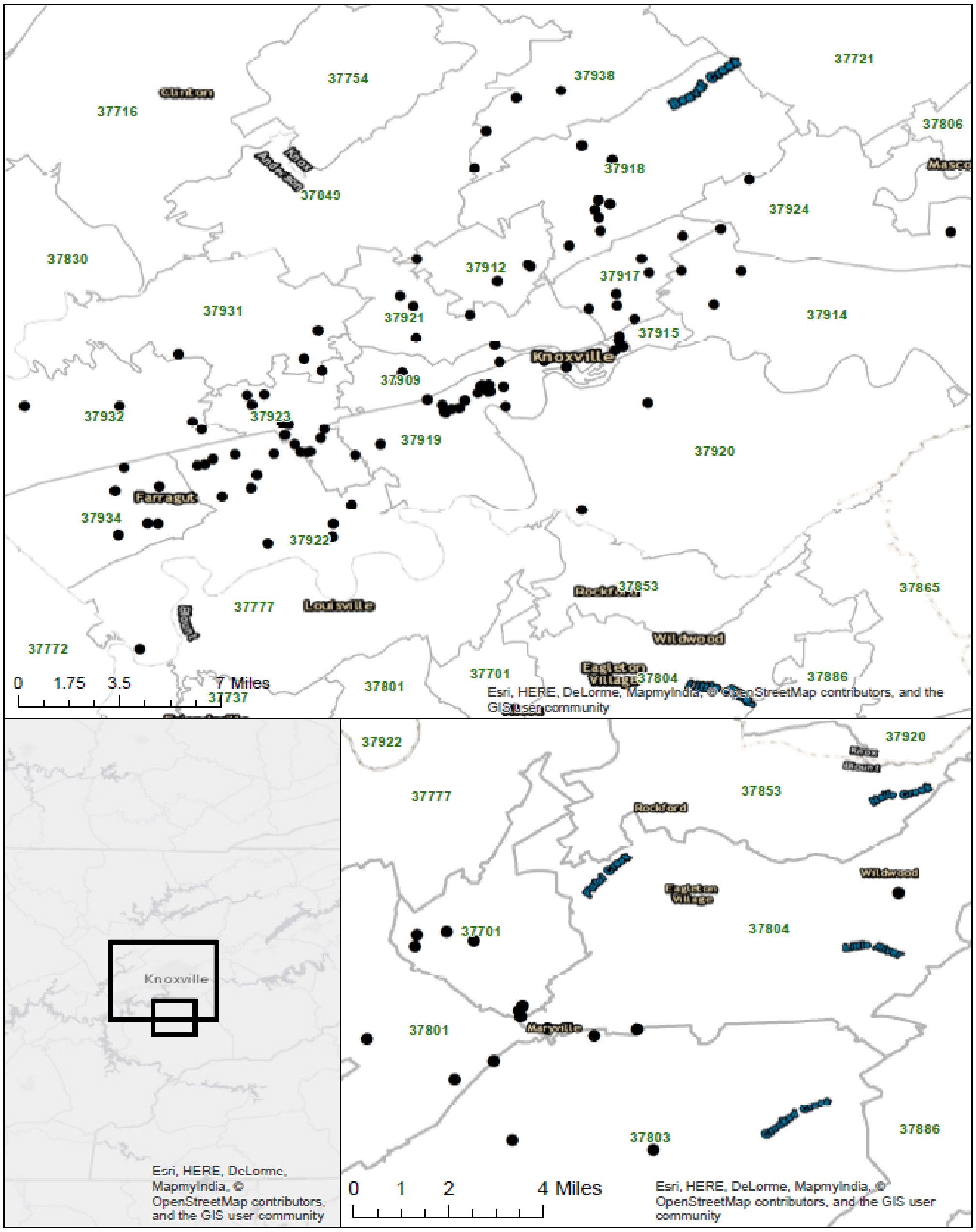
<u>If YES to receiving the e-mail</u>,
This call is to encourage you to participate in the study. As a thank you for your participation you can select a $10 Starbucks or Amazon gift certificate at the end of the survey.
To make it easier to find, would you like to receive the e-mail survey invitation again?

Thanks so much, your participation is really appreciated.

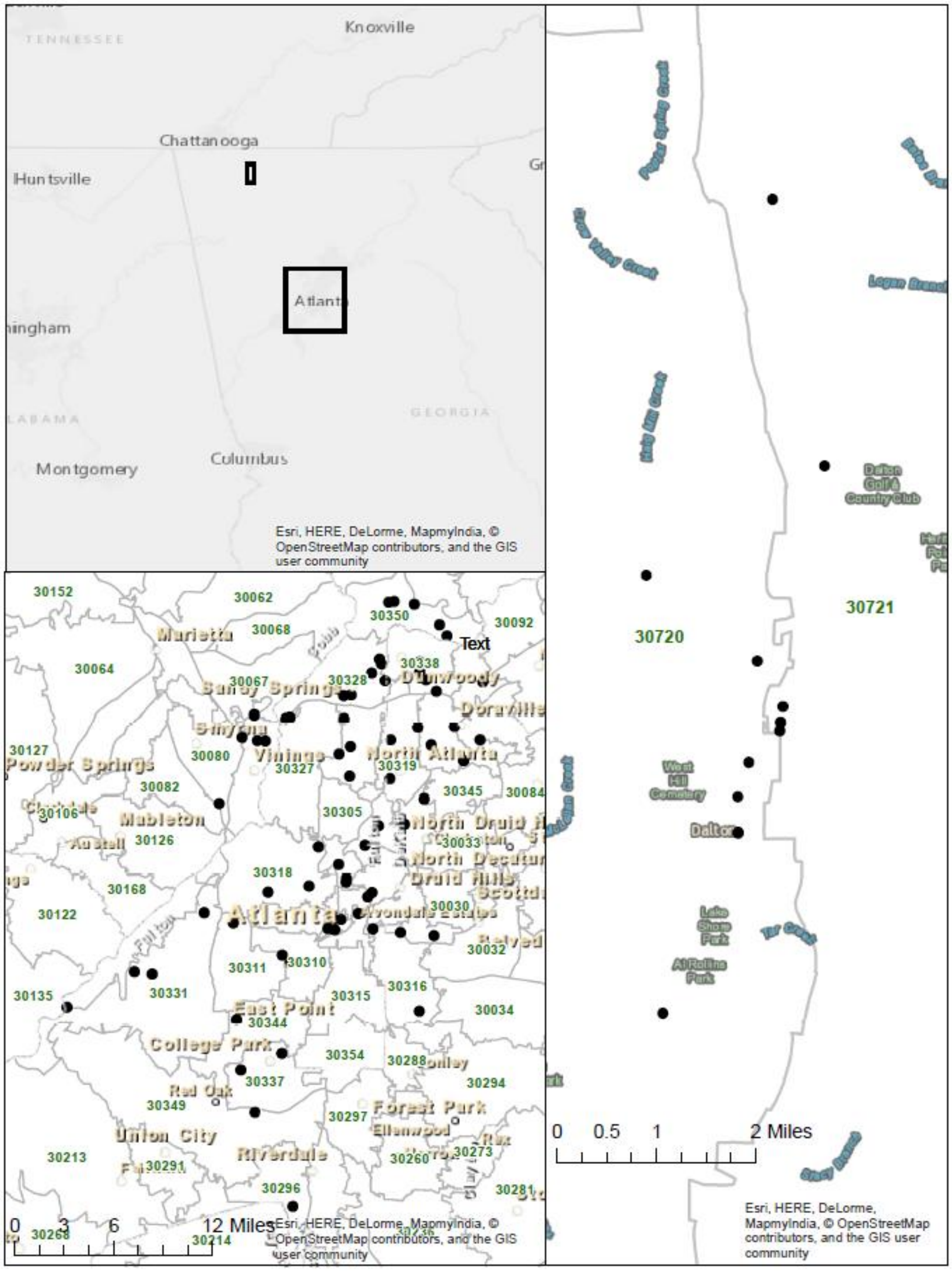
APPENDIX D

MAP OF RESPONDENT LOCATIONS

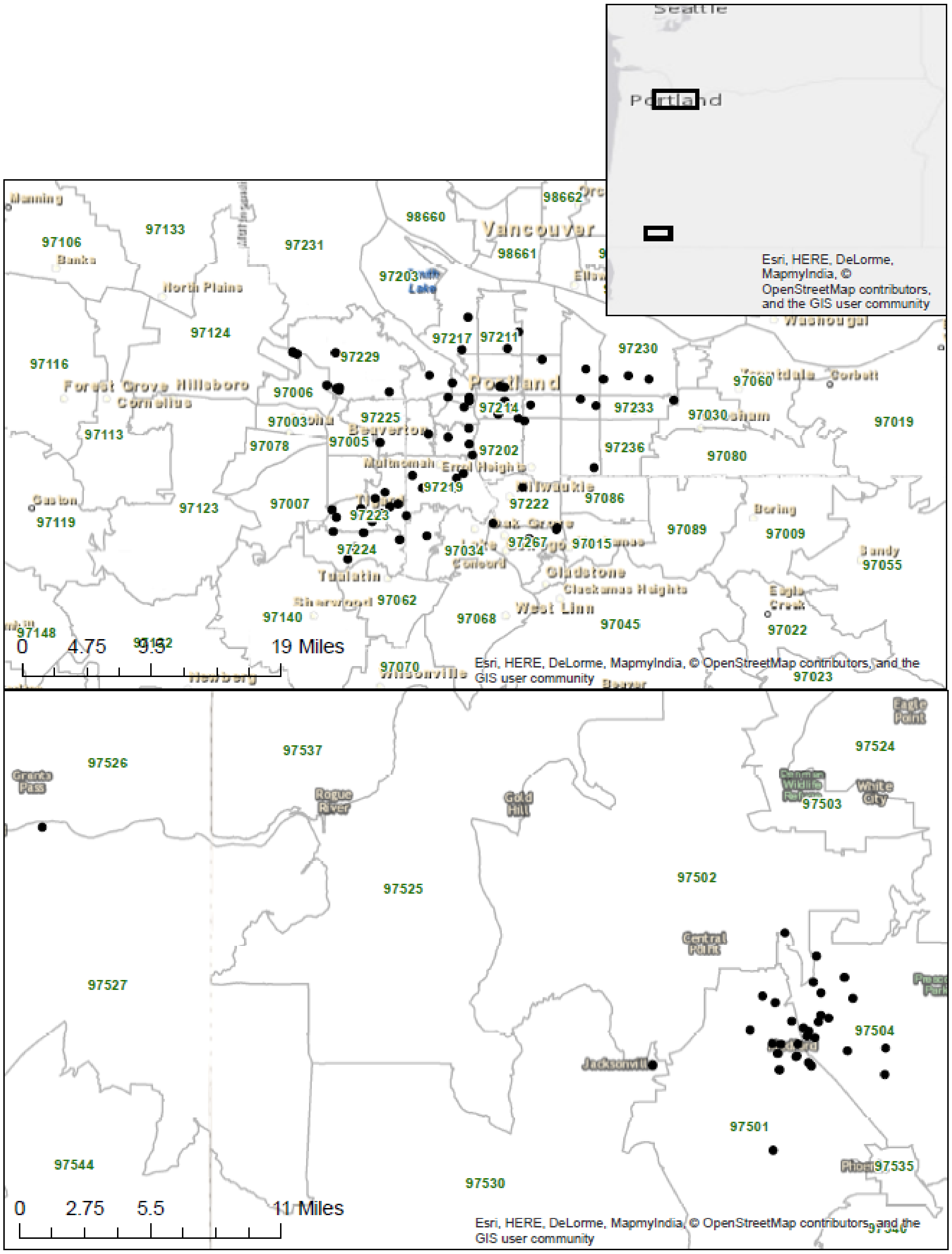
Tennessee Map of Respondent Locations (Large City; Knoxville, Small City; Maryville)



Georgia Map of Respondent Locations (Large City; Atlanta   Small City; Dalton)



Oregon Map of Respondent Locations (Large City; Portland   Small City; Medford)



APPENDIX E

DATABASE HANDLING AND SAMPLING PROCEDURES

The IRS PTIN Database

The IRS PTIN database contains contact information for all individuals who apply for and pay an annual fee to obtain a Preparer Tax Identification Number. The identification number identifies individuals for purposes of enabling electronic filing of tax returns. This includes information returns, corporate tax returns, payroll tax returns, fiduciary returns as well as individual and joint income tax returns.

The database was obtained for this study by filing a Freedom of Information Act request with the Atlanta office of the IRS. The database is delivered by U.S. mail. The data is contained in one zip file on an optical computer disk. The zip file can be imported into an Excel spreadsheet.

Data Cleaning

Table 5-9 shows a list of the data fields for each database record. Once downloaded into Excel the following procedures were performed to insure the accuracy and comparability of individual database records.

The initial step is to assign a sequence number to all records in the database. The database does not provide the individual's PTIN number so this step assigns a unique identifier for all records in the database.

The next step is to extract the records from all three states and place them in three separate files. The PTIN database contains omissions and errors in the fields. To insure completeness of the data extracted for each state the data is sorted by state and extracted, then the data is sorted by zip code and the zip codes for the state are extracted. The + four zip codes are also sorted and extracted for the state. The extraction files by state and zip code are combined and sorted by sequence number. Duplicate sequence numbers are eliminated to leave the unique records for the state.

Sampling

The sampling procedure requires a random sample of organizations from the two cities within each state. By reference to a map of zip codes, the zip codes for the selected cities were listed. The individual PTIN holders with the listed zip codes were extracted from the state database to form the database for the sample.

The level of analysis for the study is the organization so organizations were isolated. Each sample database was sorted by company name and each company was assigned a unique business sequence number. To ensure completeness and accuracy the sample was sorted again by address to so that differences in business names would group together. For example some list their company name as Block while others in the same location list their company name as H&R Block. When the different ways to express the same business name were combined, the unique business sequence number was assigned.

The unique businesses were reviewed. One individual from each business was identified as the target individual for sampling. The target individual is considered the person with the greatest probability of being the owner or manager. The criteria used for selecting the owner or manager was 1) select the individual PTIN holder in the business with the same last name as the name of the business. 2) If there is no name match the individual selected would have the highest certification, for example selecting a CPA over an Enrolled Agent. 3) Otherwise make a judgment call.

The target individual for each business was assigned a target sequence number. The targets were randomized and grouped into 10 separate randomized groups. Surveys were sent in waves beginning with group number 1 as wave 1. After enough time elapsed to allow individuals from each wave to respond, surveys were sent to the next wave.

2014 and 2015 Databases

Both the 2014 and 2015 PTIN databases were used during data collection. The 2014 IRS PTIN database was used as the contact information source during the data collection period from January 2015 until April 2015. Because people are mobile it was important to use the most current information possible to make contacts. The 2015 IRS PTIN was obtained in April and was used as the contact information source for data collection from the end of April 2015 forward.

Because there is no common identifier on the PTIN databases, the two databases were manually merged. The merged database showed that some attempts to contact individuals with surveys earlier in the year were in error. Due to business closings, retirements or deaths of the individuals, many surveys were sent to those who were on the 2014 PTIN list but not on the 2015 list. Also the merged database revealed movement within the industry such as mergers, closures, name changes, e-mail address changes and movement to new locations. Updating the 2014 database with 2015 changes improved contact accuracy.

APPENDIX F

SUMMARY OF QUALITATIVE STUDY INTERVIEWS

Summary of Qualitative Study Interviews

Interview Location	State			Total
	GA	TN	TX	
Dalton, Georgia	4			4
Cleveland, Tennessee		11		11
Arlington, Texas			8	8
Cleburn, Texas			6	6
Total	4	11	14	29

APPENDX G

SUPPORT DATA FOR TAX PREPARER GROWTH EXAMPLE

Support data for tax preparer organization growth example in a medium size city in the Southeastern United States.

Year	Total [a]	Franchise [a]	Non-Fran [a]	Population [b]
1941	1			180478
1961	4			237905
1965	5			246071
1970	6	2	4	254236
1975	20	8	12	270988
1980	22	8	14	287740
1985	39	8	31	286638
1990	55	10	45	285536
1995	70	7	63	296716
2000	73	20	53	307896
2005	75	26	49	322180
2010	90	30	60	336463

a Data taken from telephone directory Yellow Pages listing.
b Population data from www.Census.gov State and County Facts.

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