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How do frontline tax workers assess citizen-clients' trustworthiness?

The role of signals and status characteristics

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Abstract

Within the literature on street-level workers' encounters with citizens it is generally known that bureaucrats' decision making is partly dependent on the relationship they have with them. Within policy areas that promote notions as trust and responsiveness, bureaucrats' relationship with citizen-clients becomes even more crucial. Very little is known about *what* frontline workers deem trustworthy and untrustworthy citizen-clients in the first place, and how they *know* they have to do with either a trustworthy or untrustworthy citizen-client. The street-level bureaucracy literature suggests that frontline workers rely on universalistic standards of deservingness, but also on particularistic attributes such as ethnicity and socio-economic background to categorize citizen-clients. Such attributes are commonly believed to signal an unobservable characteristic, such as a citizen-client's general ability. Belonging to a certain social grouping, then, serves as 'a signal' that one is, for example, either competent or incompetent. In line with signaling theory (Spence, 1973; Weiss, 1995), existing research thus emphasizes the *information problem* street-level bureaucrats encounter in 'getting a grip' on citizen-clients. Drawing on status characteristics theory (Ridgeway, 1991) this study scrutinizes the *epistemological problem* too, i.e. how street-level bureaucrats know, by focusing on how their interpretation of signals is influenced by citizen-clients' status characteristics. By analyzing eleven semi-structured interviews with tax officials who inspect the acceptability of entrepreneurs' tax returns, this study shows the role signals and status characteristics play in their evaluation of citizen-clients' trustworthiness.

Introduction

Within the literature on street-level workers' encounters with citizens it is generally known that bureaucrats' decision making is partly dependent on the relationship they have with them (Maynard-Moody and Musheno, 2003; Harrits and Møller, 2014). It is held that encounters are determined by norms that are shared by larger society, such as, for instance, the universalistic standards of supporting needy people in worker-applicant encounters. However, it is also argued that some rules are generated *ad hoc* in the interaction, which 'are the particularistic attributes' that are formally deemed illegitimate (Erickson, 1975: 50). Examples of such particularistic factors are a client's ethnicity or his or her socio-economic background. While particularistic factors may be relevant in the official-client encounter, they are not automatically salient (Erickson, 1975). It is argued that what is established between the official and client in the encounter, influences whether certain factors play or do not play a role (ibid.; Maynard-Moody and Musheno, 2003). Erickson (1975: 50) refers to 'a feeling of commonality and solidarity between the participants' and to 'a shared style of communication and self-presentation', whereas Maynard-Moody and Musheno (2003) speak of 'cultural abidance' to delineate the interactional processes through which particularistic factors play a role. The official's own cultural understandings and normative standards of how things should be, then, are leading in the decision who gets what.

Whereas much of the literature on the role of stereotypes or social types in official-client interactions focuses on aspects of identity, and the bureaucratic process through which clients are categorized, much less attention has been paid to the question how individual bureaucrats *know* they have to do with a certain 'type of client'. This is striking, since uncertainty is deemed the most defining characteristic of frontline work; street-level bureaucrats' endeavor 'to get a grip' on citizen-clients is pervaded by a deep uncertainty (Maynard-Moody & Musheno, 2003; Wagenaar, 2004). It has been argued that bureaucrats look for certain cues or signals in order to categorize clients (Mennerick, 1974). Whereas some signals are pre-determined by the organization for which an official works, other signals bureaucrats look for are indeterminate and dependent on the interaction with the client. This way, however, social typologies or stereotypes are given the possibility to come into the encounter 'through the backdoor', since they offer bureaucrats strategic information that is lacking in the formal role descriptions (Mennerick, 1974). These social typologies 'allow both service workers and clients to fill in the gap between merely knowing the other's formal status and being acquainted intimately with him' (ibid.: 398-99). How social typologies affect the

interpretation of other signals or cues and, hence, affect bureaucrats' decision-making is, however, an underexplored theme within research on public encounters.

This question becomes all the more relevant given the fact that street-level bureaucrats' interpretations of the situation at hand play a more prominent role in today's 'horizontal policies', promoting notions as trust and commitment between public officials and citizen-clients (e.g. Yang, 2005; Peters, 2004; Stivers, 1994). Trust, as a reciprocal notion, shifts the attention from predetermined rules and procedures to aspects of the interaction (Yang, 2005; Stivers, 1994). These trust-based policies, then, urge street-level workers to judge whether citizen-clients are trustworthy or untrustworthy based on the interaction. However, very little is known about *what* frontline workers deem trustworthy and untrustworthy citizen-clients in the first place, and how they *know* they have to do with either a trustworthy citizen-client or untrustworthy citizen-client.

By analyzing eleven semi-structured interviews with tax officials who inspect the acceptability of entrepreneurs' tax returns, this study aims to examine what signals they look at in getting a grip on citizen-clients, and moreover, how citizen-clients' status characteristics influence their interpretation of signals. By drawing on signaling and screening theory originating from the field of economics (Spence, 1973; Stiglitz, 1974) and the sociological status characteristics theory (Ridgeway, 1991; 2014), we will discuss in the following section how citizen-clients could be sorted according to certain characteristics linked to unobserved properties, and how bureaucrats' cultural status beliefs about group differences could affect their interpretation of certain signals. Subsequently, we will discuss our methods and present our findings. In the last section we will discuss our findings and offer recommendations for future research.

Signaling theory and status characteristics theory

Within the field of economics it has been acknowledged that encounters between actors within the market economy, such as the labor market, are fraught with uncertainty. The fact that an individual's productive capacities are not directly observable and need to be learned over time, it is held, makes hiring an investment decision that is made under uncertainty (Spence, 1973). It is even argued that 'to hire someone, then, is frequently to purchase a lottery' (ibid: 356). Signaling theory holds, in this regard, that people who find themselves in these uncertain situations, look for observable, personal attributes that are believed to be linked to the sought after unobservable characteristics, 'and it is these that must ultimately determine his assessment of the lottery he is buying' (ibid.: 357). Since firms cannot observe worker productivity

directly, they 'use education choices to draw inferences about unobserved attributes' (Weiss 1995: 135). Observable traits that form the image of an individual vary from fairly fixed ones such as race and sex to alterable ones that are subject to manipulation such as education (Spence, 1973).

This theory moreover assumes that the signaling game is played out in a 'calculative way', i.e. that people look for costly signals in order to separate 'good' from 'bad' individuals. Costly signals are observable attributes that are too costly for an imposter to fake, but affordable for an honest individual, 'given the benefit that each can expect in the situation' (Gambetta & Hamill, 2005: 11). Manipulating one's skin color, for example, might be hardly feasible and a costly endeavor given the benefit one is looking after, such as for instance being picked up by a taxi driver in a predominantly white neighborhood. A distinction is made between signals that are 'perfectly sorting' and signals that are 'semi-sorting'. No mimicry is possible in the case of signals that are perfectly sorting, such as for instance someone's DNA or face (ibid.). In real-world situations most signals are however not perfectly sorting. An example of this is the image drawn by Stone (1984) of the benefit applicant faking disability by walking with crutches; this signal might be costly because of the risk the imposter runs of getting a penalty, but of which the benefits might also outweigh the risk. Following this theory, the assumption is that a street-level bureaucrat would not be easily persuaded with this easily to manipulate sign. Hence, s/he will screen citizen-clients for observable costly signs that are rather fixed and not easily manipulated, and, if possible, for clusters of costly signs.

Within the street-level bureaucracy literature, however, it is by now common wisdom that frontline workers are not mere rational calculators preoccupied with weighing costs and benefits to determine the 'most appropriate' decision (e.g. Lipsky, 1980; Maynard-Moody & Musheno, 2003). Rather, they make decisions based on the relationship they have with citizen-clients, thereby pursuing cultural abidance rather than rule abidance (Maynard-Moody & Musheno, 2003). By providing extraordinary services to *worthy* clients, street-level workers 'will risk careers, reduce the bureaucratic measure of their success, and make their jobs more difficult and more dangerous' (ibid: 156). This finding bears witness to the importance of workers' own cultural norms and values in making decisions. This given, however, does not rule out the possibility that frontline workers indeed look for costly signs, to assure themselves they correctly distinguished the honest citizen-client from the 'villain'. Especially since distinguishing 'the real needy' people from impostors has always been considered an integral part of street-level work (Stone, 1984). The concept of disability, notably, 'has always been based on a perceived need to detect perception' (ibid: 23), since people are assumed to have

incentives to escape the labor market. Hence, determining whether citizen-clients are trustworthy and honest has traditionally been part and parcel of street-level bureaucrats' work.

We, in fact, expect that street-level bureaucrats' interpretation of cues and signals to assess citizen-clients' trustworthiness is inextricably linked to their cultural beliefs regarding the latter. It is has been shown that, due to a lack of information, time and other resources, street-level bureaucrats develop shortcuts such as stereotyping to categorize clients (Lipsky, 1980; Maynard-Moody & Musheno, 2003; Prottas, 1979). This is especially the case when street-level workers have short-term interactions with citizens and, therefore, have little time to get a sense of who the citizen is. When street-level workers need to make quick judgments, they tend to reinforce stereotyped or stigmatized identities (Maynard-Moody and Musheno, 2003). In this regard, Berger et al. (1972), citing Simmel (1908), argue you might know an individual from direct experience, but also from the individual's *status category*. Status characteristics are associated with 'cultural beliefs of greater competence in those with more valued states of the characteristic' (Ridgeway, 1991: 368). These characteristics are socially recognized attributes on which people are perceived to differ, such as religion, ethnicity, gender, education, and of which the states are differently evaluated, that is, negatively and positively.

Status characteristics theory holds that the *differently evaluated states* of a status characteristic only play a role when a person in a particular situation associates with these states *specific expectations* for behavior and/or a *general expectation state,* which are, in turn, also evaluated either negatively or positively (Berger et al., 1972). Whereas specific expectations refer to defined situations, general expectations do not refer to specified situations. An example of the former is the expectation that females take more caring responsibilities for their children than their male counterparts, and an example of the latter is the expectation that females, in general, are more considerate than males. These evaluations do not stand alone but are often made within settings centered on a 'valued task', that is, a task having a good answer defined as 'success' and a bad answer defined as 'failure' (ibid.: 243). Possessing a certain performance characteristic is assumed to increase the likelihood of achieving success at the task. Since the evaluator might not know who possesses this performance characteristic, s/he looks at status characteristics that fill this knowledge gap. Status characteristics do not have to be directly culturally associated with this performance characteristic relevant for the situation at hand. The theory holds that if the status characteristic has not previously been dissociated from the performance characteristic, and is the only basis for social discrimination, this status characteristic will become relevant in this situation (Berger et al., 1972.). This means that a status characteristic becomes relevant unless the evaluator 'knows from prior belief that it is not a basis for making inferences' (ibid.: 245)

about the performance characteristic. However, it could of course also be the case that status characteristics *are* culturally associated with performance characteristics.

Status characteristics theory not only explains why cultural status beliefs could matter in the public encounter, but also explains the mechanism by which status characteristics may play a role in the assessment of a client's trustworthiness. The theory predicts that status characteristics affect the standards street-level bureaucrats use to evaluate whether a citizen-client is trustworthy or not. As performance expectations for low status citizen-clients are lower than those for high status clients, a high performance of a low status citizen-client will be inconsistent with the expectations for lower status citizen-clients. As a result, double standards theory holds, standards will be stricter for lower status citizen-clients. The opposite also holds: as high performance is consistent with performance expectations for high status citizen-clients, the consistency between observation and expectation will lead to loosening the criteria (Correll and Benard, 2006). Hence, status characteristics will affect bureaucrats' decision making in a self-fulfilling manner leading to a 'hierarchy of evaluation' (Correll and Ridgeway, 2003: 29).

Our study focuses on frontline tax workers who inspect the tax returns of small entrepreneurs. Tax workers' main task is to evaluate whether entrepreneurs' accounting records are acceptable. In determining the acceptability of the entrepreneurs' accounting records, tax workers then look at whether entrepreneurs are trustworthy. They generally look at two aspects of trustworthiness – intentions and competences – to look at whether some sort of fraud might be involved, or whether it is a mere 'fault'; the evaluation which in turn influences workers' willingness to reach a compromise and, hence, the height of the fine. This also aligns with the model of trustworthiness as outlined by Mayer et al. (1995) which distinguishes three trustworthiness aspects: ability, benevolence and integrity. Ability refers to the competencies that enable an individual 'to have influence within some specific domain' (ibid.: 717). In our study, competence refers to entrepreneurs' abilities and skills to hold proper accounting records, and thus, to abide by the law. Benevolence refers to the extent the trustee is believed to have good intentions towards the trustor, which is held to be inversely related to a trustee's motivation to lie (ibid.). Integrity refers to the acceptability of a trustee's adherence to certain principles. In our study, assessments of citizen-clients' intentions in general are explored, which could both cover intentions towards the tax administration as intentions 'in doing business'. Since these properties are not readily observable, we examine how tax workers *know* whether they have to do with either a trustworthy or an untrustworthy citizen-client. In order to answer this question, we will examine whether and how tax workers' evaluation of citizen-clients' trustworthiness is related to the costliness of signals and cues and status characteristics.

Case selection

This research is conducted within the Dutch tax administration and focuses on frontline tax workers who audit tax returns of small businesses, and have face-to-face interactions with citizen-clients as part of their job. Under the heading of the so-called 'horizontal supervision' approach, the Dutch tax administration has moved from a vertical command and control approach to responsive and collaborative regulation and enforcement (Gribnau 2007). The official/client interface, then, is not seen as merely an administrative, neutral process necessary to implement policies and in which public officials should be strictly regulated, but as an essential aspect of cooperative and responsive regulation: 'the treatment of taxpayers is based on mutual trust and reciprocity to which good communication is crucial' (Gribnau 2007: 325). Within the Dutch tax administration, frontline tax workers audit administrations with the adage that 'good is good enough', meaning that they are encouraged to not correct each fault they find and to make agreements with citizen-clients for the future when possible. For this reason and because of the limited time bureaucrats have to gather 'all' the relevant information, they evaluate 'the acceptability' of tax returns rather than their mere correctness.

For the purpose of this study we focused on tax workers who inspect tax returns of small companies and thereby have direct interactions with clients, either with or without their accountants present. An important part of their work is assessing the gaps in citizen-clients' tax returns. They are guided by questions such as: what caused these gaps, what should be the height of the tax correction and should the entrepreneur get a fine? In order to assess the acceptability workers examine entrepreneurs' bookkeeping records, primary administration and operational processes. They also assess entrepreneurs' intentions and competences in order to determine whether some kind of fraud may be involved. This, in turn, affects the advice they give to the specialist who decides on the fine. Tax workers finalize their audit in a report in which they substantiate the decisions on the correction and fine, which is sent to the 'audit manager' for a last check before it is sent to the citizen-client.

In order to answer the research question, we looked for tax workers who conduct audits and who are given the task of carrying out the 'horizontal supervision' policy. For this reason, we focused on frontline tax workers auditing the tax returns of small businesses, where this policy has been adopted since 2005. Since frontline tax officials' contact details were not readily available, we chose to email managers. Several managers reacted positively to our request to interview a small number of frontline tax workers. For this study, eleven frontline tax workers from three different offices in the Netherlands were interviewed. Four respondents are female

and seven are male. Two respondents have been in service for just over 35 years, one for 24 years, four for 9 years, and four for less than 5 years.

Methods

For the purpose of this study semi-structured interviews were conducted focused on how tax workers 'get a grip' on the entrepreneur and his/her administration. The interview consisted of two successive parts. The first part was inductive and inquired into the sequential process of an audit; what does a tax official already know in the beginning of an audit and how does s/he know, and what does s/he *not* know? What does the worker know after the preparatory phase, when s/he has not seen the entrepreneur yet, but only the latter's tax return and audit files? How does s/he know? And what does s/he *not* know? The same questions were asked with regards to the introductory meeting when the worker meets the entrepreneur and the latter's possible accountant.

The second part of the interview was more structured. A two-by-two scheme was presented to the respondents, with two 'dimensions' of trustworthiness: competence & intentions (see Appendix 1). These two dimensions were found to play an important role in tax workers' daily practices in an earlier study conducted by the first author. The stories frontline tax workers told roughly distinguish entrepreneurs who do not have the ability to hold proper accounting records on the one hand, and entrepreneurs who intentionally commit fraud on the other hand. First, respondents were asked whether these dimensions indeed match their working practices, and whether something was missing from it. All respondents recognized these dimensions as being an important part of 'getting to know' an entrepreneur and his/her administration. Then, the respondents were asked whether they could recall situations they experienced where they had a strong feeling or idea that an entrepreneur 1) had bad intentions and were incompetent 2) had bad intentions, but were competent 3) had good intentions, but were incompetent 4) had good intentions, and were competent. They were specifically asked how they came to this evaluation. Some respondents could not tell a story about each instance, simply because they never experienced it.

Both parts of the interviews were analyzed using an open coding strategy, but guided by the question what signals and cues frontline workers look at to get a grip on the citizen-client and his/her administration. Moreover, we looked at respondents' reasoning of why these signals and cues exactly gave them certainty, in order to examine whether their *costliness* and *status characteristics* play a role. These two concepts were used as sensitizing concepts in the analysis. Costly signals and cues are those that are perceived by workers as too costly for a

mimic to fake, but affordable for an honest individual. Do workers rely on signals that are, according to them, easy to give by honest citizen-clients, but hard for dishonest ones? Moreover, we looked at whether and how status characteristics assist workers in evaluating citizen-clients' competences and intentions. We coded a status characteristic as such, when respondents hold cultural beliefs that certain 'types' of people are better or worse than other 'types' of people, who differ on socially recognized attributes such as ethnicity, gender, education, socioeconomic background. According to the theory, status characteristics lead to general expectation states and/or specific expectations. Are people with certain status characteristics perceived as being more competent or as having better intentions in general (general expectation state)? Are people with certain status characteristics deemed, for instance, more competent in running a business, and therefore seen as more trustworthy (specific expectation)?

We particularly looked at whether and how certain status characteristics served as signals, offering tax officials information they otherwise would not have (information problem), and whether and how status characteristics influence their interpretation of other signals (epistemological problem). To scrutinize the latter, we studied whether and how respondents evaluate the same signal differently for different 'types' of people, and whether and how they use double standards to evaluate citizen-clients, i.e. whether citizen-clients assigned a lower status are scrutinized more critically than higher status citizen-clients, when equally signaling good intentions and competence.

Findings

What signals a trustworthy and untrustworthy citizen-client?

Costly and semi-sorting signals

Status characteristics' influence on the interpretation of other signals

Conclusion & discussion

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Appendix 1: Interview grid

	Bad intentions	**Good intentions**
Incompetent	- Story 1-	- Story 2 -
Competent	- Story 3 -	- Story 4 -