

**EFFECT OF ALTERNATIVE DISPUTE RESOLUTION ON TAX REVENUE
COLLECTION IN KENYA**

BY

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DECLARATION

Declaration by Candidate

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DEDICATION

I dedicate this work to my better half, Stanley who has been my greatest source of inspiration to complete this work. Your financial and moral support was appreciated. To My Parents Mr and Mrs James Kinyua and my sibling Evalyn Kinyua thank you for your prayers and for always standing by me and supporting me through my education life. To my parent's in-law, Mr and Mrs William Misoka thank you for your prayers and support. Mr Eric Kiragu's family thank you for the support and may God continue to bless you. I thank God for He is good and his steadfast love, his grace and mercy that has been exceedingly and abundantly above all sufficient to complete this work.

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ABSTRACT

The Kenya Revenue Authority has been facing challenges in meeting tax revenue collection targets. This is a clear indication that there is a serious problem. The study aimed at investigating the effect of alternative dispute resolution on tax revenue collection in Kenya. The study was guided by the following specific objectives; to assess the effect of arbitration and mediation on tax revenue collection; to evaluate the effect of litigation on tax revenue collection; and to determine the effect of negotiation on tax revenue collection. The study is supported by the conflict resolution theory, optimal tax theory, ability-to-pay taxation theory, benefit theory of taxation, and expediency theory of taxation. The study adopted an explanatory research design and targeted 874 taxpayers who had adopted alternative dispute resolution for the last 2 years. A sample of 274 taxpayers was selected using random sampling technique. Descriptive and inferential analysis were adopted. The descriptive statistics included percentage, mean and standard. Inferential statistics included correlation and regression analysis. F test, beta coefficients, t value and p value were used as test statistics. The study findings showed that there was a positive and significant relationship between arbitration and mediation and tax revenue collection ($\beta=0.321$, $p=0.000$). Findings also showed that there was a positive and significant relationship between litigation and tax revenue collection ($\beta=0.304$, $p=0.000$). In addition, results showed that there was a positive and significant relationship between negotiation and tax revenue collection ($\beta=0.383$, $p=0.000$). The study also concluded that negotiation was commonly used as dispute resolution mechanism between taxpayers and Kenya Revenue Authority officials. Facilitators and tax experts should be updated on current trends of mediation, effectiveness and transparency of the process. Further, Kenya Revenue Authority should invest in sensitizing taxpayers regarding the alternative dispute resolution process, and in embedding the requisite skills, motivation and resources in them to use the alternative dispute resolution process effectively. The government of Kenya should form a section in the constitution to empower Kenya Revenue Authority to settle a tax dispute on a compromise basis where it is in the best interest of the state.

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ABBREVIATIONS

ADR	– Alternative Dispute Resolution.
C & BC	– Customs and Border Control
CTDR	– Corporate Tax Dispute Resolution
DTD	– Domestic Taxes department.
ED	– Excise Duty
FY	– Financial year
I & E	– Investigation and Enforcement
IRO	– Independent Review objection.
IT	– Income Tax
KIPPRA	– Kenya institute for public policy research and analysis
KRA	– Kenya revenue authority
NACOSTI	– National Commission for Science, Technology and Innovation.
OECD	– Organisation for Economic Cooperation and Development
OLS	– Ordinary Least Squares
SPSS	– Statistical Packages for Statistical Students
TADAT	– Tax Administration Diagnostic Assessment Tool
TAT	– Tax Appeal Tribunal
TATA	– Tax Appeal Tribunal Act
TDR	– Tax Dispute Resolution
TP	– Tax Payer
TPA	– Tax Procedures Act
VAT	– Value Added Tax

OPERATIONAL DEFINITION OF TERMS

Alternative Dispute Resolution: refers to use of other procedures, such as arbitration and mediation, litigation and negotiation to settle disputes (Kashindi, 2017)

Arbitration and Mediation: is a form of ADR that is subject to statutory provisions. It involves disputes being determined by a private tribunal selected by the parties to the dispute (GoK, 2015).

Litigation: involves settling of tax disputes through the court process (Kashindi, 2017).

Negotiation: is any form of direct or indirect communication whereby parties who have opposing interests discuss the form of any joint action which they might take to manage and ultimately resolve the dispute between them (Barako, 2015)

Revenue Collection: it is the amount of money that an entity receives during a specific period (Awitta, 2010).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Revenue collection has become an integral part of every society. It stems from the early history of civilization where the government received funds to assist its operations for the common good (Broadway, 2012). The obligation of government agencies to collect unpaid financial debts from citizens is commonly referred to as revenue collection (Kirimi, 2015). Revenue is derived from a variety of sources, including license fees, taxes, fines, and the use of government services. Typically, each government department is in charge of collecting any income that may be due. Revenue collection is paramount as governments rely on the funds to sustain operations for the public good.

Revenue collection is crucial to improving efficiency in service delivery and economic development in the government (Balunywa, Nangoli, Mugerwa, Teko & Mayoka, 2014). Most governments, however, confront significant revenue collection issues when they are unable to raise sufficient revenues to satisfy their budget goals. Furthermore, tax collectors did not return to the Treasury all of the money they gathered over the years (Ngotho & Kerongo, 2014). According to Gideon and Alouis (2013), revenue collection aids in government service delivery by financing co-development initiatives, therefore there is an increasing need for governments to raise huge amounts of income to pay the rising cost of budget finance.

Collecting revenue in emerging markets is not always effective. There are several revenue collection challenges when countries are unable to raise the required sufficient funds to meet their budget expectations, creating large gaps in local revenue collection (Owuor, Chepkuto, Tubey & Kuto, 2012). Ismail (2016) notes that the main challenge in collecting receipts revolves around the system of collecting receipts. Tax collection

is characterized by the problem of corrupt practices that lead to tax evasion through corruption by corrupt tax collectors (Balunywa et al., 2014).

1.1.1 Global View of Alternative Dispute Resolution

One of the most important mandates of tax authorities worldwide is the resolution of tax disputes. This must be accomplished in light of the growing number and complexity of tax collection controversies, as well as budget limits (Parsly, 2007). For this reason, many tax administrations continue to follow the recommendations of the Organization for Economic Cooperation and Development (OECD) to adopt an effective and relational approach to tax collection. Sustaining and maintaining good ties between taxpayers and tax administrators is regarded crucial in many jurisdictions. Using an alternative dispute resolution (ADR) system to handle tax problems is one way to enhance this relationship. ADR provides a faster and less expensive alternative that is less prone to legal technicalities and complex procedures than formal dispute resolution mechanisms. Because it results in a favorable outcome, the ADR process has a high success rate. The major method of resolving disputes is through the judicial process, which is a formal procedure. ADR refers to the use of other procedures, such as: B. Arbitration and mediation to resolve disputes. ADR enables taxpayers and tax administrators to proactively resolve tax disputes together. In jurisdictions where alternative dispute resolution procedures have been used, these mechanisms have increased tax administration efficiency and have greatly reduced the number of legal disputes.

1.1.2 African View of Alternative Dispute Resolution

In Africa, maintaining good relations between taxpayers and tax administrators is seen as important. Using an alternative dispute resolution (ADR) system to handle tax problems is one way to enhance this relationship. ADR provides a faster and less

expensive alternative that is less prone to legal technicalities and complex procedures than formal dispute resolution mechanisms. The major method of resolving disputes is through the judicial process, which is a formal procedure. ADR refers to the employment of alternative dispute resolution techniques such as: B. Arbitration and mediation (Kashindi, 2017). ADR enables taxpayers and tax administrators to proactively resolve tax disputes together. In jurisdictions where alternative dispute resolution procedures have been used, these mechanisms have increased tax administration efficiency and have greatly reduced the number of legal disputes.

South Africa, for example, has one of Africa's most rapidly expanding alternative dispute resolution (ADR) systems. This could be attributed in part to the vast number of donor-funded NGOs working on ADR in South Africa prior to the change of government during apartheid. The Independent Mediation Service of South Africa is one of the primary NGOs providing the ADR mechanism (IMSSA). ADR was developed in South Africa to improve access to justice for all (Grenig, 2016). The framework of ADR in South Africa has improved access to justice for the impoverished, illiterate, and notably rural groups, who frequently have trouble undergoing legal processes and may not believe in formal justice.

1.1.3 Kenya perspective of Alternative Dispute Resolution

According to KIPPRA (2013), the role of KRA in the economy is to administer and enforce written laws or specific provisions of written laws relating to the evaluation, collection, and reporting of all income in compliance with this legislation. Advice on administrative matters or revenue collection in accordance with the letter and spirit of the law. KRA (2013)'s main tasks include increasing the efficiency and effectiveness of tax administration by reducing bureaucracy, public procurement, promoting, training, and disciplining taxpayers and tax collectors, eliminating tax evasion by

simplifying and streamlining procedures, and improving taxpayer services and education. Reduce taxes and improve regulatory compliance. Employees are paid a decent compensation to attract and retain competent professionals with integrity and sound ethical principles, in order to develop professionalism and prevent corruption under K.R.A. Restoring economic independence and pride in Kenya's sovereignty, and eventually eliminating persistent budget deficits, by establishing an organizational structure that maximizes revenue collection, protects local industry, and promotes economic growth through effective administration of trade-related tax laws.

The main factors that contribute to increasing tax returns are changes to tax laws, tax administration and minimum tax avoidance (African Development Bank Group, 2010). Kenya continued to operate under the tax system inherited from the colonial government after proclaiming independence in 1963 until the early 1970s, when political and administrative reforms began. According to KIPPRA (2013), there was a minor issue with revenue mobilization until the 1970s energy crisis necessitated tax reform to raise additional income.

Tax disputes are traditionally resolved in Kenya and many other Community jurisdictions, such as Canada, South Africa, and Uganda, in two ways: first, through an agreement between the taxpayer and the tax authority; and second, through complaints to the administrative authorities established under various tax laws, and then to the courts. The traditional practice is to bring tax disputes to a competitive formal court (Gachanja, 2012).

In executing its the Kenya revenue Authority has faced several challenges including conflicts with the tax payers. This tax dispute usually arises after a tax assessment from KRA to the taxpayer after a detailed examination or routine compliance checks

(Gachanja, 2012). Alternatively, a tax disagreement may arise from the interpretation of the facts in a dispute, or from applicable law, or from both. The Tax Procedures Act states that taxpayers have the right to decline notification from tax authorities. If the taxpayer is dissatisfied with the ruling on the objection, he may appeal to the tax court. Taxpayers can also appeal to the Supreme Court of Kenya and the Court of Appeals in addition to the Court of Tax Appeals. If a taxpayer or agent files an appeal in a tax appeals court or court, he or she may voluntarily request conflict settlement using an alternative dispute resolution process, or ADR. ADR refers to alternative dispute resolution processes used outside of the court or judiciary (Kashindi, 2017). A taxpayer may be a legal or natural person and includes; a company; or association or; body of persons, Corporate or incorporate; with a tax dispute at ADR Commissioner – Officer(s) involved in tax audit/investigation (DTD, I&E and C&BC) and a Facilitator – who Chairs the ADR discussion.

There has been a tremendous growth in tax revenue collection in Kenya however most targets set by the government on tax revenue has not been met (Barako, 2015). The tax gap has seen KRA top level management seek various ways of tax base expansion, recovery of taxes evaded, taxes not paid due to disputes that arise between the tax payers and KRA. This tax gap that arises due to disputes arising mainly from KRA tax systems and tax policies gave rise to alternative ways of resolving and handling tax dispute which led to the establishment of Tax dispute resolution. Tax audits are carried out periodically on taxpayers to establish if a taxpayer has been compliant with filing of taxes, remitting of taxes, correct deduction of taxes, keeping of proper tax records, correct invoices used on VAT among other anomalies that taxpayers use to reduce the tax burden. A Tax audit results to issuance of a tax assessment, penalties and fines on taxes evaded or not remitted. A tax dispute arises due to additional assessment issued

to a tax payer who objects the accuracy of assessments or the amounts of penalties imposed. First, the taxpayer may file a formal objection within 30 days to the tax decision with the agent. The commissioner submits an objection decision within 60 days (for Income tax, IT objections, VAT and excise duty (ED) and 30 days if the objection arises from Customs and border control (C&BC) failure to issue this decision within the set timelines then the taxpayers objection stand.

In solving ADR disputes, Kenya revenue over time has adopted several mechanisms all aimed at ensuring compliance and at the same time educate the taxpayers. As a result, the agency has adopted both litigation process and alternative tax resolution processes. KRA has developed an Alternative Dispute Resolution Framework, which came into effect on 1 July 2015. The ADR legal framework includes Constitution of Kenya article 159(2)(c), Tax procedure act TPA, 2015 (Sec 55), Tax Appeal Tribunal Act (TATA), 2013 (Sec 28) and the Court Annexed Mediation process. Prior to this, the intended amount was estimated at KShs 35 billion in unresolved tax disputes (Kashindi, 2017). Since the inception of ADR in 2015, to sample a few, it is projected that by financial year 2015/2016, 49 tax conflict disputes, FY 2016/2017, 60 tax dispute cases, FY 2017/2018, 90 tax dispute cases and FY 2018/ 2019 as at march 174 tax dispute cases had already been resolved out of the over 600 cases received through ADR over the FY's 2015/2016- FY 2018/2019. It is estimated that as a result over 6.5 billion KSh was recovered. While developing an ADR framework for dispute settlement is a positive step, Kenya is still a long way from meeting international standards. According to World Best Practice, ADR should be used to resolve 80 percent of tax disputes. According to the 2013 USAID Leadership in Public Finance Management Report, ADR resolves 95 percent of tax disputes in Canada, with Australia and Brazil scoring 85 percent and 75 percent, respectively (KRA, 2018). In Africa, it is believed that South

Africa resolves 66 percent of its tax disputes using ADR, while Kenya only resolves 36 percent.

Secondly, the parties to tax dispute (basically the TP taxpayer and KRA), in Kenya can use litigation which involves going through the court system to determine the cases. Moreover, the parties can use tax appeal tribunals. The Tax Appeals Court (TAT) was specifically established to handle tax disputes and effectively functions as a first-level forum prior to the start of the tax dispute process (Mohammed & Muturi, 2018). If a case is referred directly to the court, circumventing the pre-trial procedure established by the TAT, the court will often refer the matter back to the TAT if the judge decides that the pre-trial hearing has been skipped. In implementing and managing tax regulations, KRA is empowered to increase the number of violations. KRA may raise default notices for a variety of reasons, including tax violations, aggressive tax planning, or different interpretations of tax laws. Taxpayers who have issued a missed tax bill and who have sued the tax bill must file an objection to the tax bill and, if necessary, file an objection (Muigua, 2015). Appeals and objections must be regulated in the tax law. However, the type and speed of processing tax assessment letters will determine the success of tax dispute resolution.

All over the world, government collect taxes with an aim of funding public services that include security, healthcare, water, education, roads, social security among many other services rendered. According to Mutua (2012), a fixed tax is the only known practical way to raise funds to finance public spending on goods and services provided to citizens by the government. Taxes are the main source of income for the Kenyan government to fund spending and provide services to citizens. Kenya's tax performance has improved significantly in nominal terms and averages around 85% of the economy's output. This allows the government to finance 95% of the budget.

The Kenya Revenue Authority (KRA) was founded by an Act of Parliament, Section 469 of the Kenya Act, which went into effect on July 1, 1995. It is in charge of collecting income for the Kenyan government. It is in charge of collecting a variety of taxes and duties, including VAT, income tax, and duties. Since the foundation of the KRA, income collection has increased considerably, allowing the government to deliver much-needed services to its residents like as free basic education and universal health care (Martin, 2012). More than 90% of the annual APBN funding comes from local taxes collected by KRA. KRA's vision is to become the world's leading financial institution, known for its professionalism, integrity, and fairness, in order to maximize tax income and ensure that the government can take advantage of domestic revenue sources. Their purpose is to promote compliance with Kenya's domestic taxes, trade, and customs and border rules and regulations by supporting the Taxpayer's Charter and the responsible use of highly motivated and professional staff, consequently optimizing revenue collection at the lowest feasible socioeconomic level - Kenya's reality (KIPPRA, 2013).

1.2 Statement of the Problem

The Kenya Revenue Authority (KRA) is having difficulty fulfilling its revenue collection targets. CRA raised \$1.17 trillion in fiscal 2017/2018, compared to a target of \$1.4 trillion. KRA raised Sh 1.58 trillion in the 2018/2019 fiscal year, bringing the total raised to Sh. 1.605 trillion. Furthermore, KRA has Sh. 1.607 trillion against a target of Sh. 1.8 trillion (KRA, 2020). This is a clear indication that there is a revenue collecting issue.

The KRA is tasked with collecting taxes through the administration and enforcement of tax legislation. While collecting the taxes, tax disputes have been a common phenomenon. In the past, all tax disputes were solved in courts through litigation which

took a long period of time and since judiciary was not strong, most tax evaders would never pay their due taxes. However, after introduction of ADR by KRA, tax evasion cases have taken a different dimension. Tax disputes arise after the existence of tax assessments from KRA to taxpayers after a thorough inspection or routine compliance checks are carried out. Alternatively, a tax disagreement may arise from the interpretation of the facts in a dispute, or from applicable law, or from both. The Tax Procedures Act states that taxpayers have the right to decline notification from tax authorities. First, the taxpayer may file a formal objection to the tax decision with the agent within 30 days. If the taxpayer is dissatisfied with the ruling on the objection, he may appeal to the tax court. Taxpayers can also appeal to the Supreme Court of Kenya and the Court of Appeals in addition to the Court of Tax Appeals. If a taxpayer or agent files an appeal with a tax appeals court or tribunal, he or she may voluntarily seek conflict settlement through alternative dispute resolution procedures. However, questions have been raised about the feasibility of this restructuring method to address the country's tax challenges.

Previous studies have been done to on the area of ADR and revenue collection. Kashindi (2017) did a study on alternative method of handling disputes and concluded that the though the process has been helpful in addressing the existing tax disputes in the country, the process was yet to fully adopted in the country. Mohammed and Muturi (2018) conducted research on the factors influencing revenue collection efficiency in Kenyan county administrations. The study established that there is need to improve compliance in order to improve revenue collection efficiency. In addition, Muigua (2018) did an article on regulating alternative dispute resolution practice in Kenya. These studies were focused on alternative tax dispute resolution but none combined all tax dissolution processes available in the country to see how they affect tax performance

creating a knowledge gap. The current study filled this gap by looking at effects of tax dispute resolution on tax revenue collection in Kenya.

1.3 Objectives of the Study

1.3.1 General objective

The general objective of this was to investigate the effect of alternative dispute resolution on revenue collection in Kenya.

1.3.2 Specific Objectives

- i. To assess the effect of arbitration and mediation on tax revenue collection in Kenya
- ii. To establish the effect of litigation on tax revenue collection in Kenya
- iii. To determine the effect of negotiation on tax revenue collection in Kenya

1.4 Research Hypotheses

H₀₁: Arbitration and mediation has no significant effect on tax revenue collection in Kenya.

H₀₂: Litigation has no significant effect on tax revenue collection in Kenya.

H₀₃: Negotiation has no significant effect on tax revenue collection in Kenya.

1.5 Significance the Study

The research findings may enhance the Authority's tax collection levels as a result of tax dispute resolutions put in place by the government as well as the Kenya revenue Authority in meeting of revenue targets for the purpose of funding the government expenditure. The research findings may give guidelines to the Kenya Government in the formulation of appropriate laws and policies that would seal the loopholes that create hindrances to efficient and effective revenue collection.

This research can help increase understanding of tax litigation and tax debt related issues, and increase the dissemination of information to taxpayers. This will also reduce the effectiveness of sanctions imposed on them, thereby creating a culture of compliance with tax laws and regulations. This study expands our knowledge of tax disputes as a means of collecting revenue and the factors that support or hinder effective revenue collection. This can be useful for other scientists who are interested in similar fields.

1.6 Scope of the Study

The study focused on the implications of alternative dispute settlement on tax collection in Kenya. The specific alternative dispute resolution comprised of arbitration and mediation, litigation, and negotiation. The target population of this study included taxpayers who have settled tax disputes using the TDR mechanism and tax payers whose TDR cases are ongoing. The total number of these cases currently stands at 874. A sample of 274 taxpayers was used. The study covered the period from August to October 2021.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter documents an assessment of the relevant theoretical literature and the conceptual framework underlying the study of the affordability of SMEs in Kenya. He also presented an empirical review of previous similar research on the proposed research objectives. He also presented research gaps and a summary of the chapter.

2.2 Review of Concepts

2.2.1 Revenue Collection

The amount received by the company over a specific time period is referred to as revenue income (Awitta, 2010). Revenue collection is the income that a firm receives from its routine business activities, which are often sales of goods and services to clients. Some businesses earn money from interest, dividends, or royalties paid to them by other businesses. Revenue can refer to the company's total income or the amount in monetary units received over a specific time period (Galinoma, 2019). According to Edwin (2019), revenue is defined as an inflow of assets (usually typically cash or receivables) received in exchange for products or services provided to customers. Kenya's revenue authority (KRA) has recorded income in the form of taxes, duties, fees, levies, fees, fines, fines, or other funds collected (KRA, 2019).

2.2.2 Alternative Dispute Resolution

Arbitration and Mediation

Arbitration is a type of alternative dispute resolution that is governed by statute. Disputes handled by private courts chosen by the disputing parties are included. A impartial third party appointed by the parties involved or the appointing authority to mediate the disagreement and issue a final and binding decision is also included.

Arbitration is defined under the Arbitration Act 1995-65 as any arbitration, whether conducted by a recognized arbitral institution or not. Arbitration is a competitive process that mimics a court dispute in many ways (GoK, 2015).

Arbitrators are increasingly being used, and the entire regime is governed by the 1995 Arbitration Act, as amended in 2009, Section 59 of the Civil Procedure Code⁶⁷, and Order 46 of the Civil Procedure Code. The Arbitration Act governs the establishment of courts, the time limit for hearing and awarding arbitral awards, and how they are challenged in court. The arbitration will take place in three stages: if an arbitration agreement exists, reference arbitration, and Maigua compulsory arbitration (2018). Arbitration is referred to based on arbitrations accompanying courts in Kenya.

Litigation

The Kenyan government through the parliament and Judiciary has provided a favourable environment for the Kenya revenue authority and taxpayers to settle tax disputes through the court process. The Court of Appeals Tax (TAT) was created specifically for tax disputes and, in practice, served as a forum of first instance before the start of the tax dispute process. If a case is referred directly to the court, circumventing the pre-trial procedure established by the TAT, the court will often refer the matter back to the TAT if the judge decides that the pre-trial hearing has been skipped. There are three main issues that are often the subject of tax disputes in Kenya (Kashindi, 2017).

Negotiation

Negotiation is defined as any kind of direct or indirect communication in which opposing parties discuss the sorts of collaborative action they might take to resolve and eventually resolve their conflict. Negotiations can be used to resolve current issues or

to establish the framework for future ties between two or more countries. Negotiation is also regarded as the major method of resolving disagreements, which is not surprising given its prevalence in practically all aspects of everyday life, whether on an individual, institutional, national, or global scale. Each negotiation is distinct and varied in terms of subjects, number of participants, and techniques.

2.3 Theoretical Review

The study is anchored on several theories including conflict resolution theory, optimal tax theory, ability-to-pay taxation theory, benefit theory of taxation, and expediency theory of taxation.

2.3.1 Conflict Resolution Theory

The conflict resolution theory was first introduced by Burton in 1962. Kelman (1993), Schellenberg (1996), and Hansen (2008) are among key proponents of the theory. One of the assumptions of the theory is that the most effective way to resolve conflict is to effectively solve problems together. It also compares conflict resolution to a competitive process in which warring parties compete to see who wins and who loses. Respect, accountability, honesty, empowerment, and loving behavior toward friends or other group members are all norms that apply to cooperative behavior (Deutsch, 2011).

According to the belief, effective cooperative relationships make it easier to manage inevitable disagreements constructively. The standards are meant to put differences into context by identifying commonalities and common interests, only considering issues where differences exist and avoiding personal attacks. Even when there is disagreement, try to understand each other's point of view from their point of view and fully respect each other's ideas by acknowledging their value (Blomgren Amsler, 2014). Limit and manage your negative feelings so that they are largely directed at violating

cooperation norms or defeating others, accepting responsibility for the bad effects (deliberate or inadvertent) of your actions and words, and attempting to undo them yourself. damages and is liable for the detrimental repercussions of your actions and words (deliberate or inadvertent). Instead of harboring anger or resentment, you must also be willing to forgive and seek reconciliation when others hurt you. Be receptive to the legitimate needs of others.

Empower the other to be an active and effective participant in the cooperative problem-solving process by requesting the other's thoughts, listening carefully, providing information, and aiding the other as needed (Hansen, 2008). Dishonesty violates cooperative norms, so be open and honest. It's best not to express any suspicions, fears, doubts, or feelings of weakness because it could be harmful to the relationship. Finally, as the other party is a member of one's moral community, remain a moral person throughout the conflict by demonstrating concern, care, and love.

Sandole (1993) stated that conflict resolution requires problem-solving methodologies, direct involvement of conflict parties in the design of joint solutions and support from third parties who are experienced in conflict resolution processes. He also mentioned that there are cultural and social gaps. In cultural conflict, the parties introduce significant value differences into their relationship, whereas structural conflict involves an imbalance of power between one or both parties in an organization, community, state or territory that prevents them from fulfilling their requirements.

Several critics have panned the conflict resolution theory. According to Schellenberg (1996), conflict resolution can occasionally result in the victory of one party over the other. This indicates that one of the conflicting parties is dissatisfied with the outcome. The concept has also been critiqued for prioritizing change above social stability. Some

opponents acknowledge that cultures are always changing, but contend that much of the change is moderate or incremental rather than revolutionary.

The conflict resolution theory is pertinent to this study since it highlights the necessity of collaborative problem-solving. In the case of a tax dispute situation, conflicting parties can agree to cooperate and come up with a solution. According to the conflict resolution theory, parties to a conflict should demonstrate respect, responsibility, and honesty during the problem-solving process. Parties should also identify common ground and common interests. The conflict resolution theory therefore supported the alternative dispute resolution concept in this study.

2.3.2 Optimal Tax Theory

Optimal taxation theory is the study of how taxes are designed and applied to reduce distortions and inefficiencies even under certain economic constraints. The United States Supreme Court (1899) stated that taxes have the highest authority on which all citizens depend. Gruber (2007) argues that to understand the impact of taxation on investment decisions, we must first model investment decisions in a tax-free world. Both politicians and economists nowadays have long realized the importance of taxation and have even gone further and searched for a set of principles to guide tax policies.

Smith (2010) underlines the need of managing taxes in order to detect economic inefficiencies and promote and ensure a fair distribution of income. As a result, optimality theory is useful in this study since it aids in identifying some of the elements that contribute to inefficiency in tax administration and collection in Kenya.

2.3.3 Ability-To-Pay Taxation Theory

The ability-to-pay tax theory refers to the gradual taxation of taxes and the claim that taxes should be collected according to the ability of the taxpayer. Kaldor (1958) argues that solvency taxation theory is a progressive taxation of taxation. This methodology is very encouraging and increases the tax burden for businesses and individuals. This approach argues that high-income companies and individuals pay more taxes than low-income investors and individuals, depending on their income. Taxability theory is mandatory for every country that must be imposed on its population because it must contribute income to support its government (Smith, 2010).

This theory is mostly mandatory for the population as it is the key to accumulating income in a country where there are people with different incomes. This establishes equality with various strata of a country's population, so residents are comfortable and encouraged to pay taxes based on their income level (Awitta, 2010). This approach provides a lot of cash for the government because people with a lot of resources can pool their resources and donate to the government so that services like schools, roads, hospitals, and utilities can be better and more efficient. Without this hypothesis, the government would be stuck with a fixed rate, forcing it to establish lower rates in order to reach everyone. This theory is significant because it determines taxability and imposes a higher tax burden on some high-income individuals, partnerships, businesses, trusts, and real estate. However, there are criticisms that this approach is unfair and only tries to discourage those who work hard.

2.3.4 The Benefit Theory of Taxation

The state, according to theory, should levy taxes on individuals depending on the advantages delivered to them. The more a person gains from state operations, the more state taxes they must pay. This idea has been questioned for several reasons. First, if

the state maintains a specific relationship between the services supplied and inferred, it would violate the fundamental principles of taxes (Brick & Ravid, 1985). Taxes are basically mandatory contributions to the public wallet to cover government spending and general use services for all citizens.

Second, most of the costs of the state are borne by its citizens. It is impossible to estimate the benefits to a person each year to decide how much tax that person should collect. If this approach is followed, the impoverished must likewise pay the greatest taxes because they get the most from governmental services. It is a violation of the idea of fairness to take more from the poor through taxes. Those who pay TOT should benefit, according to this viewpoint (Dodge, 2005).

2.3.5 The Expediency Theory of Taxation

According to the notion of expediency, any proposed tax must undergo due diligence. When choosing a tax proposal, this should be the only factor to consider. The state's economic and social objectives should be ignored. This assertion is accurate in and of itself, because it is pointless to have taxes that cannot be charged and enforced properly. Economic, social, and political groups are putting pressure on the government. Each group attempts to safeguard and advance its own interests, and governments are frequently forced to alter tax structures in order to deal with these pressures. Furthermore, the administrative structure may be ineffective at collecting taxes at a reasonable collection fee. Taxation is a useful weapon for the government, and it must be used efficiently to address societal economic and social issues such as income disparity, regional inequality, unemployment, and cyclical swings, among others. TOT must be the product of a power balance (Bhartia, 2009).

2.4 Empirical Literature Review

2.4.1 Arbitration and Mediation and Revenue Collection

Arbitration, either by direct agreement or through the court, still results in a decision by the arbitrator (Kashindi, 2017). Failure to comply with the arbitration process may, however, in some cases be due to the formalities involved and the fact that, due to the expenditure of time and resources. It may take a little longer for the disputing parties to appeal the outcome of the arbitration in court or, better yet, to engage in arbitration, which is a considerably more complex procedural process.

Mediation is the second method in this group. Mediation is a type of alternative dispute resolution that incorporates a voluntary, informal, consensual, highly confidential, and non-binding dispute resolution procedure. A neutral third party who supports a negotiated deal is included. This impartial third party must be fair and agreeable to all parties concerned. A neutral third party does not have decision-making authority, but rather assists the parties in reaching mutually accepted solutions to contested matters (Kashindi, 2017). The KRA ADR Framework is a living document and is reviewed from time to time to reflect changes in laws, guidelines and other regulatory frameworks and to improve service delivery. Strategic and innovative interventions are key to ensuring that the framework becomes a reliable and effective document that meets the needs of our internal and external customers. Strategic and Innovative interventions were key in ensuring the growth of the framework into a dependable and efficient document, which addressed the needs of both our internal and external customers.

Midodzi and Jaha (2011) conducted a study to determine the reasons for employing alternative dispute resolution in this scenario of lengthy conflict, as well as to assess the method's strengths and limitations. As a data gathering tool, interviews were used in this study. A total of eight (8) interviews were done with members of the various

committees, as well as members and leaders from the two communities. Due to the delays and criticism of traditional dispute resolution techniques, participants from both populations chose alternative dispute resolution methods over traditional dispute resolution methods, according to the study. The study also finds that alternative dispute resolution is used in a tripartite structure; mediation commission, advisory commission and community mediator. All of these structures work with different goals to achieve the desired peace outcomes for the two communities. The study also shows the high participation of the people of the two communities in the peace process.

Gitaru (2017) investigated the effects of system automation on revenue collection in Kenyan tax administrations. A descriptive research design is used in this study. Secondary data is used in this investigation. This study makes use of data from KRA customs for ten fiscal years based on the Simba system. Gretl analyzed the data and provided it in the form of figures and tables. According to the study's findings, the number of transactions has increased dramatically since implementation, owing to the automation of the revenue system, which has resulted in a high number of import shipments being processed and passed through the Centralized Document Processing Center (CSD). Because the sign of the ratio is positive, the results reveal that the income received is directly proportionate to the exchange rate. When using the Gretl software to do the analysis of variance, a probability p-value of $2.6e-013$ was achieved, indicating that the regression model is significant in predicting the association between all coefficients and aggregated income at a 95% significance level. According to the study's findings, income grew dramatically after the Simba system was automated. The currency rate, on the other hand, has an effect on the income collected following the automation of the Simba system. In 2009, inflation was 10.5 percent, rising to 15.2 percent in 2010 before falling to 5.33 percent in 2011.

Chumba and Kiptum (2018) investigated the impact of Kenya Revenue Authority's communication strategy on revenue collection in the North Rift Region. From an analytical investigation, he picked a cross-sectional design. This study addressed 386 KRA staff from three KRA stations in the northern Rift region. A basic random sample of 191 people was used for this study. A questionnaire was used to collect data. The data was analyzed using descriptive statistics and inferential statistics. Frequency, average percentage, and standard deviation are examples of descriptive statistics. Statistical outcomes include the application of correlation and regression models. The study's findings are presented in the form of tables and figures. The findings indicate that communication techniques influence tax collection at the Kenya Revenue Authority. According to the findings of this study, KRA should design proper communication strategies to deliver the relevant information and motivation in order to affect the attitudes and behavior of individuals or groups of people.

Muigua (2015) examines the effect of empowering the Kenyan community through alternative dispute resolution mechanisms. This study builds on the efforts of the judiciary in Kenya and other actors in the alternative dispute resolution (ADR) field to strengthen these mechanisms in the context of access to justice. This study takes a sectoral approach to discussing the current state of ADR use in Kenya and suggests ways to improve access to justice through ADR. Therefore, the recommendations are comprehensive and based on the different needs of consumers in different sectors.

2.4.2 Litigation and Revenue Collection

The TAT is a body established under the Tax Appeals Act 2013 to hear and resolve tax disputes in Kenya. If either party is affected by a negative TAT decision, that party has the right to appeal to the Supreme Court of Kenya. TAT complaints tend to be mostly technical in nature and tend to be civil in nature.

The main elements of tax evasion offenses are as follows: failure to disclose income or other information relating to a person's tax status, tax return fraud, non-payment of taxes. The safeguards available regarding the crime of tax evasion are as follows, and lastly, a real lack of awareness that the crime has been committed (Muigua, 2018). It is typically used by the top management of organizations accused of tax evasion and the accused must prove that there is no way of knowing that the crime was committed; Illustrate the steps they have taken to improve the detection situation, legal ambiguity that has led to misinterpretation or application of this law by taxpayers, or the Kenya Revenue Service has represented taxpayers, creating a legitimate belief that taxpayers are being treated in a certain way and that action Taxpayers are legal according to law. Litigation has been initiated in a number of cases due to the Kenya Revenue Authority (KRA) overstepping or abusing its powers (Mohammed & Muturi, 2018). Losses due to such misuse usually force taxpayers to go through pretrial dispute resolution procedures and go straight to court by submitting a request for reconsideration.

Lewin (2016) examines the effects of conflict resolution in the workplace through the legal process. Many facets of workplace conflict resolution have been studied in industrial relations, organizational behavior, and human resource management, ranging from the design of conflict resolution systems to conflict resolution processes to system outcomes. Scholars in this discipline, however, devote less attention to the external resolution of workplace issues through legal proceedings. This chapter examines specific aspects of such litigation, with a focus on workplace dispute, such as management and employee misclassification, independent contractor versus employee status, non-demand agreements, and executive salary. Current important instances on this topic are discussed, with a focus on whether the issues they reflect may be handled

internally or through alternative dispute resolution (ADR) procedures rather than through due process.

Olapade and Aluko (2019) empirically examined the constitutional means of tax dispute resolution and advocate for the adoption of alternative dispute premises recovery through adoption of alternative dispute resolution (ADR) techniques. It is therefore, imperative to consider the adoption of other modes of dispute resolution in the resolution of tax disputes. The extant National Tax Policy encourages the use of Alternative Dispute Resolution Mechanisms, especially arbitration in the resolution of tax disputes; however, tax authorities don't seem too inclined to consider these options.

Midodzi and Jaha (2011) assessed the efficacy of the alternative Alawano-Nkonya conflict settlement method in Ghana's Volta region. As a data gathering tool, interviews were used in this study. Eight (8) interviews were performed with members of the various committees as well as members and leaders of the two communities. The study found that alternative dispute resolution methods were preferred over traditional dispute resolution methods by people from both communities due to delays and criticism of these traditional methods. The study also finds that alternative dispute resolution is used in a tripartite structure; mediation commission, advisory commission and community mediator.

2.4.3 Negotiation and Revenue Collection

Negotiation permits the parties to reach an agreement on a mutually beneficial conclusion. The actual details of the agreement must be determined by the parties and might be general or particular based on their interests (Barako, 2015). An agreement can be used to record contractual agreements. A contract is formed between the parties

after they sign. If the agreement is reached in the midst of a legal dispute, the parties may register it in court in accordance with the prevailing practice rules.

Negotiation is a two-way conversation between two conflicting parties that takes place without the involvement of a neutral third party. It is an informal process in which the parties have complete influence over the outcome. This comprises a meeting of the parties to discuss the problem and come up with a solution that is agreeable to both sides. Negotiations are focused on the parties' similar interests rather than their power or position (Kashindi, 2017). The purpose of negotiation is for the parties to establish a "win-win" solution to the disagreement at the end of the process. Negotiations between taxpayers and taxpayers are traditionally carried out before the matter is presented to court.

The framework for negotiating income tax dispute resolution essentially revolves around tax determination, imposition of sanctions, refusal of acceptance and withholding, assessment, interpretation of various legal provisions and conflicting decisions of the commissioner's administration according to law (Mohammed & Muturi, 2018). Previously, the framework for objections and complaints was governed by Chapter 470 of the Income Tax Act. Dispute resolution issues 85 are regulated in Section X of the Law, which regulates objections, complaints, and corrective actions in the event of an error.

In the past, a taxpayer who disputed his judgment would dispute this in writing by notifying the commissioner. The notice must be sent within thirty days of the submission of the tax notification (KRA, 2015). If the opponent cites compelling reasons, the Commissioner may extend the deadline and allow late objections. However, the applicant must first deposit all or part of the tax owed to the

commissioner, as requested by the commissioner. One person has the right to appeal the commissioner's decision to refuse to allow a late appeal with the local commission. According to the legislation, the local committee's judgment in this subject is final.

Negotiations, according to Temitayo (2014), are rigorously used as an alternative dispute resolution (ADR) technique in the management and resolution of current problems. Rather than going through a rigorous court or legal process, this article cautions about various liberal conflict resolution approaches. Relevant worldwide and local conflicts are examined in an effort to demonstrate negotiation as an effective method for conflict resolution. This article illustrates how bargaining using various negotiation models can lead to appropriate conflict resolution. He recommends using globally visible conflicts in negotiations to resolve disputes and conflicts, depending on whether they are negotiated conflicts or conflict resolution.

Tabasuma (2020) empirically examined the importance of negotiation and conflict management. The results show that areas that typically accept negotiation and conflict management ensure smooth business, organization, personal relationships, and long-term relationships between people. Azmi and Hoong (2014) examine the relationship between tax aggression and negotiation: in the context of tax audits. There are different ways of negotiation between taxpayers and tax authorities, but the literature does not describe the methods and procedures that both parties might use to establish a mutually beneficial agreement. This study explores the literature on how the tax authorities' time concession strategy and aggression affect the result of negotiations.

Azmi and Hoong (2014) examined the effect of tax aggression and negotiation. Negotiation is a common feature of accountant-client, buyer-seller, and in tax audit

contexts. This study explores the literature on how the tax authorities' time concession strategy and aggression affect the result of negotiations.

2.5 Critique of the Study

ADR is defined under Article 159 of the Constitution as a broad and comprehensive approach to settling various types of disputes. The ADR framework follows the constitution's narrow conflict resolution approach (Mohammed & Muturi, 2018). It recognizes and approves facilitated mediation as the only alternative form of dispute resolution that can be utilized to settle tax issues between the KRA and taxpayers. This limited approach appears to be in conflict with Article 159 of the Constitution, which calls for the use of alternative dispute resolution methods such as arbitration, negotiation, and mediation. The KRA framework (2018) restricts taxpayers' rights to alternate forms of dispute resolution, particularly if mediation fails or is not preferred by taxpayers. This point is highlighted even more when it comes to access to justice. Article 48 of the Constitution guarantees everyone the right to seek justice. It could be claimed that by offering only mediation, the ADR Framework restricts access to justice by not providing other kinds of ADR for use by parties who do not choose to use mediation.

According to Muigua (2015), Articles 159 (2) and 189 (4) regulate the rise of ADR as a form of conflict resolution. Muigua (2018) goes on to argue that ADR applies to all disputes, broadening its scope. This is a clear statement of the use of ADR to mediate various disagreements. According to this perspective, the framework method lacks a clear understanding and assessment of ADR. ADR studies are still seen as incidental to legal conflicts and lack the required constitutional relevance. This could explain why the structure lacks a legal foundation in terms of substantive provisions of the law or the articles of association. It was only made public as a nonbinding internal KRA

political framework. The framework even advises taxpayers to use substantive laws and other formal means to settle disputes arising from these rules. This serves to diminish the framework's importance.

However, according to KRA corporate report (2018) tax dispute resolution process is tedious and marred with corruption from the people entrusted with the responsibility by the government. As reported, out of the 10-access presented to the Tax Arbitration Tribunal only 3 have succeeded while the rest are dismissed and the government end up losing billions of money in the process. ADR has the following exceptions if the settlement would conflict with the constitution, income laws, or other permitted laws; Facts require technical/legal interpretation, juridical truth clarification is in the public interest. There are undeniable judgments and decisions. A country does not want to participate in the ADR procedure. The matter has criminal elements like fraud – in this case, parties may agree to discuss strictly on the Tax issues and let the aspects related to suspected fraud proceed for judicial determination. The exceptions therefore do not result to any revenue collection and other revenue collection methods have to be used. Therefore, the process is sometimes deemed as a process to enrich the tribunal members and not to improve tax collection for the government.

2.6 Research Gap

Muigua (2018) conducted research to regulate alternative dispute resolution (ADR) practices in Kenya: a foresight. This study investigates the viability of using ADR in tax dispute resolution in Kenya. The conceptual basis for settling tax disputes is examined first in this paper. Investigate the causes of disagreements and make a list of the many types of disputes that arise when collecting taxes. A summary of the ADR forms for tax disputes has been presented. The analysis of tax dispute settlement in Kenya will then be continued, including the historical discourse on tax dispute

resolution in Kenya. Finally, this paper investigates ADR as a technique for settling tax disputes in Kenya. To that end, the constitutional, legal, and institutional provisions related to ADR must first be reviewed. The study then critically analyzes the ADR KRA framework in relation to relevant constitutional and legal provisions and international best practice.

2.7 Conceptual Framework

According to Mugenda & Mugenda (2013), the conceptual framework is a diagram that depicts the conceptualization of the link between variables in study. He explains the theory behind this relationship and explains the nature and direction of this relationship. Variables including arbitration and mediation, litigation and negotiation constituted the independent variables. The dependent variable was revenue collection.

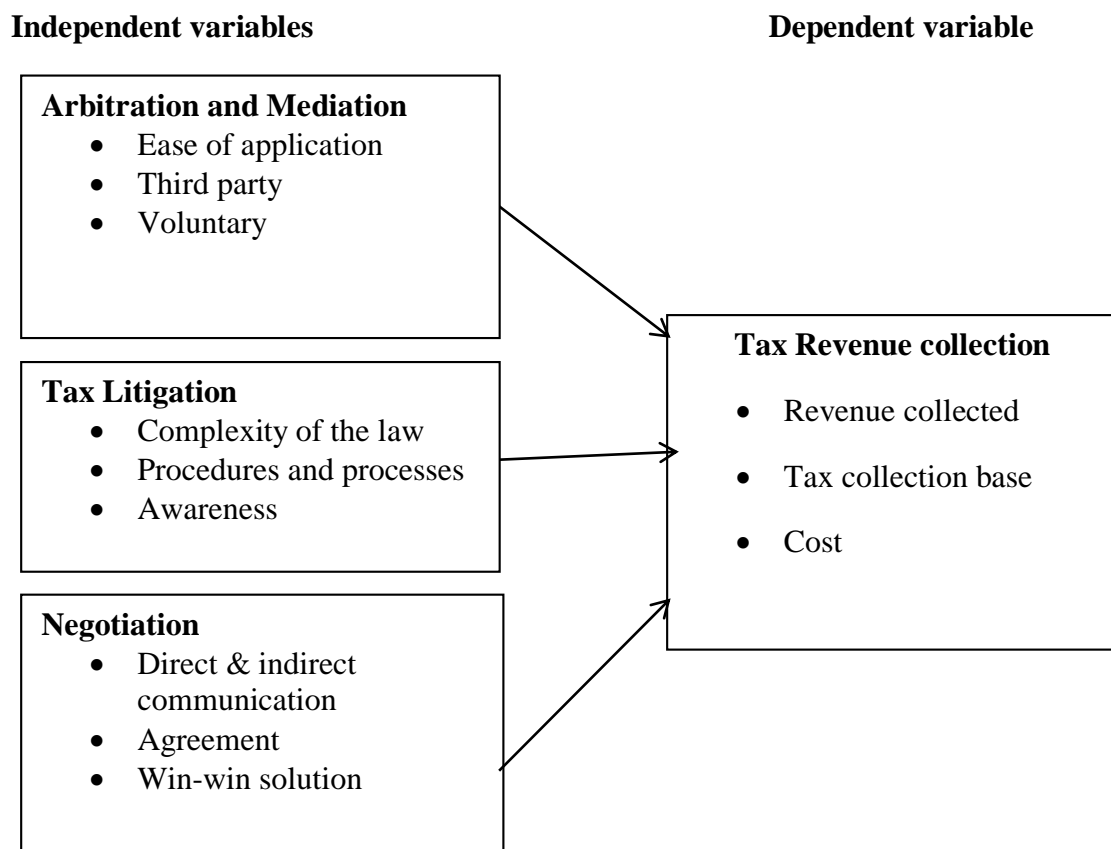


Figure 2.1: Conceptual Framework

Source: Author (2021)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section discussed the approach that would be utilized to carry out the study. It described the research design, the population involved and the sample frame, the justification, the sampling techniques, the tools used to gather data, data collection, and analysis to fulfil the research objectives.

3.2 Research Design

A research design is a method that a researcher uses to collect and analyse variables. It's simply the method used by a researcher to conduct his study and answer the researcher's research questions (Mugenda & Mugenda, 2003). According to Ogula (2005), a study design is a plan, structure, and technique of investigation used to answer research questions and control variation. This study adopted an explanatory research design. To clarify the patterns of relationships between variables, explanatory research design focuses on an analysis of a situation or a particular issue. The design was chosen because it aided in determining the causal relationship between variables. The goal of this study was to determine the association between alternative dispute resolution and revenue collection.

3.3 Target Population

Target population is a set of several units or a large group or a population that a researcher intends to collect data from. The target population of this study included taxpayers who have settled tax disputes using the TDR mechanism and tax payers whose TDR cases were ongoing. The choice of taxpayers as target respondents was because they had used alternative dispute resolutions as mechanism for solving tax disputes. The total number of these cases currently stands at 874 (KRA, 2020).

Table 3.1: Target Population

Category	Target population
Taxpayers	874
Total	874

Source: KRA (2020)

3.4 Sample Design

The sample design is the structure or roadmap that serves as the foundation for choosing the survey sample (Soloff et al., 2005). It contains a basic plan and methodology for sampling. In this study, the sample design is divided into sample size and sampling method.

3.4.1 Sample Size

A sample, according to Kombo and Tromp (2009), is a subset of a population that is meant to reflect or represent the features of that population. Yamane (1967) formula is adopted in computation of the sample size.

$$n = \frac{N}{1 + N(e)^2}$$

Where:

‘n’ = sample size,

‘N’ = population

‘e’ = the confidence level

1 = constant.

This study assumed the level of precision of 5%

The sample size is:

$$n = \frac{874}{1 + 874(0.05)^2} = 274$$

The study sample size was 274. Table 3.2 shows the study sample size.

Table 3.2: Sample Size

Category	Target population	Sample Size
Taxpayers	874	274
Total	874	274

Source: KRA (2020)

3.4.2 Sampling Technique

The study adopted simple random sampling technique in selection of respondents. All respondents have equal opportunities to be chosen in random sampling. This technique has the advantage of having a sample size that is representative of the entire population. The study sampled 274 taxpayers who had settled tax disputes using the TDR mechanism and tax payers whose TDR cases were ongoing.

3.5 Data Collection Instrument

This study collected primary data using questionnaires. A questionnaire is a collection of questions structured for purposes of a research or statistical study and the respondents are expected to respond (Mugenda & Mugenda, 2008). For quality purposes of the data to be obtained, Likert type criteria for setting questions were adopted. On a five-point Likert scale of strongly agree, agree, neutral, disagree, and strongly disagree, respondents were asked to express their level of agreement with the TDR tax questions. The choice of Likert scale was because it allowed respondents to express their opinions in regard to statements measuring the study variables.

3.6 Data Collection Procedure

The data gathering procedure is critical to data collection and acquiring meaningful data for analysis (Groves, 2009). The run-and-select method was then used to conduct the questionnaire. Control is carried out to guarantee that all questionnaires distributed to respondents are received by keeping a list of the questionnaires distributed and

received. The researcher got permission from the university and NACOSTI. The researcher hired two research assistants to help with data collection

3.7 Pilot Testing

Before employing a questionnaire to collect data, the instrument must first be tested (Dikko, 2016). Questionnaires should be modified such that respondents have no difficulty answering questions. Furthermore, the trial questionnaire aids in determining the validity and reliability of the data. In this study, questionnaires representing up to 10% of the sample total were distributed at random. To avoid bias, pilot study participants were eliminated from the baseline. Mugenda and Mugenda (2003) discovered that 5 to 10% of the population sample is adequate for testing the research tool.

3.7.1 Validity of Research Instrument

According to Bond (2003), validity is mostly in the minds of policymakers, whereas actual scientific measurement is primarily in the minds of those seeking valid evaluation results. According to Tale and Darcy (2013), validity is the extent to which the information collected by researchers actually describes the phenomenon under study. The purpose of this research was to look into the content and validity of the instrument design. To check the content's validity, the study's management administered a questionnaire and, if necessary, provided recommendations on what might be changed. The questionnaire was divided into many portions based on the survey factors to ensure design validity. Validity test was also conducted using communality scores in factor analysis. Criterion was that scores above 0.49 indicate that the items measuring the variables are valid. Results are shown in Table 3.3.

Table 3.3: Validity Test

Constructs	Initial	Extraction
Arbitration and mediation	1	0.672
Litigation	1	0.573
Negotiation	1	0.640
Revenue collection	1	0.612

Extraction Method: Principal Component Analysis.

Source: Research data (2021)

The findings in Table 3.3 indicate that all variables had scores above 0.49. Therefore, the questionnaire was valid.

3.7.2 Reliability of Research Instrument

The capacity of a research tool to consistently measure a characteristic of interest across time is referred to as reliability. This is the rate or proportion of times that study yields consistent results or data, even after multiple tries. A test's reliability relates to its consistency, dependability, or stability. The Cronbach's alpha coefficient was used in this study to assess the reliability of the questionnaire (Cronbach, 1951). A Cronbach alpha value of 0.7 was selected as the cut-off point, and all items above this value were deemed weak and hence removed.

3.8 Measurement of Variables

The dependent variable in this study was tax revenue collection. The variable was measured in terms of revenue collected, tax collection base and cost (Galinoma, 2019). The independent variable was alternative dispute resolution. This was categorised into three mechanisms: Arbitration and mediation, litigation and negotiation. Arbitration and Mediation was measured in terms of ease of application, third party and voluntary (Kashindi, 2017). Litigation was measured in terms of complexity of the law, procedures and processes, and awareness (Muigua, 2018). Negotiation was measured

in terms of direct & indirect communication, agreement and win-win solution (Mohammed & Muturi, 2018).

3.9 Data Analysis and Presentation

Descriptive and inferential statistics are useful for analyzing the collected data so that readers can quickly understand and analyze it. After on-site data collection and prior to analysis, all questionnaires were adequately checked for consistency, completeness and correctness and prepared. The survey data was then coded in the Social Science Software Statistics Package (SPSS) so that responses could be grouped into several categories and analyzed using descriptive statistics. The simple mean was used to get the average number of responses based on their feelings as expressed on a Likert scale. The increase in respondents is given as a percentage, and the standard deviation is used to quantify the divergence of responses from the distribution mean. Tables and pie charts are used to display the results. Regression analysis is used to objectively analyze the degree of association between the independent variable and the dependent variable in predicting the dependent variable. The multiple regression analysis model used was specified as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

Y = Revenue Collection

β_0 = Constant

X_1 = Arbitration and Mediation

X_2 = Litigation

X_3 = Negotiation

$\beta_1, \beta_2, \beta_3$ and β_4 = Regression Coefficients

ε = Error term

3.9.1 Regression Assumptions

Regression assumptions were conducted to determine the fitness of variables for inferential statistical analysis. The data was subjected to normality, linearity, multicollinearity, and homogeneity tests.

a. Normality Test

The Shapiro-Wilk test was performed to determine data normality. The null hypothesis is rejected if the p-value is less than 0.05, indicating that the data is not regularly distributed (Shapiro & Wilk, 1965). The null hypothesis, on the other hand, is accepted if the p-value is greater than 0.05, implying that the data is regularly distributed.

b. Linearity Test

Linearity test measures the strength or degree of linear association between correlated variables represented by a straight line. A scatter plot that illustrates a linear relationship between the predictor and the response variables was used to confirm that the assumption of linearity has not been violated.

c. Multicollinearity Test

Multicollinearity occurs when the independent variables are correlated. It is a violation of Ordinary Least Square (OLS) assumption. The Variance Inflation Factor was used to perform a multicollinearity test (VIF). A VIF number less than 10 indicates that there is no multicollinearity, whereas a VIF value greater than 10 indicates that there is multicollinearity.

d. Heteroscedasticity Test

When the variance of the error element is not constant, heteroscedasticity occurs. This deviates from the OLS postulate of homoscedasticity. Leven's test was used to assess heteroscedasticity. The null hypothesis states that the error element's variance is

constant. A probability value greater than 0.05 implies the null hypothesis, which implies that the error term has a constant variance.

3.10 Ethical Considerations

Ethical considerations are ethical rules that researchers must address in any assessment strategy throughout the research design process (Fellows & Liu, 2015). The university has given permission to undertake the research. Furthermore, before data collecting began, NACOSTI granted approval for the project. The information gathered from responders was kept strictly secret. The goal of the study was explained to the study's participants. The information gathered from respondents is reported without deception or bias.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter contains information about data analysis, outcomes, and interpretation. The findings are presented using tables and graphs. The data that was analyzed was divided into subjects that aligned to the research objectives.

4.2 Response Rate

Table 4.1: Response Rate

Response	Frequency	Percentage
Returned	197	71.90%
Unreturned	94	28.10%
Total	274	100%

Source: Research Data (2021)

A total of 197 questionnaires were completed and returned. As demonstrated in Table 4.1, this translates to an overall success rate of 71.90 percent. According to Babbie (2004), a response rate of 50 percent for analysis and publishing is acceptable, 60 percent is good, and 70 percent is excellent. Based on this assertion, the response rate for this study of 71.90 percent is very good.

4.3 Pilot Results

A pilot study was carried out on 27 people who had resolved tax issues. The taxpayers that participated in the pilot study were not included in the final study. The 27 questionnaires were all administered and returned.

4.3.1 Reliability Results

The reliability test findings were used to evaluate the internal consistency of the variables as measured by the Likert Scale. Table 4.2 shows the results of calculating the reliability coefficients for each Likert scale element.

Table 4.2: Reliability Results

Variable	Cronbach's Alpha	Number of items	Comment
Revenue Collection	0.785	4	Reliable
Arbitration and Mediation	0.877	5	Reliable
litigation	0.812	5	Reliable
Negotiation	0.859	5	Reliable

Source: Research Data (2021)

The results in Table 4.2 show that all of the scaled elements are above the value of 0.7. Therefore, all variables reached a confidence level of 0.7 and above and were therefore considered appropriate for this study.

4.4 Demographic Results

Respondents were asked about their demographic information, such as the gender of the respondent, when the respondent used ADR to resolve disputes, and methods of dispute resolution. The results are shown in Table 4.3.

Table 4.3: Demographic Results

Variable	Frequency	Percent
Gender		
Male	131	66.5
Female	66	33.5
Total	197	100
Times Used ADR		
Once	6	3
Twice	28	14.2
Several Times	163	82.7
Total	197	100
Dispute resolution process		
Arbitration and mediation	59	29.9
Litigation	66	33.5
Negotiation	72	36.5
Total	197	100

Source: Research Data (2021)

According to the results in Table 4.3, 66 percent of the respondents were men, while 34 percent were women. This implied that there were significantly more men than women who adopted ADR mechanism to solve tax issues. Results indicated that 83% of the respondents had used ADR to settle disputes several times, 14% of the respondents had used ADR to settle disputes while 3% had used of the respondents had used ADR to settle disputes only once. This implied that majority of the respondents had used ADR several times and therefore, had adequate knowledge and experience on ADR. As such, the information they provided was reliable. The results revealed that 37% of the respondents used litigation method to resolve disputes, 33% used litigation process while 30% used arbitration and mediation process. This implied that the three ADR mechanisms had been adopted in the process of settling dispute.

4.5 Descriptive Statistics

Descriptive statistics were done on the dependent and the independent variables.

4.5.1 Revenue Collection

Descriptive results for revenue collection were presented in Table 4.4.

Table 4.4: Revenue Collection

Statement	SD	D	N	A	SA	Mean	Std. Dev
There has been an increase in revenue collection due to use of ADR.	10.20%	3.60%	15.70%	38.10%	32.50%	3.79	1.23
There has been an increase in the tax collection base as a result of the application of ADR	12.70%	0.50%	12.20%	27.90%	46.70%	3.95	1.33
There has been a reduction of leakages of tax revenue as a result of the application of ADR	4.60%	8.10%	13.20%	22.80%	51.30%	4.08	1.18
The cost incurred in the use of ADR is indicative of the overall benefit of tax revenue collected.	11.70%	4.60%	7.10%	27.90%	48.70%	3.97	1.34
Average						3.95	1.27

Source: Research Data (2021)

Results in Table 4.4 revealed that 70.6% of the respondents agreed with the statement that there has been an increase in revenue collection due to use of ADR. According to the results, 74.6 percent of respondents agreed with the assertion that the tax collecting base has increased as a result of the use of ADR. Furthermore, the results revealed that 71.4 percent of respondents agreed with the assertion that the use of ADR had resulted in a reduction in tax revenue leakages. Furthermore, the findings revealed that 76.6 percent of respondents agreed with the assertion that the cost of using ADR is indicative of the overall benefit of tax money generated.

On a five-point scale, the average mean of the responses was 3.95, indicating that the majority of respondents agreed with most of the revenue collecting claims. The answers, however, did not deviate from the mean, as evidenced by a standard deviation of 1.27.

4.5.2 Arbitration and Mediation

Descriptive results for arbitration and mediation were presented in Table 4.5.

Table 4.5: Arbitration and Mediation

Statement	SD	D	N	A	SA	Mean	Std. Dev
Arbitration and mediation are easy to apply in most tax disputes in the country.	9.60%	9.60%	16.80%	40.60%	23.40%	3.58	1.22
Proper utilization of arbitration and mediation as tax dispute resolution methods is cost effective.	14.20%	13.20%	17.80%	32.00%	22.80%	3.36	1.35
Arbitration is the process through which disputes are resolved by a private tribunal chosen by the parties to the dispute.	11.20%	2.50%	17.80%	33.50%	35.00%	3.79	1.26
Mediation is a non-binding, voluntary, informal, consensual, and absolutely secret dispute settlement procedure.	14.20%	3.60%	25.40%	32.50%	24.40%	3.49	1.29
Arbitration and mediation both involve a neutral third-party assisting the parties in reaching a negotiated settlement.	12.20%	9.10%	24.90%	25.90%	27.90%	3.48	1.32
Average						3.54	1.29

Source: Research Data (2021)

Results in Table 4.5 showed that majority of the respondents who were 64.0% agreed with the statement that arbitration and mediation are easy to apply in most tax disputes in the country. Furthermore, 54.8 percent of respondents agreed with the assertion that correct use of arbitration and mediation as tax dispute resolution techniques is cost effective. Furthermore, 68.5 percent of respondents agreed with the statement that arbitration involves disputes being handled by a private tribunal chosen by the parties

to the case. According to the data, 56.9 percent of respondents agreed that mediation is a non-binding, voluntary, informal, consensual, and completely confidential dispute resolution process. Furthermore, 53.8 percent of respondents agreed with the statement that both arbitration and mediation involve a neutral third-party assisting a party to reach a negotiated settlement.

The average mean of the responses on a five-point scale was 3.54, indicating that the majority of respondents agreed with most of the assertions about arbitration and mediation. The answers, however, did not deviate from the mean, as evidenced by a standard deviation of 1.29.

4.5.3 Litigation

Descriptive results for litigation were presented in Table 4.6.

Table 4.6: Litigation

Statement	SD	D	N	A	SA	Mean	Std. Dev
The existing tax resolution law is complicated to be applied by taxpayers.	13.20%	12.70%	5.10%	33.50%	35.50%	3.65	1.41
Long procedures and processes are required to settle the cases which acts as a hurdle to many willing taxpayers	6.10%	12.20%	4.60%	28.90%	48.20%	4.01	1.25
Most cases are pre-determined to help KRA raise tax	5.10%	16.80%	7.10%	40.60%	30.50%	3.75	1.20
Corruption in the judicial system discourages taxpayers from filing tax cases	9.60%	4.60%	26.90%	36.00%	22.80%	3.58	1.17
Lack of public awareness has hindered the use of tax resolution methods	12.70%	5.60%	10.70%	24.40%	46.70%	3.87	1.39
Average						3.77	1.28

Source: Research Data (2021)

The results in Table 4.6 show that most of the respondents (69.0%) agree with the statement that the existing Tax Processing Law is complicated for taxpayers to implement. The results further show that the majority of 77.1% of respondents agree that a long procedure and process is needed to resolve cases, which is an obstacle for many willing taxpayers. According to the findings, the majority of respondents (71.1 percent) felt that the bulk of the cases were pre-determined to assist KRA in raising taxes. According to the findings, 58.8 percent of respondents believe that corruption in the judiciary discourages taxpayers from filing tax claims. Furthermore, the findings revealed that the majority of the 71.1 percent of respondents thought that a lack of public awareness had hampered the employment of tax avoidance tactics.

On a five-point scale, the average response was 3.77, indicating that the majority of respondents agreed with the majority of the claims. The responses, however, did not depart from the mean, as seen by a standard deviation of 1.28.

4.5.4 Negotiation

Descriptive results for litigation were presented in Table 4.7.

Table 4.7: Negotiation

Statement	SD	D	N	A	SA	Mean	Std. Dev
Negotiation is commonly used a dispute resolution mechanism between taxpayers and KRA officials.	12.70%	0.50%	3.00%	17.80%	66.00%	4.24	1.34
Negotiation between parties includes both direct and indirect communication.	8.60%	6.60%	10.20%	23.40%	51.30%	4.02	1.29
Negotiation permits the parties to reach an agreement that is mutually beneficial.	10.70%	3.00%	6.10%	17.30%	62.90%	4.19	1.32
An agreement can be used to record a negotiated settlement.	15.20%	1.00%	8.10%	21.80%	53.80%	3.98	1.43
Negotiation guarantees that the parties reach a win-win solution to their conflict..	10.70%	0.50%	5.60%	29.40%	53.80%	4.15	1.25
Average						4.12	1.33

Source: Research Data (2021)

The results in Table 4.7 show that the majority of respondents (83.8%) agree that negotiation is commonly used as a mechanism to resolve disputes between taxpayers and KRA employees. The results further show that most of the respondents (74.7%) agree with the statement that negotiations between the parties involve direct and indirect communication. In addition, the results show that a majority of 80.2% of respondents agree that negotiations will allow the parties to agree on a mutually satisfactory outcome. Furthermore, the majority of respondents (75.6%) agree with the assertion that the negotiated agreement can be stated in the form of an agreement. Furthermore, the findings revealed that the majority of individuals polled (83.2 percent) agreed with the assertion that negotiation ensures a successful dispute resolution.

The average response on a five-point scale was 4.12, indicating that the majority of respondents agreed with the majority of the assertions regarding the discussions. However, the 1.33 standard deviation indicates that the responses did not differ from the mean.

4.6 Regression Assumptions

The purpose of the test is to ensure that the data series is not skewed, which would lead to incorrect estimates. The tests include multicollinearity test, normality test, homoscedasticity test, and autocorrelation test.

4.6.1 Normality test

To test the normality of the data, the Shapiro-Wilk test was carried out where the p value (Sig) is greater than 0.05 causing the assumption of a null hypothesis (Ho: data is normally distributed). The results are shown in Table 4.8.

Table 4.8: Normality test using Shapiro Wilk

Variables	Statistic	df	Sig.
Revenue collection	.843	197	.071
Arbitration and mediation	.885	197	.104
Litigation	.825	197	.057
Negotiation	.803	197	.102

Source: Research Data (2021)

Table 4.8 shows that the significant value for revenue collection, arbitration and mediation, litigation and negotiation was greater than 0.05. As a result, the null hypothesis of normal distribution was accepted, implying that the study data was normally distributed.

4.6.2 Multicollinearity Test

The VIF was used to test for the existence of multicollinearity. Results are shown in Table 4.9.

Table 4.9: Multicollinearity test using VIF

	Tolerance	VIF
Arbitration and mediation	.646	1.548
Litigation	.614	1.628
Negotiation	.569	1.759

Source: Research Data (2021)

The results in Table 4.9 show that the VIF values for all variables were less than 10.

This meant that the independent variables were not multicollinear.

4.6.3 Linearity test

Linearity was examined using scatterplots, which were used to determine whether the variables have a linear relationship. The results are demonstrated in Figures 4.1, 4.2 and 4.3.

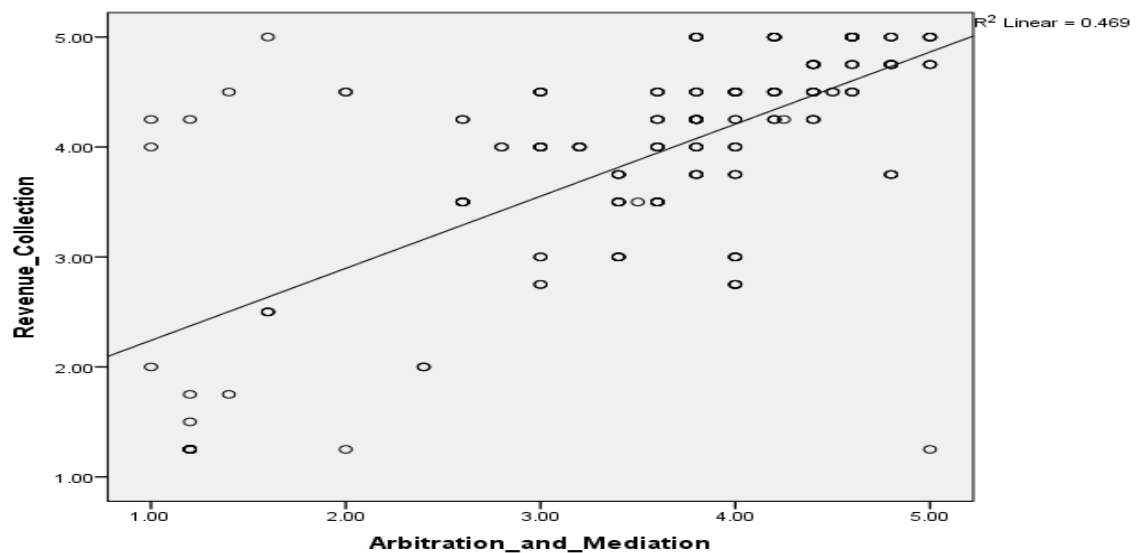


Figure 4.1: Linearity test between arbitration and mediation and revenue collection

Source: Research Data (2021)

The scatter plot in Figure 4.1 shows that arbitration and mediation have a linear relationship with revenue collection. The straight lines demonstrate the linear dependence between the variables.

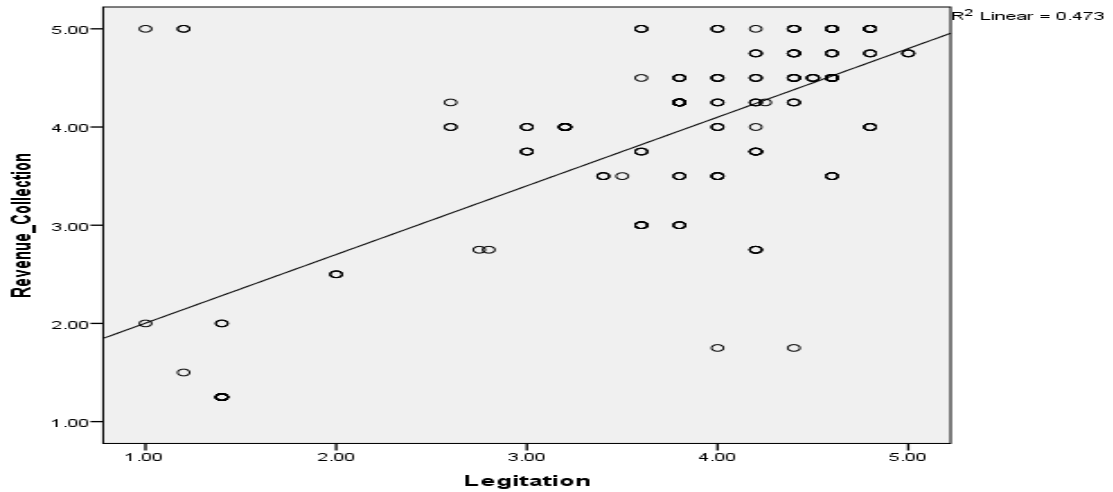


Figure 4.2: Linearity test between litigation and revenue collection

Source: Research Data (2021)

The scatter plot in Figure 4.2 shows that litigation has a linear relationship with revenue collection. The straight lines demonstrate the linear dependence between the variables.

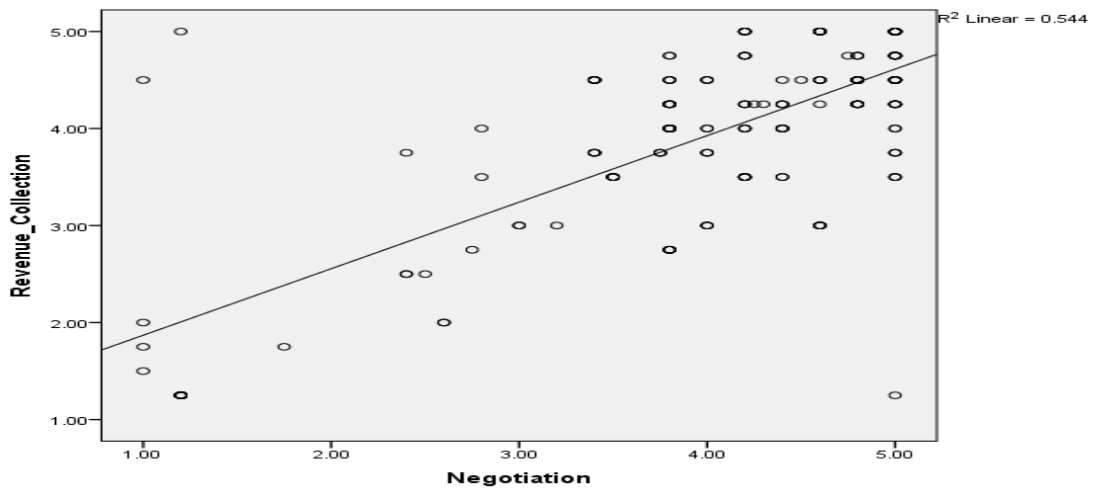


Figure 4.3: Linearity test between negotiation and revenue collection

Source: Research Data (2021)

The scatter plot in Figure 4.3 shows that negotiation has a linear relationship with revenue collection. The straight lines demonstrate the linear dependence between the variables.

4.6.4 Homoscedasticity Test

In testing for homoscedasticity test, the study used Levene's test. Results are indicated in Table 4.10.

Table 4.10: Homoscedasticity using Levene's test

Dependent Variable: VAT Revenue			
F	df1	df2	Sig.
28.585	102	94	.059

Tests the null hypothesis that the error variance of the dependent variable is equal across groups.

a Design: Intercept +arbitration and mediation, litigation, negotiation.

Source: Research Data (2021)

According to the results in Table 4.10, the probability value (Sig) of 0.059 was greater than the crucial threshold of 0.05. As a result, the null hypothesis that the error variance of the dependent variable is identical across groups was accepted. As a result, the data was homoscedastic.

4.7 Inferential Analysis

Inferential analysis contained both the correlation and the regression results.

4.7.1 Correlation Results

Correlation analysis was used to determine the link between the independent and dependent variables. The Pearson Product Moment (r) correlation coefficient, with values ranging from -1 to +1, was employed to assess the direction and strength of the linear association between the two variables. Table 4.11 summarizes the findings.

Table 4.11: Correlation Results

		Revenue Collection	Arbitration and Mediation	Tax Litigation	Negotiation
Revenue Collection	Pearson Correlation Sig. (2-tailed)	1			
Arbitration and Mediation	Pearson Correlation Sig. (2-tailed)	.685**	1		
	Pearson	0.000			
Litigation	Correlation Sig. (2-tailed)	.655**	.507**	1	
	Pearson	0.000	0.000		
Negotiation	Correlation Sig. (2-tailed)	.738**	.553**	.581**	1
	Pearson	0.000	0.000	0.000	

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

Source: Research Data (2021)

Results in Table 4.11 showed that arbitration and mediation had a strong positive linear association with revenue collection ($r = 0.685$, $p = 0.000$). This implies that an improvement in arbitration and mediation methods would lead to improvement in revenue collection. This finding is consistent with Kashindi (2017), who discovered that mediation is the preferred ADR method for resolving tax issues and the preferred approach to resolve disputes in other markets such as the United Kingdom and South Africa when revenue collection grows.

In addition, showed that litigation had a strong positive linear association with revenue collection ($r = 0.655$, $p = 0.000$). This suggests that improvements in litigation tactics would result in increased revenue collection. The findings agreed with Mucheru (2019) who indicated that effectiveness of the ADR process could change the fundamental structure of the tax advisory industry given that it targets a shift away from tax litigation in favour of a negotiated tax settlement.

In addition, negotiation had a strong positive linear association with revenue collection ($r = 0.738$, $p = 0.000$). This suggests that an improvement in negotiation techniques would result in an increase in revenue collection. These findings agreed with Kanyi (2019) who indicated that majority of tax disputes were being resolved by less adversarial means such as negotiated settlement.

4.7.2 Regression Results

The association between the independent factors (arbitration and mediation, lawsuit and negotiation) and the dependent variable was determined using regression analysis (revenue collection). Model Fitness results were presented in Table 4.12.

Table 4.12: Model Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.843a	0.711	0.707	0.53613

Source: Research Data (2021)

According to the findings in table 4.12, arbitration and mediation, litigation, and negotiation were shown to be adequate variables in explaining revenue collection. This implies that 71.1 percent of the variance in the dependent variable, revenue collection, is accounted for through arbitration and mediation, litigation, and negotiation. This conclusion also suggests that the model employed to link the variables' associations was adequate. These findings corroborated Bentley (2006)'s contention that rights-based dispute settlement promotes revenue administration and collection power.

Table 4.13 provides the results on the analysis of the variance (ANOVA).

Table 4.13: Analysis of Variance

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	136.479	3	45.493	158.27	.000b
Residual	55.476	193	0.287		
Total	191.955	196			

Source: Research Data (2021)

The results reveal that the overall model was statistically significant, as evidenced by a p value of 0.000, which is less than the required p value of 0.05. An F statistic of 158.27 supports this, implying that c arbitration and mediation, litigation and negotiation are good predictors of revenue collection. Regression of coefficients results were presented in Table 4.14.

Table 4.14: Regression of Coefficient

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.237	0.175		1.351	0.178
Arbitration and Mediation	0.308	0.046	0.321	6.675	0.000
Litigation	0.309	0.05	0.304	6.148	0.000
Negotiation	0.356	0.048	0.383	7.457	0.000

Source: Research Data (2021)

The coefficient regression analysis revealed a positive and significant link between arbitration and mediation and revenue collection ($=0.321$, $p=0.000$). According to Kashindi (2017), the main ADR mechanism utilized in settling tax issues is mediation, which is also the favoured method of dispute settlement in other markets such as the United Kingdom and South Africa because it improves revenue collection.

There was also a positive and substantial association between lawsuit and income collection ($=0.304$, $p=0.000$). The findings agreed with Mucheru (2019) who indicated that effectiveness of the ADR process could change the fundamental structure of the tax advisory industry given that it targets a shift away from tax litigation in favour of a negotiated tax settlement.

Furthermore, the data revealed a positive and substantial association between bargaining and revenue collection ($r=0.383$, $p=0.000$). These findings agreed with Kanyi (2019) who indicated that majority of tax disputes were being resolved by less adversarial means such as negotiated settlement.

$$Y = 0.321X_1 + 0.304X_2 + 0.383X_3$$

Where:

Y = Revenue Collection

β_0 = Constant

X_1 = Arbitration and Mediation

X_2 = Litigation

X_3 = Negotiation

4.8 Hypothesis Testing

The study hypotheses were tested as shown below.

4.8.1 Hypothesis Testing for Arbitration and Mediation and Revenue Collection

The hypothesis H_{01} stated that there was no significant relationship between arbitration and mediation on revenue collection in KRA, Kenya. The results revealed that t_{cal} (6.675) > $t_{critical}$ (1.96) (Table 4.14). This study therefore concludes that in KRA, Kenya, there is a significant relationship between arbitration and mediation and revenue collection. Kashindi (2017) discovered that mediation is the preferred ADR mechanism for resolving tax disputes and is the preferred method of settling disputes in other markets such as the United Kingdom and South Africa since it boosts revenue collection.

4.8.2 Hypothesis Testing for Litigation and Revenue Collection

The hypothesis H_{02} stated that there was no significant effect of litigation on revenue collection in KRA, Kenya. The results revealed that $t_{cal} (6.148) > t_{critical} (1.96)$ (Table 4.14). Therefore, the study concluded that there was a significant relationship between litigation on revenue collection in KRA, Kenya. The findings agreed with Mucheru (2019) who indicated that effectiveness of the ADR process could change the fundamental structure of the tax advisory industry given that it targets a shift away from tax litigation in favour of a negotiated tax settlement.

4.8.3 Hypothesis Testing for Negotiation and Revenue Collection

The hypothesis H_{03} stated that there was no significant effect of negotiation on revenue collection in KRA, Kenya. The results revealed that $t_{cal} (7.457) > t_{critical} (1.96)$ (Table 4.14). As a result, the study revealed that there was a substantial association between revenue collection negotiations in KRA, Kenya. These findings agreed with Kanyi (2019) who indicated that majority of tax disputes were being resolved by less adversarial means such as negotiated settlement.

4.9 Discussion of the Findings

4.9.1 Arbitration and Mediation and Revenue Collection

The first objective of the study was to assess the effect of arbitration and mediation on revenue collection in KRA, Kenya. The correlation analysis results indicated that arbitration and mediation had a strong positive linear association with revenue collection ($r = 0.685$, $p = 0.000$). This implies that an improvement in arbitration and mediation methods would lead to improvement in revenue collection. The results of the regression analysis showed that there was a positive and significant relationship between arbitration and mediation with revenue collection ($\beta = 0.321$, $p = 0.000$). This finding is consistent with Kashindi (2017), who discovered that mediation is the

preferred ADR method for resolving tax issues and the preferred approach to resolve disputes in other markets such as the United Kingdom and South Africa when revenue collection grows.

4.9.2 Litigation and Revenue Collection

The second objective of the study was to evaluate the effect of litigation on revenue collection in KRA, Kenya. The correlation analysis result indicated that litigation had a strong positive linear association with revenue collection ($r = 0.655$, $p = 0.000$). This suggests that improvements in litigation tactics would result in increased revenue collection. The results of the regression study demonstrated a positive and substantial association between litigation and income collection ($=0.304$, $p=0.000$). Mucheru (2019) concurred with the findings, indicating that the effectiveness of the ADR procedure might transform the fundamental structure of the tax advice sector by focusing on a shift away from tax litigation and toward a negotiated tax settlement.

4.9.3 Negotiation and Revenue Collection

The third objective of the study was to evaluate the effect of negotiation on revenue collection in KRA, Kenya. The correlation analysis result showed that negotiation had a strong positive linear association with revenue collection ($r = 0.738$, $p = 0.000$). This means that improvements in negotiation strategies would result in increased revenue collection. The results of the regression analysis demonstrated a positive and significant link between negotiation and revenue collection ($=0.383$, $p=0.000$). These findings were consistent with Kanyi (2019), who stated that the majority of tax issues were handled through less confrontational approaches such as negotiated settlement.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter included an overview of the findings, conclusions, and suggestions. This was done in accordance with the study's aims.

5.2 Summary of Findings

5.2.1 Arbitration and Mediation and Revenue Collection

The initial goal was to evaluate the impact of arbitration and mediation on revenue collection in Kenya's KRA. According to the findings, the majority of respondents believe that arbitration and mediation are simple to use in most tax issues in the country. In addition, results showed that proper utilization of arbitration and mediation as tax dispute resolution methods was cost effective. In addition, the results show that the arbitration process is a dispute that is resolved by a private court chosen by the disputing parties. Further results show that mediation is a voluntary, informal, consensual, highly confidential and non-binding dispute resolution process. In addition, the results show that both arbitration and mediation involve a neutral third party who helps reach a negotiated agreement. The correlation results show that arbitration and mediation and revenue collection have a positive and significant relationship. The regression results show that there is a positive and significant relationship between arbitration and mediation with revenue collection.

5.2.2 Litigation and Revenue Collection

The second objective was to assess the impact of litigation on revenue collection in KRA, Kenya. The results showed that most of the respondents stated that the implementation of the existing tax restructuring law by taxpayers was complex. The findings also show that the majority of respondents indicated that lengthy procedures

and processes were required to resolve issues, which proved an impediment for many willing taxpayers. According to the findings, the majority of respondents stated that the majority of the instances were pre-determined to assist KRA with the tax rise. The findings also show that the majority of respondents believe that corruption in the judiciary inhibits taxpayers from filing tax claims. Furthermore, the findings revealed that the majority of respondents claimed that a lack of public knowledge prohibited them from using the tax approval process.

Correlation analyses revealed a positive and significant relationship between litigation and revenue collection. According to the regression results, there is a positive and significant association between lawsuit and income collection.

5.2.3 Negotiation and Revenue Collection

The third objective was to evaluate the effect of negotiation on revenue collection in KRA, Kenya. Results showed that most of the respondents indicated that negotiation is commonly used a dispute resolution mechanism between taxpayers and KRA officials. The results further show that most of the respondents indicated that the negotiation between the parties involved direct and indirect communication. In addition, the results show that most of the respondents indicated that negotiation allows the parties to agree on mutually satisfactory results. Further results show that most of the respondents indicated that the negotiated agreement could be stated in the form of an agreement. Furthermore, the findings suggest that the majority of respondents believed that negotiations ensured that the parties obtained a successful dispute resolution.

The correlation results show that negotiation and revenue collection show a positive and significant correlation. The regression results show that there is a positive and significant relationship between negotiation and revenue collection.

5.3 Conclusions

The study concluded that there was a positive and significant relationship between arbitration and mediation and revenue collection. The study also concluded that arbitration and mediation are easy to apply in most tax disputes in the country. In addition, arbitration includes disputes resolved by private courts chosen by the disputing parties. Mediation, on the other hand, is a non-binding, voluntary, informal, consensual, and absolutely secret dispute resolution technique. Both arbitration and mediation, however, involve a neutral third party contributing to an agreement through negotiation

According to the study, there is a positive and significant association between litigation and income collection. The study also concluded that the existing tax resolution law is complicated to be applied by taxpayers. In addition, long procedures and processes are required to settle the case which acts as a hurdle to many willing taxpayers. Further, the study concluded that corruption in the judicial system discourages taxpayers from filing tax cases.

According to the study, there is a favourable and significant association between bargaining and income collection. The study also concluded that negotiation was commonly used as dispute resolution mechanism between taxpayers and KRA officials. Negotiation was also seen to involve both direct and indirect communication. In addition, negotiation allows the parties to agree to an outcome which is mutually satisfactory.

5.4 Recommendations

5.4.1 Practice

Facilitators and tax experts should be updated on current trends of mediation, effectiveness and transparency of the process. Further, KRA should invest in sensitizing taxpayers regarding the ADR process, and in embedding the requisite skills, motivation and resources in them to use the ADR process effectively. KRA may also consider permitting the use of external mediators, unconnected to the KRA so as to address concerns regarding the independence of mediators under the KRA led ADR process.

5.4.2 Policy

The government of Kenya should form a section in the constitution to empower KRA to settle a tax dispute on a compromise basis where it is in the best interest of the state. This provision should allow and grant KRA the flexibility to temper the principle that they cannot forgo taxes that are payable after conducting a cost-benefit analysis and considering the uncertainties of litigation.

Rules governing the use of ADR procedures pursuant to which KRA and the person aggrieved by an assessment may resolve a dispute. More specifically, clear negotiation procedures first then facilitated discussions procedures if the negotiations prove unsuccessful. The appeal procedures currently in the TPA would remain as rights backups. It is important that these rules be made with consultation with the judiciary to ensure compatibility with the justice system.

5.4.3 Theory

The study established that alternative dispute resolution mechanisms have a significant relationship with revenue collection. This finding builds on the theoretical foundation that predicted a relationship between the two variables. Other scholars have the

opportunity to strengthen their theoretical and empirical review in the process of developing their scholarly work.

5.5 Areas for Further Research

This study sought to investigate the effects of alternative dispute resolution on revenue collection in Kenya. Further studies can be done on this area but focus on revenue collection in other east African countries such as Uganda and Tanzania.

Many other additional parameters can be considered in the measurement of dispute resolution. Since the R squared was not 100%, it might imply that other additional dispute resolution practices could enhance the model for revenue collection in Kenya. Future studies could therefore focus on other dispute resolution.

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APPENDICES

Appendix I: Questionnaire

Dear Respondent,

This questionnaire is meant to assist the researcher in collecting data on the topic **“EFFECT OF ALTERNATIVE DISPUTE RESOLUTION ON REVENUE COLLECTION IN KENYA”** Kindly assist in the research by answering all questions below. Please note that the information you provide here will be for academic purpose only and all the responses will be treated with utmost confidentiality. **Do not include your name anywhere in the questionnaire. Note that there are no wrong or right answers.**

Section A: Background Information

1. What is your gender?

Male

Female

2. How many a times have you used ADR to settling tax disputes?

Once

Twice

Several times

3. Which dispute resolution process did you use?

Arbitration and mediation

Litigation

Negotiation

Section B: Arbitration and Mediation

Please indicate the extent to which you agree with each statement relating to arbitration and mediation. Given a scale of 1-5 where 1=strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree.

	Statement	1	2	3	4	5
(a)	Arbitration and mediation are easy to apply in most tax disputes in the country.					
(b)	Proper utilization of arbitration and mediation as tax dispute resolution methods is cost effective.					
(c)	Arbitration involves disputes being determined by a private tribunal selected by the parties to the dispute.					
(d)	Mediation involves a voluntary, informal, consensual, strictly confidential and non-binding dispute resolution process					
(e)	Both arbitration and mediation involve a neutral third-party helping party to arrive at a negotiated settlement.					

Section C: Litigation

Please indicate the extent to which you agree with each statement relating to tax litigation. Given a scale of 1-5 where 1=strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree.

	Statement	1	2	3	4	5
(a)	The existing tax resolution law is complicated to be applied by taxpayers.					
(b)	Long procedures and processes are required to settle the cases which acts as a hurdle to many willing taxpayers					
(c)	Most cases are pre-determined to help KRA raise tax					
(d)	Corruption in the judicial system discourages taxpayers from filing tax cases					
(e)	Lack of public awareness has hindered the use of tax resolution methods					

Section D: Negotiation

Please indicate the extent to which you agree with each statement relating to negotiation. Given a scale of 1-5 where 1=strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree.

	Statement	1	2	3	4	5
(a)	Negotiation is commonly used a dispute resolution mechanism between taxpayers and KRA officials.					
(b)	Negotiation between parties includes both direct and indirect communication.					
(c)	Negotiation allows the parties to agree to an outcome which is mutually satisfactory					
(d)	A negotiated settlement can be recorded in the form of an agreement					
(e)	Negotiation ensures that the parties arrive at a —win – win solution to the dispute at hand.					

Section E: Revenue Collection

Please indicate the extent to which you agree with each statement relating to revenue collection. Given a scale of 1-5 where 1=strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree.

	Statement	1	2	3	4	5
(a)	There has been an increase in revenue collection due to use of ADR.					
(b)	There has been an increase in the tax collection base as a result of the application of ADR					
(c)	There has been a reduction of leakages of tax revenue as a result of the application of ADR					
(d)	The cost incurred in the use of ADR is indicative of the overall benefit of tax revenue collected.					

Appendix II: Authorization Letter from KESRA



Kenya School of Revenue
Administration



KENYA REVENUE
AUTHORITY

ISO 9001:2015 CERTIFIED

REF: KESRA/NBI/036

21st October 2021

TO: WHOM IT MAY CONCERN

RE: REQUEST FOR RESEARCH PERMIT

LINET NJERI KINYUA- REG. NO.: KESRA105/0012/2017.

This is to confirm that the above named is a student at Kenya School of Revenue Administration (KESRA) Nairobi Campus pursuing Masters in Tax and Customs Administration.

The named student is undertaking Research on TOPIC: "EFFECTS OF ALTERNATIVE DISPUTE RESOLUTION ON REVENUE COLLECTION IN KENYA (A CASE STUDY OF KENYA REVENUE AUTHORITY)."

The purpose of this letter is to request your good office to assist the above student with the information she requires to enable her work on her project.

Your support to KESRA in this regard will be highly appreciated.

Thank you.

Dr. Marion Nekesa, PhD,
Head Academic Research
KESRA



Appendix III: NACOSTI Permit


 REPUBLIC OF KENYA
 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
 Ref No: 169794
 Date of Issue: 08/November/2022

RESEARCH LICENSE



This is to Certify that **Ms. LINET KINYUA** of Kenya School of Revenue Administration, has been licensed to conduct research in Nairobi on the topic: **Effects of Alternative dispute resolution on revenue collection in Kenya (A case study of Kenya Revenue Authority)** for the period ending : **08/November/2022**.

License No: **NACOSTI/P/21/12859**
 Applicant Identification Number: **169794**

 Director General
 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
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Appendix IV: Plagiarism Report

EFFECT OF ALTERNATIVE DISPUTE RESOLUTION ON TAX REVENUE COLLECTION IN KENYA

ORIGINALITY REPORT

18%	16%	2%	10%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	erepository.uonbi.ac.ke Internet Source	2%
2	ir-library.ku.ac.ke Internet Source	2%
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