

Sociological Behaviour and Excise Duty Compliance Nexus: Do Dispute Resolution Mechanisms Matter? Evidence From Alcoholic Beverage Manufacturers in Kenya

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Abstract

Purpose: Despite implementation of several initiatives to improve tax revenue collections, actual tax revenues have fallen short of projected targets. The purpose of the study was to determine the moderating role of dispute resolution mechanisms on the relationship between sociological behaviour and excise duty compliance among alcoholic beverage manufacturers in Nairobi County, Kenya. The study was guided by the theory of planned behaviour and judicial organization and adjective law theory.

Methodology: The study employed explanatory research design. The target population of the study was 231 respondents. Primary data was collected through structured questionnaires. Out of 231 issued questionnaires, 185 filled and returned the questionnaires.

Results: The study found that sociological behavior had a positive and significant effect on excise duty compliance, $\beta=0.270$ and $p\text{-value}=0.000124<0.05$. The study also found that dispute resolution mechanisms moderate and enhance the positive effect of sociological behaviour on excise duty compliance, $\beta=0.113$ and $p\text{-value}$ of $0.000000<0.05$.

Conclusion: It is recommended that policymakers should consider and incorporate the theory of planned behaviour into tax compliance frameworks since understanding how sociological behaviour influences tax compliance can inform the development of targeted interventions and policies. It is also recommended that effective and affordable dispute resolution mechanisms should be put in place as they provide clarity and ultimately result in resolution of conflicts arising on account of excise duty thus promoting excise duty compliance. Future studies should be conducted on the effect of tax incentives on excise duty compliance.

Keywords: *Alcoholic beverage manufacturers, sociological behaviour, dispute resolution mechanisms, excise duty compliance*

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1.0 Introduction

Excise duty is one of the oldest taxes levied worldwide on selected products. The earliest products to be levied excise duty included alcohol and tobacco. Excise taxes are levied at relatively high rates on select commodities, which are produced by a few large producers. According to Pomaskow (2021), excise duty is identified as a levy applied selectively on goods

and services. Such products and services are believed to be harmful to consumers in some way (Preece, 2020). The main characteristic of such commodities and services is that they tend to have a low own-price elasticity of demand and can be targeted to raise substantial tax revenues without significantly affecting market dynamics. However, different excisable products have been found to have different price elasticity (Deakin, 2019).

Alcoholic beverage manufacturers are entities involved in the production, bottling, and distribution of beverages that contain ethanol, commonly known as alcohol. This includes a wide range of products such as beer, wine, spirits (like whiskey, vodka, gin, rum, tequila), and other alcoholic drinks (Godden and Allen, 2020). Alcoholic beverage manufacturers must comply with strict regulations and obtain licenses to produce and sell alcohol. These regulations impose stringent requirements such as maintaining high standards of quality and consistency.

Sociological behaviour is the desire of a taxpayer to comply with obtaining tax obligations which is strongly linked to behavioural norms, both the personal norms (and/or beliefs) of the individual taxpayer and the social norms that prevail in society at large (OECD, 2021). Personal norms are the result of a combination of factors inherent to the individual guiding a taxpayer's posture toward the tax administration but are difficult to influence. Sociological behaviour and attitudes to taxation can help tax administrations to develop stronger and more effective compliance risk treatments, as well as improve customer service programmes. A key factor in tax compliance is a widespread desire to "do the right thing" with compliant taxpayers seeking to comply because they believe it is the right thing to do, not because of fear of punishment if they do not comply (Wenzel, 2020).

Dispute resolution mechanisms refer to methods of resolving disputes between two or more persons or groups that ensue when such persons or groups have conflicting positions and interests with respect to a particular issue. Tax dispute resolution mechanisms are an integral part of the operation of any modern tax system (Tran-Nam & Walpole, 2019). High costs of accessing and executing resolution of excise duty disputes can act as a barrier to accessibility of the external dispute resolution system and hinder achievement of a neutral outcome. Interaction between a tax authority and a taxpayer in the process of litigation of an excise duty dispute impacts compliance either positively or negatively, with an unfavorable interaction with the taxpayer leading to less future excise duty compliance system (Tran-Nam & Walpole, 2019).

Excise duty is an integral component of Kenya's tax revenues. The main excisable commodities in Kenya include soft drinks, alcoholic beverages, cigarettes, tobacco, petroleum products, motor vehicles, motorcycles, plastic bags, imported sugar confectionery, imported gas cylinders, cosmetics, food supplements, and importation of furniture and sugar. Excisable services include money transfer services by financial service providers and cellular phone service providers, mobile telephone services, and gambling. Excise duty on beer, cigarettes, and petroleum products is currently charged on a specific basis, per volume or quantity. Excise duty is defined by the OECD (2016) as a selective tax imposed on certain goods and services. According to Due (2017), excise taxes are a levy applied on production instead of sale. The modern idea of excise duty is far more inclusive and encompasses both goods and services. It is a preferred method of raising taxes and has evolved from its initial design of a Pigouvian tax to form a key component of tax revenues globally.

Tax compliance level in Kenya has been a major government concern. The Government of Kenya through the Kenya Revenue Authority (KRA) has implemented several policy and

administrative reforms aimed at increasing efficiency in tax administration and boosting tax revenue collections (KRA reports, 2020). Excise duty reforms have been a key component of the overall reform package, for example, implementation of excisable goods management system in 2013, widening of excise tax base to include a wide array of goods and services, increasing of excise duty rates over the years and establishment of a data management and reporting system for submission of electronic documents including detailed transactional data relating to those documents (NT, 2023).

Despite these reforms, excise duty compliance and ultimate performance have remained relatively low. Tax compliance in Kenya is estimated at 65% being the weighted average of registration - at 60% of the eligible persons, returns filing- at 55.5% of the taxpayers registered, and payment at 79.9% of the taxpayers who are filing returns, respectively (KRA, 2020). The overriding objective of excise duty in Kenya is to raise tax revenues, but the performance has been weak (Deloitte, 2019). For instance, in the year ended June 2023, the KRA collected KES 264.5 billion on account of excise duty against a target of KES 294 billion, representing a revenue gap of 10% (NT, 2023). This denotes a significant excise duty compliance gap.

It is clear that taxpayers dealing with excisable goods and services, including alcoholic beverage manufacturers, are yet to fully comply with their tax obligations as spelled out under the respective tax laws. It is against this background that the study sought to fill the missing knowledge gap in literature by establishing the moderating role of dispute resolution mechanisms on the relationship between sociological behaviour and excise duty compliance among alcoholic beverage manufacturers in Nairobi County, Kenya.

2.0 Literature Review

2.1 Theoretical Review

2.1.1 Theory of Planned Behaviour

Developed by Ajzen, the theory is an improved form of the theory of reasoned action posited by Ajzen and Fishbein (1970) explaining conscious behaviour. According to the theory, behaviour of individuals within a society is influenced by definite factors, originates from certain reasons and emerges in a planned way. Nevertheless, behaving in a particular way is driven by the fact that an individual has a purpose towards that behaviour, and the individual's subjective norms, attitude towards behaviour, and perceived behavioural control are further influenced by behavioural beliefs, control beliefs, and normative beliefs (Ajzen, 2012). Thus, if the outcome of a certain behaviour is seen and deemed to be a positive thing, a person's attitude would be beneficial with a greater likelihood of a person participating in that behaviour. Based on the theory, taxpayers who believe that tax compliance is a good thing may comply even when the chances of being detected are low. Such taxpayers will therefore comply voluntarily without having to be pushed, audited, or threatened through sanctions.

According to the theory, the tendency of individuals to act in a certain way depends on three variables: behavioural attitude, subjective standards, and perceived behavioural influence.

The theory of planned behaviour is therefore mostly used to understand and predict people's intentions and behaviour (Ajzen, 2012). The theory suggests that many social influences emerging from certain causes and evolving in a planned way influence actions of individuals in a given society. The relevance of the theory of planned behaviour with this research is its position that the compliant or non-compliant behaviour of taxpayers in fulfilling their excise duty obligations is influenced by the taxpayers' behaviours.

2.1.2 Theory of Judicial Organization and Adjective Law

Put forward by Jeremy Bentham, the theory deals with what he called the implementation of the whole system of laws founded on utility (Twining, 1993). The objective of the theory is implementation and application of law to promote utilitarianism. The theory is premised on the principle that the end of any adjective law is the correct application of the substantive law to the available facts and the ultimate desire that the application of substantive law should be at a lower cost with minimal or no delays at all (Draper, 2004). The theory addresses the need to reduce complexities, the confusing technical rules of evidence, and cost of procedure of the litigation process. The theory advocates for a hybrid system cutting across inquisitorial and adversarial systems. The theory also frowns upon parties to a dispute seeking to arrive at a compromise through alternative means of dispute resolution viewing such alternative means of dispute resolution as a denial of justice. It views a consented outcome as involving a cost denoted in sacrificing of rights by either or both parties to a dispute thus frowning upon negotiation, mediation, arbitration, and other methods of alternative dispute resolution positing that the law should be applied strictly as enacted by the legislature. The strict adherence of the proponents of the theory to the adversarial resolution of conflicts dilutes the relevance of the theory. In the Kenyan context, this strict principle of adherence to a resolution of disputes in the court without engagements outside courtrooms makes the theory fade in relevance especially having regard to the constitutional elevation of alternative methods of dispute resolution. The moderating variable on dispute resolution mechanisms is anchored on the theory of judicial organization and adjective law.

2.2 Empirical Review

Excise duty compliance refers to the extent to which citizens meet their excise duty obligations on account of excisable goods and services including registration, correct declarations through timely filing of returns, timely payment of excise duty where applicable, and abiding with other obligations on account of excise duty (Kimungu & Kileva, 2007).

According to a study by Lalisho (2019), people's tax behaviour is influenced by their tax knowledge. Yilma (2020) asserts that factors such as fairness of the tax system, complexity, the likelihood of detection, income level, penalty rate, peer pressure, tax knowledge, gender, and age have an impact on tax compliance behaviour. Therefore, the establishment of a fair and simple tax system supported by tax education and awareness in society would contribute to improving taxpayer compliance behaviour.

Orkaido (2019) researched the factors influencing tax compliance attitudes in Ethiopia's Gedeo Zone. According to the findings, eight of the ten explanatory variables included in the model - including gender, age, lack of tax knowledge, the ease of the tax system, perceptions of fairness and equity, awareness of penalties, likelihood of being audited, and perceptions of tax rate - were found to be significant predictors of tax compliance attitudes with regard to taxation in the zone while tax authority effectiveness and educational level were found to have little bearing on a person's attitude towards tax compliance.

Helhel & Ahmed (2014) conducted a study on the effect of attitudes and considerations of individual taxpayers on tax compliance in Yemen. The study results indicated that actual and perceived high tax rates and unfairness of Yemen's tax system were the two most crucial factors that were associated with low levels of tax compliance in Yemen.

Sah (1991) also indicates that social influences may affect compliance, in particular by affecting the perceived probability of detection. One of the most consistent findings about taxpayer attitudes and behaviour is that those who report compliance believe that their peers

and friends (and taxpayers in general) comply, whereas those who report cheating believe that others cheat.

Trivedi and Shehata (2005) concluded that some taxpayers' behaviour is a mixture of economic and psychological considerations. This observation was the cornerstone in Lumumba et al (2010) in their study on taxpayer's attitudes and compliance behaviour in Kenya. In their findings, they observed that a majority of Kenyan taxpayers view taxes and the general tax regime to be unfair, complex, and punitive. The study also concluded that accountability in government expenditure also had a big role in influencing compliance behaviour with most respondents intimating that they didn't comply as they weren't confident whether taxpayer's money was used correctly.

Dispute resolution mechanisms refer to methods of resolving disputes between two or more persons or groups that ensue when such persons or groups have conflicting positions and interests with respect to a particular issue (Faris, 2015). Tax disputes usually arise when, after an audit, desktop review, or through third-party intelligence, a revenue authority concludes or alleges that a taxpayer has underdeclared income or not declared it at all or that the taxpayer has failed to comply with some specified and statutory tax obligations (Mayanja *et al*, 2020). Tax disputes may be resolved either administratively through internal dispute resolution mechanisms or through litigation.

A study carried out by Tran-Nam and Walpole (2016) in Australia examined the feasibility of external tax dispute resolution mechanisms and the effect of unbiased tax dispute resolution on social justice. The research discovered that tax administration did not consider the implication of laws and regulation intricacy on tax justice nor did it consider the fact that inaccessibility and unbiased tax dispute resolution procedures may result in a breach of both social and distributive justice.

Mayanja *et al* (2020) conducted a study exploring the effects of tax dispute resolution mechanisms on tax compliance in Rwanda. The study established that there exists a strong positive relationship between the fairness of tax dispute resolution mechanisms and tax compliance among Rwandese taxpayers. The study established that taxpayers viewed the Rwanda Revenue Authority's Appeals Committee suspiciously on account of its composition since it did not include external tax experts but was instead fully composed of staff from the Rwanda Revenue Authority. This cast doubts on its independence in the resolution of tax disputes. That notwithstanding, the study revealed that most taxpayers favored the resolution of tax disputes through administrative procedures (internal dispute resolution mechanisms) rather than through the court system.

3.0 Methodology

An explanatory research design was employed for this study. This research design explains the cause and effect between the independent and dependent variables under study (Cooper & Schindler, 2003). The study had 3 respondents from each of the 71 different alcoholic beverage manufacturing companies in Nairobi County making a total of 213 respondents. Primary data was collected using structured questionnaires.

Analytical Model of the Study

The analytical model of the study was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 M + \beta_3 M X_1 + \varepsilon$$

Where; Y = Excise duty compliance (Dependent variable); β_0 represents a constant; β_1 = beta coefficient of sociological behavior; X_1 = Sociological behavior (independent variable); β_2 = beta coefficient of dispute resolution mechanisms; M = Dispute resolution mechanisms (moderating variable); β_3 = beta coefficient of an interaction effect between sociological behavior and dispute resolution mechanisms; MX_1 = the interaction effect between sociological behavior (independent variable) and dispute resolution mechanisms (moderating variable); and ϵ , = Error term.

4.0 Results and Discussion

4.1 Reliability Results

A pilot test on questionnaire elements for 21 respondents not used in the overall study was conducted to test the effectiveness and reliability of the questionnaire. Cronbach's alpha tests were conducted. Table 1 shows the results that indicate that excise duty compliance has a Cronbach's alpha of 0.983 while sociological behaviour has a Cronbach's alpha of 0.921. This study adopted a coefficient of 0.7 as the benchmark for reliability.

Table 1: Test of Reliability of Questionnaire

| Factor | Number of Items | Cronbach Alpha score (α) | Conclusion |
|-------------------------------|-----------------|-----------------------------------|------------|
| Sociological Behaviour | 5 | 0.921 | Reliable |
| Dispute Resolution Mechanisms | 6 | 0.885 | Reliable |
| Excise Duty Compliance | 5 | 0.983 | Reliable |

The study therefore adopted content validity, construct validity, and face validity to assess the accuracy of the data. This enabled the researcher to assess validity of the research instrument including clarity, relevance, interpretation of questions and time spent and improves where necessary.

4.2 Descriptive Statistics

Table 2 shows the descriptive statistics on sociological behaviour. The statement 'Our company is inclined to ensure compliance with its excise duty obligations' had a mean score of 3.83 and SD of 1.064. The statement 'Our company always encourage personnel within the Finance department to promote the company's compliance with its excise duty obligations' had a mean score of 4.08 and SD of 0.975. 'The statement 'Our company believes that its competitors are reporting and paying excise duty honestly' had a mean score of 3.98 and SD of 1.078. The statement 'Our company makes every effort to avoid paying tax fines and penalties as a result of noncompliance with its excise duty obligations' had a mean score of 3.85 and SD of 1.081. The statement 'Our company perceives KRA officials to be fair and friendly while dealing with its excise duty affairs' had a mean score of 4.04, SD of 0.963. The aggregate mean score of the five statements was 3.956 indicating that the respondents generally agreed with the statements. The SD scores of the five statements ranged between 0.963 to 1.081 suggesting a moderate spread of responses around the respective mean scores.

Table 2: Descriptive Statistics on Sociological Behaviour

| Statement | N | Mean | Std. Deviation | Skewness | Kurtosis |
|---|-----|-------|----------------|----------|----------|
| Our company is inclined to ensure compliance with its excise duty obligations | 185 | 3.83 | 1.064 | -0.523 | -0.736 |
| Our company always encourage personnel within the Finance department to promote the company's compliance with its excise duty obligations | 185 | 4.08 | 0.975 | -0.757 | -0.486 |
| Our company believes that its competitors are reporting and paying excise duty honestly | 185 | 3.98 | 1.078 | -0.667 | -0.772 |
| Our company makes every effort to avoid paying tax fines and penalties as a result of noncompliance with its excise duty obligations | 185 | 3.85 | 1.081 | -0.488 | -0.954 |
| Our company perceives KRA officials to be fair and friendly while dealing with its excise duty affairs | 185 | 4.04 | 0.963 | -0.888 | 0.233 |
| Aggregate Mean | | 3.956 | | | |

4.2.1 Descriptive Statics on Dispute Resolution Mechanisms

Table 3 shows the descriptive statistics on dispute resolution mechanisms. The statement 'Our company understands the tax objection and litigation processes well' had a mean score of 4.06 and SD of 1.066. The statement 'The tax objection and litigation processes are effective and efficient in resolving our company's excise duty disputes' had a mean score of 4.09 and SD of 1.087. The statement 'Our company follows the laid down legislative framework in resolving tax disputes' had a mean score of 4.00 and SD of 1.078. The statement 'Our company's excise duty disputes are successfully resolved at the objection stage' had a mean score of 3.91 and SD of 1.051. The statement 'Our company's excise duty disputes are only resolved at the Tax Appeals Tribunal' had a mean score of 3.96 and SD of 1.085. Lastly, the statement 'Our company's excise duty disputes are only resolved at the courts' had a mean score of 3.98 and SD of 0.961. The aggregate mean score for all the statements was 4.00, suggesting that, on average, the respondents agreed with the statements regarding dispute resolution mechanisms. The SD scores of the five statements ranged between 0.961 to 1.087 suggesting a moderate spread of responses around the respective mean scores.

Table 3: Descriptive Statistics on Dispute Resolution Mechanisms

| Statement | N | Mean | Std. Deviation | Skewness | Kurtosis |
|--|-----|------|----------------|----------|----------|
| Our company understands the tax objection and litigation processes well | 185 | 4.06 | 1.066 | -0.810 | -0.656 |
| The tax objection and litigation processes are effective and efficient in resolving our company's excise duty disputes | 185 | 4.09 | 1.087 | -0.826 | -0.722 |
| Our company follows the laid down legislative framework in resolving tax disputes | 185 | 4.00 | 1.078 | -0.710 | -0.816 |
| Our company's excise duty disputes are successfully resolved at the objection stage | 185 | 3.91 | 1.051 | -0.665 | -0.629 |
| Our company's excise duty disputes are only resolved at the Tax Appeals Tribunal | | 3.96 | 1.085 | -0.724 | -0.679 |
| Our company's excise duty disputes are only resolved at the courts | | 3.98 | 0.961 | -0.811 | 0.125 |
| Aggregate Mean | | 4.00 | | | |

4.2.2 Descriptive Statics on Excise Duty Compliance

Table 4 shows the descriptive statistics for excise duty compliance. The statement 'Our company declares all its excisable revenues' had a mean score of 3.94 and SD of 1.096. The statement 'Our company pays excise duty by the due date' received a mean score of 4.02 and SD of 1.108. The statement 'Our company files excise duty returns only to avoid penalties' had a mean score of 3.97 and SD of 1.083. The statement 'Our company declares correct monthly excise duty' had a mean score of 4.00 and SD of 1.088. Lastly, the statement 'Our company voluntarily declares any identified issues of non-compliance with excise duty' had a mean score of 3.92 and SD of 1.061. Overall, the aggregate mean score for the statements was 3.97, showing a general tendency towards agreement across all statements. The SD scores for the five statements ranged between 1.061 to 1.108 suggesting a moderate spread of responses around the respective mean scores.

Table 4: Descriptive Statistics on Excise Duty Compliance

| | N | Mean | Std. Deviation | Skewness | Kurtosis |
|---|-----|------|----------------|----------|----------|
| Our company declares all its excisable revenues | 185 | 3.94 | 1.096 | 0-.721 | -0.519 |
| Our company pays excise duty by the due date | 185 | 4.02 | 1.108 | -0.843 | -0.400 |
| Our company files excise duty returns only to avoid penalties | 185 | 3.97 | 1.083 | -0.766 | -0.406 |
| Our company declares correct monthly excise duty | 185 | 4.00 | 1.088 | -0.767 | -0.546 |
| Our company voluntarily declares any identified issues of non-compliance with excise duty | 185 | 3.92 | 1.061 | -0.677 | -0.544 |
| Aggregate Mean | | 3.97 | | | |

4.3 Correlation Analysis

A correlation coefficient enables the researcher to quantify the strength of the linear relationship between two ranked or numerical variables. The correlation analysis on Table 6 shows that sociological behaviour has a positive and significant correlation with excise duty compliance at 55.9% and a p-value of $0.030 < 0.05$. Dispute resolution mechanisms have a positive and significant correlation with excise duty compliance at 52.6% and a p-value of $0.000 < 0.05$.

Table 5: Summary of Correlation Statistics of Dependent, Independent and Moderating Variable

| | Excise Duty Compliance | Sociological Behaviour | Dispute Resolution Mechanisms |
|-------------------------------|------------------------|------------------------|-------------------------------|
| Excise Duty Compliance | 1.000 | | |
| Sociological Behaviour | 0.559 | 1.000 | |
| Dispute Resolution Mechanisms | 0.526 | 0.532 | 1.000 |

Correlation is significant at the 0.05 level.

4.4 Regression Analysis

4.4.1 Model Summary Without Moderator

The results in Table 6 indicate that sociological behavior positively correlated with excise duty compliance up to 55.9% or ($R = 0.559$). The results reveal that sociological behavior caused a variation of 31.2% or ($R^2 = 0.312$ and adjusted $R^2 = 0.308$ on excise duty compliance. This implies that the remaining 68.8% of the change in excise duty compliance was caused by other factors not included in the model.

Table 6: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1 | 0.559 | 0.312 | 0.308 | 0.44320 |

a. Predictors: (Constant), sociological behaviour _mean

4.4.2 Analysis of Variance Without Moderator

Further ANOVA tests were conducted to determine whether the model works in explaining the relationship among the variables as postulated in the conceptual model. The findings from Table 7 show an F statistics value of 83.112 with a significance level of 0.000 which was less than the conventional probability of 0.05 significance level. Hence establishing the model is statistically significant. The implication is that independent variable (sociological behaviour) contributes significantly to changes in the dependent variable (Excise Duty Compliance). This shows that the model works and thus accounts for significantly more variance in the dependent variable than would be expected by chance.

Table 7: Analysis of Variance

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|-------|------------|----------------|-----|-------------|--------|-------|
| 1 | Regression | 86.886 | 1 | 86.886 | 83.112 | 0.000 |
| | Residual | 191.309 | 183 | 1.045 | | |
| | Total | 278.195 | 184 | | | |

a. Dependent Variable: Excise Duty Compliance

b. Predictors: (Constant), sociological behaviour

4.4.3 Model Summary with Moderator

Table 8 shows that in model 1, $R = 0.559$ and coefficient of determination (R^2) = 0.312. After introduction of the moderator onto the regressed variables, $R = 0.621$ while $R^2 = 0.385$ as shown in model 2. This implied that after adding dispute resolution mechanisms, the combined effect of sociological behavior and dispute resolution mechanisms accounted for 38.5% of the variation on excise duty compliance, and a significant R^2 change of 0.073 was observed. The final model 3 found that the combined effect of the predictor variables and the interaction terms between sociological behavior and dispute resolution mechanism accounted for 38.8% of the variation on excise duty compliance, a significant R square change of 0.003 was observed, implying that the moderating effect of dispute resolution mechanisms on sociological behaviour was significant.

Table 8: Model Summary with Moderator effects

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | R ² Change | Sig F Change |
|-------|-------|----------|-------------------|----------------------------|-----------------------|--------------|
| 1 | 0.559 | 0.312 | 0.308 | 0.44320 | 0.312 | 0.000 |
| 2 | 0.621 | 0.385 | 0.379 | 0.96929 | 0.073 | 0.001 |
| 3 | 0.623 | 0.388 | 0.382 | 0.97187 | 0.003 | 0.000 |

a. Predictors: (Constant), sociological behaviour _mean, Dispute Resolution Mechanisms SOB*DRM

4.4.4 Analysis of Variance with Moderator

Further, the hierarchical ANOVA in Table 9 found that the F statistic in model 1 was 83.112 with a p-value of $0.000 < 0.05$. After adding dispute resolution mechanisms, the F statistic was 56.967 with a p-value of $0.000 < 0.05$ as shown in Table 2 under model 2. This indicates that the second model was significant in explaining the variance caused by sociological behaviour and dispute resolution mechanisms on excise duty compliance. Lastly, model 3 found that there was an F-statistic of 38.251 with a p-value of $0.000 < 0.005$ as shown in Table 2 under model 3. This indicates that model was significant in explaining the variation caused on excise duty compliance by the combined effects of the predictor variables and the interaction terms between sociological behaviour and dispute resolution mechanisms.

Table 9: ANOVA with moderator

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|-----|-------------|--------|-------|
| 1 | Regression | 86.886 | 1 | 86.886 | 83.112 | 0.000 |
| | Residual | 191.309 | 183 | 1.045 | | |
| | Total | 278.195 | 184 | | | |
| 2 | Regression | 107.105 | 2 | 53.553 | 56.967 | 0.000 |
| | Residual | 171.090 | 182 | 0.940 | | |
| | Total | 278.195 | 184 | | | |
| 3 | Regression | 107.940 | 3 | 35.980 | 38.251 | 0.000 |
| | Residual | 170.255 | 181 | 0.941 | | |
| | Total | 278.195 | 184 | | | |

a. Dependent Variable: Excise_Duty_Compliance

d. Predictors: (Constant), sociological_behavior, dispute_resolution_mechanisms, SOB_DRM

4.4.5 Regression Coefficient Analysis

The equations for the regression models were as follows:

$$Y = 0.890 + 0.353X_1 \dots\dots\dots \text{Model 1}$$

$$Y = 0.595 + 0.272X_1 + 0.241M \dots\dots\dots \text{Model 2}$$

$$Y = 0.949 + 0.270X_1 + 0.225M + 0.1133MX_1 \dots\dots\dots \text{Model 3}$$

The final model (Model 3) in Table 10 shows that a unit change in sociological behaviour caused a 0.270 increase in excise duty compliance. A unit change in dispute resolution mechanisms caused a 0.225 increase in excise duty compliance. A unit change in the interaction between sociological behaviour and dispute resolution mechanisms (SOB*DRM) caused a 0.113 increase in excise duty compliance.

Table 10: Regression Coefficients

| Model | | Standardized Coefficients | | Unstandardized Coefficients | t | Sig. |
|-------|-------------------------------|---------------------------|------------|-----------------------------|--------|----------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 0.890 | 0.333 | | 2.673 | 0.008263 |
| | sociological behaviour | 0.353 | 0.071 | 0.369 | 4.972 | 0.000001 |
| 2 | (Constant) | 0.595 | 0.233 | | 2.554 | 0.008130 |
| | sociological behaviour | 0.272 | 0.072 | 0.285 | 3.778 | 0.000123 |
| | dispute resolution mechanisms | 0.241 | 0.069 | 0.249 | 3.493 | 0.000364 |
| 3 | (Constant) | 0.949 | 0.384 | | 2.471 | 0.011723 |
| | sociological behaviour | 0.270 | 0.072 | 0.282 | 3.750 | 0.000124 |
| | dispute resolution mechanisms | 0.225 | 0.069 | 0.232 | 3.261 | 0.000868 |
| | SOB*DRM | 0.113 | 0.011 | 0.021 | 10.273 | 0.000000 |

SOB*DRM = interaction effect between sociological behaviour (independent variable) and dispute resolution mechanisms (moderating variable)

Dependent Variable: Excise Duty Compliance

Modi Graph Moderation Analysis on the Moderating Effect of Dispute Resolution Mechanisms on the Relationship Between Sociological Behaviour and Excise Duty Compliance

Modi graphs are an intrinsic way to determine how the interactions between an independent variable and a moderator affects the effect of the independent variable and the dependent variable at low and high levels of the moderator (Miocevic, 2020). Figure 1 shows that dispute resolution mechanisms moderate the relationship between sociological behaviour and excise duty compliance at high levels and low levels of sociological behaviour, therefore, improving the positive effect of sociological behaviour on excise duty compliance.

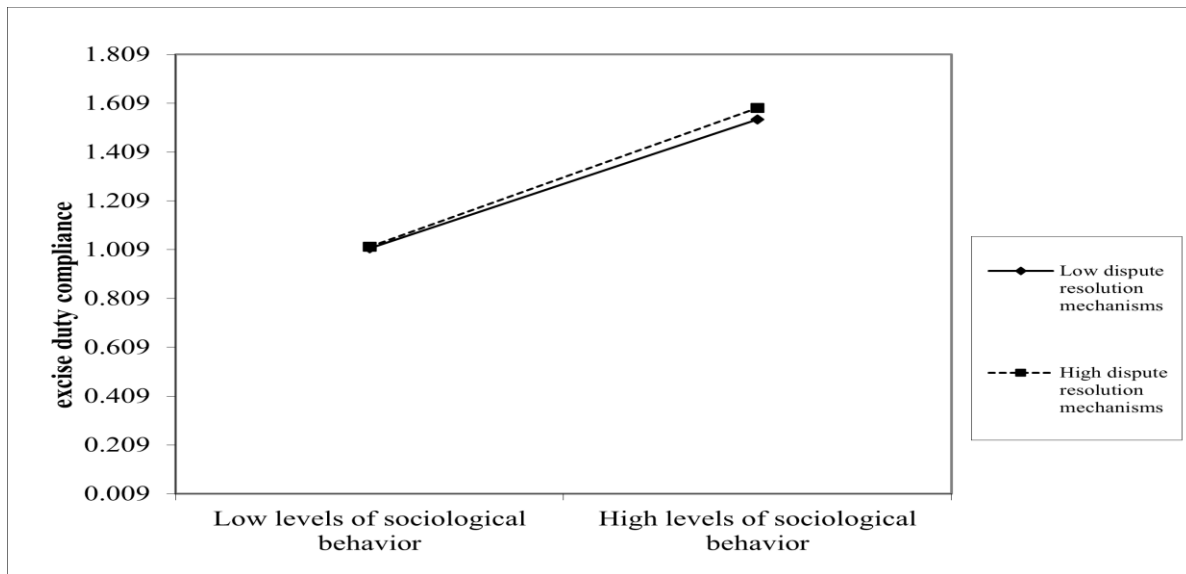


Figure 1: sociological behaviour* dispute resolution mechanisms

4.5 Hypothesis Testing

The first null hypothesis, H_{01} , stated that ‘Sociological behaviour has no significant effect on excise duty compliance among alcoholic beverage manufacturers in Nairobi County, Kenya’. The study found that sociological behaviour has a significant and positive effect on excise duty compliance among alcoholic beverage manufacturers in Nairobi County, Kenya, $\beta=0.270$ and p-value of $0.000124 < 0.05$ implying that the relationship was statistically significant. The first null hypothesis, H_{01} , was therefore rejected.

The second null hypothesis, H_{01a} , stated that ‘Dispute resolution mechanisms have no significant moderating effect on the relationship between sociological behaviour and excise duty compliance among alcoholic beverage manufacturers in Nairobi County, Kenya’. The study found that dispute resolution mechanisms have a significant moderating effect on the relationship between sociological behaviour and excise duty compliance, $\beta=0.113$ and a p-value of $0.000000 < 0.05$ implying that the relationship was statistically significant. The second null hypothesis, H_{01a} , was therefore rejected.

4.6 Discussion of the Findings

The first specific objective of the study was to determine the effect of sociological behaviour on excise duty compliance among alcoholic beverage manufacturers in Nairobi County, Kenya. The study found that sociological behaviour had a positive and significant correlation with excise duty compliance at 55.9% with a p-value of 0.030 which is less than 0.05. This suggests that as sociological behaviour improves, compliance with excise duty obligations also increases. The study further found that sociological behaviour had a positive and significant effect on excise duty compliance, $\beta=0.270$ and a p-value of 0.000124 which is less than 0.05. These results collectively suggest that sociological behaviour plays a crucial role in influencing the level of compliance with excise duty obligations, highlighting the importance of social and behavioural factors in excise duty compliance.

The second specific objective of the study was to determine the moderating effect of dispute resolution mechanisms on the relationship between sociological behaviour and excise duty compliance among alcoholic beverage manufacturers in Nairobi County, Kenya. The study found that dispute resolution mechanisms moderate and enhance the positive effects of

sociological behaviour on excise duty compliance, $\beta=0.113$ and p-value of $0.000000 < 0.05$. This suggests that the presence of effective dispute resolution mechanisms amplifies the positive impact of sociological behaviour on compliance with excise duty obligations. This means that when effective mechanisms for resolving excise duty disputes are in place and function effectively, taxpayers are more likely to comply with excise duty obligations due to improved social interactions and reduced conflicts. The study concurs with Miyanji *et al* (2020) who point out that fair and efficient tax dispute resolution mechanisms promote certainty and transparency and have a positive effect on taxpayer compliance.

5.0 Conclusion

The study concludes that sociological behaviour significantly influences excise duty compliance among alcoholic beverage manufacturers in Nairobi County, Kenya. The positive correlation and significant effect of sociological behaviour on excise duty compliance underscore the importance of social and behavioural factors in excise duty compliance. Enhancing sociological behaviour, such as promoting social norms and ethical practices, can lead to improved compliance with excise duty obligations. The study findings concurred with the theory of planned behaviour.

The study further concludes that effective dispute resolution mechanisms positively impact excise duty compliance by moderating the relationship between sociological behaviour and excise duty compliance among alcoholic beverage manufacturers in Nairobi County, Kenya. This denotes that the presence of effective and affordable dispute resolution processes is vital for improving overall compliance with excise duty obligations, as there is ultimate clarity and resolution of disputes arising on account of excise duty.

With the ever-increasing excise duty disputes and the huge amounts of excise duty revenues that are usually uncollectible until the ultimate resolution of the disputes through the court system, an effective dispute resolution mechanism can help unlock these tax revenues. Long delays in the resolution of excise duty disputes have the potential to foster non-compliance with excise duty obligations. This is largely because of the lack of certainty occasioned by the lethargic dispute resolution of excise duty disputes. The lethargic delays further expose taxpayers to hefty penalties and interest in the event that the ultimate finding or conclusion of the dispute is in favour of the KRA with the result that a taxpayer is required to account for additional excise duty on account of the finding of historical non-compliance with excise duty obligations.

More importantly, reliance on litigation alone in the resolution of tax disputes is not the best approach because of the challenges that it presents, most among them being the financial costs involved, the time taken in pursuing or defending a case, and the fracturing of relationships between taxpayers and the KRA on account of the adversarial nature of litigation.

Effective internal dispute resolution mechanisms can help avoid the adversarial nature of litigation which pits taxpayers dealing with excisable goods and services against the KRA with each advocating for an extreme position. Presence of effective and robust internal dispute resolution mechanisms has the potential to foster taxpayers' trust not only in the resolution of excise duty disputes but also in the general tax administration system marking increased excise duty compliance. Given that litigating tax disputes is a costly affair for both KRA and taxpayers in terms of the financial costs involved and the time spent in preparing for cases, not to mention the adversarial nature of the Kenyan litigation system, an effective, impartial and independent internal tax dispute resolution mechanism would go a long way in fostering taxpayers' trust ultimately promoting tax compliance.

6.0 Recommendations

It is recommended that policymakers should incorporate theories of planned behavior into excise duty compliance frameworks. Understanding how sociological behavior influences compliance can inform the development of targeted interventions and policies. It is also recommended that the Government of Kenya should put in place robust tax dispute resolution mechanisms to promote the resolution of excise duty clarity and ultimate compliance with excise duty obligations.

Future studies may be conducted to explore mediation effects of deterrent measures on excise duty compliance.

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