

Effect of Social Norms on Corporation Tax Compliance Among Medium and Large Enterprises in Kiambu East, Kenya

Beth Wambui Gitau^{1*}, Paul Kabete², Diane Uyoga³

¹Tax Administration, Kenya School of Revenue Administration

^{2,3}School of Business and Economics, Moi University

Corresponding email: gitau13@gmail.com

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Abstract

Governments around the world rely heavily on taxes as their primary source of financing for various public goods and services. To ensure tax compliance, governments often employ a variety of measures such as audits, penalties, interest charges, issuance of agency notices, and taxpayer education, among others. Therefore, the study aimed to establish the effect of Social Norms and corporate tax compliance among Medium and Large Enterprises in Kiambu East, Kenya. The study was guided by the main theory of planned behavior. The study adopted an explanatory research design utilizing structured questionnaires to collect primary data. The target population for the study was 1376 licensed Medium and Large Enterprises in Kiambu East, from which a sample of 309 respondents was selected. The questionnaire study achieved a response rate of 81.9% which was 253 out of the 309 targeted respondents. A pilot study with 31 respondents was conducted to ensure the reliability of the data collection instruments. The study found that social norms had a positive and significant effect on corporate tax compliance. ($\beta = 0.633$, $p=0.000$). Based on the findings, the study recommends that the government implement public awareness campaigns to frame tax compliance as a social responsibility. These campaigns could leverage media platforms and business associations to promote a culture of voluntary compliance. Future research should investigate the impact of digital tax systems, including e-filing platforms and AI-driven compliance tools, on corporate tax compliance.

Keywords: *Social Norms, Corporation Tax Compliance, Medium and Large Enterprises*

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1. Introduction

Taxes are the primary source of funding for government operations in both wealthy and developing countries, enabling them to function independently of outside aid (Libert et al., 2021). However, tax evasion and avoidance, which mostly affect poor countries, pose a severe danger to this source of income. While emerging economies have relatively high tax performance levels at 35%, African countries have far lower levels, at less than 23% (OECD, 2019).

Corporate tax compliance is a significant issue in the global business environment, affecting both large multinational corporations and small and medium-sized enterprises (SMEs) alike. According to the Organization for Economic Co-operation and Development (OECD) report (2020), global corporate tax revenues reached \$656 billion in 2017, accounting for approximately 10% of total tax revenues (Gangl, 2023). However, the report also noted that there is a significant gap between the amount of tax owed and the amount collected, particularly among multinational corporations operating across multiple jurisdictions (OECD report, 2020).

Social norms significantly influence behavior. Studies have shown that highlighting what others are doing or their approval can effectively encourage eco-friendly actions. This approach leverages the power of social influence to promote positive environmental behaviors (Doerrenberg, 2025). In their research, Bicchieri and Chavez (2010) demonstrated that individuals often conform to social norms based on their perceptions of what others do (empirical expectations) and what they believe others approve of (normative expectations). Manipulating these expectations can lead to significant changes in behavior, highlighting the dynamic nature of social norms.

According to the Kenya Micro and Small Enterprises Act of 2012, a medium-sized enterprise employs between 50 and 99 people and has an annual turnover ranging between 5 million and 800 million Kenyan Shillings (Kshs), and is integral to the Kenyan economy, contributing significantly to job creation and economic output across various sectors such as manufacturing, retail, and services. We can thus consider enterprises whose turnover threshold exceeds 800 million and employs more than 99 employees as large enterprises. Globally, medium and large enterprises play a very crucial role in the economic development of any country through the fact that they provide goods and services needed by society, and they create employment for the majority of citizens (Mwaniki et al., 2022).

1.1 Problem Statement

Corporation tax compliance is a critical issue for businesses and governments alike. It involves the adherence to tax laws and regulations by corporations, ensuring that they accurately report income, calculate tax liabilities, and remit the correct amount of tax to the authorities. The complexity of tax laws, variations in interpretation, and the use of tax avoidance strategies by corporations pose significant challenges to achieving full compliance (Ones & Rhoades, 2023). In the fiscal year ended 2024, the Kenya Revenue Authority had set a target for corporation tax collections in Kiambu County, Kenya.

The target was KSh 6.4 billion. By the end of the fiscal year, KRA collected KSh 5.8 billion in corporation tax from Kiambu, missing the target by 0.6 billion, representing a 9.38% tax gap (KRA, 2024). This corporation tax revenue gap of 0.6 billion or 9.38% of the targeted revenue collection is the compliance problem that this study aims to address. This study, therefore, sought to establish the effect of Social Norms on corporate tax Compliance among Medium and Large Enterprises in Kiambu East, Kenya.

2. Literature Review

2.1 Theoretical Review

2.1.1 The Theory of Planned Behavior

Theory of Planned Behavior (TPB), developed by Ajzen (1991), posits that human behavior is driven by behavioral intentions, which are influenced by three core components: attitudes toward the behavior, perceived behavioral control, and subjective norms. Within this framework, social norms, often expressed as subjective norms, represent the perceived social pressure to perform or refrain from a given behavior. Individuals are influenced by the expectations of significant others, such as family, peers, colleagues, or wider society, which shape their intentions and, ultimately, their actions (Ajzen, 2011).

Social norms under TPB highlight the role of external influences in decision-making. For example, when individuals believe that important referent groups expect them to behave in a particular way, they are more likely to align with those expectations to maintain social approval (Fishbein & Ajzen, 2010). This has been evident in studies of health behavior, environmental practices, and tax compliance, where social norms significantly predict behavioral intentions (Rivis & Sheeran, 2003).

Moreover, TPB underscores that social norms are not static but shaped by cultural and situational contexts. In collectivist societies, where communal values are emphasized, social norms exert a stronger influence compared to individualist cultures (Yzer, 2012). This suggests that interventions aimed at changing behaviors as public health campaigns or compliance strategies, can leverage social norms by making positive behaviors appear widely accepted and endorsed by relevant reference groups (Cialdini & Goldstein, 2004). The theory supports social norms.

2.2. Empirical Review

2.2.1 Social Norms

Anjarwi (2024) on the deterrent role of social norms on tax evasion in Indonesia collected data from 418 individual taxpayers using questionnaires to examine the relationship between detection risk, fiscal psychological burden, fiscal transparency, modernization of tax administration, and tax evasion, with social norms as the moderating variable. The study found social norms to significantly moderate the relationship between detection risk, fiscal psychological burden, fiscal transparency, and tax evasion, suggesting that strong social norms can deter tax evasion. However, social norms did not moderate the relationship between the modernization of tax administration and tax evasion.

Belahouaoui and Attak (2024), in their study of tax compliance Behavior of Family Businesses, found that personal ethics, family values, and societal tax culture significantly influence tax compliance behavior in family businesses. The complex interaction between personal norms and societal expectations plays a crucial role in shaping compliance attitudes.

Several other studies have explored the perceived factors affecting tax compliance. For example, Pham et al. (2020), who conducted research in Vietnam aiming to identify the factors influencing tax compliance, discovered that three main factors, corporate reputation, audit, and business ownership, directly affect compliance. Social norms have no significant effect on VAT compliance in Embu Town, suggesting that other factors may play a more pivotal role in

influencing tax compliance (Kimani et al., 2024). This was in their study carried out to determine the effects of social norms on VAT tax compliance among SMEs in Embu, Kenya.

2.2.2 Corporate Tax Compliance

Sjögren and Skogh (2004) observed tax compliance to be deceptively straightforward; referring to it be “tax rules (for example VAT laws, regulations on corporation tax filing) and businesses that follow the rules are showing tax compliance. Those that don’t are non-compliant. High levels of compliance are essential for the effectiveness of the tax law, as they ensure that the government collects the necessary revenue to fund public services. However, tax compliance can be challenging to achieve, particularly in complex tax laws with numerous exemptions, deductions, and credits. The burden of compliance often falls disproportionately on smaller businesses and individuals, who may lack the resources to navigate complex tax laws (Richardson, 2023). Joulfaian (2019) pointed out that the level of trust in the Government significantly influences the level of tax compliance; the higher the level of confidence, the greater the level of compliance and vice versa.

Alhempí et al. (2020), define tax compliance as the compliance of taxpayers to abide with applicable tax regulations, which are imposed on tax revenues in connection with the reporting of reported taxable income where the tax authorities are domiciled. According to Mahangila (2017), tax compliance includes the voluntary payment of taxes in accordance with the spirit of the tax laws, the payment of tax for fear of penalties and audits in line with the spirit of tax laws, and the settlement of taxes after arranging taxpayers’ activities to minimize tax liabilities by complying with tax laws.

Tax compliance essentially refers to the various activities undertaken by taxpayers to fulfil their tax obligations. Voluntary tax compliance is the payment of the tax at the will of the business, based on its submitted tax returns. Tax compliance measurement addresses various dimensions, including the registration for a taxpayer identification number, adherence to accurate calculation, timely payment, and proper reporting of tax obligations (Lazos et al., 2022). Moreover, taxpayers are expected to comply with audit requests by attending scheduled examinations punctually since tax compliance is essential for governments' need to finance public expenditure and hence the issuance of penalties and sanctions for non-compliance (Alhempí et al., 2020).

2.3 Conceptual Framework

Hong and Pluye (2019) describe a conceptual framework as an interconnected network of concepts that collectively offer a comprehensive comprehension of a particular phenomenon. According to Adom et al. (2016), a conceptual framework constitutes a structured collection of ideas that are effectively arranged to offer guidance, a means, and a justification for understanding and merging information. The independent variable was social norms, and the dependent variable included Corporate Tax Compliance, as presented in Figure 1.

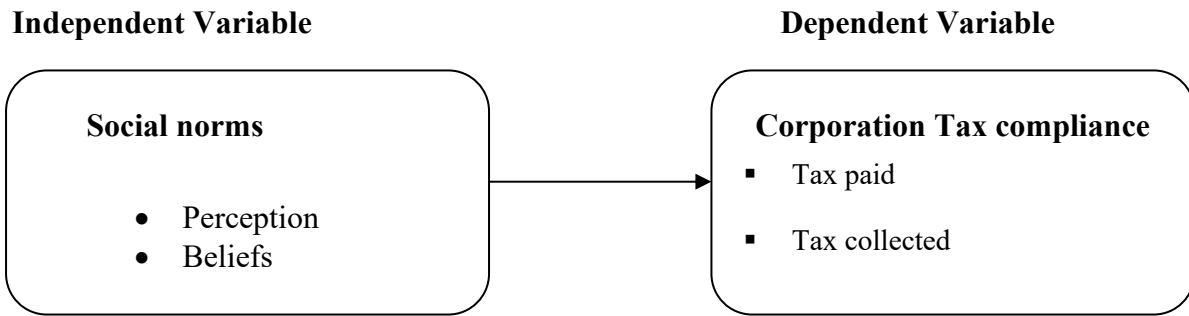


Figure 1 Conceptual Framework

3. Methodology

A research design is the arrangement of conditions for the collection and analysis of data in a manner. According to Tomaszewski et al. (2020), research design is the decisions regarding what, where, when, how much, and by what means concerning an inquiry or a research study. “A research design is the arrangement of conditions for the collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.” The study adopted an explanatory research design. The data was analyzed using descriptive and inferential statistics. According to Kothari's (2011) definition, the target population is the total collection of elements. An element is the subject on which the measurement is being taken. A sample is a subset of individuals from a population that is used to get an estimate of the characteristics of the entire population. The target population consisted of 1376 MLEs operating within Kiambu East, Kenya. Data record from Kiambu County (2024), and the Sample size is 309 respondents. The questionnaire study achieved a response rate of 81.9% which was 253 out of the 309 targeted respondents, with a non-response rate of 18.1% (n = 56).

Reliability analysis

According to Pandey and Pandey (2021), instrument reliability is referred to as the extent to which the results of the study remained consistent over time. Cronbach's Alpha was utilized in analyzing the reliability of the findings. It determined whether the elements in the research have a major distinction. Cronbach's alpha least 0.7 for any reliable questionnaire (Tomaszewski et al., 2018). Table 1 shows that the construct measuring corporation tax compliance, assessed with 5 statements, yielded a Cronbach's alpha of 0.835. For the social norms construct, measured with 6 statements, the Cronbach's alpha was 0.888. This high value signifies strong internal consistency, indicating that the six items reliably tap into the shared perceptions of normative behaviors regarding taxation within the respondents' social environment

Table 1: Test of Reliability

Factor	Number of Items	Cronbach's Alpha score	Conclusion
Corporation Tax Compliance	5	0.835	Acceptable
Social norms	6	0.88	Acceptable

4. Results and Discussion

4.1 Descriptive Analysis

4.1.1 Descriptive statistics Social Norms

Table 2: The response distribution of statements measuring social norms was expressed in Table 2. For the statement "Seeing other businesses paying their taxes makes me more inclined to comply with tax regulations" had a mean of 4.00 (SD = 0.690), indicating general agreement that peer compliance behavior motivates tax adherence. For the statement, "Most businesses in our industry comply with corporation tax obligations," yielded a mean of 3.92 (SD = 0.668), reflecting agreement that industry norms encourage compliance. The statement "Our stakeholders (e.g., customers, suppliers, investors) expect us to comply with tax obligations" had a mean of 3.95 (SD = 0.685), showing agreement that external stakeholders influence tax compliance. The statement "My willingness to comply with tax laws is influenced by the opinions of family, friends, or business partners" had a mean of 3.88 (SD = 0.686), signaling moderate agreement with social influence. The statement, "Paying taxes is part of my ethical responsibility as a business owner," had a mean of 3.94 standard deviation of 0.709, indicating agreement with the ethical duty to pay taxes. The statement "Our organization considers tax evasion to be an unacceptable practice" had the highest mean (4.03), demonstrating strong agreement that tax evasion is unethical. The overall mean (3.95) across all items confirms that respondents generally agreed that social norms encourage tax compliance.

Table 2: Social Norms

	N	Mean	SD
Seeing other businesses paying their taxes makes me more inclined to comply with tax regulations	253	4.00	.690
Most businesses in our industry comply with corporation tax obligations.		3.92	.668
Our stakeholders (customers, suppliers, investors) expect us to comply with tax obligations		3.95	.685
My willingness to comply with tax laws is influenced by the opinions of family, friends, or business partners.		3.88	.686
Paying taxes is part of my ethical responsibility as a business owner.		3.94	.721
Our organization considers tax evasion to be an unacceptable practice.		4.03	.709

4.1.2 Descriptive statistics for Corporation Tax Compliance

Table 3: The response distribution of statements measuring corporate tax compliance is expressed on Table 3. For the statement "We always submit tax returns within the required deadlines." This statement had a mean response of 4.09 (SD = 0.518), indicating that respondents agreed that their businesses consistently submit tax returns on time. For the

statement “Our business accurately reports all taxable income.” The mean response was 4.06 (SD = 0.620), suggesting that respondents agreed that their business fully reports taxable income. For the statement “We comply with tax obligations to avoid penalties and audits.” This statement had a mean of 4.07 (SD = 0.629), reflecting agreement that compliance is driven by the desire to avoid penalties. For the statement “Our tax records are kept up to date and in accordance with tax procedures.” The mean response was 4.00 (SD = 0.567), indicating agreement that tax records are properly maintained. The statement “We have not intentionally underreported our taxable income.” This statement had a mean of 3.94 (SD = 0.716), the lowest among the items, suggesting moderate agreement but with more variability.

Table 3: Corporation Tax Compliance

	N	Mean	SD
We always submit tax returns within the required deadlines	265	4.09	.518
Our business accurately reports all taxable income.		4.06	.620
We comply with tax obligations to avoid penalties and audits.		4.07	.629
Our tax records are kept up to date and in accordance with the tax procedures.		4.00	.567
We have not intentionally underreported our taxable income.		3.94	.716

4.2 Correlation Analysis

Correlation analysis was conducted to determine the direction and significance levels of relationships between social norms and corporate tax compliance in medium and large enterprises in Kiambu East, Kenya. Social norms exhibit a significant and positive correlation with corporate tax compliance ($r = 0.776$, $p = 0.041 < 0.05$), implying that enterprises are more compliant when taxpaying is perceived as a societal expectation. This is consistent with studies showing that peer behavior and moral obligations shape taxpaying decisions (Wenzel, 2019).

Table 4: Correlations Statistics

	Corporate tax compliance	Social norms
Corporate tax compliance	1	0.776**
social norms	0.776**	1
Sig.	0.041	

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

4.3 Regression Analysis

A model summary was conducted to determine the correlation R and the percentage variation caused in corporate tax compliance R-squared. Table 5. showed that social norms correlated of 77.6% $R = 0.776$), and accounted for 60.2% ($R^2 = 0.602$) of the variance in corporate tax compliance. The remaining 39.8% of variation in corporate tax compliance was caused by factors not included in the model.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.776 ^a	.602	.595	.40675

a. Predictors: (Constant), social norms _mean

Table 6 showed that there was F-statistic of 388.448 and a p-value of $0.000 < 0.05$, which indicates that the model was significant in explaining the variance caused by corporate tax compliance.

Table 6: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	68.367	1	68.367	388.448	0.000
1	Residual	44.215	251	0.176		
	Total	112.582	252			

a. Dependent Variable: Corporate tax compliance

b. Predictors: (Constant), Social norms

Table 7: Social norms also had a significant positive effect on corporate tax compliance, with a standardized beta coefficient of 0.633 ($\beta = 0.633$, $p = 0.000$). A unit change in social norms was associated with a 0.633 increase in corporate tax compliance, indicating that improved social norms enhanced corporate tax compliance levels.

Table 7: Regression Coefficient analysis

Variable	Standardized β	Std. Error	t-Statistic	Unstandardized β	Prob.
Constant	0.791	0.211	3.749		0.001
Social norms	0.633	0.033	19.182	0.312	0.000

4.4 Discussion of the Findings

The study objective was to determine the effect of social norms on corporate tax compliance among medium and large enterprises in Kiambu East, Kenya. The correlation analysis found that social norms have a significant and positive correlation with corporate tax compliance ($r = 0.776$, $p = 0.041 < 0.05$), implying that enterprises are more compliant when taxpaying is perceived as a societal expectation. This is consistent with studies showing that peer behavior and moral obligations shape taxpaying decisions (Wenzel, 2019). Further, the study found that social norms had a positive and significant effect on corporate tax compliance. ($\beta = 0.633$, $p = 0.000$), underscoring the strong influence of peer behavior and societal expectations on tax adherence (Wenzel & Taylor, 2023).

5. Conclusion

The study objective sought to determine the effect of social norms on corporate tax compliance among medium and large enterprises in Kiambu East, Kenya. The study concludes that social norms have a significant positive effect on corporate tax compliance, implying that businesses are more compliant when taxpaying is perceived as a societal expectation. This finding aligns with behavioral tax theories that emphasize the role of peer influence and moral obligations in compliance. It extends this understanding to corporate taxpayers, suggesting that fostering a culture of tax compliance at the societal level can enhance voluntary adherence among businesses.

6. Recommendations

Based on the findings, the study recommends that the government should implement public awareness campaigns to frame tax compliance as a social responsibility. These campaigns could leverage media platforms and business associations to promote a culture of voluntary compliance.

Future research should investigate the impact of digital tax systems, including e-filing platforms and AI-driven compliance tools, on corporate tax compliance.

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