Tax compliance of small and medium enterprises: a developing country perspective

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Abstract

Purpose – The purpose of this paper is to establish the relationship between tax fairness, isomorphic forces, strategic responses and tax compliance in Ugandan small and medium enterprises (SMEs).

Design/methodology/approach – This is a correlational and cross-sectional study using two respondent types, the demand (represented by the tax collecting body respondents) and supply (represented by SME respondents) sides of tax compliance, to examine perceived tax compliance in Uganda's SMEs.

Findings – Tax fairness, isomorphic forces and strategic responses have a predictive force on tax compliance. Significant mediation effects of tax fairness and also strategic responses are found. The two respondent types perceive the study variables differently – providing an understanding of why the tax compliance puzzle has remained a burgeoning concern. For example, the tax-collecting body respondents perceived more tax fairness than SME respondents, suggesting that perceived tax fairness depends on whose "lenses" you look through.

Research limitations/implications – Rather than focussing only on the importance of the rational analytical deliberation of tax fairness by taxpayers in influencing their tax compliance, the current paper shows that in addition, isomorphic forces and strategic responses establish the basis for understanding taxpayers' compliance.

Originality/value – The methodology that enlists two respondent types, i.e. the supply side of tax compliance and the demand side of tax compliance, probably offers a unique way of deriving better results than previous studies.

Keywords Isomorphism, Small and medium enterprises, Tax compliance, Strategic responses

Paper type Research paper

1. Introduction and motivation

This paper reports the results of a study carried out to establish the relationship between tax fairness, isomorphic forces, strategic responses and tax compliance in Ugandan small and medium enterprises (SMEs). Tax compliance is an important issue for nations around the world because of governments' inexorable search for revenue to meet public needs (Andreoni

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et al., 1998, Ritsatos, 2014; Ibrahim *et al.*, 2015; Armah-Attoh and Awal, 2013; Cerqueti and Coppier, 2009; Gohou and Soumaré, 2012). With sovereign debt crisis in the global economic environment, there is also a marked increase in the importance of tax compliance (Ritsatos, 2014). Ibrahim *et al.* (2015) indicated that tax revenue sustains economic development and finances both social programmes and infrastructure investment. Armah-Attoh and Awal (2013) argued that the capacity of a country to provide for the welfare and security to its citizens, in addition to developing and consolidating a representative democracy is determined by its ability to raise enough resources through tax. Thus, effective mobilization of tax revenues from all economic agents increases public services in developing countries (Cerqueti and Coppier, 2009; Gohou and Soumaré, 2012). One such economic agent is an SME. SMEs are critical for economic growth of countries given their significant contribution to gross domestic product and constituting a large share of the private sector in developing countries (Hatega, 2007). However, SMEs are notorious for their less traceability by tax administration and their continuous payment of less tax relative to their fair share (Ahmed and Braithwaite, 2005). They are also non-tax-compliant despite the many different tax reforms established by tax authorities in the majority of countries (Terkper, 2003).

These observations have led to a growing interest in tax compliance behaviour of SMEs (Lederman, 2003; Gerbing, 1988; Wenzel, 2002; Azmi *et al.*, 2008; Webley, 2004; Braithwaite, 1995; Rothengatter, 2005). In his study, Lederman (2003) found out that taxpayers' behaviour with respect to tax compliance in the USA depends on how likely the government is to detect and punish tax evaders and decide how to behave by looking at the actions of other similarly situated economic agents. Gerbing (1988), and later supported by Wenzel (2002) and Azmi *et al.* (2008) studies, suggested that perceived tax fairness among taxpayers was responsible for the low levels of income tax compliance. The theoretical premise behind these studies is that perceived tax fairness mirrors the belief that a tax system considered unfair and unjust is illegitimate. For small businesses, lack of trust in the fairness of a tax system and the legitimacy of tax authorities increases the likelihood of tax evasion by such firms (Webley, 2004). For example, to ensure fairness, studies suggest a dialogic approach to address non-compliance (Braithwaite, 1995; Rothengatter, 2005). This understanding leads us to believe that dealing with the problem of tax compliance requires some understanding of factors underlying individual taxpayer's decision whether to pay or evade taxes. Still, the question of "why do people pay taxes when they have an opportunity even an incentive to evade?" (Alm *et al.*, 1992, p. 21) has remained unanswered, providing incentives to explore alternative explanations (Ritsatos, 2014). Also, OECD (2004) reveals that individual taxpayers adopt a range of motivational postures in their response to the demands of authorities and acknowledges that it is not "easy to answer the question of what influences taxpayer behaviour either towards compliance or non-compliance" (p. 41).

While notable extant research focusses on tax fairness that should be ensured by tax authorities to achieve tax compliance, this paper aims to suggest that isomorphic forces might also be significant in explaining tax compliance. By this, it extends the work of Lederman (2003) that found tax compliance behaviour depending on actions of other similarly situated economic agents. We reason that if it is the norm of most SMEs or even large companies not to fully comply with tax, an individual SME taxpayer may not comply based on such a social force. Similarly, if it is also fashionable or the trend that SMEs are not paying tax, it is reasonable to expect that another SME taxpayer will not pay the tax following the trend. Also, if society expects SMEs not to pay tax, SME taxpayers might not pay taxes following such societal expectations. Therefore, it is reasonable to suggest that to improve tax compliance, these forces should support taxpaying predispositions. This line of thinking suggests that SME tax compliance behaviours can be described in terms of isomorphism, which is shaped by institutional pressures and expectations. Institutional theory (DiMaggio and Powel1, 1983) suggests that SME tax compliance behaviour responds to pressures from general social expectations and the actions of other similarly situated organizations (Chizema and Buck, 2006). Lederman's (2003) finding thus promotes the thinking that social systems and individuals not only compete for resources but ultimately seek legitimacy (Judge *et al.*, 2008) which institutional theorists propound. Gilligan and Richardson (2005) argued for an analysis that takes into account the impacts of legitimacy and suggested that if one wants to promote higher levels of tax compliance, then legitimacy should be in the explanatory mix. Much as institutional theorists argue that institutions passively conform to the isomorphic forces to gain legitimacy, Oliver (1991) suggests that institutions actively react to these forces through strategic responses which move from conformance to resistance.

Rather than focussing only on the importance of the rational analytical deliberation of tax fairness by taxpayers in influencing their tax compliance, the current paper shows that in addition, isomorphic forces and strategic responses establish the basis for understanding taxpayers' compliance. We establish that SMEs consider their external environment and attempt to model their tax compliance behaviour to appear legitimate and also can, rather than remain passive, strategically respond to external pressures requiring compliance with tax. Our methodology that enlists two respondent types, i.e. the demand side[1] and the supply side[2] of tax compliance, probably offers a unique way of deriving better results than perhaps previous studies. The demand side is represented by Uganda Revenue Authority (URA) staff members, while the supply side is represented by SME managers, offering an empirically informed view from those frames of reference and, in doing so, providing a deeper understanding of the pervasiveness of the tax compliance gap and what factors may primarily contribute to this gap. We engaged the new institutional sociology (Oliver, 1991) and the classical institutional theory (DiMaggio and Powell, 1983) on the grounds that SMEs are not only shaped by forces surrounding them but also that they strategically respond to such forces, and as such, lead to tax compliance amenability to analysis through these theoretical lenses.

We first examined the contribution of tax fairness, isomorphic forces and strategic responses using data from both respondent types, and then examined the mean differences in opinions and found significant differences. For example, we find that respondents from the tax collecting body perceived more tax fairness than SMEs managers, suggesting that perceived tax fairness depends on whose "lenses" you look through – tax compliance demand side or tax compliance supply side. We then split the data into the supply side and the demand side. The demand side model explains the greatest variance in tax compliance based on the size of adjusted R^2. We also find that when the data from demand side of tax compliance are used, tax fairness partially mediates the relationship between isomorphic forces and tax compliance, yet when data from the supply side are used significant mediation is not found. Moreover, we find that strategic responses variable fully mediates the link between isomorphic forces and tax compliance when data from the supply side is used; we did not find significant mediation when we used demand side data.

The study setting is also unique because despite its immense development needs, the Uganda Government continues to register unimpressive tax compliance behaviour of taxpayers. For example, according to a report by Hutton *et al.* (2014), the estimated value-added tax (VAT) non-compliance levels for Uganda are significantly higher than those that have been estimated for countries at comparable income levels in recent years. Estimates for potential collections for VAT, calculated for the years 2003-2004 through 2012-2013 by using the 2009 supply-use statistical tables and national accounts data are found to average at 60 per cent relative to the sub-Saharan average of 50 per cent. Thus, part of the contribution of this paper lies in the continued search for appropriate solutions to tax non-compliance as, in addition to other voices, Mohdali and Pope (2014) have shown that the grounds for non-compliance or compliance behaviours of taxpayers are inconclusive and possibly not established in an African context. While Ibrahim *et al.* (2015) present the pioneering micro-econometric work on the determinants of tax morale in an African country, Ghana, their study's main contribution lay in their investigation of a non-linear relationship between age and tax morale in Ghana. The current paper is presenting tax compliance as a taxpayer's decision that is informed by not only tax fairness but also isomorphic forces and strategic responses of SME taxpayers.

The rest of the paper proceeds as follows: Section 2 is literature review. It provides a theoretical background and hypotheses development. Section 3 explains the study's methodology, and Section 4 presents and discusses the results. Finally, in Section 5, concluding remarks are enlisted.

2. Literature review

2.1 Theoretical background

Tax compliance refers to fulfilling all tax obligations as specified by the law freely and completely, or the degree to which a taxpayer complies or fails to comply with the tax rules of their country (Braithwaite, 2009). Tax compliance is the degree to which taxpayers comply with the tax law (James and Alley, 2004) and full payment of all taxes due (Braithwaite, 2009). It is also defined as a process in which taxpayers file all the required tax returns by declaring all income accurately and paying the exact tax liability using applicable tax laws and regulation (Palil and Mustapha, 2011). Theoretically, it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance and reporting compliance (Brown and Mazur, 2003). However, the views of the taxpayers and tax collectors are that tax compliance means adhering to the tax laws, which are different from one country to another (Chepkurui *et al.*, 2014). In Uganda, Section 118A of the Income Tax Act 1997, Cap 340 and Domestic Tax Laws (2015) of Uganda stipulate that a person or a company is deemed to have complied if he/it is registered with URA, has submitted all returns for the company, has fully settled all the taxes, has fully complied with the obligation to withhold tax under the Act, has entered and honours an arrangement to pay any URA arrears of tax due and has complied with any notice or any requirements to provide information under the Act.

Compliance studies commonly invoke the neoclassical model of deterrence arising from the seminal work of Becker (1968). In Becker's model, a person commits a crime if the expected utility from committing the crime outweighs the utility from engaging in legitimate activity. Several studies (Sutinen and Kuperan, 1999, for a review) thereafter assumed that the threat of sanctions is a sole mechanism available to improve compliance with regulations. This economics of crime methodology has a major weakness: Sutinen and Kuperan (1999) argue that low expected penalties do not always result in high levels of non-compliance, and prescriptions for more enforcement inputs and higher penalties are usually impracticable or not gainful. This means that tax compliance can be hypothesized to be related to individual and external influences of the environment. For example, drawing from social learning theory, Sutinen and Kuperan (1999) note variables determining compliance to include peers' opinions and extent of social influence a person encounters. These authors have noted evidence supporting the hypothesis that a person is more non-compliant if more of his community and peer groups are non-compliant. Therefore, institutional forces such as mimicry have a predictive force in compliance behaviour of taxpayers. Peer groups, for example, can confer signs of group status and respect (Sutinen and Kuperan, 1999), and in the context of taxpaying predisposition, this may constrain a taxpayer to behave like others facing the same set of environmental conditions, in a process termed isomorphism (DiMaggion and Powell, 1983). Normatively, Sutinen and Kuperan (1999) also note individual perceptions of fairness and appropriateness of the law and its institutions as key variables in compliance.

This paper investigates tax compliance through tax fairness theory (Moromisato, 2014; Smith and Kinsey, 1987), institutional theory (DiMaggio and Powel1, 1983) and Oliver's (1991) typology of strategic responses to institutional processes. The new theory of tax fairness (Moromisato, 2014) indicates that anyone earning more than his/her neighbour should pay a higher tax rate. That way, higher taxes on the rich can slow the growth of the social cancer. According to Smith and Kinsey (1987), a tax system is defined as being fair when taxpayers are taxed based on their ability to pay. But, many researchers (Gerbing, 1988; Christensen *et al.*, 1994; Christensen and Weihrich, 1996; Thomas, 2012) suggest that tax fairness is a multidimensional concept. Gerbing (1988) conducted a survey on identifying the dimensions of tax fairness and found five fairness dimensions: general fairness/distribution, exchange with government, special provisions, preferred tax rate structure and self-interest. Christensen *et al.* (1994) and Christensen and Weihrich (1996) also found the five tax fairness dimensions similar to Gerbing (1988) which were as well-confirmed by Thomas (2012) in Barbados. However, Jackson and Milliron (1986) argue that tax fairness encompasses at least two different dimensions; the equity of trade – the benefits received for the tax shillings given and the equity of the taxpayer's burden in reference to the other individuals, meaning that the tax liability among taxpayers should be consistent with the ability to pay. This means that the understanding of tax fairness has remained tautological. As "tax fairness is generally believed to be a subjective matter" (Moromisato, 2014 p. 65), the operational definition adopted in this paper encompasses general fairness and equity of tax payers' burden – the perceived ability of taxpayers to pay the tax. However, taxpayers operate within a social environment with forces capable of constraining their tax compliance behaviour.

Institutional theory and its metaphor, isomorphism, owes its genesis from sociologists like DiMaggio and Powell (1983). Institutional theory recognizes that organizations operate within a social arena and, therefore, considers the social, rather than purely economic, influences on organizational practice (Rogers *et al.*, 2007). It recognizes that organizational practices are influenced by the existence and operation of institutions in their industry or country. These institutions include, e.g. the legal system, other organizations and cultural and professional norms. This influence is largely felt when an organization is seeking to gain legitimacy. The concept of institutional isomorphism is a useful tool for understanding procedures that encompass organizational life (DiMaggio and Powell, 1983) such as SME's tax compliance. According to Mizruchi and Fein (1999), firms constantly aim to maintain and increase legitimacy through complying with pressures that arise from their institutional environment. Three types of pressures have been identified: normative, mimetic and coercive pressure (DiMaggio and Powell, 1983). For example, norms of society must be followed for companies to obtain legitimacy and resources (DiMaggio and Powell, 1983). Two ways firms comply with norms is through the decision-making process and the structure of the firm (Nwabueze and Mileski, 2008). Taxpayers can structure their businesses as informal, formal or both, each model having particular bearing on tax compliance behaviour. Similarly, the taxpayers' decision-making process can be modelled based on the need to imitate others facing the same environment. Thus, mimicry in tax compliance may arise from the ongoing observation of peers, competitors and collaborators, giving rise to mimetic isomorphism akin to the "social fitness" of the person (Dingwerth and Pattberg, 2009), and may include adopting what is considered "best practice" within the organizational field (Matten and

Moon, 2008). The coercive pressure to pay taxes often results from the mandated tax collection body arms of government with the attendant legal or otherwise regulated expectations. Normative forces describe the effect of professional standards and the influence of professional communities on organizational characteristics (Ashworth *et al.*, 2007). These forces are strong where a professional grouping accredits certain practices (Andrews, 2009) and normative isomorphism concerns specifying how things should be done and arises mainly from professionalization (DiMaggio and Powell, 1983). These forces operating at manifold levels are expected to make taxpayers conform to tax compliance prescriptions. But taxpayers could choose not to conform to these forces passively, contrary to what classical institutional theory presumes.

There are the strategic behaviours that organizations employ in direct response to the institutional processes that affect them (Oliver, 1991). Oliver's predictions of how organizations respond to external influences focus on pressures for conformity that arise within the institutional environment. Oliver (1991) proposed a typology of strategic responses (see Table I) to institutional pressures that vary according to the degree of active agency and resistance exerted by the organization.

Borrowing from Oliver's (1991) typology of strategic responses, this paper examines different strategic responses that taxpayers develop to respond to isomorphic pressures (forces) towards conformity. Instead of inertly conforming to institutional pressures, organizations could strategically choose to conform or resist institutional pressures (DiMaggio and Powell, 1983). This, in the context of taxpayers, implies that they can choose to comply with taxes or not comply regardless of the isomorphic forces surrounding them. Taxpayers' deliberate intention to comply with institutional forces may be a prediction that compliance is convenient for their own interest. However, taxpayers not only resist but can as well use other strategies like seeking for court redress and negotiations with the tax collecting authority as long as these strategies are accepted in the society. But seeking to settle tax disputes by resorting to courts of law may serve to delay payment of the otherwise legitimate tax and can further widen the tax compliance gap.

Strategies	Tactics	Examples
Acquiescence	Habit	Following invisible, taken-for-granted norms
	Imitate	Imitate Mimicking institutional models
	Comply	Obeying rules and accepting norms
Compromise	Balance	Balancing the expectations of multiple constituents
	Pacify	Placating and accommodating institutional elements
	Bargain	Negotiating with institutional stakeholders
Avoid	Conceal	Disguising nonconformity
	Buffer	Loosening institutional attachments
	Escape	Changing goals, activities, or domains
Defy	Dismiss	Ignoring explicit norms and values
	Challenge	Contesting rules and requirements
	Attack	Assaulting the sources of institutional pressure
Manipulate	Co-opt	Importing influential constituents
	Influence	Shaping values and criteria
	Control	Dominating institutional constituents and processes

Source: Adapted from Oliver (1991)

Table I.
Strategic responses

2.2 Tax fairness and tax compliance

Extant literature suggests that taxpayers' perception on the tax system as fair instils compliant behaviour among taxpayers (Spicer and Becker, 1980; Alm *et al.*, 1992; Hite and Roberts, 1992; Shih-Ying and Mei-Jane, 2005; Azmi *et al.*, 2008; Merima *et al.*, 2013; Siahaan, 2012). According to Spicer and Becker (1980), taxpayers tend to avoid paying the tax if they assume the tax system is unfair. Using the tax fairness dimensions (general fairness/distribution, exchange with government, attitude special provisions, preferred tax rate structure and self-interest), as developed by Gerbing (1988), many researchers have found out that tax fairness has a significant positive relationship with tax compliance. For example, Alm *et al.* (1992) found out that compliance is greater when the individuals perceive some benefits from a public good funded by the tax payments. Merima *et al.* (2013) found out that individuals who are more satisfied with public service provision are more likely to have a tax-compliant attitude in Kenya, Uganda, Tanzania and South Africa. Similarly, Siahaan (2012) through procedural and distributive fairness, equity and equality found out that the direct effect of tax fairness on voluntary compliance is positive and significant and there is an indirect effect of tax fairness on voluntary compliance through trust. Hite and Roberts (1992) who used measures of expected levels of honest tax reporting as proxies for tax compliance behaviour investigated the effects of fairness perceptions on anticipated levels of compliance. The findings revealed that those subjects who perceived tax changes to be fair tended to agree that law changes might promote honest tax reporting. Hite and Roberts (1992) then suggested that this outcome provided clear evidence that perceptions of fairness are positively related to expectations of compliant behaviour, further confirming that fairness is a salient component in the judgement process in taxpayers' reporting decisions. More so, Gilligan and Richardson (2005) using the same dimensions developed by Gerbing revealed that perception of tax fairness is a factor of tax compliance among Australia and Hong Kong taxpayers. This is consistent with the works of Azmi *et al.* (2008) who used the same dimensions in the Asian context. Another study conducted on perception of tax fairness among the tax professionals in Turkey by Benk *et al.* (2012) also found that the concept of tax fairness, which indicates the equal distribution of tax burden, appears to be the most important factor in ensuring voluntary tax compliance. Although the results in extant research appear mixed, for example, Mason and Calvin (1984) failed to find the usually documented link between compliance and fairness, it can be clear from the foregoing discourse that:

H1. There is a positive relationship between tax fairness and tax compliance.

2.3 Isomorphic forces and tax compliance

Edelman and Suchman (1997) suggest that multiple isomorphic forces may operate together in any particular historical instance with each classification offering potential in terms of understanding the external forces at play influencing the legitimizing behaviour of SMEs with respect to tax planning. Accordingly, if the rules or institutions of a society view the non-payment of a tax liability as socially acceptable behaviour, then widespread tax evasion will result. Modern firms are expected to react to social influences rather than passively respond to environmental stimuli (Oliver, 1991). In relation to tax compliance, Matten and Moon (2008) suggest that mimetic pressures can result in the adoption of practicing what other organizations are doing in regards to compliance. For example, the results of the study on tax compliance by McCoon (2011) indicate that there is a strong correlation in Latin America between various aspects of a country's culture and the extent of tax evasion within that country. Societies which have greater respect for the law and are more law abiding appear to have less tax evasion and are therefore able to generate more tax revenue than those societies which are less law abiding. This means that companies with in the same culture such as industry or size are likely to mimic others to comply with taxes. According to the social influence theory, compliance behaviour and attitudes towards the tax system is thought to be affected by the behaviour and social norms of an individual's reference group (Merima *et al.*, 2013). It is therefore, reasonable to assume that human behaviour in the area of taxation is influenced by social interactions in the same way as other forms of behaviour. Following this line of thinking, Mulligan and Lynne (2011) found out that in-house tax professionals are boundary agents who, although working within their own organizations, are able to influence and shape tax legislation and practices in the organizational field and wider economic and political environment, through enacting tax practice and influencing the very laws that determine tax liabilities for their own organizations in the first instance. Therefore, if a taxpayer knows many people in groups important to him/her who evade taxes, his/her commitment to comply will be weaker. However, social relationships may also help deter individuals from engaging in evasion for fear of the social sanctions imposed once discovered and revealed publicly. From the foregoing literature review, the following non-directional hypothesis is stated:

H2a. There is a positive relationship between isomorphic forces and tax compliance.

Since Siahaan (2012) found a direct and indirect effect of tax fairness on voluntary tax compliance, we also hypothesized that:

H2b. There is a significant mediation by tax fairness on the link between isomorphic forces and tax compliance.

2.4 Strategic responses of taxpayers and tax compliance

It is a strategic and conscious obedience to institutional requirements that aims to elevate organizational legitimacy and avoid criticism or financial penalties for non-compliance with given laws and societal norms (Fidaa, 2010). Azmi *et al.* (2008) argue that, although the tax authorities are equipped with functions like assessment and collection, the awareness and compliance towards tax obligations is not only dependent on technical issues such as methods of imposing, technical inspection, investigation and enforcement sanctions as the embodiment of law provisions tax laws but also depends on the willingness of the taxpayer and how the taxpayers will comply with tax regulations. When a force of law or government mandate supports cultural expectations, organizations are more aware of public interests, and they try to respond less defiantly because the consequence of non-compliance is more tangible and severe (Oliver, 1991). However, taxpayers can use the different strategic responses as developed by Oliver (1991), i.e. acquiescence, compromise, avoidance, defiance and manipulation, to either comply or not comply with the different taxes imposed on them. For instance, prompt filing of returns by a business implies that it is willing to comply with all tax requirements (Chepkurui *et al.*, 2014). But prompt filing of returns does not mean payment of taxes neither does it mean filing the correct returns. More so, a business can choose to prepare separate books of accounts with one set specifically meant for tax purposes or it can choose to avoid these taxes by changing its goals and the activities being undertaken (Oliver, 1991). In response to institutional pressures, an institution can choose to co-opt, the source of pressure (Burt, 1983), in this case, the tax collecting authority. A taxpayer may, for example, attempt to persuade revenue authority officials to join the organization as shareholders or board of directors. They can as well lobby government regulators to change the tax compliance rules or try to gain power and dominance over the other organizations in the same category. Accordingly, we hypothesized as follows:

H3a. There is a relationship between strategic responses and tax compliance.

In addition, because organizations would strategically respond to isomorphic forces, it is reasonable to expect that:

H3b. There is a relationship between isomorphic forces and strategic responses of the SME taxpayers.

H3c. Strategic responses mediate the link between isomorphic forces and tax compliance.

3. Methodology

3.1 Design, population and sample

The design of this study is cross-sectional and correlational. It utilizes approximately 1,480 SMEs in the trading sector registered in Kampala by URA – 2014-2015 data warehouse. Kampala is best suited because a report by UBOS and PSFU (2007) indicates that 56 per cent of the total SMEs in Uganda are located in Kampala city and over 50 per cent are in the trade sector. We utilized a sample of 306 SMEs using Krejcie and Morgan (1970) table of sample selection approach and used the rotary method of selecting the subjects. Responses were solicited from SME managers and URA staff responsible for SMEs tax collection and compliance. Our respondent types (URA staff and SMEs managers) were guided by the necessity to capture the prevalence of tax compliance by engaging both the demand side and supply side of tax compliance. Hence, the investigation compares and contrasts perceptions of both respondent types to tap into both practice-based views. The questions for both URA staff and SME managers were worded in a way that elicits similar meaning. From the unit of analysis, we got 196 SMEs (about 64 per cent of response). Usable questionnaires were obtained from 409 respondents (196 SME managers and 213 URA staff members). Regarding the working experience of URA staff, 41 (about 19 per cent) had worked for over ten years and 172 (about 81 per cent) had worked for up to ten years for tax collecting agency. For education levels of URA staff members: 56 (about 26 per cent) had up to high school level, 143 (about 67 per cent) had ordinary degrees and 14 (7 per cent) had postgraduate qualifications. In term of gender, 95 (45 per cent) were female and 118 (55 per cent) were male respondents.

3.2 Questionnaire and measurements

Data were collected from respondents using a questionnaire with close-ended questions. We considered the recording of the response in the questionnaire design (Sudman and Bradburn, 1982; Sekaran, 2000). There are two ways in which this can be done. One approach is to use an open-answer format which allows and encourages respondents to give their opinion fully and with as much nuance as they are capable (Sudman and Bradburn, 1982). However, this approach appeared inapplicable in this research where the intention was to calculate the mean ratings of the extent of agreement with each statement; in the alternative, we considered a closed-answer format which is easier to analyse (Sudman and Bradburn, 1982). The questions were anchored on a six-point Likert scale ranging from strongly disagree (1) to strongly agree (6), allowing the respondent to register the degree of agreement. Because there are two respondent types, the wordings of the questions were carefully chosen to enlist the same information from the two respondent types. An example of a question administered to an SME manager regarding strategic responses was "When there is a change in the tax system, we adapt to our peers' actions". This same question was administered to URA staff but worded as "When we introduce a change in the tax system, taxpayers adapt to their peers' actions". Regarding normative forces, an example of a question to SME mangers was "employees in this organization believe in independence of decision-making"; the same question to URA staff was worded, "Most taxpayers' employees we interact with believe in independence of decision-making". Table II shows the variables, their measures and

Table II. Variables, their measurement and reliability of scales

Global variable	Variable Dimensions	Measurement	Definition	Sample item scales
Tax fairness (Cronbach's $\alpha = 0.70$)	General fairness	Respondents' mean rank of 4 items of information included in the questionnaire on a 6-point Likert scale	The perceived ability of taxpayers to pay tax (Smith and Kinsey, 1987; Jackson and Milliron, 1986)	The manner in which the tax burden is distributed across taxpayers is fair (Benk *et al.*, 2012)
	Equity of taxpayers burden	Respondents' mean rank of the 3 items of information included in the questionnaire on a 6-point Likert scale		High income earners should pay more than low income earners
Isomorphic forces (DiMaggio and Powell, 1983) (Cronbach's $\alpha = 0.69$)	Coercive/Regulated expectations (Greenwood *et al.*, 2008; Matten and Moon, 2008)	Respondents' mean rank of the 2 items of information included in the questionnaire on a 6-point Likert scale	The constraining process forcing one tax payer to behave like others facing the same set of environmental conditions	Failure to pay taxes attracts penalties and fines from URA
	Mimicry (Greenwood *et al.*, 2008; Dingwerth and Patberg, 2009)	Respondents' mean rank of the 2 items of information included in the questionnaire on a 6-point Likert scale		Our tax payment behaviour is shaped by the peers in the industry
	professionalism (Ashworth *et al.* 2007)	Respondents' mean rank of the 4 items of information included in the questionnaire on a 6-point Likert scale		Employees in this organization believe in public interest (Hall, 1968)
Strategic responses (Oliver, 1991) (Cronbach's $\alpha = 0.73$)	Conceal	Respondents' mean rank of the 4 items of information included in thequestionnaire on a 6-point Likert scale	The strategic behaviours that tax payers employ in direct response to isomorphic forces	I know some peers who prepare two sets of books of accounts, one for URA and the other for internal use
	Bargain	Respondents' mean rank of the 3 items of information included in the questionnaire on a 6-point Likert scale		Taxpayers have higher negotiation skills when it comes to tax matters
	Escape	Respondents' mean rank of the 3 items of information included in the questionnaire on a 6-point Likert scale		Tax payers in Uganda have a strong proclivity (liking, tendency) to non-taxable businesses/investments
Tax Compliance (Cronbach's $\alpha = 0.80$)	Reporting compliance	Respondents' mean rank of the 2 items of information included in the questionnaire on a 6-point Likert scale	The degree to which a taxpayer complies or fails to comply with the tax rules a country (Braithwaite, 2009)	Taxpayers disclose to URA all income earned for tax purposes
	Payment compliance	Respondents' mean rank of the 3 items of information included in the questionnaire on a 6-point Likert scale		Taxpayers pay the actual tax assessed

reliability of scales (using Cronbach's alpha coefficient). For parsimony reasons, indicators are worded as administered to SME managers. The α coefficients suggested that the scales were sufficiently reliable. Questionnaires were self-administered and the exercise was carried out within a period of three months to provide abundant time for the completion of the questionnaire by the respondents.

3.3 Data management

We used exploratory factor analysis which according to Field (2009) is a technique for identifying groups or clusters of variables and has the utility of reducing a data set to a more manageable size while retaining as much of the original information as possible. We used Varimax with Kaiser normalization. Items with a correlation less than 0.4 were suppressed. Table III shows the results, and that there are isomorphic forces that exist in the Ugandan taxpaying environment. The most important forces were seen to be regulatory expectations followed by professionalism and mimicry (all explaining about 61.71 per cent of the variance [VE]). It also shows that taxpayers in Uganda actively respond to environmental forces (51 per cent of the variance) manifest in concealment, bargain and escape typologies of Oliver (1991), who argues that organizations (taxpayers) do not just conform to the forces exerted on them, they respond either positively or defiantly depending on the circumstances surrounding them. Moreover, tax fairness is perceived through general fairness and equity of the taxpayers' burden (58.4 per cent of the variance). Table III further shows that taxpayers in Uganda perceive tax compliance in terms of reporting compliance and payment compliance (60.31 per cent of the variance). The Table also reports the results of discriminant validity test of our measures using average variance extracted (AVE; Fornell and Larcker, 1981).

4. Results and discussion

4.1 Results

Descriptive statistics generated included means and standard deviations and are presented in Table IV. On a scale of strongly disagree (1) to strongly agree (6), the means for tax fairness, isomorphic forces, strategic responses and tax compliance are 3.994, 3.986, 3.597 and 2.949 with standard deviations of 0.905, 0.681, 0.774 and 0.719, respectively. According to Field (2009), when deviations are small compared to mean values, it is evident that the data points are close to the means, and hence, calculated means highly represent the observed data.

We then conducted the univariate contingency table tests. In this analysis, we first utilized the responses from both URA staff and SME managers. The correlations were significant except for strategic responses. This provided the first-order tests for our study hypotheses. Tax fairness is positively associated with taxpayers' tax compliance ($r = 0.171$, $p < 0.01$), providing initial evidence in support of *H1*, which states that *there is a positive relationship between tax fairness and tax compliance*. We also found a significant positive link between isomorphic forces and tax compliance behaviour ($r = 0\ 0.202$, $p < 0.01$), giving initial evidence in support *H2a*, which states that *there is a positive relationship between isomorphic forces and tax compliance*. Similarly, we found a positive link between isomorphic forces and strategic responses of taxpayers ($r = 0.300$, $p < 0.01$). This appeared to initially confirm our *H3b*, which states that *there is a relationship between isomorphic forces and strategic responses of the SME taxpayers*. However, at this level of analysis, we found a non-significant and negative link between strategic responses and tax compliance, and this would appear to suggest that *H3a* is not supported.

We attempted an initial regression analysis (output not reported because of space constraints) to establish the degree of influence of the predictor variables onto the outcome

Table III.
Exploratory factor analysis

	Components		
Tax fairness items (Total variance explained = 58.4%)	*General fairness (VE = 0.34; AVE = 0.58)*	*Equity of tax payer's burden (VE = 0.24; AVE = 0.55)*	
The tax rate is fair as it is the same for every business at the same level	0.865		
The manner in which the tax burden is distributed across taxpayers is fair	0.826		
The tax rates the organizations pay are reasonable	0.806		
Considering all taxpayers, no taxpayer pays less than their fair share of taxes	0.480		
High income earners should pay more than low income earners		0.859	
High income earners have a greater ability to pay taxes, so they should pay a higher rate of tax than low income earners		0.833	
The tax laws don't require taxpayers to pay more than the fair share of taxes		0.466	
Isomorphic forces items (Total variance explained = 61.707)	*Professionalism (VE = 0.26; AVE = 0.52)*	*Regulated expectations (VE = 0.18; AVE = 0.66)*	*Mimicry (VE = 0.18; AVE = 0.70)*
Employees in this organization believe in independence of decision-making	0.797		
Employees in this organization believe in public interest	0.737		
Employees in this organization believe in self-regulation	0.705		
Our organization adheres to professional ethics, it is unethical to evade taxes	0.632		
Taxes attract penalties and fines from URA in case of failure to pay		0.801	
Taxpayers pay taxes because URA has the legal mandate to collect it		0.819	
Our tax payment behaviour is shaped by the peers in the industry			0.827
We pay taxes because the major players in our industry are paying			0.841

(*continued*)

	Components		
Strategic responses items (Total variance explained = 50.922)	*Conceal (VE = 0.18; AVE = 0.43)*	*Bargain (VE = 0.17; AVE = 0.41)*	*Escape (VE = 0.16; AVE = 0.46)*
I know some peers who prepare two sets of books of accounts, one for URA and the other for internal use	0.673		
When taxpayers are not satisfied with URA assessment, they go to court	0.658		
When the tax burden is so high, taxpayers pay in instalments	0.651		
When the tax liability is big, taxpayers discuss with URA about the terms of payment	0.629		
Taxpayers have higher negotiation skills when it comes to tax matters		0.691	
When there is a change in the tax system, we adapt to our peers actions		0.625	
We lobby government for changes in regulations to which they are subjected		0.590	
When taxes are high in one location, some taxpayers shift to other places where they cannot be located by the authorities			0.770
When URA assesses a higher tax than anticipated, taxpayers don't pay			0.686
Taxpayers in Uganda have a strong proclivity (liking, tendency) to non-taxable businesses/investments			0.571
Tax compliance items (Total variance explained = 60.306%)	*Reporting compliance (VE = 0.31; AVE = 0.75)*	*Payment compliance (VE = 0.29; AVE = 0.48)*	
We disclose all income earned for tax purposes	0.883		
We provide accurate reports to URA for assessment of their tax liability	0.849		
Taxpayers pay tax in time		0.785	
Most taxpayers have no outstanding debt with URA		0.651	
Taxpayers pay the actual tax assessed		0.634	

Table III.

Variables	N	Minimum	Maximum	Mean	SD
Tax Fairness	*409*	*1.13*	*6.00*	*3.9948*	*0.90556*
General fairness	409	1.00	6.00	3.3273	1.21883
Equity of taxpayers burden	409	1.00	6.00	4.6622	1.10581
Isomorphic forces	*409*	*1.42*	*6.00*	*3.9866*	*0.68145*
Professionalism	409	1.00	6.00	3.9652	1.01570
Regulatory expectations	409	1.00	6.00	4.7928	1.13598
Mimicry	409	1.00	6.00	3.2017	1.14523
Strategic responses	*409*	*1.17*	*5.44*	*3.5974*	*0.77490*
Conceal	409	1.00	6.00	3.9722	1.04180
Bargain	409	1.00	5.67	3.3582	0.97140
Escape	409	1.00	6.00	3.4617	1.09136
Tax compliance	*409*	*1.00*	*5.17*	*2.9493*	*0.71984*
Regulatory compliance	409	1.00	6.00	2.7457	1.17266
Payment compliance	409	1.00	5.67	3.1528	0.95718

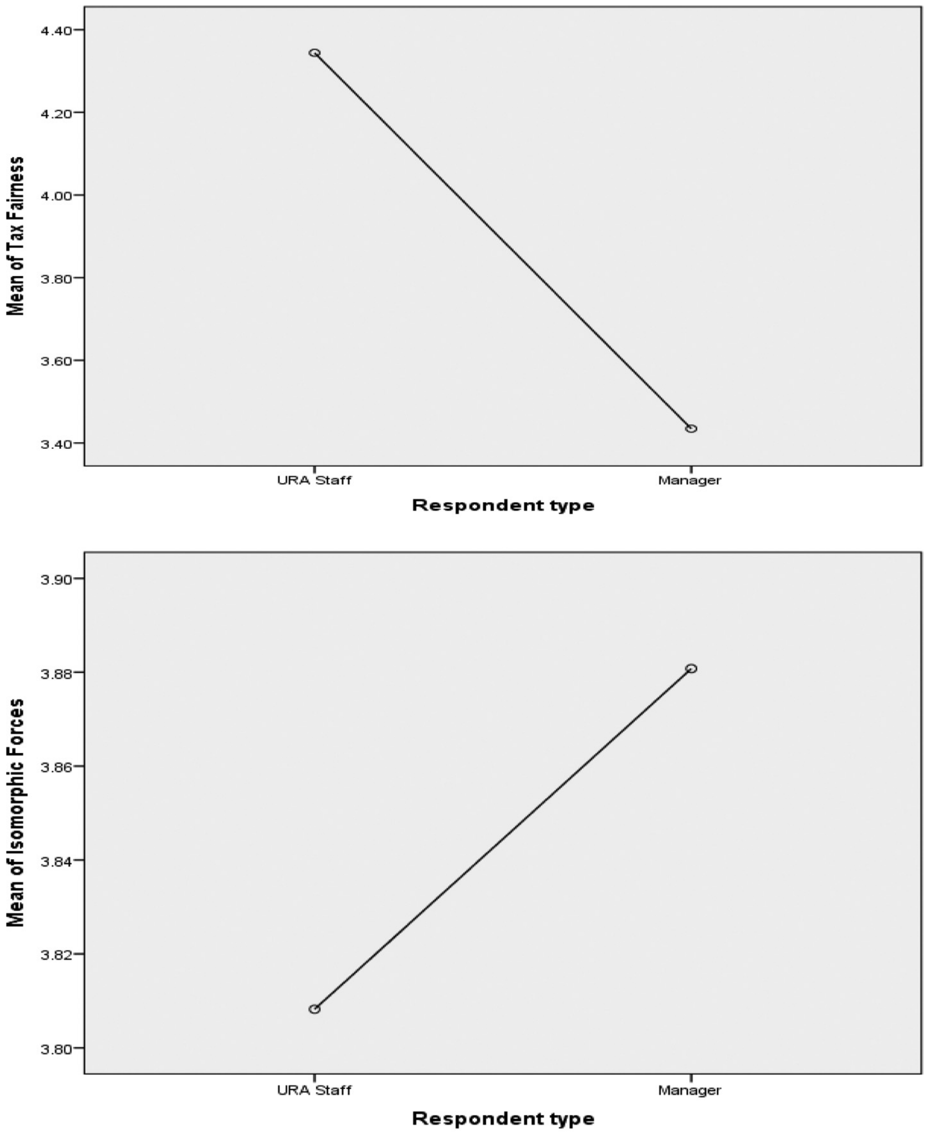
Table IV.
Descriptive statistics

variable, tax compliance, and explained about 7.1 per cent of the variance in tax compliance. All the three predictor variables appeared to significantly explain variances in tax compliance in spite of zero-order analysis, suggesting no significant link between strategic responses and tax compliance. This result was surprising, and this prompted us to carry out further analysis to isolate this confounding. Besides, the predictive power of this model appeared small. We then compared the means of the perceptions of both respondent types. Results (output not reported) suggested that there are significant differences between the perceptions of URA staff and SME managers regarding tax fairness ($F = 130.206, p < 0.01$), strategic responses ($F = 114.577$, $p < 0.01$) and tax compliance ($F = 17.651$, $p < 0.01$). However, it was found that there are no significant differences in the views of URA staff and SME managers with regard to isomorphic forces ($F = 1.410, p > 0.05$). Given that we did not use equal sizes of respondent types, we tested the hypothesis that the variances of the groups are the same (homogeneity of variance) using the Levene's test and found that the test values were not significant at 0.05 levels for isomorphic forces and tax compliance. For tax fairness and strategic responses, the test values were significant at 0.01 levels. For this reason, we then carried out the robust tests of equality of means using Welch F (1951) and found that only differences in opinions regarding isomorphic forces were not significant ($F = 1.404, p >$ 0.05). The results can be discerned from Figure 1. In Figure 1, URA staff members significantly perceived more of tax fairness than SME managers do, yet significantly perceiving less tax compliance than SME managers did. In addition, URA respondents significantly perceived more strategic responses than SME managers did. This means that the two respondent types perceived the study variables in opposite directions, providing the first understanding of why the tax compliance puzzle has remained a burgeoning concern.

The argument advanced in this study was that to obtain an empirically informed view of tax compliance, the responses should be approached from both the demand side and the supply side of tax compliance. The significant differences in opinions of both URA staff and SME managers offer credence to this unique methodology. The zero-order analysis of the split data now appears in Table VI.

Table VI shows that there are significant relationships between tax fairness and tax compliance; isomorphic forces and tax compliance; and isomorphic forces and strategic responses. This was the same case before separating the data (see Table V). However, basing on the URA staff, the relationship between strategic responses and tax compliance is negative and non-significant ($r = -0.045, p < 0.01$). But based on the results from the data collected from SME managers, the relationship between strategic responses and tax compliance is not significant but positive (r = 0.077, $p < 0.01$).

Comparative regression analysis (Table VII) shows that in Model a, only tax fairness is a significant predictor of tax compliance and the model predicts only 0.039 of the variances in tax compliance. In Model b, all the predictor variables significantly explain tax compliance. This is noteworthy because this is the first time in this analysis that strategic responses



(*continued*)

Figure 1.
Outs for robust tests of equality of means using Welch *F* (1951)

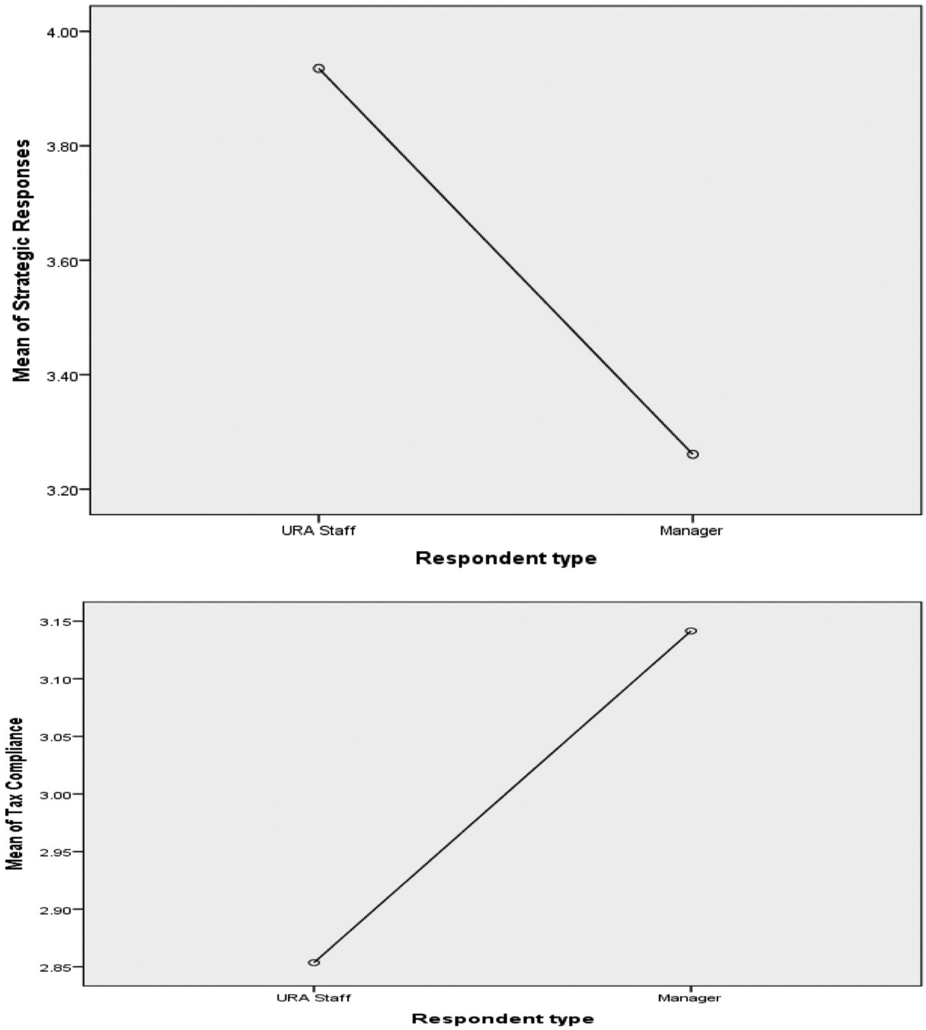


Figure 1.

Notes: $F = 132.447, p < 0.01$; $F = 1.404, p > 0.05$; $F = 17.674, p < 0.01$; $F = 112.408, p < 0.01$

become a significant predictor. Overall, tax fairness, isomorphic forces and strategic responses explain 21 per cent of the variance in tax compliance (Adjusted $R^2 = 0.213$).

Model b is better fitted (based on the coefficient of determination) and based on this model, our *H1*, *H2a* and *H3a* are substantiated in this study. However, as the models in Table VI suggest that strategic responses is not significantly linked to tax compliance yet Model b in Table VII suggests that it is a significant predictor variable, we then tested for the effects of mediation in a bid to validate *H2b* which states that *there is a significant mediation by tax fairness on the link between isomorphic forces and tax compliance* and *H3c* which states that *strategic responses mediate the link between isomorphic forces and tax compliance*. First, we

Table V. Correlations

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
General fairness (1)	1													
Equity of taxpayers burden (2)	0.212**	1												
Tax Fairness (3)	*0.802***	*0.753***	*1*											
Professionalism (4)	−0.061	0.149**	0.049	1										
Regulatory expectations (5)	0.136**	0.294**	0.271**	0.139**	1									
Mimicry (6)	0.223**	0.012	0.158**	0.023	0.065	1								
Isomorphic forces (7)	*0.170***	*0.244***	*0.263***	*0.587***	*0.662***	*0.608***	*1*							
Conceal (8)	0.460**	0.091	0.366**	−0.095	0.232**	0.282**	0.240**	1						
Bargain (9)	0.231**	0.103*	0.218**	0.034	0.225**	0.261**	0.288**	0.339**	1					
Escape (10)	0.195**	0.020	0.143**	−0.120*	0.157**	0.225**	0.154**	0.369**	0.310**	1				
Strategic responses (11)	*0.394***	*0.093*	*0.322***	*−0.085*	*0.272***	*0.341***	*0.300***	*0.763***	*0.716***	*0.765***	*1*			
Regulatory compliance (12)	0.134**	0.070	0.133**	0.200**	−0.014	0.030	0.108*	−0.021	0.160**	0.081	0.096	1		
Payment compliance (13)	−0.041	0.199**	0.094	0.219**	0.079	0.032	0.171**	−0.130**	−0.054	−0.227**	−0.187**	−0.097*	1	
Tax compliance (14)	*0.082*	*0.190***	*0.171***	*0.309***	*0.041*	*0.046*	*0.202***	*−0.104**	*0.095*	*−0.085*	*−0.047*	*0.750***	*0.586***	*1*

Notes: **Correlation is significant at the 0.01 level (2-tailed); *correlation is significant at the 0.05 level (2-tailed)
Source: Primary data

examined the contribution of each variable to the variances in tax compliance using the data from the URA staff and also controlled for the effects of gender, education and working experience in a hierarchical regression analysis. Then, we examined mediation effects.

In the hierarchical regression analysis, we used the regression coefficients as indicators of whether or not the contribution of each variable is significant, which further tests the validity of the hypotheses. The overall contribution of the variables is indicated by the variance explained (R^2) that also shows the explanatory power of the variables. The results of the hierarchical regression are presented in Table VIII. Model 1 in Table VIII shows that respondent characteristics do not explain any significant variance in how they perceive tax compliance, and therefore, their confounding effect is tenable. This means that the research models are not sensitive to confounding factors and the models are highly credible. The standardized beta-coefficient for isomorphic forces in Model II is significant, and isomorphic forces contribute about 0.095 of the variance in tax compliance. This indicates that there is a relationship between isomorphic forces and tax compliance and further substantiates *H2a*. Model III shows that tax fairness and isomorphic are significant predictors of tax compliance, explaining 16.5 per cent of the variance in tax compliance with tax fairness contributing about 0.08 of the variance, hence, offering further support for *H1*. Model IV indicates that strategic responses as well significantly predict tax compliance but in a negative direction. This means that as strategic responses increase, tax compliance reduces. Strategic responses contribute about 0.048 of the variance, substantiating *H3a*.

Mediation is believed to occur if the predictor variable accounts for a certain variance in the mediator variable which should also account for the variance in the criterion variable. This means that the mediator variable carries the effect of the predictor variable onto the criterion variable (Baron and Kenny, 1986). According to Baron and Kenny (1986) and Kenny *et al.* (1998), mediation occurs if the following conditions are met:

- variations in the independent variable significantly account for variance in the presumed mediator;
- variations in the mediator significantly account for variance in the dependent variable;
- variations in the independent variable significantly account for variance in the dependent variable; and
- the effect of the independent variable on the dependent variable significantly reduces when the mediator is included in the third equation.

All the above-mentioned conditions were met because *H1*, *H2a*, *H3a* and *H3b* are supported, and also, Table VI shows a significant link between tax fairness and isomorphic forces. To test for the significance of the mediation, the Sobel test was conducted using the Jose's Medigraph. We found that tax fairness partially mediates the link between isomorphic forces

Table VI. Comparative correlations analysis for the separated data

	SME managers data (Model a)				*URA staff data (Model b)*			
Variables	1	2	3	4	1	2	3	4
Tax fairness (1)	1				1			
Isomorphic forces (2)	0.387**	1			0.249**	1		
Strategic responses (3)	0.143*	0.201**	1		0.122	0.438**	1	
Tax compliance (4)	0.209**	0.169*	0.077	1	0.351**	0.318**	−0.045	1

Notes: **Correlation is significant at the 0.01 level (2-tailed); *correlation is significant at the 0.05 level (2-tailed)
Source: Primary data

Table VII.
Comparative
regression analysis

	Regression analysis using responses from managers of SMEs (Model a)								Regression analysis using responses from URA staff (Model b)						
	Unstandard coefficients		Standard coefficients			Collinearity statistics			Unstandard coefficients		Standard coefficients				
	B	*Standard error*	*Beta*	*t*	Significance	*Tolerance*	*VIF*		*B*	*Standard error*	*Beta*	*t*	*Significance*	*Tolerance*	*VIF*
(Constant)	2.115	0.345		6.125	0.000				1.567	0.361		4.345	0.000		
Tax fairness	0.154	0.071	0.166	2.173	0.031	0.846	1.183		0.239	0.051	0.293	4.656	0.000	0.938	1.066
Isomorphic forces	0.097	0.077	0.098	1.272	0.205	0.828	1.207		0.354	0.071	0.347	5.001	0.000	0.769	1.300
Strategic responses	0.031	0.067	0.034	0.467	0.641	0.955	1.047		−0.280	0.082	−0.233	−3.430	0.001	0.808	1.238
R	0.232							R	0.473						
R^2	0.054							R^2	0.224						
Adjusted R^2	0.039							Adj. R^2	0.213						
F	3.639							F	20.077						
df 1	3							df 1	3						
df 2	192							df 2	209						
df	196							df	213						
Durbin Watson	1.885							Durbin Watson	2.221						

Note: Dependent Variable: tax compliance

Variables	Model I	Model II	Model III	Model IV
Constant	2.309	1.269	0.538	1.123
Isomorphic forces		0.312**	0.236**	0.340**
Tax fairness			0.296**	0.299**
Strategic responses				−0.245**
Control variables				
Gender	0.031	−0.002	0.039	0.036
Highest level of education	0.079	0.055	0.053	0.084
Working experience	0.059	0.03	0.004	0.013
Model F	0.678	6.071**	9.371**	10.39**
Adjusted R^2	−0.005	0.087	0.165	0.21
F change	0.678	22.047**	20.314**	12.809**
R^2 change	0.01	0.095	0.08	0.048
Durbin Watson				2.215

Note: **Significant at 1% level

Table VIII.
Hierarchical regression results

and tax compliance ($Z = 2.87, p < 0.01$); the results are presented in Figure 2. Using the SME managers' data (Figure 3) we found that strategic responses fully mediates the relationship between isomorphic forces and tax compliance ($Z = 2.49, p < 0.05$). Both these effects are significant at 5 per cent or better.

4.2 Discussion

The results reported in this paper suggest the following themes.

1) Tax fairness, isomorphic forces and strategic responses as possible explanations of perceived tax compliance have a predictive force in Uganda. With respect to tax fairness, the

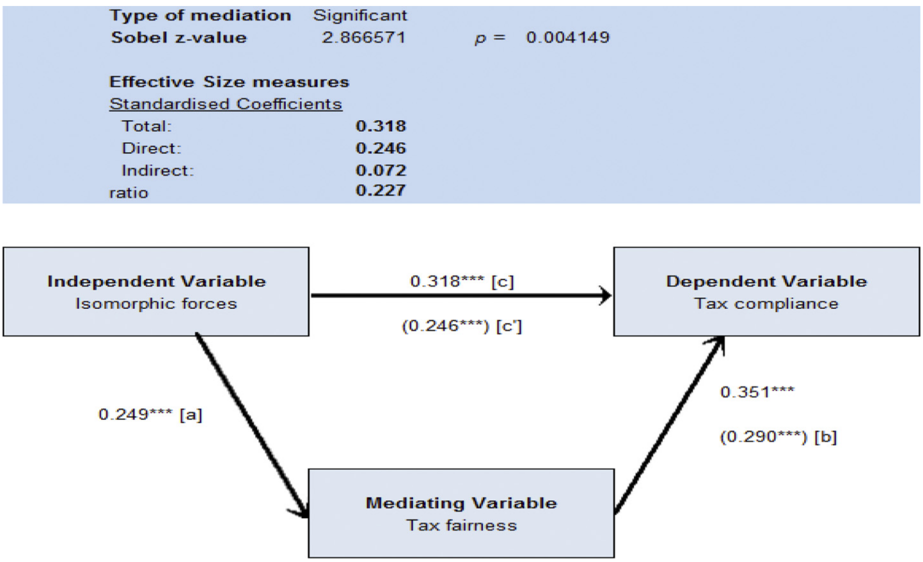


Figure 2.
Mediation effect of tax fairness on the link between isomorphic forces and tax compliance using URA staff members' data

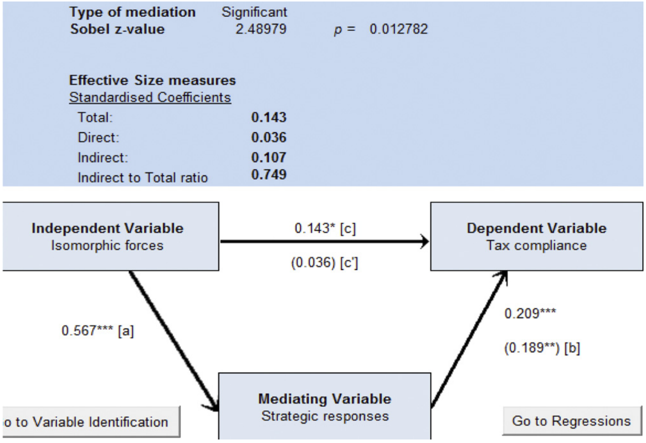


Figure 3.
Mediation effect of strategic responses on the link between isomorphic forces and tax compliance using SME managers' data

results confirm earlier findings (McEwen and Maiman, 1986; Chan *et al.*, 2000; Anna *et al.*, 2008) that taxpayer's perceptions of the fairness of the tax system are likely to influence their payment compliance. McEwen and Maiman (1986) found evidence that the perception of fairness was directly associated with compliance. Chan *et al.* (2000) also found that taxpayer attitude (fairness) had a positive relationship with tax compliance. According to Anna *et al.* (2008), taxpayers' perception on the tax system is important because fairness of the tax system instils compliance behaviour among taxpayers. In this paper, it is found that this is true from both the perspectives of demand and supply sides of tax compliance; however, previous studies have majorly looked at the supply side of tax compliance. Perceived tax fairness constructs in Uganda are established as general fairness and equity of taxpayers' burden.

The predictive power of strategic responses of taxpayers suggests that the standard deterrence model of non-compliance can be modified to address the choice between regulated expectations (such as failure to pay taxes attracting fines and penalties) and escape techniques (such as proclivity to non-taxable businesses and shifts to places hard-to reach by tax enforcement). In situations where income in the larger companies is routinely reported to the tax enforcement agency, the one way to evade tax is by shareholders switching completely to the SME sector, largely known to be informal. There is certainly evidence that non-compliance is concentrated in SMEs (Terkper, 2003; Ahmed and Braithwaite, 2005) such as those that supply services directly to homeowners, because of the small scale of production that can aid concealment and the lesser need for receipts compared to services provided to larger businesses.

Strengthening isomorphic forces will compel taxpayers to fulfil their tax obligation and, hence, do away with tax-evasion tendencies. This affirms literature by other researchers. For example, the results of the study on tax compliance by McCoon (2011) indicated a strong correlation in Latin America between various aspects of a country's culture and the extent of tax evasion within that country. His results showed that societies which have greater respect for the law and are more law abiding appear to have less tax evasion and are, therefore, able to generate more tax revenue than those societies which are less law abiding. More so, Merima *et al.* (2013) found out that human behaviour in the area of taxation is influenced by social interactions much in the same way as other forms of behaviour. This means that, strengthening the regulatory expectations like fining non-compliance tendencies; instilling the spirit of professionalism into the business managers; and reducing tendencies of mimicking non-compliance behaviour would greatly improve tax compliance of SMEs in Uganda.

2) Strategic responses by SME taxpayers can be a form of resistant defiance (Braithwaite, 2009) that operates to mediate the link between isomorphic forces and tax compliance. For example, an isomorphic force such as regulated expectations (e.g. the legal mandate of the URA to collect tax and fines and penalties in case of failure to pay the taxes due) significantly affects the way an SME taxpayer can respond to such a force (e.g. "when URA assess a higher tax than anticipated, taxpayers don't pay" or "when taxes are high in one location, some taxpayers shift to other places where they cannot be located by the authorities"). This means that the variable "strategic responses" carries the effect of the variable "isomorphic forces" onto the outcome variable "tax compliance". This mediation is a negative element in tax compliance of SMEs, providing further support for Oliver's (1991) prediction of strategic responses to institutional processes and also for Braithwaite (2009) who suggested that "resistant defiance involves standing up against an authority's rules, or ways of administering them"; the objective being "to change the mindset or practices of an authority so that a different course of action will be pursued" (p. 1). The other evidence in this paper is that in Uganda, lobbying for changes in tax regulations or devising higher negotiation skills in tax matters or discussions with URA about the terms of payment are perceived as a form of bargain which is one of the strategic responses advanced by Oliver (1991). We interpret this to be yet another form of resistant defiance. The following excerpt from Braithwaite (2009, pp. 1-2) serves to exemplify:

> Resistant defiance is not about jettisoning or constraints more generally. The hope is not to do away with an authority altogether but rather to change the way an authority operates or thinks about things. The message to authority is: "If you were reasonable and fair in the way you exercised your authority, I would not resist you."

The results of this paper also serve to support Hawkins' (1984, p. 122) argument:

> Bargaining is central to enforcement in compliance systems […] Bargaining implies the acquiescence of the regulated, however grudging. And it inevitably suggests some compromise from the rigours of penal enforcement. The essence of a compliance strategy is the exchange relationship, a subtle reminder of […] mutual dependence […].

Conversely, strategic responses to isomorphic forces can also be a form of dismissive defiance which, according to Braithwaite (2009), is practised openly by professionals offering ways of avoiding or getting around tax law calling for the tax authorities to look the other way, and accept the individual's use of ingenuity to circumvent tax law. The results of this paper show that one of the responses available to SMEs in Uganda is to "prepare two sets of books of accounts, one for URA and the other for internal use" – a form of concealment which is a tactic under Oliver's (1991) typology of avoidance.

3) Tax fairness manifest in general fairness and equity of taxpayers' burden offers a partial mediation in the link between isomorphic forces and tax compliance using the perceptions of SME managers. This confirms Siahaan's (2012) finding of both direct and indirect effect of tax fairness on voluntary tax compliance and who also surveyed taxpayers (supply side of tax compliance). However, as we did not find a significant effect of the same mediation using data from the demand side of tax compliance, this suggests that tax fairness does not carry any significant effect from isomorphic forces onto tax compliance. Confirming that indeed when it comes to tax fairness and compliance, it depends in whose "eyes you look through".

5. Conclusion and implications

The objective of this paper was to establish the relationship between tax fairness, isomorphic forces, strategic responses and tax compliance. We first examined the contribution of tax fairness, isomorphic forces and strategic responses using data from both URA staff members and SME managers and then examined the mean differences in opinions and found significant differences. For example, we found that respondents from the tax-collecting body perceived more tax fairness than SMEs managers, suggesting that perceived tax fairness depends on whose "lenses" you look through – tax compliance demand side or tax compliance supply side. We then split the data into the supply side and the demand side. The demand side model explains the greatest variance in tax compliance based on the size of adjusted R^2. We also found that when the data from demand side of tax compliance are used, tax fairness partially mediates the relationship between isomorphic forces and tax compliance, yet when data from the supply side are used significant mediation is not found. Moreover, we found that strategic responses fully mediated the link between isomorphic forces and tax compliance when data from the supply side is used; we did not find significant mediation when we used demand side data. Tax fairness, isomorphic forces and strategic responses as possible explanations of perceived tax compliance have a predictive force in Uganda.

Overall, the findings of this study have important implication for academics as well as governments in developing nations like Uganda. For example, as tax authorities enforce tax laws in ensuring tax collection, they should be mindful of what taxpayers can do to avoid these taxes. Because strategic responses negatively influence tax compliance, it is important that tax authorities take cognizance of this and anticipate such responses in a bid to neutralize them. Also, because there are significant differences in opinions of URA staff and SME managers *vis-a-vis* tax fairness, the tax administration in Uganda should simply follow the cannons of a fair tax in the administration of the tax system. Tax compliance thrives when there are strong institutions; as such governments should aim at building strong institutions such as tax authorities, as isomorphism has been found to improve tax compliance. As with any study, this is not without limitations, although it makes important contributions to the tax compliance literature of SMEs. First, this study was limited to SMEs in Uganda, and it is possible that the results may only be generalized to SMEs in Uganda. Secondly, given that it is a cross-sectional study, changes over time cannot be assessed, and estimates of how quickly study measures might respond to any changes cannot be provided. This is likely because organizations change, as well as systems and circumstances surrounding them. Finally, although an attempt is made at controlling for common method variance in particular by gathering data from different respondent types, it may not be ruled out completely. As this study majorly focussed on SMEs in the private sector, further research could be carried out among the public sector entities and large enterprises using the same methodological suite.

Notes

1. By this, we mean the tax-collecting body that ordinarily requires (demands) tax compliance from taxpayers.
2. Refers to the SME as represented by its manager that ordinarily is required to (supply) comply with the demands of the tax collecting body such URA (tax compliance).

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