

**EFFECT OF TAXATION ON PERFORMANCE OF MICRO, SMALL
AND MEDIUM ENTERPRISES IN MIGORI COUNTY, KENYA**

BY

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DECLARATION

I hereby declare that this report is my original work and has not been submitted in the same form or any form to this or any other university or college for any examination. The work forms part fulfillment of the requirement of the award of a Master of Business Administration Degree of Maseno University.

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Undertaking this research study has been one of the most challenging yet productive and rewarding experiences of my life. This was possible because of the unfettered financial, intellectual, moral and leadership support that I have received.

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DEDICATION

This research project is dedicated to God the Almighty, my pillar, my source of inspiration, wisdom, knowledge and understanding. He has been the source of my strength throughout the course of my research and on his wings have I soared. I also want to dedicate this work to my family and colleagues for they have been affected during this journey. It is for their continued support and understanding that I have managed to complete this research. Thank you and may God bless you.

ABSTRACT

Micro, small and medium enterprises are the heartbeat of any country's economy, more so in the developing countries where the micro and small enterprises are responsible for employment and the economic growth. Taxation has been identified as a major threat to the growth of small enterprises not only in highly industrialized countries but also in less industrialized countries, Kenya included. Taxation in general increases the costs of operation of running small enterprises. Empirical evidence about studies in Kenya's micro and small enterprises sector shows that they have so far dwelt with effects of taxation in major towns like Nairobi, Thika, Eldoret and Mombasa. However, no studies in particular dwelling on the effects of tax compliance, tax incentives and innovative tax coping systems on performance of MSMEs have been done in Migori County. The purpose objective of the study was to evaluate the effects of taxation specifically the study of tax compliance, tax incentives and tax coping systems on performance of MSMEs in Migori County. Guided by the ability to pay theory of taxation, the study adopted a correlational survey design. Out of the target population of 656 MSMEs in Migori County, sample of 104 was selected using simple random sampling techniques. Both primary and secondary data was used. Validity of the research instrument was established through expert review while the reliability test yielded a Cronbach's Alpha coefficient of between 0.782 and 0.822. The findings revealed that taxation explained 59.8% ($R^2 = 0.598$) variation in organizational performance. It was further revealed that dimensions of taxation namely: tax compliance ($\beta = 0.033$, $p < 0.05$) and innovative tax mechanism ($\beta = 0.072$, $p < 0.05$) both had significant positive effects on organizational performance while Tax incentives ($\beta = 0.009$, $p > 0.05$) had an insignificant positive effects on organizational performance of MSMEs in Migori County. The study concludes that tax incentives and innovative tax mechanism are both critical antecedents of performance in MSMEs in Migori County. Therefore, the study recommends that the dimensions of the tax compliance and innovative tax mechanism be enhanced to significantly increase the level of MSMEs' performance. Less emphasis should be laid on the innovative tax mechanism as it has insignificant relationship with organizational performance. The study is useful to prospective entrepreneurs, policy makers, tax and regulatory authorities as well as government of Kenya in helping to design tax policies that can efficiently support micro, small and medium enterprise sustainability and development in Kenya.

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ABBREVIATIONS AND ACRONYMS

MSME	Micro, Small and Medium Enterprises
SME	Small and Medium Enterprises
TOT	Turn over Tax
ERS	Economic Recovery Strategy
VAT	Value Added Tax
TIN	Tax Payers Identification Pin
SPSS	Statistical Package for Social Sciences
GDP	Gross Domestic Product
ANOVA	Analysis of Variance
ITD	International Tax Dialogue
KRA	Kenya Revenue Authority
ILO	International Labor Organization

DEFINITION OF OPERATIONAL TERMS

Vanguard - to give a higher priority

Figure – view or Perspective

Growth - progressive increase in profits, income and investments

Loan - ability to allow someone the use of a given sum of money on the understanding that it will be repaid at a stipulated time and earn interest

Micro, Small and Medium Enterprises - businesses which are small in size and most of which borrow their capital from MFIs.

Small and Medium Enterprise - independent firms which employ less than a given number of employees.

Economic Recovery Strategy - strategy that can aide in reversing the slow and stagnant economic growth that adversely undermines well-being of an organization or a nation

Government Policy – plan or course of action, as of a government, political party, or business, intended to influence and determine decisions, actions, and other matters.

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CHAPTER ONE: INTRODUCTION

This chapter sought to outline an overview of the study. It includes micro, small and medium enterprises, the role they play in the economy both globally and in Kenya, theory relevant to the study, hindrances towards achieving their full potential. It also portrays the general objective of the study which is to evaluate the effects of taxation on performance of MSMEs in Migori County.

1.1 Background of the study

The contribution of micro, small and medium enterprises to economic development, income generation and poverty alleviation is widely recognized (ILO, 2008). Micro, small and medium enterprises are particularly important since they provide opportunity for self-employment which represents a chance to exploit potentials, at the same time give a flexible, less restrictive and requires less capital and skills (Wasihun & Paul, 2010). Among the theories guiding the study is the ability to pay theory of taxation advanced by Swiss philosopher Jean (1712-1778), the French political economist Say (1767-1832) and the English economist Mill, (1806-1873). This theory holds that the taxation should be levied according to an individual's income or ability to pay and is the basis of progressive tax where tax rate increases by the increase of the taxable amount. This theory is indeed the most equitable tax system since people with greater income or wealth can afford to pay more taxes hence should be taxed at a higher rate than people with less individual income tax and has been widely used in industrial economies.

Small and medium enterprises have always been considered an important force for economic development and industrialization in smaller economies (Aryeetey & Ohene, 2004 and Oludele & Emilie, 2012). These small enterprises have increasingly been recognized as enterprises that contribute considerably to the creation of jobs, economic growth and eradication of poverty in Africa. According to the World Development Report (2005), the creating of "sustainable" jobs and opportunities for smaller entrepreneurs are the key strategies to take people out of poverty. Micro, small and medium enterprises are mostly private enterprises and they face difficulties when dealing with the government in general and the tax administration in particular mostly the developing countries. Many of the difficulties with the tax authorities may

be deemed as the consequences of poorly conceived tax policies and a lack of certainty regarding future policy changes. However, it would be rare indeed not to observe complaints about the complication and/or ambiguity of the tax laws as well as high tax rates (Baurer, 2005).

If the tax structure is not adequately designed to the specific environmental conditions, it may create a greater burden to the tax-paying organizations and eventually affecting the final consumer due to the shifting ability of tax. According to a study report by Mnewa and Maliti (2008), the majority of small businesses are less likely to attain or maintain their growing profitability due to factors including tax policies. This implies that as a policy maker and regulator, Government must consider the factors that could affect the competitiveness of the small enterprises and hence the backbone of the study.

Small enterprises are considered the backbone of economic growth in all countries. They represent over 90% of private businesses and they contribute to more than 50% of employment and GDP in most African countries (UNIDO, 2009). The small and medium enterprises contribute more than 45% to employment and 33% to GDP. In high income countries, small enterprises contribute nearly 64 percent to the GDP and 62 percent to employment. In Kenya, small enterprises contribute 98% of GDP, 50% of workforce and 25% of enterprises (SME Fest, 2016). In line with the various statements noted above, it is reasonable to state that smaller enterprises therefore have a crucial role to play in stimulating growth, generating employment and contributing to poverty alleviation, given their economic weight in African countries.

Despite the contribution that taxation can make towards the Gross Domestic Product (GDP) of a country in general, much attention is also needed to the side effects of tax on the growth of MSMEs. This is because small businesses play a crucial role in driving economic growth in both developing and developed countries. As highlighted previously, as a group, they do not only generate more new jobs than large firms or macro-enterprises but also introduce innovative ideas, products, and business methods. However, literature has not contributed much in exploring the negative effect of tax payment on the financial performance of small and medium enterprises in developing countries (Baurer, 2005). This situation raises a serious concern about

the issue of aligning the tax system to the specific requirements of a particular country's growth need, as it has to balance both short-term and long-term impact of the policy. This also triggers the need for an in-depth study of how taxation affects performance of smaller business' development hence the basis of the study which focuses on Migori County. In addition, most of the literature and research on the subject matter are mostly foreign and western in nature where the dynamics of small business' activities are different from that of developing countries like Kenya. This study therefore seeks to examine the effect of the taxation on performance of micro, small and medium enterprises in Migori County.

Tax systems play an important role in encouraging growth, investment and innovation and facilitating international trade and mobility. For small enterprises, key considerations are to minimize administrative burden while ensuring compliance, including considering the drivers and impacts of operating in the informal economy (Reijonen & Komppula, 2007). Bowen, Morara & Mureithi (2009) explained that taxes are perceived to be a major problem for both young and old firms. Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rates are the same for both small and large enterprises. Reducing the compliance costs and tax rate increases the small enterprises profit margin. It also increases the Government's tax revenue, since the simplified provisions for a micro enterprise historically reduce the size of the shadow economy and the number of non-complying registered taxpayers (Vasak, 2008). Furthermore, small enterprises usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert serious burden on their operations. As per the aforementioned, it can be noted that tax burden heavily influences the operations and performance of smaller enterprises not only in Kenya but across the continent. There is no specific study that has been done in Migori County hence the basis of the study which seeks to establish the effects of tax compliance on the performance of MSMEs in Migori County.

The Government offers tax incentives to new or expanding business enterprises in order to encourage the private sector to increase their investments as well as attracting more private business entrepreneurs into the economy. The tax incentives are in form

of tax holidays, initial capital allowances, withholding tax exemption, Value Added Tax (VAT) reductions, income tax rates reductions, and preferential tax rates, carry forward losses and import duty exemptions among others. The Government offers tax incentives with different objectives which include correction of market imperfections faced by firms, reductions of transaction costs of firms, regional development and prioritized investments among others. Tax incentives can have positive or negative impact on performance of businesses when being implemented which also affect the tax effort for the country.

Bernstein and Shah (1994) provide an empirical framework for assessing the effects of tax policy on an array of producer decisions about output and input demands in Mexico, Pakistan, and Turkey. Their results suggest that tax policy affects production and investment and those selective tax incentives such as investment tax credits, investment allowances, and accelerated capital consumption (depreciation) allowances are more cost effective at promoting investment than more general tax incentives, such as corporate tax rate reductions. The long-run cost-effectiveness of these incentives, except corporate tax rate reductions, which proved cost- ineffective in all cases, varies by country. In Turkey, investment allowances and capital consumption allowances neither were cost-effective, while in Mexico neither the investment tax credit nor accelerated capital consumption were cost effective. Since the introduction of tax incentives in Kenya, their effect in performance of businesses in terms of gross output, customer satisfaction and value added with specific interest to small businesses in Migori County is not Known. There is also no specific study of such magnitude that has been done in Migori County hence the basis of the study which seeks to establish the effects of tax incentives on the performance of MSMEs in Migori County.

Taxation generally increases the costs of operation small enterprises. To compensate for the increased costs of operation, prices on goods are raised thus causing the amounts of sales to go down, leading to reduced profits, reduced capital base and slow creation of employment resulting to slow growth (Thuronyi, 2009). Tax avoidance measures are useful in exploring the optimal legal procedures in response to the adverse effects of taxation. Factors that determine the monetary cost of compliance, like the tax rate and penalty structure, drive tax compliance behaviour (Allingham &

Sandmo, 1972. In addition a rational taxpayer will avoid tax as long as the pay-off from avoiding tax is greater than the expected cost of the process avoiding tax. Such processes include, but are not limited to: taxpayer's incentive to purchase tax advisory services; the effect of practitioners on tax avoidance and the effect of the tax administration.). In this instance, tax avoidance refers to the legal usage of the tax regime in a single territory to one's own advantage to reduce the amount of tax that is payable by means that are within the law.

Matsaganis and Flevotomou (2010) in their study stressed that tax evasion raises significant issues from the point of view of efficiency. Tax evasion in this instance refers to the illegal practice where a person or organization intentionally avoids paying his true tax liability. Shome (2005) added that tax evasion distorts economic efficiency. In sectors that are less subject to the administrator's scrutiny as in the informal economy, there will be more investment. Inefficiency leads to lower revenue intake for government, its functional capacity, efficiency and effectiveness suffer because of tax evasion. Capacity suffers due to lower availability of resources. Efficiency declines since important functions may have to be given less priority than others. And effectiveness declines as compliant taxpayers realize that government is unable or unwilling to take corrective action and, therefore, feel increasingly comfortable in joining the rest in the act of tax evasion. Despite these efforts many observers find that small businesses are still at a severe disadvantage competitively (Kristiansen, 2002b), small enterprises have to find ways to cope with tax systems in the Kenya, Migori included. There is no specific study to-date that has been done in Migori County hence the basis of the study which seeks to establish the effects of innovative tax coping mechanisms on the performance of MSMEs in Migori County.

1.2 Statement of the Problem

The main source of revenue for public expenditure in Kenya is taxation. Income obtained from taxation of individuals and businesses is used to run governments and to build and maintain infrastructure such as good roads, water supply, and electricity which are essential for the smooth running of businesses. Despite the positives, taxation comes at a cost. This has in turn pushed entrepreneurs to find alternative tax coping mechanisms as well as tax incentives to enable their survival in the business environment. Despite these initiatives, micro and small enterprises have a very low

survival rate, with serious challenges leading to 60 percent failures in performance within the first three years of operation. This poor performance has hampered their ability to contribute to the growth of Kenya's GDP as required. However, tax revenues have, for quite some time, remained low relative to the number of both registered and non-registered firms and individuals who are legally qualify to pay tax. Continued low revenue collection levels for government is detrimental to economic development of the nation. This is as a result of the punitive tax systems in Kenya. Fortunately, the large registered firms usually pay their taxes. In contrast, a large segment of the informal sector, especially the small enterprises in Migori County exhibit low tax compliance levels (www.kra.co.ke). This is a great loss of revenue meant for public expenditure. On the other hand, the Government offers tax incentives to new or expanding business enterprises in order to encourage the private sector to increase their investments as well as attracting more private business entrepreneurs into the economy. However, not much has been done for MSMEs in Migori County. The tax coping mechanisms also distort economic efficiency. Inefficiency leads to lower revenue intake for government, its functional capacity, efficiency and effectiveness suffer because of tax evasion as a mode of coping for the MSMEs. It is on this basis that the research needed to be undertaken to establish the effects of tax compliance, tax incentives as well as innovative tax coping systems on performance of MSMEs in Migori County. Despite many studies having been done in the past on the effect of taxation on performance of micro, small and medium enterprises, it is also instructive to note that there is no research that has been done on the same with specific interest in Migori County, hence the research gap which the study seeks to address. The study therefore seeks to establish the effects of tax compliance, tax incentives and innovative tax coping mechanisms on performance of MSMEs in Migori County.

1.3 Objectives of the Study

1.3.1 General Objective

The objective of the study was to establish the effects of taxation on the performance of micro, small and medium enterprises in Migori County.

1.3.2 Specific Objectives

- i. To establish the effect of tax compliance on the performance of micro, small and medium enterprises in Migori County.

- ii. To examine the effect of tax incentives on the performance of micro, small and medium enterprises in Migori County.
- iii. To determine the effect of innovative tax coping mechanisms on the performance of micro, small and medium enterprises in Migori County.

1.4 Research Hypotheses

H₀₁: tax compliance has no significant effect on performance of MSMEs in Migori County, Kenya

H₀₂: tax incentives have no significant effect on performance of MSMEs in Migori County, Kenya.

H₀₃: Innovative tax mechanisms have no significant effect on performance of MSMEs in Migori County, Kenya.

1.5 Scope of the Study

The study is motivated by the ever increasing importance in Kenya's economy by the micro and small enterprises and the continuing constraints they face in their activities. The study focused on the effects of taxation on the performance of micro, small and medium enterprises in Kenya with specific interest to Migori County whose infrastructures offer an enabling environment for growth, opportunities and development. Migori has a population of 947,170 according to Migori County Integrated Development Plan (CIDP) FY 2016/2017. The study spans 2 years (2017-2019).

1.6 Justification of the Study

The study was beneficial to the Kenyan government, which in line with Vision 2030, is working towards a sustainable economy that achieves the Millennium Development Goals like solving the problem of unemployment. The government in its goal through Economic Recovery Strategy (ERS) is employing all players to make this dream come true. The study was expected to be resourceful for prospective entrepreneurs wishing to cut through the ever expanding but challenging environment with desired targets of being profitable.

1.7 Conceptual Framework

Although there is a general perception that tax is an important source of fund for development of the economy and provision of social services, the problems faced are in the area of negative relationship between taxes and the business' ability to sustain itself and to expand, micro, small and medium enterprises are faced with the problem of high tax rates, multiple taxation, complex tax regulations and lack of proper enlightenment or education about tax related issues. Not minding other challenges that micro and small enterprises are facing in other developing countries like Kenya; inadequate capital, poor technical and managerial skills, environmental effects and the government regulations which is most affecting the operations of micro and small enterprises in Kenya especially the issue of taxation which is a hindrance and the large chunk of revenues generated by these enterprises for their growth and survival. These have led to increase in the demise of Small Scale Enterprises (GoK, 2013).

A country's tax administration is one of the few public sector organizations which touches the lives of a country's citizens and businesses on a daily basis and, arguably has the greatest impact on their livelihood. Revenue collected from taxes along with customs collections represents the major funding source for governmental expenditures. An effective and efficient tax administration system is integral to any country's well-being. The proper amount of tax must be collected in a timely manner and the enforcement powers of the tax administration must be applied judiciously and in an even handed fashion. The tax administration must provide an even playing field for business by ensuring that all taxpayers are compliant. This requires significant efforts to deal with the underground economy and to, therefore, increase the tax base. Failure to bring business activity from the shadow economy into the tax system puts compliant taxpayers at a competitive disadvantage, and ultimately leads to an erosion of the tax base. The tax administration must balance its educational and assistance role with its enforcement role. The overriding goal is to foster voluntary compliance with the tax laws. This represents a significant challenge in a developing economy hence the basis of the study which seeks to establish the effects of tax compliance, tax incentives as well as tax coping mechanisms on performance of MSMEs in Migori County.

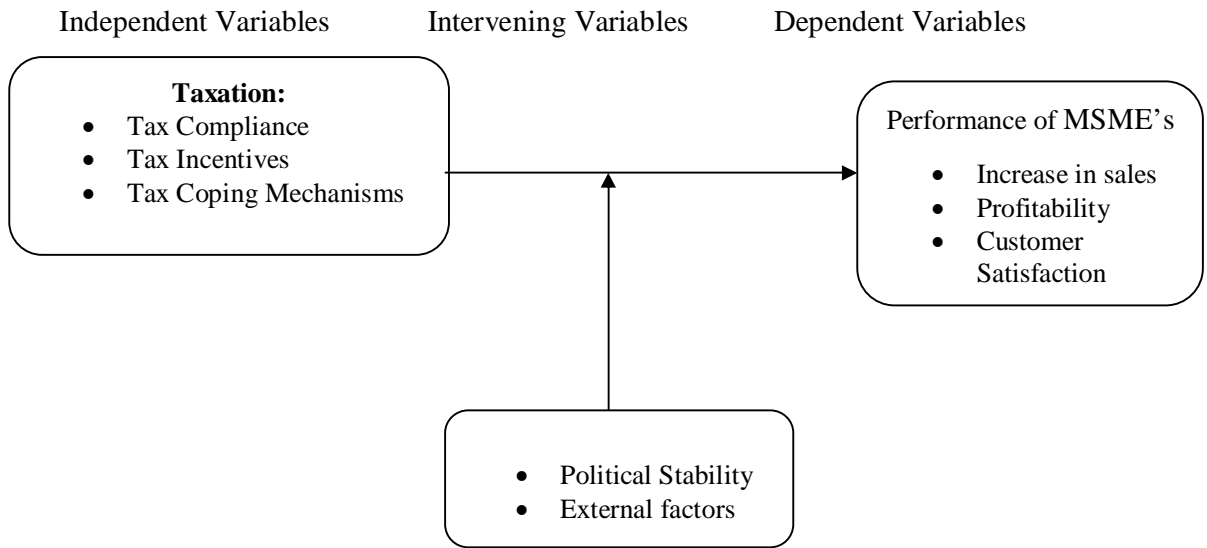


Figure 1.1: Conceptual Framework (Source: self-conceptualized, 2017).

CHAPTER TWO: LITERATURE REVIEW

This chapter presents a review of the literature related to the purpose of the study. The chapter is organized according to the specific objectives in order to ensure relevance to the research problem.

2.1 Theoretical Literature

This section explores the various theories related to the effects of taxation on performance of MSME's. A Theory is a set of statements or principles devised to explain a group of facts or phenomena especially one that has been repeatedly tested or is widely accepted and can be used to make predictions about natural phenomena. In this study the theoretical literature consisted of theories and models related to the present study.

2.1.1 The Ability to pay Theory of Taxation

This theory was advanced by Swiss philosopher Jean (1712-1778), the French political economist Say (1767-1832) and the English economist Mill, (1806-1873). This theory holds that the taxation should be levied according to an individual's income or ability to pay and is the basis of progressive tax where tax rate increases by the increase of the taxable amount (Jones, 2011). For instance, if the taxable capacity of a person A is greater than the person B, the former should be asked to pay more taxes than the latter. It seems that if the taxes are levied on this principle as stated above, then justice can be achieved. But difficulties do not end here. The fact is that when this theory in practice, difficulties actually begin. According to Henderson (2004) the trouble arises with the definition of ability to pay. The economists are not unanimous as to what should be the exact measure of a person's ability or faculty to pay. This theory is indeed the most equitable tax system since people with greater income or wealth and can afford to pay more taxes should be taxed at a higher rate than people with less individual income tax and has been widely used in industrial economies.

The basic tenet of this theory is that the burden of taxation should be solely shared by the members of society on the principles of justice and equity and that these principles necessitate that the tax burden is apportioned according to their relative ability to pay. The ability to pay theory of taxation suggests that the tax payers

of turnover tax should pay unconditionally and according to their paying capacity (Chigbu, Eze and Ebimobowei, 2012).

Developing countries such as Kenya are usually struggling in terms of raising internal revenues for development. In order to solve this issue, scholars have discussed among others that the widening of the tax net is the way to go. This is due to the urgency to provide infrastructure, create jobs and reduce unemployment, expand the productive sectors of the economy and to significantly raise public revenues from the non-oil sectors. With this process, tax policies are to aim at bringing all taxable adults into the tax bracket with a graduated rate that should ensure that the well-off pay their own share while the low income earners are given savings incentives. An effective and efficient tax administration system should be integral to any country's well-being (Atawodi & Ojeka, 2012). It is with this notion that Baurer (2005) argues that the tax administration must provide an even playing field for business by ensuring that all taxpayers meet their tax filing and paying requirements.

Migori County in general has a vast majority of micro and small enterprises and their needs to be well articulated tax policy that governs their sustainability, development and positively impacts their performance. The county government as well as the national government have come up with tax policies that have ignited reactions from many entrepreneurs hence the basis of the study which seeks to establish the effects of tax compliance, tax incentives as well as tax coping mechanisms on performance of MSMEs in Migori County. There needs to be a linkage with which entrepreneurs are educated on the need of taxation for the advancement of not only Migori entrepreneurs but the nations' at large.

2.1.1.1 Taxation

A review study on tax compliance of small business owners (Kamleitner, Korunka and Kirchlner, 2012) clearly presents that the three key aspects affecting small business owners' perceptions of their tax situation include: perception about non-compliance opportunities; meaningful taxation knowledge; their decision frames that render taxes as painful losses. The study was guided by the ability to pay principle of taxation, which suggests that the fairest tax is one based on one's financial ability to support government activities (Economicae, 2012).

According to Tomlin (2008), economists argue that the resources smaller companies direct towards tax compliance are resources that could otherwise be used for reinvestment, facilitating future growth. Hence, there is a belief that taxes and a complex tax system puts disproportionate pressure on smaller businesses. Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rates are the same for both small and large enterprises. Reducing the compliance costs and tax rate increases the small enterprises profit margin. It also increases the Government's tax revenue, since the simplified provisions for a micro enterprise historically reduce the size of the shadow economy and the number of non-complying registered taxpayers (Vasak, 2008).

The importance of how one's economic status is perceived was demonstrated by Vogel (1974). Taxpayers who reported improvement of their economic status were less compliant than others who reported deterioration of their financial well-being. A positive relation of SMEs income and tax compliance also found empirical support. Other studies found no relation of income level and tax compliance. Self-reported compliance behavior was not related to income among Swedish taxpayers (Warneryd & Walerud, 1982) and American (Porcano, 1988). Collins and Plumlee (1991) also found decreased compliance among participants with higher income. Fishlow and Friedman (1994) found decreased compliance at low income-level SMEs in archival empirical data from Argentina, Brazil and Chile, three countries with low economic growth and high inflation rates.

Spicer and Lundstedt (1976) pointed out that also self-employed taxpayers have more possibilities to avoid taxes than employed taxpayers. However, self-employed taxpayers have also more opportunities for tax evasion and opportunities might further increase with the number of different income sources. Hence, in compliance decisions the level of income might interact with its source. A different aspect of the income source if income was earned by hard work or an effortless job - has been studied in experiments by Kirchler, Muehlbacher, Holzl, and Webley. Participants were less compliant when they reported income earned by low effort than when they reported hard-earned income. It seems that taxpayers are reluctant to lose their hard earned money by "gambling" with tax authorities.

A negative relation of income earned by SMEs and tax compliance is reported by Slemrod (1985), who analyzed archival data from the United States' Treasury tax file for 1977. Consistently, Weck-Hannemann and Pommerehne (1989) found lower compliance among high income earning SMEs in archival data on Swiss taxpayers. Baldry (1987) manipulated participant SMEs income (among other variables) and found lower compliance at higher income-levels.

To summarize, most empirical studies on the impact of tax rates support the assumption that high tax burdens have negative impact on compliance. However, the strong connection of income and tax rate makes final conclusions difficult (Andreoni, Erard, & Feinstein, 1998; Slemrod, 1985). In experimental studies it is hard to separate the effects of tax rates and income, if both variables are varied at the same time.

According to the Entrepreneur Magazine (1995), tax avoidance refers to the legal means by which taxpayers can reduce their tax bill and is a legal utilization of the tax regime to one's own advantage. Tax avoidance is the legal utilization of the tax regime to one's own advantage, to reduce the amount of tax that is payable by means that are within the law. This is the legal right of an individual to decrease the amount of what would otherwise be his taxes or altogether avoid them, by means which the law permits, cannot be doubted (Hoover, 2000).

Milliron and Toy (1988) predict that a rational taxpayer will avoid tax as long as the pay-off from avoiding is greater than the expected cost of taxation. Early economic scholars (Allingham & Sandmo, 1972) treat taxpayers as perfectly moral, risk-neutral or risk-averse decision-makers who maximize utility. Within this framework, factors that determine the monetary cost of compliance, like the tax rate, detection probability, level of income and penalty structure, drive compliance behaviour. Milliron & Toy (1988) point out that more recent extension to these arguments have been achieved by "relaxing assumptions, focusing on specific issues, and utilizing more sophisticated techniques.

According to Fiscal psychologists, during the last two decades, policymakers and social scientists have recognized that tax avoidance is a behavioural phenomenon. The

Prospect theory was developed by Kahneman & Tversky (1979) using the psychological principles that govern the perception of decision problems and the evaluation of options. A descriptive theory of choice under uncertainty, it is viewed as an alternative to the Expected Utility Theory. They illustrate the concept of “framing” with the example of an unexpected tax withdrawal from a monthly pay check, which is perceived as a loss, and not as a reduced gain.

Even though taxation aides in not only stabilizing the economy, raising revenue, wealth distribution as well as help in the development of various governments sponsored projects for better performance, small entrepreneurs feel that the process impacts heavily on small businesses. The study therefore seeks to find out the effects of taxation on performance of MSMEs in Migori County.

2.1.1.2 Performance of MSMEs

Performance is the strategic outcomes that organizations use to realize its goals, success or not (Barney, 1991; Davidsson, 2004; Dess & Robinson, 1984; McMahan, 2001; Ostgaard & Birley, 1995; Sefiani & Bown, 2013). Performance is the key interest of each business manager or owner. MSMEs in developing countries suffer more than large firms from many policy and institutional constraints arising from imperfect markets, and as a consequence, they benefit disproportionately from reforms. According to Lumpkin and Dess, (1996) the growth of micro, small and medium enterprises are affected by its business climate. Clement, (2004) noted that an unfavorable business climate has negative effect on small firm growth.

Wawire and Nafukho (2010) explains the methods to address the performance and various approaches implemented by scholars and academicians in order to measure the performance aspect of an organization. Tolentino (2005) argues that various aspects that are considered while measuring the performance of micro and small enterprises are sales, employees, assets, profits, equity and others. There is a time variation in the literatures that analyzes the performance aspect of an organization. The time variation is determined to be varying from one to several years (Shariff, Chea & Juhary, 2013).

Measurable characteristics like changes in turnover, change in productivity, and change in employment, change in sales, profit and total assets are different ways of measuring firm performance. Rochaa (2014) noted that when compared to sales, employment is considered to be effective in terms of reliability and volatility as owners-managers make sure that the demand has expanded to certain level before personnel are recruited. When compared to financial data, reliable information with respect to the employment performance is easy to access and collect. Peres and Stumpo (2010) conducted 50 case studies on small businesses units of Asia, Africa, Europe, and America by means of various measures of performance. The study revealed the distribution of performance measures were employment growth, sales growth, profitability growth, income growth and assets growth (Reijonen & Komppula, 2007).

Chong (2008) conducted a study on measuring performance of small-and-medium sized enterprises. Using the procedures stipulated by the grounded theory, this study reported the findings of in-depth semi-structured interviews with five owners-managers of small and medium enterprises on how performance is being measured. The findings reveal that the owners/managers use a hybrid approach combining both the financial and non-financial measures to evaluate performance against the predetermined goals and time. In line with the goal approach, the owners-managers focus their evaluation process on abilities to attain the internally generated goals and targets. The managers of these small enterprises use a hybrid approach on measuring performance due to their concerns on ensuring meeting the financial results as well non-financial returns. Financial measures include profits and turnover while non-financial measures are the long-term growth and survivals of the organizations.

The MSME Sector has attracted significant and increasing attention from policy makers in many jurisdictions. In the developed economies, this attention has focused on business birth rates, entrepreneurship and MSME's development. In developing economies the MSMEs sector is seen as the source of indigenous economic development to match the development achieved by inward investment activity.

2.1.1.3 Political Stability

It is not a gain to say that ‘whosoever controls political power also controls economy power’. The hand writing for many years of past administrations have been seen on the wall. This according to Awe (2008) include: nationalization, expropriation, fundamental change in government policy and in government. For instance where government encourage private initiative, foreign investment and non-oil export will indeed yield various incentives that can enhance the performance of SME through the creation of conducive environment. Again, continuity and stability in government that will ensure the consistent implementation of good policy is another area through which politics affect MSME performance. Thus, political instability has a negative impact on the performance of micro and small enterprises. Southwestern Nigeria political war of (1983) was a good example.

Government policy will always depend on the political culture of the moment. Policy crafted in a politically stable country will be different that formed in an unstable country. A stable political system can make business-friendly decisions that promote local businesses and attract foreign investors. Unstable systems present challenges that jeopardize the ability of government to maintain law and order. This has a negative effect on the business environment.

2.1.1.4 External Factors

The economic environment can have a major impact on businesses thus the need to keep a track of relevant economic indicators and monitor them over time for example recession, inflation and technology.

Inflation refers to an increase in prices without a corresponding increase in wages, resulting in lower purchasing power of consumers. This could be as a result of high tax rates by the government. When cost of production of products and services is low, they will be sold at lower prices. Inflation rate is higher when costs of producing products or services go up, or when there is too much money chasing too few supplies, prompting suppliers to raise prices and earn higher profits. High inflation rate decreases real wages, i.e. the customer can buy less goods with his income because the goods have become costlier. Inflation will reduce the demand for several products because the customer will ration his income on goods. In inflationary times,

customers stock items to save themselves from further increase in prices and abandon their favorite brands to buy more economical brands. When costs of production go up, companies should try to withhold increasing prices for as long as possible. In the long run, companies will have to look for better methods of production and cheaper inputs so that cost of production can be brought down.

Recession is a period of economic activity when income, production, and employment tend to fall. Demand of products and services are reduced. During recession, companies should improve existing products and introduce new ones. The idea is to reduce production hours, waste, and the cost of materials so that companies can offer products at lower prices. The most potent way to end a recession cycle is to make it attractive for customers to buy more. In recession, business buyers will postpone the purchase of new equipment and materials because they do not know if there will be demand for their products and services. Sellers should be willing to extend credit to buyers to get over their reluctance to purchase. Sales of replacement parts and other services may become an important source of income (Grimsholm & Poblete, 2010).

Companies should emphasize their top-of-the-line products and promote product value. Customers with less to spend will look for demonstrated quality, durability, and capability to save time and money. High priced, high value items do well during recession. Companies should understand that though there are specific causes that trigger recession. It is perpetuated because consumers and businesses become uncertain about future and are reluctant and scared to buy. Once consumers start buying, businesses will start buying automatically. Therefore companies selling to consumers should generate confidence in the consumers by offering them high quality products and services at reasonable prices and also extend credit to them (Grimsholm & Poblete, 2010).

Economies which are well off should concentrate more on basic research because they can remain ahead of other economies only by creating new businesses through inventing new technologies. New products and services are possible because of new technologies. These help to increase revenues and profits of companies. At different times in history, technologies have created new businesses like automobile, railways, telephones and computers (Grimsholm & Poblete, 2010).

2.2 Empirical Studies

2.2.1 Effects of Tax Compliance on Enterprise Performance

Various studies have been undertaken on tax compliance and SMEs for example Omeri (2010) did research on how the Taxpayers' Attitudes Influence Compliance Behavior among Small Business Income Earners in Kerugoya Town, Kirinyaga District. Simiyu (2003) looked at the factors influencing taxpayers' voluntary compliance among local authorities. The study found out that the non-compliance resulted due to lack adequate knowledge on taxation. Schoonjans (2011) carried out a survey of tax compliance costs of SMEs: magnitude and determinants, Environment and Planning. The study found out that that the tax compliance costs exceeding over 7% of gross added value are relatively high. Value added tax, labor taxes, and corporate taxes are the main components of tax compliance costs. In addition, the evidence confirms the regressively hypothesis, according to which smaller companies face relatively higher compliance costs. Furthermore, industry, age, and the proportion of blue-collar workers prove to be determining factors of relative compliance costs. The study concludes by formulating a number of policy recommendations that might contribute to lower compliance costs.

At the same time this was echoed by the writings of Silvani & Baube, (1992) on taxpayers' understanding of a tax system and tax laws. While the above researches made great contributions on some of the factors that affect compliance of tax payment, such compliance for MSMEs in Migori County has not been adequately dealt with. This therefore leaves a knowledge gap in this area hence the basis of this study. This research therefore has the main objective of establishing the effects of tax compliance on performance of MSMEs in Migori County. The question to be addressed should be; what are the effects of tax compliance on performance of MSMEs in Migori County?

In Nigeria, Adebisi and Gbegi (2013) conducted a study on the effect of multiple taxation on the performance of small and medium scale business enterprises in West African Ceremics Ajeokuta, Kogi State. The study adopted a survey research design approach. The target population of the study was 91 out of which a sample size of 74 was derived. The questionnaires for the study were self-administered. The data was quantitatively analyzed with simple percentages and tested the research hypothesis

with ANOVA. The findings revealed that multiple taxation has negative effect on SMEs' performance and the relationship between SMEs' size and its ability to pay taxes is significant.

In addition, Ocheni (2015) conducted a study on the impact analysis of tax policy and the performance of small and medium scale enterprises in Nigerian Economy. Descriptive survey research design was adopted and the population comprised of sixty eight (68) SMEs currently operating in Kogi State and Abuja. Descriptive statistics was used to analyze the data collected and to obtain the mean assessment for each scale item. The research hypotheses for this study were tested using z-test statistics to establish $p < 0.05$ significant differences. The analysis revealed that there is no significant difference in the mean opinion scores of managers and accountants on the best tax policy that encourages tax compliance by SMEs in Nigeria. It was also revealed that there is no significant difference in the mean opinion scores of managers and accountants of the implications of tax policy on SMEs growth.

Unegbu and Irefin (2011) examined the impact of value added tax (VAT) on economic and human developments in Adamawa State, Nigeria between 2001 and 2009. The result of the study revealed that VAT allocations accounted for 91.2% of the variations in expenditure pattern of the State. In the same vein, the study on the impact of VAT compliance on business by Symons, Howlett and Alcantara (2011) used 2008 paying taxes in calendar year across 183 economies. In this study, three indicators were considered as measures of compliance which are; cost of taxes, compliance burden and collection rate. The results showed that on the average, it takes longer time for companies to comply with VAT than to comply with corporate income tax. It also revealed that administration approach adopted by a country accounted for the variation in the amount each country generates from VAT. Furthermore, Umeora (2013) examined the effect of Value Added Tax (VAT) on economy growth in Nigeria and concluded that VAT has impacted positively in terms of revenue to the economy but negatively affect businesses in Nigeria

2.2.2 Effects of Tax Incentives on Enterprise Performance

Shah and Baffes (1995) in their study on Pakistani manufacturing industries conclude that investment tax credits and reductions in corporate tax rates were not cost-

effective, whereas a full expensing option for Research and Development (R&D) was cost effective. Rajagopal and Shah (1992) conclude that sample industries had limited market power and were to shift taxes forward to consumers only partially. They note that the effect of tax incentives varied greatly across different industries and only in three cases did tax incentives prove cost-effective in the short run. Banerjee and Duflo (2005) revealed that Government may over protect some investors and under protect others, resulting in productivity difference among firms. They identify that excessive government intervention, related to a high degree of formalization or burdensome legal procedures, may create barriers to entry growth and protect inefficient incumbent firms. At the same time lack of appropriate regulations regarding property rights and legal enforcement may discourage investment. Credit constraints in poorly developed financial markets likewise result in unequal access to finance, misallocation of capital and productivity differences.

Employees' training on the other hand is important for small enterprises to maintain or improve the performance of individuals and will indirectly boost the growth of the organization. Goldstein (1993) defined training as a systematic acquisition of skills, rules, concepts or attitudes that result in improved performance in another environment. Employee training is important to the performance of small enterprises due to the fact that not all small businesses are one-man (or one- woman) bands and the abilities and skills of their employees will be crucial to their prosperity (MacRea, 1991; O'Brien, 1996 cited in Clarke & Gibson-Sweet, 1998).

In the firms or organizations, training is often expected to produce a return on sales (Mathis & Jackson, 2003). According to Hallowell (1996), a company is able to get profitability if the company can achieve customer satisfaction and customer loyalty. Normally SMEs are unable to achieve large amount of profit compared to larger firms. Glancey (1998) concluded that a positive relationship between size and profitability could be expected if larger firms benefit from economies of scale. On the other hand, firms which grow at a rate faster than the entrepreneur can manage, may experience diseconomies of scale which reduce profitability.

Biggs (2007) indicates that fiscal incentives may have only a limited impact in some cases. In addition, Morisset and Pirnia (2000) conclude that tax exemptions can

influence some of the investors, some of the time, but are generally only marginal factors. Also, they note that “Tax exemptions are like a desert; it is good to have, but it doesn’t help very much if the meal isn’t there”. Also, Lall (2000) argues that in a survey of Taiwanese firms, only 8% of firms rated tax incentives as the single most government policy for promoting technological development, educating more R&D personnel (18.8%), coordinating firms to conduct joint research (18.6%) and introducing new technology from abroad (17.2%). It is on this basis that the study seeks to establish the effect of the tax incentives on performance of micro, small and medium enterprises in Migori County.

The fights against administrative red tape procedures is attracting more and more attention in vast democracies. A case in point is the growth of the so-called “better-regulation programs” (Dunleavy, 1986; Radaelli, 2005). Today, the reduction of red tape procedures is on the policy agenda in almost all European countries and international organizations (European Commission, 2006; OECD, 2001; Wegrich, 2009; World Bank Group, 2006). The commonly held view that red tape constrains entrepreneurship and limits welfare induced policy-makers to review their laws, to downsize the rule stock or to modify legal requirements. The case of the Netherlands is illustrative, which is often portrayed as a leading nation in these better-regulation policies (OECD 2004, 2006). The Dutch example is highlighted because of explicit policy targets (a 25 per cent reduction of administrative burden for firms in 2012), methods to measure administrative burden (Standard Cost Model, or SCM) and an institutional infrastructure that includes interdepartmental taskforces and the independent advisory board Actal (OECD, 2006).

Penrose (1959) argues that the firm is a coherent administrative organization where managerial resources are critical. It is the manager’s entrepreneurial skills that provide the inducement for growth and determine the rate of expansion. The author argues that managers are not primarily interested in profitability, but in the profitable expansion of the activities of their firms. In the long run, the profitability, the survival and the growth of a firm do not depend so much on the efficiency the firm organizes its production, but on its ability to detect external opportunities and threats and align internal resources to take advantage of the expected business environment

2.2.3 Effects of Innovative Tax Coping Mechanisms on Enterprise Performance

Matsaganis and Flevotomou (2010) in their study asserted that tax evasion raises significant issues from the point of view of efficiency. Shome (2005) added that tax evasion distorts economic efficiency. In sectors that are less subject to the administrator's scrutiny as in the informal economy, there will be more investment. Inefficiency lead to lower revenue intake for government, its functional capacity, efficiency and effectiveness suffer because of tax evasion. Capacity suffers due to lower availability of resources. Efficiency declines since important functions may have to be given less priority than others. And effectiveness declines as compliant taxpayers realize that government is unable or unwilling to take corrective action and, therefore, feel increasingly comfortable in joining the rest in the act of tax evasion.

Tax planning involves conceiving of and implementing various strategies in order to minimize the amount of taxes paid for a given period. Tax planning evaluates various tax options in order to determine when, whether, and how to conduct business and personal transactions so that taxes are eliminated or reduced (Dailey & Frederick, 1997).

One method of tax planning is tax avoidance. There are many tax planning strategies available to a small business owner. However, regardless of how simple or how complex a tax strategy is, it will be based on structuring the transaction to accomplish one or more of these often overlapping goals: income, reducing, controlling, claiming, controlling and avoiding the most common tax planning mistakes (Albert, 2001).

For a small business, minimizing the tax liability can provide more money for expenses, investment, or growth. In this way, tax planning can be a source of working capital. According to David & Jakabcin (1997), two basic rules apply to tax planning: first, a small business should never incur additional expenses only to gain a tax deduction and, secondly, a small business should always attempt to defer taxes when possible. Deferring taxes enables the business to use that money interest-free, and sometimes even earn interest on it, until the next time taxes are due.

Lower tax revenues may ultimately lead to higher tax burdens on those who do pay. On the other hand, tax evasion has profound implications for distributional analysis. In terms of vertical equity, "if the poor had more opportunity of evading taxes than the rich, or were better at it, then the egalitarian policy maker might have good reason

to smile indulgently on evasion: up to a point anyway” Cowell, (1987) in Matsaganis and Flevotomou (2010). However, tax evasion may soften rather than strengthen the redistributive impact intended by the tax schedule. Either way, ignoring tax evasion is likely to cause decision makers and policy analysts seriously to misjudge the distributive and fiscal effect of changes in social benefits and the tax system. It also leads to higher income inequality and poverty, as well as lower progressivity (i.e. advancement toward better conditions, policies or methods) of the income tax system. Similarly, the unorganized sector may evade taxes much more easily than the organized sector. It is no wonder that, in the VAT where there is usually a threshold level below which taxpayers are not expected to keep detailed accounts, allowing them to pay a small percentage of their turnover as tax. Small taxpayers have remained very difficult to tax and maintain a constant presence in the list of administrative concerns, Shome, (2004) in Shome, (2005).

The result according to Shome (2005) could very well be an increase in tax rates, or the imposition of distortive taxes, thereby initiating a vicious cycle of inequity and inefficiency. Clearly, the escalation in tax rates is a burden. It is on this basis that the study seeks to establish the effect of the tax coping mechanisms on performance of micro, small and medium enterprises in Migori County.

Regulatory constraints also pose serious challenges to micro and small enterprises' development (Kauffmann, 2005) and although wide-ranging structural reforms have led to some improvements, prospects for enterprise development remain to be addressed at the firm-level. Registration requirements, as well as high cost of settling legal claims, and excessive delays in court proceedings adversely affect micro and small enterprises' operations (Wanjohi and Mugure, 2008).

Mbuguah, Mwambia & Baimwera (2017) in their study on the factors affecting tax compliance by small and medium enterprises in Kiambu County found out that compliance cost were very high and therefore intimidating the tax payers. The results were supported by majority of the respondents who agreed that tax system and rates affected the rate and amounts of tax evasion, nature and degree of regulations affected tax evasion, size and how the business was structured had a direct or indirect effect on tax evasion, Location and Focus of Business affected tax evasion and that the type of

Business the tax payers were in affected tax evasion. The findings agreed with those in Eriksen & Fallan (1996) who found out that particularly small and medium sized enterprises suffer from high compliance costs. A survey among South African firms on the regulatory costs of doing business revealed that taxes, in particular VAT, are perceived as the most problematic set of regulations followed by labor regulation. Above all it is the paperwork that has to be mastered to comply with tax legislation which is deterring firms from paying their taxes appropriately. When asked on their strategy to cope with regulatory costs of running their business about 18 percent responded to simply try to avoid or evade taxation. The findings also concur with those in Habber & Reichel (2007) who found out that regulatory burdens fall disproportionately on small and medium enterprises internationally their size and nature makes the issue of tax compliance one of particular importance especially since most SMEs have access to limited resources and inadequate expertise to comply with diverse and complicated regulation. Habber & Reichel (2007) also noted that high compliance costs can result in tax avoidance, tax fraud, and inhibit investment by way of diminishing competitiveness of the country in terms of taxation attractiveness. It is on this basis that the study seeks to establish the effect of the tax coping mechanisms on performance of micro, small and medium enterprises in Migori County.

CHAPTER THREE: RESEARCH METHODOLOGY

This chapter presents a description of the methodology adopted in the study to achieve the objective. The chapter starts with a description of research design chosen and the justification of the choice of the design. This is followed by a description of the population, the sampling frame and justification for the same. The subsequent section describes the data collection method followed by various techniques that were used in the analysis of data.

3.1 Research Design

There are three alternative strategies of inquiry: qualitative, quantitative and mixed approaches. Creswell (2009) explains these different approaches in terms of their typical philosophical assumptions as well as techniques used in data collection, analysis and interpretation. A research design refers to how data collection and analysis are structured in order to meet the research objectives through empirical evidence (Cooper and Schindler, 2003). The study employed correlation study design. According to Mugenda and Mugenda (1999), correlation research can study a wide range of variables and their interrelations. It also allows the application of inferential statistics. As such it is suitable for the current study since the current study used inferential statics to draw generalizations. As such it is justified for the current study.

3.2 Target Population

According to Mugenda and Mugenda (2003), a population is an entire group of individuals or events or objects having common observable characteristics that conform to a given specification. For this study, the population is the MSMEs operating in Migori County, Kenya. Currently the total micro and small enterprises registered with Migori County Government are 656. The questionnaires are to be administered to the MSMEs owners, managers or an employee available at that particular time.

3.3 Sampling and Sampling Techniques

This section discusses how the sample size was arrived at and the sampling techniques used. The sampling design refers to the sampling method used to arrive at the sample size.

3.3.1 Sample Size

As described by Mugenda and Mugenda (2003) a simplified formula for calculating sample size of a population that is less than 10, 000 is given.

$$n_f = \frac{n}{1 + n/N}$$

n_f = the desired sample size when the population is less than 10,000

n = the desired sample when the population is more than 10,000

N = the estimate of the population size

$$n_f = \frac{124}{1 + 124/656} = 104$$

3.3.2 Sampling Techniques

The study used simple random sampling technique to select the sample. Simple random sampling is the most widely-used probability sampling method, probably because it is easy to implement and easy to analyze. The most important benefit of simple random sampling is that it allows researchers to use statistical methods to analyze sample results.

The target population in this study was the MSMEs owners (male and female), in which the population size was obtained from centres and towns in Migori County for instance, Migori town, Sori, Kenancha, Isebania, Rongo, and Awendo.

3.4 Data Sources and Collection Procedure

In this instance, primary data collection method was used. The primary data was collected directly from MSME owners. Likert Scale questionnaires was used to collect data from the MSME owners. The questionnaires was administered by the researcher and one hired research assistant to the MSME owners and given time of around 15 minutes to respond to the questions. The questionnaires was administered in a period of two weeks and was administered to all the 104 MSME owners.

3.5 Validity of the Instruments

Three aspects of validity was determined for the instruments. Face validity was established by assessing the items on the instrument and ensuring that they appear relevant, meaningful and appropriate to the respondents. Content validity was determined by the supervisor who look at the measuring technique and decided whether it measured what was intended for the study. He the carefully examined the items on the instruments and ascertained if the instruments contained adequate traits expected to measure the domain under study. Construct validity was obtained by correlating the scores on one instrument with scores from another instrument.

3.6 Reliability of the Instruments

According to Meller, (2001) reliability of measurement concerns the degree to which a particular measuring procedure gives similar results over a number of repeated trials. Cronbach's alpha test of internal consistency will be used to test the findings from the gathered data. Cronbach's alpha indicates the extent to which a set of items could be treated as using a single latent variable. The cutoff point will be 0.7 (Meller, 2001). Table 3.2 below shows the reliability results for multi-item Likert scale.

Table 3.1: Internal consistency of Scale

Constructs	No. of Items	Cronbach's alpha
1. Tax compliance	4	0.831
2. Tax incentives	4	0.822
3. Innovative Tax Mechanism	4	0.790
4. Organizational Performance	4	0.782

Source: Survey Data, (2017)

As shown in Table 3.2, the reliability test for all items yielded a Cronbach's Alpha coefficient of between 0.782 and 0.831. Since all items had alpha coefficient ($\alpha > 0.7$), then the scale was regarded as reliable for measuring the four main constructs of the study (Meller, 2001).

3.7 Data Processing and Analysis

The data collected from MSME owners was analyzed using a statistical package of social scientists software. Data analysis included the use of descriptive statistics like

mean, frequency and standard deviation and inferential statistics such as multiple regression analysis.

3.8 Research Ethics

The researcher holds a moral and ethical obligation to treat the information collected with utmost modesty. The researcher will assure the respondents of confidentiality of the information given to ensure that the respondents are not reluctant to give the information as sought by the study.

CHAPTER FOUR: RESULTS AND DISCUSSIONS

4.0 Introduction

This part is divided into two main sections. The first section addresses the descriptive aspects of the data such as the demography of the sample data while the second part deals with the quantitative or inferential statistics. It basically shows the extent of the adoption of taxation measures, the observed relationship between the three dimensions of taxation namely: tax compliance, tax incentives and innovative tax coping mechanism and performance of MSME's in Migori County using direct entry regression techniques. Therefore, this chapter will address the specific objectives of the study.

4.1 Response Rate

Primary data was collected by means of self-administered questionnaires, of which out of a targeted total sample of 104 respondents, 97 of the questionnaires were successfully and fully completed, representing a response rate of 93.3% and was regarded sufficient for data analysis.

4.2 Socio Demographic Information of Respondent

The gender summary of the respondents was as per Table 4.1 of which 56 were male representing a sample of 57.7% of the total study population while 41 were female with 42.3% of the total population. This therefore means that there were more male respondents than male respondents during the study.

Table 4.1. Distribution of Respondents by Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	56	57.7	57.7	57.7
Female	41	42.3	42.3	100.0
Total	97	100.0	100.0	

Source: Research Data, (2017)

From Table 4.2, majority of respondents reported that their enterprise has been in operation for period of between 6-10 years with those of that view representing 36.1%, followed by those who said that theirs existed for 1-5years representing 24.7%. The least number of respondents (5.2%) reported that their enterprise existed for a period of between 16-20years. This infer about the population that majority of majority of MSMEs only existed for less than a decade with only few going for as long as 20 years.

Table 4.2. Distribution of Respondents based on the length of time the enterprise has been operational

	Frequency	Percent	Valid Percent	Cumulative Percent
1-5years	24	24.7	24.7	24.7
6-10years	35	36.1	36.1	60.8
11-15years	23	23.7	23.7	84.5
16-20years	5	5.2	5.2	89.7
above 21 years	10	10.3	10.3	100.0
Total	97	100.0	100.0	

Sources: Survey Data, (2017)

From the Table 4.3, majority of the respondent sampled have a strong relationship to the formal education, 37.1% comprised graduate/postgraduate levels, 23.7 % comprised diploma/certificate level, 18.6 % comprised secondary level and 13.4% comprised primary education. Only 7.2% reported that they no exposure to formal education. This means that the highest percentages of the respondents are degree holders and on the other hand the least percentages of the respondents are illiterate business owner. This therefore imply that majority of the business owners of MSMEs have acquired formal education and are well versed with the issues the study was interrogating.

Table 4.3. Distribution of Respondents based on the Level of education

	Frequency	Percent	Valid Percent	Cumulative Percent
Graduate/postgraduate	36	37.1	37.1	37.1
Diploma/certificate	23	23.7	23.7	60.8
Secondary education	18	18.6	18.6	79.4
primary education	13	13.4	13.4	92.8
None	7	7.2	7.2	100.0
Total	97	100.0	100.0	

Source: Survey Data, (2017)

Table 4.4 below show the distribution of sampled respondents based on the number of years work in MSMEs based in Migori County. According to the Table 4.4, majority of respondents reported that they had work for MSMEs for a period of between 1-5 years representing 53.6%, followed by those who stated that they worked for 6-10 years representing 27.8%. Only paltry 3.1% reported that they had a work experience of between 16-20 years. This response indicates that majority of respondent have sufficient work experience enough to make them more knowledgeable and experienced about the subject under study.

Table 4.4. Distribution based on the Length of Time worked for Enterprise

	Frequency	Percent	Valid Percent	Cumulative Percent
1-5years	52	53.6	53.6	53.6
6-10years	27	27.8	27.8	81.4
11-15years	11	11.3	11.3	92.8
16-20years	3	3.1	3.1	95.9
above 21 years	4	4.1	4.1	100.0
Total	97	100.0	100.0	

Source: Survey Data, (2017)

Table 4.5 below show the distribution of sampled respondents based on the status of their business registration in Migori County. According to the Table 4.5, majority of

respondents representing 79.4% reported that their business has been duly registered while the remaining 20.6% reported that their businesses have not been formerly registered.

Table 4.5. Distribution based on the Status of Business Registration

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	77	79.4	79.4	79.4
No	20	20.6	20.6	100.0
Total	97	100.0	100.0	

Source: Survey Data, (2017)

Figure 4.1 below show the distribution of respondents based the location of their business as per the population size. According to figure 4.1, Majority of the MSEM's owners representing 44.5% acknowledged that their business is situated in a populated location. On the other hand, 15.5% reported that their business is located in a densely populated areas while the remaining 39.2% are located in a medium population areas.

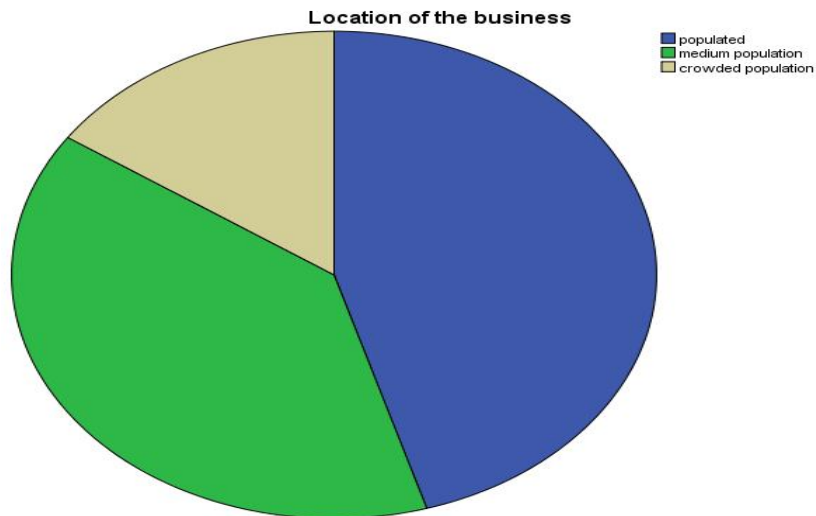


Figure 4.1. Distribution Based on the Location of Business

4.2 Extent to which MSMEs practice Taxation Measures in Migori County

In the study while trying to address the study objectives, an attempt was made by the researcher to use descriptive statistics to address the extent to which MSMEs practice

various dimensions of taxation measures such as tax compliance, tax incentives and innovative tax mechanisms.

Table 4.6 illustrate the extent of tax compliance among owners of MSMEs in Mogori County. The results for descriptive statistics as shown in table 4.6 below, with N = 96 as the total number of respondents from the findings show that the statement that stated that the MSMEs in Migori County incur Tax compliance costs for example consultancy costs, labor costs, legal costs in their enterprise had the highest significant factor with a mean of 3.28 and a standard deviation of 1.018 while the one with the lowest significant factor was the statement with regard to the MSMEs in Migori County is a tax compliant enterprise which are able to operate freely thus satisfying their daily customers without conflicts with the authority with a mean value of 3.02 and a standard deviation of 1.031.

Table 4.6. Descriptive statistic on the Measure of Tax Compliance among the MSMEs in Migori County

	N	Min	Max	Mean	Std. Deviation
1. That the MSMEs in Migori County incur Tax compliance costs for example consultancy costs, labor costs, legal costs in their enterprise	97	1	5	3.28	1.018
2. That the MSMEs in Migori County is a tax compliant enterprise which are able to operate freely thus satisfying their daily customers without conflicts with the authority	97	1	5	3.02	1.031
3. That the MSMEs in Migori County receive government trainings on tax compliance.	97	1	5	3.10	1.123
4. The attitude of the entrepreneur towards taxation motivates the enterprise owners to work harder thus making more profits and paying taxes without fail.	97	1	5	3.08	1.133
Overall Mean and Standard deviation				3.12	1.076

Source: Survey Data, (2017)

Overall, tax compliance measures has been reported to be prevalent activity to a moderate extent as shown by the overall mean value of 3.12 and a standard deviation value of 1.076 among the MSMEs in Migori County.

4.3. Extent of Tax Incentives Measures among MSMEs

Table 4.7 illustrate the extent to prevalence of tax incentive as one dimension of taxation measures in MSMEs in Migori County in Kenya. The results for descriptive statistics as shown in table 4.7 above, with N = 97 as the total number of respondents from the findings indicates that the statement that tax authority allows MSMEs to make deductions against their liabilities in form of investment Tax credit and allowance had the highest significant factor with a mean of 3.13 and a standard deviation of 1.077 while the one with the lowest significant factor was the statement with regard to the MSMEs in Migori County benefits from Provision of training opportunities as a tax incentive with a mean value of 3.01 and a standard deviation of 1.085.

Table 4.7. Descriptive statistic on Measure of Tax Incentives in MSMEs in Migori County

	N	Min	Max	Mean	Std. Deviation
1. The MSMEs in Migori County benefits from Investment Allowance as a tax incentive in Kenya.	97	1	5	3.06	1.078
2. The MSMEs in Migori County benefits from Provision of training opportunities as a tax incentive.	97	1	5	3.01	1.085
3. That the tax authority Reduces bureaucracies and red tape procedures to a tax compliant enterprises as a way of tax incentive.	97	1	5	3.11	1.019
4. Tax authority allows MSMEs to make deductions against their liabilities in form of investment Tax credit and allowance.	97	1	5	3.13	1.077
Overall mean and standard deviation				3.08	1.065

Source: Survey Data, (2017)

Overall, tax incentives measure has been reported to be a moderately prevalent practices with an overall mean value of 3.08 and a standard deviation value of 1.065 among the MSMEs in Mogori County of Kenya.

4.4. Extent of Innovative Tax Mechanisms

Table 4.8 illustrate the extent of prevalence of innovative tax mechanisms as taxation measures exercised by MSMEs in Migori County in Kenya.

Table 4.8: Measure of Innovative Tax Mechanisms in MSMEs in Migori County.

	N	Min	Max	Mean	Std. Deviation
1. MSMEs uses tax avoidance measures as a legal means of reducing their tax bills.	97	1	5	3.20	.920
2. MSMEs legally utilizes the existing tax regime to their own advantage.	97	1	5	3.13	1.027
3. MSMEs defer taxes when possible to use that money interest-free and sometimes even earn interest on it	97	1	5	2.98	1.041
4. MSMEs defer taxes when possible to use that money interest free and sometimes even earn interest on it	97	1	5	3.13	1.204
				3.11	1.048

Overall mean and Standard deviation

Source: Survey Data, (2017)

The results for descriptive statistics as shown in table 4.8 above. With N = 97 as the total number of respondents, the findings indicates that the measure of innovative tax mechanisms has been reported to be a moderately prevalent practices with an overall mean value of 3.11 and a standard deviation value of 1.048 among the MSMEs in Mogiri County.

4.5 Extent of Organizational Performance

The study also sought to establish the extent of organizational performance as perceived by owners and/or managers of MSMEs in Migori County. This was necessary as it will lay foundation for the subsequent analyses of relationship between the taxation and organization performance dimensions. The findings are in Table 4.9.

Table 4.9: Measure of performance in MSMEs in Migori County

	N	Min	Max	Mean	Std. Deviation
1. The profits of the enterprise is growing at a satisfactory rate	97	1	5	3.33	.976
2. The business enterprise facilitates quick response to customer needs by ensuring rapid resolution of complaints	97	1	5	3.25	1.031
3. Sales revenue of the enterprise is growing at a satisfactory rate	97	1	5	3.29	.946
4. The business enterprises provides better prices and new assortment of products in a timely manner to ensure customer satisfaction	97	1	5	3.16	1.038
Overall Mean and Standard Deviation	97			3.26	0.997

Source: Survey data, (2017)

It is evident from the results in Table 4.9 above that the organization performance was at a moderate extent as shown by an overall mean score of 3.26 (Std.dev 0.997) in a scale of 1 to 5. This implies that the MSMEs in Migori County are currently doing moderately well in terms of stated measures of organizational performance.

4.6 The Effect of Taxation on Organizational Performance

To actualize the study objectives, a regression analysis between the three dimensions of taxation and organizational performance was under taken. The direction and magnitude of influence or effect of each of the taxation dimensions like tax compliance, tax incentives and innovative tax mechanisms was eventually established using the regression model whose findings were presented in Tables 4.10, 4.11 and 4.12.

Table 4.10 gives the model summary which shows that the proportion of variance in the organizational performance that is explained by the independent variables is 59.8 %. The coefficient of determination ($R^2 = 0.598$) and the model is acceptable since the F-statistic is significant and suggests that the independent variables jointly influence

the dependent variable. The value of Durbin-Watson is 1.698. Generally the value of the Durbin-Watson statistic ranges from 0 to 4. As a rule of thumb, the residuals are uncorrelated if the Durbin-Watson statistic is approximately 2. A value close to 0 indicates strong positive correlation, while a value of 4 indicates a strong negative correlation. The computed value is also close to 2, which indicates the absence of serial correlation.

Table 4.10. Summary of the Estimated Organizational Performance Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R	F	df1	df2	Sig.	
1	.773 ^a	.598	.585	.49976	.598	46.149	3	93	.000	1.698

a. Predictors: (Constant), Innovative tax mechanism mean, Tax incentive mean, Tax compliance mean

b. Dependent Variable: Organizational performance mean

Table 4.11 shows ANOVA results of the estimated model. The data test revealed that $F(3, 93) = 46.149$ at $p < 0.01$, an indication that the model fits the research data well. The researcher can therefore, deduce that all the independent variables (i.e. Tax compliance, tax incentives and innovative tax mechanisms) jointly explain organizational performance in the MSMEs in the study areas.

Table 4.11: ANOVA Results on the Estimated Organization Performance Model

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	34.579	3	11.526	46.149	.000 ^b
Residual	23.228	93	.250		
Total	57.807	96			

a. Dependent Variable: Organizational performance mean

b. Predictors: (Constant), Innovative tax mechanism mean, Tax incentive mean, Tax compliance mean

The regression model was in the form $Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \epsilon_i$ and by adding regression coefficient as was shown in Table 4.11. This was later transformed into:

$$Y = 0.911 + 0.259X_1 - 0.204X_2 + 0.292X_3 \dots\dots\dots \text{equation 4.1}$$

$$R^2 = 0.598 (59.8\%)$$

Table 4.12: Estimated Regression Coefficients for Variables in organizational performance Model

Model	Unstandardized Coefficients		Standardized Coefficient	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error				Lower Bound	Upper Bound	Tolerance	VIF
(Constant)	.911	.207		4.395	.000	.499	1.322		
Tax compliance mean	.259	.120	.293	2.160	.033	.021	.498	.234	4.272
Tax incentive mean	.204	.112	.226	1.822	.072	-.018	.427	.280	3.566
Innovative tax mechanism mean	.292	.109	.310	2.688	.009	.076	.508	.324	3.084

a. Dependent Variable: Organizational performance mean

4.6.1 The Effect of Tax compliance on the performance of MSMEs in Migori County

The first objective of the study was to establish the effect of tax compliance on performance MSMEs in Migori County. In this regards, Tax compliance was found to have significant positive influence on organizational performance ($\beta = 0.033$, $p < 0.05$) thereby rejecting the null hypothesis, H_{01} : tax compliance has no significant effect on performance of MSMEs in Migori County. This implies that if tax compliance value increases by one unit, then the performance of MSMEs will increase by 0.259 unit.

However, the finding that tax compliance had significant positive influence on organizational performance of MSMEs has received many support from both theoretical and empirical literature. For instance, Omeri (2010) established a significant effect of tax compliance on organization performance. Similarly, Umeora (2013) and Simiyu (2003) have all concurred with the result of the current study by establishing that tax compliance contribute to organization performance. However,

the finding of the current study was also at variance with the result of other past studies. For instance, the study by Adebisi and Gbegi (2013) that sought to establish the effect of multiple taxation on the performance of small and medium scale business enterprises in West African Ceremics Ajeokuta, Kogi State, revealed that multiple taxation has negative effect on SMEs' performance. Similarly, findings of the study by Ocheni (2015) revealed that there is no significant difference in the mean opinion scores of managers and accountants on the best tax policy that encourages tax compliance by SMEs in Nigeria.

Moreover, the above reviewed studies are not without limitations. For instance, Adebisi and Gbegi (2013) and Ocheni (2015) both utilized descriptive statistics such as simple percentages to analyze data which was not regarded a good measure of establishing cause and effect relationships. Furthermore, Adebisi and Gbegi (2013) and Ocheni (2015), were conducted in West African country like Nigeria whose context does not relate to the Kenyan business environment. However, the current study is a milestone in that it contributes to new knowledge by empirically establishing the effect of tax compliance along its stated dimensions would have on organizational performance in Kenya's MSMEs, an area that was hitherto neglected.

The Effect of Tax Incentives on the performance of MSMEs in Migori County

The second objective of the study was to examine the effect of tax incentives on performance of MSMEs in Migori County. In this regards, Tax incentive was found to have insignificant positive influence on organizational performance ($\beta = 0.204$, $p < 0.05$) thereby accepting the second null hypothesis, H_{02} : tax incentives have no significant effect on performance of MSMEs in Migori County as shown in Table 4.12 above.

The finding that tax incentives exerted insignificant positive influence on organizational performance contravene the results of other past empirical study. For instance, Morisset and Pirnia (2000) concluded that tax incentives inform of exemption may have only limited impact on business performance. Similarly, Rajagopal and Shah (1992) concur with the finding of the current study by establishing that effect of tax incentives on firms performance varies greatly across different industries and only in few cases did tax incentives prove cost-effective in the

short run. Moreover, (Morisset and Pirnia, 2000; Rajagopal and Shah, 1992) have sought to establish how the tax incentive measures will influence performance of organizational in other context but overlooked MSMEs. However, the current study generated new knowledge by hypothesizing and establishing empirically the effect of tax incentives along the stated dimensions on organizational performance in the context of the micro and medium enterprises.

4.6.3 The Effect of Tax Coping Mechanism on performance of MSMEs in Migori County

The third objective of the study was to determine the effect of innovative tax mechanisms on performance of MSMEs in Migori County in Kenya. In this regards, innovative tax mechanisms was found to have significant positive influence on organizational performance ($\beta = 0.292$, $p < 0.05$) thereby rejecting the third null hypothesis, H_{03} : Innovative tax mechanisms have no significant effect on performance of MSMEs in Migori County, Kenya. This implies that if innovative tax mechanism value increases by one unit, then the performance of MSMEs will increase by 0.292 unit. The finding that innovative tax mechanisms has a significant positive influence on organizational performance is in line with the finding of Mucai, Kinya, Noor & James, (2014) who found the influence of tax planning by capital structure, tax planning in investment, capital asset planning through advertisement expenditure and the Legal Forms of small enterprises in Embu Central Business District had a significant influence on performance.

Similarly, Mehlwana (2003) applied correlation analysis in a study to determine the relationship between tax planning and the profitability of SMEs in Nigeria. The study found out that tax planning enhances the profitability of SMEs in the Nkawa division of Nigeria hence the conclusion that tax planning positively affects the profitability of SMEs. The current study is beneficial to entrepreneurs and prospective entrepreneurs not only in Migori County but Kenya at large as it lays out means as well as the legal forms to be able to stay viable in the business environment.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This Chapter provides a summary of the study findings based on each research objective. It also covers conclusions and recommendations emanating from the results.

5.2 Summary of Findings

The first objective of the study was to establish the effect of tax compliance on performance MSMEs in Migori County. Its corresponding null hypothesis was that tax compliance does not affect performance of MSMEs in Migori County. The finding reveals that Tax compliance have significant positive influence on organizational performance of MSMEs in Migori County, Kenya.

The second objective of the study was to examine the effect of tax incentives on performance of MSMEs in Migori County, Kenya. Its corresponding null hypothesis was that tax incentives does not affect performance of MSMEs in Migori County, Kenya. The study finding revealed that tax incentive has insignificant positive influence on organizational performance in MSMEs in Migori County, Kenya.

The third objective of the study was to determine the effect of innovative tax mechanisms on performance of MSMEs in Migori County in Kenya. The corresponding null hypothesis was that Innovative tax mechanisms does not affect performance of MSMEs in Migori County, Kenya. In this regard, the study finding revealed that innovative tax mechanisms has significant positive influence on organizational performance of MSMEs in Migori County in Kenya.

5.3 Conclusions

On the first objective which sought to establish the effect of tax compliance on performance MSMEs in Migori County, the study concludes that the tax compliance is a critical antecedent of performance of the MSMEs in Migori County.

On the second objective of the study which sought to examine the effect of tax incentives on performance of MSMEs in Migori County, the study concludes that there exist an insignificant positive relationship between tax incentives and performance of MSMEs in Migori County. That tax incentives is not a significant determinant of performance of MSMEs in Migori County.

On the third objective of the study which was to determine the effect of innovative tax mechanisms on performance of MSMEs in Migori County in Kenya, the study concludes that there is a statistically significant positive relationship between innovative tax mechanism and organizational performance of MSMEs in Migori County.

5.4 Recommendation

Based on the foregoing findings and conclusions the study therefore recommends the following.

First of all, because tax compliance has a positive and significant effect on performance of the MSMEs, this practice should be enhanced to further enhance organizational performance. Specifically, the owners/managers of MSMEs in Migori County should avoid conflict with tax authority over tax compliance, pay all the tax compliance cost and attend government training on tax compliances.

Secondly, since an insignificant positive relationship exists between tax incentives and performance of MSMEs, the management should deemphasize performance of activities involved tax incentives such as: investment allowance and deduction from liabilities.

Thirdly, since the study revealed that innovative tax mechanism has a positive and significant influence on organizational performance of the MSMEs, efforts involving implementation of innovative tax mechanisms should be intensified so as to significantly promote performance of MSMEs. Specifically, the owners/management should invest and pay special attention to the following aspects of innovative tax mechanism namely: tax avoidance measures, utilize existing tax regime and defer taxes.

5.5 Limitations of the Study

While this research offers insights into the effects of taxation on performance of the MSMEs, this work is not without limitations. Firstly, the sample size was limited due to time and cost constraints but this weakness was remedied by thorough literature review to compensate the inadequacy that was caused by data limitations. Secondly, a variety of MSMEs in all parts of the country could be used to broaden these finding since different MSMEs could have had a varying emphasis on taxation measures. However, the in-depth analysis of various literature on the insights of the concept of taxation from a variety of industries, have clarified significantly on the industry dynamics relating to application of the concept of taxation.

5.6 Suggestion for Research

Based on the foregoing conclusions on the findings of this study, the researcher suggested the following future research directions in the field relating to taxation-Organizational performance relationship:

First, this study used cross-sectional data to test the hypothesis on the perceived relationship between the taxation and performance. It only provided a snapshot picture at a single point in time. Therefore, there is need to conduct a longitudinal study to provide even more conclusive evidence to the above relationship.

Secondly, Future research efforts could also be focused on this study by further investigating the moderating effects of the external environmental factors such as, government policy on small and medium enterprise management in Kenya.

Finally, the hypotheses in the current study were tested using data obtained from Kenya's micro and medium enterprise sector. There is therefore need to test our results in different national cultures and economic contexts to be able to establish global generalizability of the findings.

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APPENDICES

Appendix I: Cover Letter

Maseno University
School of Business & Economics
P.O Box Private Bag
Homabay.

Dear Sir/ Madam

RE: Research Questionnaire

I am undertaking a project titled; “*Effect of Taxation on performance of Micro, small and medium enterprises in Migori County.*” You have been identified as one of the respondents to the questionnaire because of the expertise you possess in the entrepreneurial sector.

In this regard, I kindly request you to fill the questionnaire attached, the responses to the questions therein and any information will purely be for academic research, the purpose and the information provided will be treated with the utmost of confidence and anonymity.

Results of the study will be vital to current and future students, researchers, family owned businesses, business investors and policy developers as shown in the introductory part of the study. Your assistance and support will be highly appreciated.

In case you may want a summary of the findings of the research, I’ll not hesitate to email them to you, if you attach your contact details on the filled questionnaire or email the request to the email maerirayls@gmail.com.

Thank you in advance.

Yours sincerely,

Rayler Maeri Ochola

Appendix II: Questionnaire

CODE

SECTION A: GENERAL INFORMATION

(Please tick as appropriate)

Respondents Profile:

1. Please indicate your gender:
 Male () Female ()
2. For how long has the business enterprise been operational?
 1 – 5 years () 6 – 10 years () 11 – 15 years () 16 – 20 years () above 21 years ()
3. For how long have you worked for the enterprise?
 1 – 5 years () 6 – 10 years () 11 – 15 years () 16 – 20 years () above 21 years ()
4. What is your highest level of Formal Education?
 - a. Graduate/Post-Graduate
 - b. Diploma/Certificate
 - c. Secondary Education
 - d. Primary Education
 - e. None
5. Is your business registered?
 Yes () No ()
6. Location of the business
 - a. Populated
 - b. Medium population
 - c. Crowded population

SECTION B: Measure of Tax Compliance among the MSMEs in Migori County

The questions in this section are aimed at obtaining views about various issues related to extent of Tax Compliance among MSMEs in Migori. Please tick the appropriate box that best represents your opinion on the question. The scores are measured on a five-point Likert scale; where On the scale of 1-5, indicate 1- very little extent, 2-little extent, 3-moderate extent, 4-large extent, 5-very great extent
Kindly tick the box which best describes the level of your agreement on each statement concerning MSMEs in Migori.

STATEMENT FOR RESPONSE	5	4	3	2	1
1. That the MSMEs in Migori County incur Tax compliance costs for example consultancy costs, labor costs, legal costs in their enterprise					

2. That the MSMEs in Migori County is a tax compliant enterprise which are able to operate freely thus satisfying their daily customers without conflicts with the authority					
3. That the MSMEs in Migori County receive government trainings on tax compliance.					
4. The attitude of the entrepreneur towards taxation motivates the enterprise owners to work harder thus making more profits and paying taxes without fail.					
SECTION C: Measure of Tax Incentives among MSMEs in Migori County					
<i>The questions in this section are aimed at obtaining views about various issues related to the extent of Tax Incentives among MSMEs in Migori County. Please tick the appropriate box that best represents your opinion on the question. The score are measured on a five-point Likert scale where; On the scale of 1-5, indicate 1- very little extent, 2-little extent, 3-moderate extent, 4-large extent, 5-very great extent Kindly tick the box which best describes the level of your agreement on each statement concerning MSMEs in Migori County.</i>					
STATEMENT FOR RESPONSE	5	4	3	2	1
1. The MSMEs in Migori County benefits from Investment Allowance as a tax incentive in Kenya.					
2. The MSMEs in Migori County benefits from Provision of training opportunities as a tax incentive.					
3. That the tax authority Reduces bureaucracies and red tape procedures to a tax compliant enterprises as a way of tax incentive.					
4. Tax authority allows MSMEs to make deductions against their liabilities in form of investment Tax credit and allowance.					
SECTION D: Measure of Innovative Tax Mechanisms among MSMEs in Migori County.					
<i>The questions in this section are aimed at obtaining views about various issues related to extent of Innovative Tax Mechanisms in MSMEs in Migori County. Please tick the appropriate box that best represents your opinion on the question. The score are measured on a five-point Likert scale where On the scale of 1-5, indicate 1- very little extent, 2-little extent, 3-moderate extent,4-large extent, 5-very great extent Kindly tick the box which best describes the level of your agreement on each statement concerning MSMEs in Migori County</i>					
STATEMENT FOR RESPONSE	5	4	3	2	1
1. MSMEs uses tax avoidance measures as a legal means of reducing their tax bills.					
2. MSMEs legally utilizes the existing tax regime to their own advantage.					
3. MSMEs involve themselves in tax planning by implementing various strategies in order to minimize tax paid for given period.					
4. MSMEs defer taxes when possible to use that money interest-free and sometimes even earn interest on it.					
SECTION E: Measure of performance among MSMEs in Migori County					
<i>The questions in this section are aimed at obtaining views about various issues related to performance in</i>					

MSMEs in Migori County. Please tick the appropriate box that best represents your opinion on the question. The score are measured on a five-point Likert scale where On the scale of 1-5, indicate 1- strongly disagree, 2-Disagree, 3-Neither agree nor Disagree, 4- Agree, 5-Strongly Agree.

Kindly Tick the box which best describes the level of your agreement on each statement concerning MSMEs in Migori County

STATEMENT FOR RESPONSE	5	4	3	2	1
1. The profits of the enterprise is growing at a satisfactory rate					
2.The business enterprise facilitates quick response to customer needs by ensuring rapid resolution of complaints					
3. sales revenue of the enterprise is growing at a satisfactory rate					
4. The business enterprises provides better prices and new assortment of products in a timely manner to ensure customer satisfaction.					

THE END

THANK YOU FOR PARTICIPATION IN THE EXERCISE

Appendix III: Research Plan

Activity	Designated Timelines
Search of the research topic	May 2017
Undertaking of the pilot study	15 th July
Field Work	20 th July - 28 th August
Data Collection	20 th July - 30 th August
Data Analysis- Data collected	31 st Aug – 15 th Sept
Report Writing and Submission of report	16 th Sept – 13 th Oct

Appendix IV: Research Budget

Item Description	Cost
Transport	12000
Internet Expenses	2500
Printing/binding – proposals/project	15000
Miscellaneous Expenses	7000
Total	36500

Appendix V: Map of Migori County

